FRANKLIN UNIVERSAL TRUST
Form DEF 14A
February 08, 2017

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant [X]

Filed by a party other than the Registrant [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement

[X] Definitive Proxy Statement

[ ] Definitive Additional Materials

[ ] Soliciting Material Pursuant to Section.240-14a-12

FRANKLIN UNIVERSAL TRUST

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement)

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FRANKLIN UNIVERSAL TRUST

IMPORTANT SHAREHOLDER INFORMATION

We have enclosed important information about the Annual Shareholders' Meeting (the "Meeting") of Franklin Universal Trust (the "Fund") scheduled for Friday, March 24, 2017, at 1:00 p.m., Pacific time. These materials discuss the proposal to be voted on at the Meeting, and contain the Notice of Meeting, proxy statement and proxy card. A proxy card is, in essence, a ballot. When you vote your proxy, it tells us how you wish to vote on important issues relating to the Fund. If you complete, sign and return the proxy card, we'll vote it as you indicated. If you simply sign, date and return the proxy card, but do not specify a vote on the proposal listed thereon, your proxy will be voted **FOR** the election of the nominees to the position of Trustee (the "Proposal").

We urge you to spend a few minutes reviewing the Proposal in the proxy statement. Then, please fill out and sign the proxy card and return it to us in the enclosed postage-paid envelope so that we know how you would like to vote. When shareholders return their proxy cards promptly, the Fund may be able to save money by not having to conduct additional mailings. Returning your proxy card does not preclude you from attending the Meeting or later changing your vote prior to it being cast.

We welcome your comments. If you have any questions, please call Fund Information at (800) DIAL BEN/342-5236.

TELEPHONE AND INTERNET VOTING

For your convenience, you may be able to vote by telephone or through the Internet, 24 hours a day. If your account is eligible, separate instructions are enclosed.

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FRANKLIN UNIVERSAL TRUST

NOTICE OF 2017 ANNUAL SHAREHOLDERS' MEETING

The Annual Shareholders' Meeting (the "Meeting") of Franklin Universal Trust (the "Fund") will be held at the Fund's offices, One Franklin Parkway, San Mateo, California 94403, on Friday, March 24, 2017, at 1:00 p.m., Pacific time.

During the Meeting, shareholders of the Fund will vote on the following:

- The election of a Board of Trustees of the Fund; and

- Such other matters as may properly come before the Meeting.

The Board of Trustees has fixed January 13, 2017 as the record date for the determination of shareholders entitled to vote at the Meeting.

By Order of the Board of Trustees,

Karen L. Skidmore

Vice President& Secretary

San Mateo, California

Dated: February 10, 2017

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL SHAREHOLDERS' MEETING TO BE HELD ON MARCH 24, 2017.

The Fund's Notice of 2017 Annual Shareholders' Meeting, Proxy Statement, and form of proxy are available on the Internet at https://www.proxyonline.com/docs/FUT2017.pdf. The form of Proxy on the internet site cannot be used to cast your vote.

Please sign and promptly return your proxy card in the self-addressed envelope regardless of the number of shares you own.

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FRANKLIN UNIVERSAL TRUST

PROXY STATEMENT

INFORMATION ABOUT VOTING

Who is asking for my vote?

This proxy statement is for the Annual Shareholders' Meeting (the "Meeting") of Franklin Universal Trust (the "Fund"), which will be held at the Fund's offices, One Franklin Parkway, San Mateo, California 94403, on Friday, March 24, 2017, at 1:00 p.m., Pacific time. The Fund's Board of Trustees (the "Board" or the "Trustees") is unanimously asking you to vote **FOR** the election of your Board's eight nominees to the position of –Trustee (the "Proposal") by promptly completing, signing, dating and returning the enclosed proxy card.

Who is eligible to vote?

Shareholders of record at the close of business on January 13, 2017, are entitled to be present and to vote at the Meeting or any adjourned Meeting. Each share of record is entitled to one vote (and a proportionate fractional vote for each fractional share) on each matter presented at the Meeting. The Notice of Meeting, the proxy statement, and the proxy card were first mailed to shareholders of record on or about February 10, 2017.

On what issue am I being asked to vote?

You are being asked to vote on one Proposal:

• The election of a Board of Trustees of the Fund.

How do the Fund's Trustees recommend that I vote?

The Trustees unanimously recommend that you vote **FOR** the election of all nominees.

How do I ensure that my vote is accurately recorded?

You may attend the Meeting and vote in person or you may complete and return the enclosed proxy card. If you are eligible to vote by telephone or through the Internet, separate instructions are enclosed.

Proxy cards that are properly signed, dated and received at or prior to the Meeting will be voted as specified. If you specify a vote for the Proposal, your proxy will be voted as you indicate. If you simply sign, date and return the proxy card, but don't specify a vote on the Proposal, your shares will be voted **FOR** the election of the nominees for the Board.

May I revoke my proxy?

You may revoke your proxy at any time before it is voted by forwarding a written revocation or a later-dated proxy to the Fund that is received by the Fund at or prior to the Meeting, or by attending the Meeting and voting in - person.

What if my shares are held in a bank or brokerage account?

If your shares are held by your bank or broker, then in order to vote in person at the Meeting, you will need to obtain a "Legal Proxy" from your bank or broker and present it to the Inspector of Election at the Meeting. Also, in order to revoke your proxy, you may need to forward your written revocation or a later-dated proxy card to your broker rather than to the Fund.

***THE* PROPOSAL: ELECTION OF TRUSTEES**

How are nominees selected?

The Board has a Nominating Committee consisting of Harris J. Ashton, Mary C. Choksi, Edith E. Holiday, J. Michael Luttig, Larry D. Thompson and John B. Wilson, none of whom is an "interested person" of the Fund as defined by the Investment Company Act of 1940, as amended (the "1940 Act"). Trustees who are not interested persons of the Fund are referred to as "Independent Trustees," and Trustees who are interested persons of the Fund are referred to as "Interested Trustees."

The Nominating Committee is responsible for selecting candidates to serve as Trustees and recommending such candidates (a) for selection and nomination as Independent Trustees by the incumbent Independent Trustees and the full Board; and (b) for selection and nomination as Interested Trustees by the full Board. In considering a candidate's qualifications, the Nominating Committee generally considers the potential candidate's educational background, business or professional experience, and reputation. In addition, the Nominating Committee has established as minimum qualifications for Board membership as an Independent Trustee (1) that such candidate be

2

independent from relationships with the Fund’s investment manager and other principal service providers both within the terms and the spirit of the statutory independence requirements specified under the 1940 Act and the rules thereunder; (2) that such candidate demonstrate an ability and willingness to make the considerable time commitment, including personal attendance at Board meetings, believed necessary to his or her function as an effective Board member; and (3) that such candidate have no continuing relationship as a director, officer or board member of any U.S. registered investment company other than those within the Franklin Templeton Investments fund complex or a closed-end business development company primarily investing in non-public entities. The Nominating Committee has not adopted any specific policy on the issue of diversity but will take this into account, among other factors, in its consideration of new candidates to the Board.

When the Board has or expects to have a vacancy, the Nominating Committee receives and reviews information on individuals qualified to be recommended to the full Board as nominees for election as Trustees, including any recommendations by “Qualifying Fund Shareholders” (as defined below). Such individuals are evaluated based upon the criteria described above. To date, the Nominating Committee has been able to identify, and expects to continue to be able to identify, from its own resources an ample number of qualified candidates. The Nominating Committee will, however, review recommendations from Qualifying Fund Shareholders to fill vacancies on the Board if these recommendations are submitted in writing and addressed to the Nominating Committee at the Fund’s offices and are presented with appropriate background material concerning the candidate that demonstrates his or her ability to serve as a Trustee, including as an Independent Trustee, of the Fund. A Qualifying Fund Shareholder is a shareholder who (i) has continuously owned of record, or beneficially through a financial intermediary, shares of the Fund having a net asset value of not less than two hundred and fifty thousand dollars ($250,000) during the twenty-four month period prior to submitting the recommendation; and (ii) provides a written notice to the Nominating Committee containing the following information: (a) the name and address of the Qualifying Fund Shareholder making the recommendation; (b) the number of shares of the Fund that are owned of record and beneficially by such Qualifying Fund Shareholder and the length of time that such shares have been so owned by the Qualifying Fund Shareholder; (c) a description of all arrangements and understandings between such Qualifying Fund

Shareholder and any other person or persons (naming such person or persons) pursuant to which the recommendation is being made; (d) the name, age, date of birth, business address and residence address of the person or persons being recommended; (e) such other information regarding each person recommended by such Qualifying Fund Shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the U.S. Securities and Exchange Commission ("SEC") had the nominee been nominated by the Board; (f) whether the Qualifying Fund Shareholder making the recommendation believes the person recommended would or would not be an "interested person" of the Fund, as defined in the 1940 Act; and (g) the written consent of each person recommended to serve as a Trustee of the Fund if so nominated and elected/appointed.

The Nominating Committee may amend these procedures from time to time, including the procedures relating to the evaluation of nominees and the process for submitting recommendations to the Nominating Committee.

The Board has adopted and approved a formal written charter for the Nominating Committee. A copy of the charter is attached hereto as "Appendix A."

Who are the Fund's Nominees and current members of the Board?

The Fund's nominees and the current Trustees of the Fund are Harris J. Ashton, Mary C. Choksi, Edith E. Holiday, Gregory E. Johnson, Rupert H. Johnson, Jr., J. Michael Luttig, Larry D. Thompson and John B. Wilson. As described more fully below, these nominees have significant experience managing investment vehicles. Several of the Fund's nominees have been Trustees since the Fund was launched in 1988, and all are also on the Boards of other open-end and closed-end Franklin Templeton funds. They have had experience as senior officers and directors of major business corporations, and some have also held senior positions in state and federal government.

Interested Trustees of the Fund hold director and/or officer positions with Franklin Resources, Inc. ("Resources") and its affiliates. Resources is a - publicly owned holding company, a principal shareholder of which is Rupert H. Johnson, Jr., who owned approximately 106,349,486 (approximately 18.79%) of its outstanding shares as of December 31, 2016. The shares deemed to be beneficially owned by Rupert H. Johnson, Jr. include certain shares held by a private charitable foundation or by his spouse, of which he disclaims beneficial ownership. Resources, a global investment management organization operating as Franklin Templeton Investments, is primarily engaged, through its various subsidiaries, in providing investment management, share distribution, transfer agent and administrative services to a family of investment companies. Resources is a New York Stock Exchange, Inc. ("NYSE") listed holding company (NYSE: BEN). Rupert H. Johnson, Jr., Chairman, Trustee and Senior Vice President of the Fund, is the uncle of Gregory E. Johnson, a Trustee of the Fund. There are no other family relationships among the Trustees or nominees for Trustees.

4

Each nominee is currently available and has consented to serve as Trustee of the Fund if elected. If any of the nominees should become unavailable, the designated proxy holders will vote in their discretion for another person or persons who may be nominated as Trustees.

In addition to personal qualities, such as integrity, in considering candidates for the Board, the Nominating Committee seeks to find persons of good reputation whose experience and background evidences that such person has the ability to comprehend, discuss and critically analyze materials and issues presented in exercising judgments and reaching informed conclusions relevant to the fulfillment of a Trustee's duties and fiduciary obligations. Information on the business activities of the nominees and other Trustees during the past five years and beyond appears below and it is believed that the specific background of each Trustee evidences such ability and it is appropriate for him or her to serve on the Board. As indicated in the table below, Harris J. Ashton served as chief executive officer of New York Stock Exchange listed public corporations; Larry D. Thompson and Edith E. Holiday each have legal backgrounds, including high level legal positions with departments of the U.S. government; John B. Wilson has served as chief operating officer of a New York Stock Exchange listed public corporation, as well as chief financial officer of a NASDAQ listed public corporation; J. Michael Luttig has fifteen years of judicial experience as a Federal Appeals Court Judge; Mary C. Choksi has served as the managing director of investment management firms; and Rupert H. Johnson, Jr. and Gregory E. Johnson are high ranking executive officers of Franklin Templeton Investments.

Listed below, for each nominee, is his or her name, year of birth and address, as well as position and length of service with the Fund, a brief description of recent professional experience, the number of portfolios in the Franklin Templeton Investments fund complex that he or she oversees, and other directorships held.

Nominees for Independent Trustee

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Harris J. Ashton (1932) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 1988	142	Bar-S Foods (meat packing company) (1981-2010).

Principal Occupation During at Least the Past 5 Years:

Director of various companies; and **formerly**, Director, RBC Holdings, Inc. (bank holding company) (until 2002); and President, Chief Executive Officer and Chairman of the Board, General Host Corporation (nursery and craft centers) (until 1998).

Mary C. Choksi (1950) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2014	136	Avis Budget Group Inc. (car rental) (2007-present), Omnicom Group Inc. (advertising and marketing communications services) (2011-present) and H.J. Heinz Company (processed foods and allied products) (1998-2006).

Principal Occupation During at Least the Past 5 Years:

Senior Advisor, Strategic Investment Group (investment management group) (2015-present); director of various companies; **formerly,** Founding Partner and Senior Managing Director, Strategic Investment Group (1987–2015); Founding Partner and Managing Director, Emerging Markets Management LLC (investment management firm) (1987-2011); and Loan Officer/Senior Loan Officer/Senior Pension Investment Officer, World Bank Group (international financial institution) (1977-1987).

Nominees for Independent Trustee

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Edith E. Holiday (1952) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2004	142	Hess Corporation (exploration and refining of oil and gas) (1993-present), Canadian National Railway (railroad) (2001-present), White Mountains Insurance Group, Ltd. (holding company) (2004-present), Santander Consumer USA Holdings, Inc. (consumer finance) (November 2016), RTI International Metals, Inc. (manufacture and distribution of titanium) (1999-2015) and H.J. Heinz Company (processed foods and allied products) (1994-2013).

Principal Occupation During at Least the Past 5 Years:

Director or Trustee of various companies and trusts; and **formerly**, Assistant to the President of the United States and Secretary of the Cabinet (1990-1993); General Counsel to the United States Treasury Department (1989-1990); and Counselor to the Secretary and Assistant Secretary for Public Affairs and Public Liaison-United States Treasury Department (1988-1989).

Nominees for Independent Trustee

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
J. Michael Luttig (1954) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2009	142	Boeing Capital Corporation (aircraft financing) (2006-2013).

Principal Occupation During at Least the Past 5 Years:

Executive Vice President, General Counsel and member of the Executive Council, The Boeing Company (aerospace company) (2006-present); and **formerly**, Federal Appeals Court Judge, U.S. Court of Appeals for the Fourth Circuit (1991-2006).

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Larry D. Thompson (1945) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2007	142	The Southern Company (energy company) (2014-present; previously 2010-2012), Graham Holdings Company (education and media organization) (2011-present) and Cbeyond, Inc. (business communications provider) (2010-2012).

Principal Occupation During at Least the Past 5 Years:

Director of various companies; John A. Sibley Professor of Corporate and Business Law, University of Georgia School of Law (2015-present; previously 2011-2012); and **formerly,** Executive Vice President - Government Affairs, General Counsel and Corporate Secretary, PepsiCo, Inc. (consumer products) (2012-2014); Senior Vice President - Government Affairs, General Counsel and Secretary, PepsiCo, Inc. (2004-2011); Senior Fellow of The Brookings Institution (2003-2004); Visiting Professor, University of Georgia School of Law (2004); and Deputy Attorney General, U.S. Department of Justice (2001-2003).

Nominees for Independent Trustee

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
John B. Wilson (1959) One Franklin Parkway San Mateo, CA 94403-1906	Lead Independent Trustee	Trustee since 2006 and Lead Independent Trustee since 2008	116	None

Principal Occupation During at Least the Past 5 Years:

President, Staples Europe (office supplies) (2012-present); President and Founder, Hyannis Port Capital, Inc. (real estate and private equity investing); serves on private and non-profit boards; and **formerly**, Chief Operating Officer and Executive Vice President, Gap, Inc. (retail) (1996-2000); Chief Financial Officer and Executive Vice President – Finance and Strategy, Staples, Inc. (1992-1996); Senior Vice President – Corporate Planning, Northwest Airlines, Inc. (airlines) (1990-1992); and Vice President and Partner, Bain & Company (consulting firm) (1986-1990).

Nominees for Interested Trustee

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
***Gregory E. Johnson (1961) One Franklin Parkway	Trustee	Since 2013	158	None

San Mateo, CA
94403-1906
Principal Occupation During at Least the Past 5 Years:

Chairman of the Board, Member - Office of the Chairman, Director and Chief Executive Officer, Franklin Resources, Inc.; officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments; and Vice Chairman, Investment Company Institute; and **formerly,** President, Franklin Resources, Inc. (1994-2015).

Nominees for Interested Trustee

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
**Rupert H. Johnson, Jr. (1940) One Franklin Parkway San Mateo, CA 94403-1906	Chairman of the Board, Trustee and Senior Vice President	Chairman of the Board since 2013 and Trustee and Senior Vice President since 1988	142	None

Principal Occupation During at Least the Past 5 Years:

Vice Chairman, Member - Office of the Chairman and Director, Franklin Resources, Inc.; Director, Franklin Advisers, Inc.; Senior Vice President, Franklin Advisory Services, LLC; and officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 42 of the investment companies in Franklin Templeton Investments.

*We base the number of portfolios on each separate series of the U.S. registered investment companies within the Franklin Templeton Investments fund complex. These portfolios have a common investment manager or affiliated investment managers.

** Rupert H. Johnson, Jr. is considered to be an interested person of the Trust under the federal securities laws due to his positions as an officer and director and major shareholder of Franklin Resources, Inc. (Resources), which is the parent company of the Trust's investment manager.

*** Gregory E. Johnson is considered to be an interested person of the Trust under the federal securities laws due to his positions as an officer and director of Resources, which is the parent company of the Trust's investment manager.

Note 1: Rupert H. Johnson, Jr. is the uncle of Gregory E. Johnson.

Note 2: Officer information is current as of the date of this report. It is possible that after this date, information about officers may change.

Note 3: Effective November 1, 2016, Frank A. Olson ceased to be a trustee of the Trust.

The following tables provide the estimated dollar range of equity securities of the Fund and of all funds overseen by the Trustees in the Franklin Templeton Investments fund complex beneficially owned by the Trustees as of December 31, 2016.

Independent Trustees:

Name of Board Member	Dollar Range of Equity Securities in the Fund	Aggregate Dollar Range of Equity Securities in All Funds Overseen by the Board Member in the Franklin Templeton Fund Complex
Harris J. Ashton	$10,000 - $50,000	Over $100,000
Mary C. Choksi	None	Over $100,000
Edith E. Holiday	None	Over $100,000
J. Michael Luttig	None	Over $100,000
Larry D. Thompson	None	Over $100,000
John B. Wilson	None	Over $100,000

Interested Trustees:

Aggregate Dollar Range of Equity Securities in All Funds Overseen by the Board Member in the Franklin Templeton Fund Complex

Name of Board Member	Dollar Range of Equity Securities in the Fund	
Gregory E. Johnson	None	Over $100,000

Interested Trustees:

Rupert H. Johnson, Jr.	$1 - $10,000	Over $100,000

Board members historically have followed a policy of having substantial investments in one or more of the funds in Franklin Templeton Investments, as is consistent with their individual financial goals. In Feb-ruary 1998, this policy was formalized through adoption of a requirement that each board member invest one-third of fees received for serving as a director or trustee of a Templeton fund (excluding committee fees) in shares of one or more Templeton funds and -one-third of fees received for serving as a director or trustee of a Franklin fund (excluding committee fees) in shares of one or more Franklin funds until the value of such investments equals or exceeds five times the annual retainer and regular board meeting fees paid to such board member. Investments in the name of family members or entities controlled by a board member constitute fund holdings of such board member for purposes of this policy, and a three year – phase-in period applies to such investment requirements for newly elected board members. In implementing such policy, a board member's fund holdings existing on Feb-ruary 27, 1998, were valued as of such date with subsequent investments valued -at cost.

How often do the Trustees meet and what are they paid?

The role of the Trustees is to provide general oversight of the Fund's business, and to ensure that the Fund is operated for the benefit of all shareholders. The Trustees anticipate meeting at least eight times during the current fiscal year to review the operations of the Fund and the Fund's investment performance. The Trustees also oversee the services furnished to the Fund by Franklin Advisers, Inc., the Fund's investment manager (the "Investment Manager"), and various other service providers.

The Fund's Independent Trustees constitute the sole independent directors/trustees of 26 investment companies in the Franklin Templeton Investments complex, for which each Independent Director/Trustee currently is paid a $247,000 annual retainer fee, together with a $7,000 per meeting fee for attendance at board meetings, a portion of which is allocated to the Fund. To the extent held, compensation may also be paid for attendance at specially held Board meetings. The Fund's Lead Independent Trustee is paid an annual supplemental retainer of $25,000 for service to such investment companies, a portion of which is allocated to the Fund. Trustees who serve on the Audit Committee of the Fund and such other funds receive a flat fee of $3,000 per Committee meeting attended in person and $2,000 per telephonic meeting attended, a portion of which is allocated to the Fund. John B. Wilson, who serves as chairman of the Audit Committee of the Fund and such other funds, receives an additional fee of $50,000 per year, a portion of which is allocated to the Fund. Members of a committee are not separately compensated for any committee meeting held on the day of a Board meeting. Independent Directors/Trustees are also reimbursed for expenses incurred in connection with attending meetings.

During the fiscal year ended -August 31, 2016, there were eight meetings of the Board, one meeting of the Nominating Committee, and four meetings of the Audit Committee. Each of the Trustees who served on the Board during the fiscal year ended August 31, 2016 attended at least 75% of the aggregate of the total number of meetings of the Board and the total number of meetings held by all committees of the Board on which the Trustee served.

Name of Board Member

The Fund does not currently have a formal policy regarding Trustees' attendance at the Annual Shareholders' Meeting. None of the Trustees

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attended the Fund’s last annual shareholders’ meeting held on March 18, 2016.

Certain Interested Trustees and officers of the Fund are shareholders of Resources and may receive indirect remuneration due to their participation in the management fees and other fees received from the Franklin Templeton funds by the Investment Manager and its affiliates. The Investment Manager or its affiliates pay the salaries and expenses of the officers. No pension or retirement benefits are accrued as part of Fund –expenses.

The table below indicates the aggregate compensation paid to the nominees for Independent Trustee by the Fund individually and by all of the funds in the Franklin Templeton Investments fund complex. These Trustee nominees also serve as directors or trustees of other Franklin Templeton funds, many of which hold meetings at different dates and times. The Trustees and the Fund’s management believe that having the same individuals serving on the boards of many of the funds in the Franklin Templeton Investments fund complex enhances the ability of each fund to obtain, at a relatively modest cost to each separate fund, the services of high caliber, experienced and knowledgeable

Independent Trustees who can bring their experience and talents to, and more effectively oversee the management of, the funds.

Name of Trustee	Aggregate Compensation From the Fund(1)	Total Compensation from Franklin Templeton Investments Fund Complex(2)	Number of Boards within Franklin Templeton Investments Fund Complex on which Director Serves(3)

Harris J. Ashton	1,159	493,000	40
Mary C. Choksi	1,159	354,168	39

Edith E. Holiday	1,159	533,000	40

J. Michael Luttig	1,163	510,000	40

Name of Board Member

Frank A. Olson[4]	1,159	413,456	N/A
Larry D. Thompson	1,163	506,000	40

John B. Wilson	1,209	393,000	26

(1) Compensation received for the fiscal year ended August 31, 2016.

(2) Estimated compensation received for the calendar year ended December 31, 2016.

(3) We base the number of boards on the number of U.S. registered investment companies in the Franklin Templeton Investments fund complex. This number does not include the total number of series or funds within each investment company for which the Board members are responsible. Franklin Templeton Investments currently includes 45 U.S. registered investment companies, with approximately 164 U.S. based funds or series.

(4) Retired November 1, 2016.

Who are the Executive Officers of –the Fund?

Officers of the Fund are appointed by the Trustees and serve at the pleasure of the Board. Listed below, for each Executive Officer, are his or her name, year of birth, address, a brief description of his or her professional experience for the past 5 years, and his or her position and length of service with the Fund:

Name, Year of Birth and Address	Position	Length of Time Served
Alison E. Baur (1964) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2012

Principal Occupation During at Least the Past 5 Years:

Deputy General Counsel, Franklin Templeton Investments; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 45 of the investment companies in Franklin Templeton Investments.

Laura F. Fergerson (1962) One Franklin Parkway San Mateo, CA 94403-1906	Chief Executive Officer – Finance and Administration	Since 2009

Principal Occupation During at Least the Past 5 Years:

Senior Vice President, Franklin Templeton Services, LLC; Vice President, Franklin Advisers, Inc. and Franklin Templeton Institutional, LLC; and officer of 45 of the investment companies in Franklin Templeton Investments.

Gaston Gardey (1967) One Franklin Parkway San Mateo, CA 94403-1906	Treasurer, Chief Financial Officer and Chief Accounting Officer	Since 2009

Principal Occupation During at Least the Past 5 Years:

Treasurer, U.S. Fund Administration & Reporting, Franklin Templeton Investments; and officer of 27 of the investment companies in Franklin Templeton Investments.

Name, Year of Birth and Address	Position	Length of Time Served
Aliya S. Gordon (1973) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2009

Principal Occupation During at Least the Past 5 Years:

Senior Associate General Counsel, Franklin Templeton Investments; and officer of 45 of the investment companies in Franklin Templeton Investments.

Steven J. Gray (1955) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2009

Principal Occupation During at Least the Past 5 Years:

Senior Associate General Counsel, Franklin Templeton Investments; Vice President, Franklin Templeton Distributors, Inc. and Franklin Alternative Strategies Advisers, LLC; and officer of 45 of the investment companies in Franklin Templeton Investments.

Edward B. Jamieson (1948) One Franklin Parkway San Mateo, CA 94403-1906	President and Chief Executive Officer – Investment Management	President since 1993 and Chief Executive Officer – Investment Management since 2002

Principal Occupation During at Least the Past 5 Years:

President, Chief Investment Officer and Director, Franklin Advisers, Inc.; Executive Vice President, Franklin Templeton Institutional, LLC; and officer and/or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 10 of the investment companies in Franklin Templeton Investments.

Gregory E. Johnson (1961) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2013

Principal Occupation During at Least the Past 5 Years:

Please refer to the table “Nominees for Interested Trustee” for additional information about Mr. Gregory E. Johnson.

Name, Year of Birth and Address	Position	Length of Time Served
Rupert H. Johnson, Jr. (1940) One Franklin Parkway San Mateo, CA 94403-1906	Chairman of the Board, Trustee and Senior Vice President	Chairman of the Board since 2013 and Trustee and Senior Vice President since 1988

Principal Occupation During at Least the Past 5 Years:

Please refer to the table "Nominees for Interested Trustee" for additional information about Mr. Rupert H. Johnson, Jr.

Name, Year of Birth and Address	Position	Length of Time Served
Robert Lim (1948) One Franklin Parkway San Mateo, CA 94403-1906	Vice President – AML Compliance	Since 2016

Principal Occupation During at Least the Past 5 Years:

Vice President, Franklin Templeton Companies, LLC; Chief Compliance Officer, Franklin Templeton Distributor, Inc. and Franklin Templeton Investors Services, LLC; and officer of 45 of the investment companies in Franklin Templeton Investments.

Name, Year of Birth and Address	Position	Length of Time Served
Kimberly H. Novotny (1972) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President	Since 2013

Principal Occupation During at Least the Past 5 Years:

Associate General Counsel, Franklin Templeton Investments; Vice President and Corporate Secretary, Fiduciary Trust International of the South; Vice President, Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 45 of the investment companies in Franklin Templeton Investments.

Name, Year of Birth and Address	Position	Length of Time Served
Robert C. Rosselot (1960) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Chief Compliance Officer	Since 2013

Principal Occupation During at Least the Past 5 Years:

Director, Global Compliance, Franklin Templeton Investments; Vice President, Franklin Templeton Companies, LLC; officer of 45 of the investment companies in Franklin Templeton Investments; and **formerly**, Senior Associate General Counsel, Franklin Templeton Investments (2007-2013); and Secretary and Vice President, Templeton Group of Funds (2004-2013).

Karen L. Skidmore (1952) One Franklin Parkway San Mateo, CA 94403-1906	Vice President and Secretary	Since 2006

Principal Occupation During at Least the Past 5 Years:

Senior Associate General Counsel, Franklin Templeton Investments; and officer of 45 of the investment companies in Franklin Templeton Investments.

Navid J. Tofigh (1972) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2015

Principal Occupation During at Least the Past 5 Years:

Associate General Counsel, Franklin Templeton Investments; and officer of 45 of the investment companies in Franklin Templeton Investments.

Name, Year of Birth and Address	Position	Length of Time Served
Craig S. Tyle (1960) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2005

Principal Occupation During at Least the Past 5 Years:

General Counsel and Executive Vice President, Franklin Resources, Inc.; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 45 of the investment companies in Franklin Templeton Investments.

Lori A. Weber (1964) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President	Since 2011

Principal Occupation During at Least the Past 5 Years:

Senior Associate General Counsel, Franklin Templeton Investments; Assistant Secretary, Franklin Resources, Inc.; Vice President and Secretary, Templeton Investment Counsel, LLC; and officer of 45 of the investment companies in Franklin Templeton Investments.

ADDITIONAL INFORMATION ABOUT –THE FUND

The Investment Manager. The Investment Manager is Franklin Advisers, Inc., a California corporation, whose principal address is One Franklin Parkway, San Mateo, CA 94403. The Investment Manager is a –wholly-owned subsidiary of Resources.

The Administrator. The administrator of the Fund is Franklin Templeton Services, LLC ("FT Services"), whose principal address is also One Franklin Parkway, San Mateo, CA 94403. Under an agreement with the Investment Manager, FT Services performs certain administrative functions, such as portfolio recordkeeping, for the Fund. FT Services is an indirect, –wholly-owned subsidiary of –Resources.

The Transfer Agent. The transfer agent, registrar and dividend disbursement agent for the Fund is American Stock Transfer & Trust Company, LLC, 6201 15th Avenue, Brooklyn, NY 11219.

The Custodian. Bank of New York, Mutual Funds Division, 90 Washington Street, New York, NY 10286, acts as custodian of the Fund's securities and other - assets.

Reports to Shareholders and Financial Statements. The Fund's last audited financial statements and annual report for the fiscal year ended - August 31, 2016, are available free of charge. To obtain a copy, please call (800) DIAL BEN/342-5236 or forward a written request to Franklin Templeton Investor Services, LLC, P.O. Box 997151, Sacramento, CA - 95899-9983.

Principal Shareholders. As of January 13, 2017, the Fund had 25,131,894 shares outstanding and total net assets of $197,163,438. The Fund's shares are listed on the NYSE (symbol: FT). From time to time, the number of shares held in "street name" accounts of various securities dealers for the benefit of their clients may exceed 5% of the total shares outstanding. To the knowledge of the Fund's management, as of January 13, 2017, there were no entities holding beneficially or of record more than 5% of the Fund's outstanding shares.

In addition, to the knowledge of the Fund's management, as of January 13, 2017, no Trustee of the Fund owned 1% or more of the outstanding shares of the Fund, and the officers and Trustees of the Fund owned, as a group, less than 1% of the outstanding shares of -the Fund.

Contacting the Board of Trustees. If a shareholder wishes to send a communication to the Board, such correspondence should be in writing and addressed to the Board of Trustees at the Fund's offices, One Franklin Parkway, San Mateo, California 94403. The correspondence will then be given to the Board for their review and -consideration.

AUDIT COMMITTEE

The Board has a standing Audit Committee currently consisting of Messrs. Wilson (Chairman), Luttig and Thompson, all of whom are Independent Trustees and also are considered to be "independent" as that term is defined by the NYSE's listing standards. The Fund's Audit Committee is responsible for the appointment, compensation and retention of the Fund's independent registered public accounting firm (auditors), including evaluating their independence, recommending the selection of the Fund's auditors to the full Board, and meeting with such auditors to consider and review matters relating to the Fund's financial reports and internal accounting.

Selection of Auditors. The Audit Committee and the Board have selected the firm of PricewaterhouseCoopers LLP ("PwC") as auditors of the Fund for the current fiscal year. Representatives of PwC are not expected to be present at the Meeting, but will have the opportunity to make a statement if they wish, and will be available should any matter arise requiring their presence.

Audit Fees. The aggregate fees paid to PwC for professional services rendered by PwC for the audit of the Fund's annual financial statements or for services that are normally provided by PwC in connection with statutory and regulatory filings or engagements were $43,901 for the fiscal year ended August 31, 2016, and $44,306 for the fiscal year ended August 31, 2015.

Audit-Related Fees. There were no fees paid to PwC for assurance and related services rendered by PwC to the Fund that are reasonably related to the performance of the audit or review of the Fund's financial statements and are not reported under "Audit Fees" above for the fiscal years ended August 31, 2016 and August 31, 2015.

There were no fees paid to PwC for assurance and related services rendered by PwC to the Investment Manager and any entity controlling, controlled by or under common control with the Investment Manager that provides ongoing services to the Fund that are reasonably related to the performance of the audit of financial statements for the fiscal years ended August 31, 2016 and August 31, 2015.

Tax Fees. There were no fees paid to PwC for professional services rendered by PwC to the Fund for tax compliance, tax advice and tax planning for the fiscal years ended August 31, 2016 and August 31, 2015.

There were no aggregate fees paid to PwC for professional services rendered by PwC to the Investment Manager and any entity controlling,

20

controlled by or under common control with the Investment Manager that provides ongoing services to the Fund for tax compliance, tax advice and tax planning for the fiscal years ended August 31, 2016 and August 31, 2015.

All Other Fees. The fees paid to PwC for products and services rendered by PwC to the Fund, not reported in previous paragraphs, were $0 for the fiscal year ended August 31, 2016 and $61 for the fiscal year ended August 31, 2015.

The fees paid to PwC for products and services rendered by PwC to the Investment Manager and any entity controlling, controlled by or under common control with the Investment Manager that provides ongoing services to the Fund, not reported in previous paragraphs, were $539,168 for the fiscal year ended August 31, 2016 and $378,983 for the fiscal year ended August 31, 2015.

Audit Committee –Pre-Approval Policies and Procedures. As of the date of this proxy statement, the Audit Committee has not adopted –pre-approval policies and procedures. As a result, all such services described above and provided by PwC must be directly - pre-approved by the Audit –Committee.

Aggregate Non-Audit Fees. The aggregate fees paid to PwC for non-audit services to the Fund and to the Investment Manager and any entity controlling, controlled by, or under common control with the Investment Manager that provides ongoing services to the Fund, were $539,168 for the fiscal year ended August 31, 2016, and $379,044 for the fiscal year ended August 31, 2015.

The Audit Committee has considered whether the provision of the non-audit services that were rendered to the Investment Manager and to any entities controlling, controlled by, or under common control with the Investment Manager that provide ongoing services to the Fund that were not pre-approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X is compatible with maintaining PwC's independence.

Audit Committee Report. The Board has adopted and approved a revised formal written charter for the Audit Committee, which sets forth the Audit Committee's responsibilities. A copy of the charter is attached hereto as "Appendix B."

The Audit Committee reviewed and discussed the Fund’s audited financial statements with management, as well as with PwC, the Fund’s auditors. The Audit Committee discussed with PwC the matters required to be discussed by the statement on Auditing Standards No. 16, as amended, as adopted by the Public Company Accounting Oversight Board.

The Audit Committee received the written disclosures and the letter from PwC required by applicable requirements of the Public Company Accounting Oversight Board regarding PwC’s communications with the Audit Committee concerning independence. The Audit Committee also received the report of PwC regarding the results of their audit. In connection with their review of the financial statements and the auditors’ report, the members of the Audit Committee discussed with PwC the independence of PwC, as well as the following: the auditors’ responsibilities in accordance with generally accepted auditing standards; the auditors’ responsibilities for information prepared by the Fund’s management that accompanies the Fund’s audited financial statements and any procedures performed and the results; the initial selection of, and whether there were any changes in, significant accounting policies or their application; the Fund’s management’s judgments and accounting estimates; whether there were any significant audit adjustments; whether there were any disagreements with the Fund’s management; whether there was any consultation with other accountants; whether there were any major issues discussed with the Fund’s management prior to the auditors’ retention; whether the auditors encountered any difficulties in dealing with the Fund’s management in performing the audit; and the auditors’ judgments about the quality of the Fund’s accounting – principles.

Based on its review and discussions with the Fund’s management and the Fund’s auditors, the Audit Committee did not become aware of any material misstatements or omissions in the financial statements.

Accordingly, the Audit Committee recommended to the Board that the audited financial statements be included in the Fund’s Annual Report to Shareholders for the fiscal year ended –August 31, 2016, for filing with –the SEC.

THE AUDIT –COMMITTEE

John B. Wilson (Chairman)

J. Michael Luttig

Larry D. Thompson

ADDITIONAL INFORMATION ABOUT THE BOARD

Board Role in Risk Oversight. The Board, as a whole, considers risk management issues as part of its general oversight responsibilities throughout the year at regular Board meetings, through regular reports that have been developed by management, in consultation with the Board and its counsel. These reports address certain investment, valuation and compliance matters. The Board also may receive special written reports or presentations on a variety of risk issues, either upon the Board's request or upon the Investment Manager's initiative. In addition, the Audit Committee of the Board meets regularly with the Investment Manager's internal audit group to review reports on their examinations of functions and processes within Franklin Templeton Investments that affect the Fund.

With respect to investment risk, the Board receives regular written reports describing and analyzing the investment performance of the Fund. In addition, the portfolio managers of the Fund meet regularly with the Board to discuss portfolio performance, including investment risk. To the extent that the Fund changes a particular investment strategy that could have a material impact on the Fund's risk profile, the Board generally is consulted with respect to such change. To the extent that the Fund invests in certain complex securities, including derivatives, the Board receives periodic reports containing information about exposure of the Fund to such instruments. In addition, the Investment Manager's investment risk personnel meet regularly with the Board to discuss a variety of issues, including the impact on the Fund of the investment in particular securities or instruments, such as derivatives.

With respect to valuation, the Fund's administrator provides regular written reports to the Board that enable the Board to monitor the number of fair valued securities in a particular portfolio, the reasons for the fair valuation and the methodology used to arrive at the fair value. Such reports also include information concerning illiquid securities within the Fund's portfolio. The Board also reviews dispositional analysis information on the sale of securities that require special valuation considerations, such as illiquid or fair valued securities. In addition, the Fund's Audit Committee reviews valuation procedures and results with the Fund's independent auditors in connection with the Audit Committee's review of the results of the audit of the Fund's year-end financial statements.

With respect to compliance risks, the Board receives regular compliance reports prepared by the Investment Manager's compliance group and meets regularly with the Fund's Chief Compliance Officer ("CCO") to discuss compliance issues, including compliance risks. As required under SEC rules, the Independent Trustees meet at least quarterly in executive session with the CCO, and the CCO prepares and presents an annual written compliance report to the Board. The Board adopts compliance policies and procedures for the Fund and approves such procedures for the Fund's service providers. The compliance policies and procedures are specifically designed to detect and prevent violations of the federal securities laws.

The Investment Manager periodically provides an enterprise risk management presentation to the Board to describe the way in which risk is managed on a complex-wide level. Such presentation covers such areas as investment risk, reputational risk, personnel risk, and business continuity risk.

Board Structure. Seventy-five percent or more of Board members consist of Independent Trustees who are not deemed to be "interested persons" by reason of their relationship with the Fund's management or otherwise as provided under the 1940 Act. While the Chairman of the Board is an interested person, the Board is also served by a Lead Independent Trustee. The Lead Independent Trustee, together with independent counsel, reviews proposed agendas for Board meetings and generally acts as a liaison with Fund management with respect to questions and issues raised by the Independent Trustees. The Lead Independent Trustee also presides at separate meetings of Independent Trustees held in advance of each scheduled Board meeting where various matters, including those being considered at such Board meeting, are discussed. It is believed such structure and activities assure that proper consideration is given at Board meetings to matters deemed important to the Fund and its shareholders.

FURTHER INFORMATION ABOUT VOTING AND THE -MEETING

Solicitation of Proxies. Your vote is being solicited by the Board. The cost of soliciting these proxies, including the fees of any proxy soliciting agent, is borne by the Fund. The Fund reimburses brokerage firms and others for their expenses in forwarding proxy materials to the beneficial owners and soliciting them to execute their proxies. In addition, the Fund may retain a professional proxy solicitation firm to assist with any necessary solicitation of proxies. The Fund expects that the solicitation would be primarily by mail, but may also be conducted via telephone, telecopy, electronic or oral solicitations. If the Fund does not receive your proxy by a certain time you may receive a telephone call from a proxy soliciting agent asking you to vote. If professional proxy solicitors are retained, it is expected that soliciting fees would be approximately $5,000, plus expenses. The Fund does not reimburse Trustees and officers of the Fund, or regular employees and agents of the Investment Manager, involved in the solicitation of proxies. The Fund intends to pay all costs associated with the solicitation and the Meeting.

Voting by -Broker-Dealers. The Fund expects that, before the Meeting, broker-dealer firms holding shares of the Fund in "street name" for their customers will request voting instructions from their customers and beneficial owners. If these instructions are not received by the date specified in the broker-dealer firms' proxy solicitation materials, the Fund understands that NYSE rules permit the broker-dealers to vote on the Proposal to be considered at the Meeting on behalf of their customers and beneficial owners. Certain broker-dealers may exercise discretion over shares held in their name for which no instructions are received by voting those shares in the same proportion as they vote shares for which they received instructions. Because there are no proposals expected to come before the Meeting for which brokers or nominees do not have discretionary voting power, the Fund does not anticipate receiving any "broker non-votes" (i.e., shares held by brokers or nominees as to which (i) instructions have not been received from the beneficial owners or persons entitled to vote and (ii) the broker or nominee does not have discretionary voting power on a particular matter).

Quorum. Forty percent of the shares entitled to vote — present in person or represented by proxy — constitutes a quorum at the Meeting. The shares over which -broker-dealers have discretionary voting power, the shares that represent "broker - non-votes" (if any), and the shares whose proxies reflect an abstention on any item (if any), are all counted as shares present and entitled to vote for purposes of determining whether the required quorum of shares - exists.

Required Vote. Provided that a quorum is present, the election of Trustees requires a plurality of shares voted, meaning that the eight nominees receiving the greatest number of votes shall be elected. All voting rights are non-cumulative, which means that the holders of more than 50% of the shares voting for the election of Trustees can elect 100% of such Trustees if they

choose to do so, and in such event, the holders of the remaining shares voting will not be able to elect any Trustees.

Adjournment. Whether or not a quorum is present at the Meeting, the Meeting may be adjourned by a majority vote of the shares represented at the Meeting, either in person or by proxy, properly cast upon the question of adjournment. If the Meeting is adjourned, notice need not

be given of the adjourned meeting at which the adjournment is taken, unless a new record date of the adjourned meeting is fixed or unless the adjournment is for more than 60 days from the date set for the original Meeting, in which case the Board of Trustees shall set a new date. At any adjourned Meeting, the Fund may transact any business which might have been transacted at the original Meeting.

Whether or not a quorum is present, the persons named as proxies may propose one or more adjournments of the Meeting to permit the further solicitation of proxies. The persons named as proxies will vote in their discretion on questions of adjournment those shares for which proxies have been received that grant discretionary authority to vote on matters that may properly come before the -Meeting, and on any other proposals properly raised at the Meeting to the extent permitted by the SEC's proxy rules, including proposals for which management of the Fund did not have timely notice, as set forth in the SEC's proxy rules.

Shareholder Proposals. The Fund anticipates mailing this proxy statement on or about February 10, 2017. The Fund anticipates that its next Annual Shareholders' Meeting will be held on or about Friday, March 16, 2018. Shareholder proposals to be presented at the next annual shareholders' meeting must be received at the Fund's offices, One Franklin Parkway, San Mateo, California 94403, Attention: Secretary, no later than October 13, 2017, in order to be considered for inclusion in the Fund's proxy statement and proxy card relating to that meeting and presented at that meeting. Submission of a proposal by a shareholder does not guarantee that the proposal will be included in the proxy statement. A shareholder who wishes to make a proposal at the 2018 Annual Shareholders' Meeting without including the proposal in the Fund's proxy statement must notify the Fund at the Fund's offices of such proposal by December 27, 2017. If a shareholder fails to give notice by this date, then the persons named as proxies in the proxies solicited by the Board for the 2018 Annual Shareholders' Meeting may exercise discretionary voting power with respect to any such proposal.

No business other than the matters described above is expected to come before the Meeting, but should any other matter requiring a vote of shareholders arise, including any question as to an adjournment or

postponement of the Meeting, the designated proxy holders will vote

on such matters in accordance with the views of the Fund’s management.

By order of the Board of Trustees,

Karen L. Skidmore

Vice President & *Secretary*

Dated: February 10, 2017

San Mateo, California

Appendix A

NOMINATING COMMITTEE CHARTER

I. The Committee.

The Nominating Committee (the "Committee") is a committee of, and established by, the Board of Directors/Trustees of the Fund (the "Board"). The Committee consists of such number of members as set by the Board from time to time and its members shall be selected by the Board. The Committee shall be comprised entirely of "independent members." For purposes of this Charter, independent members shall mean members who are not interested persons of the Fund ("Disinterested Board members") as defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended (the "1940 Act").

II. Board Nominations and Functions.

1. The Committee shall make recommendations for nominations for Disinterested Board members on the Board to the incumbent Disinterested Board members and to the full Board. The Committee shall evaluate candidates' qualifications for Board membership and the independence of such candidates from the Fund's investment manager and other principal service providers. Persons selected must be independent in terms of both the letter and the spirit of the 1940 Act. The Committee shall also consider the effect of any relationships beyond those delineated in the 1940 Act that might impair independence, e.g., business, financial or family relationships with investment managers or service providers.

2. The Committee also shall evaluate candidates' qualifications and make recommendations for "interested" members on the Board to the full Board.

3. The Committee may adopt from time to time specific, minimum qualifications that the Committee believes a candidate must meet before being considered as a candidate for Board membership and shall comply with any rules adopted from time to time by the U.S. Securities and Exchange Commission regarding investment company nominating committees and the nomination of persons to be considered as candidates for Board membership.

28

4. The Committee shall review shareholder recommendations for nominations to fill vacancies on the Board if such recommendations are submitted in writing and addressed to the Committee at the Fund's offices. The Committee shall adopt, by resolution, a policy regarding its procedures for considering candidates for the Board, including any recommended by shareholders.

III. <u>Committee Nominations and Functions</u>.

The Committee shall make recommendations to the full Board for nomination for membership on all committees of the Board.

IV. <u>Other Powers and Responsibilities</u>.

1. The Committee shall meet at least once each year or more frequently in open or executive sessions. The Committee may invite members of management, counsel, advisers and others to attend its meetings as it deems appropriate. The Committee shall have separate sessions with management and others, as and when it deems appropriate.

2. The Committee shall have the resources and authority appropriate to discharge its responsibilities, including authority to retain special counsel and other experts or consultants at the expense of the Fund.

3. The Committee shall report its activities to the Board and make such recommendations as the Committee may deem necessary or appropriate.

4. A majority of the members of the Committee shall constitute a quorum for the transaction of business at any meeting of the Committee. The action of a majority of the members of the Committee present at a meeting at which a quorum is present shall be the action of the Committee. The Committee may meet in person or by telephone, and the Committee may act by written consent, to the extent permitted by law and by the Fund's by-laws. In the event of any inconsistency between this Charter and the Fund's organizational documents, the provisions of the Fund's organizational documents shall be given precedence.

5. The Committee shall review this Charter at least annually and recommend any changes to the full Board.

29

ADDITIONAL STATEMENT FOR CLOSED-END FUNDS ONLY

The Committee shall comply with any rules of any stock exchange, if any, applicable to nominating committees of closed-end funds whose shares are registered thereon.

Appendix B

<u>AUDIT COMMITTEE CHARTER</u>

I. <u>The Committee</u>.

The Audit Committee ("Committee") is a committee of, and established by, the Board of Directors/Trustees of the Fund (the "Board"). The Committee shall consist of such number of members as set by the Board from time to time, but in no event less than three, and its members shall be selected by the Board. The Committee shall be comprised entirely of "independent" members, as defined in Item 3(a)(2) of SEC Form N-CSR ("Disinterested Board members"). Members shall be financially literate, meaning that each member is able to read and understand fundamental financial statements, including the Fund's balance sheet and income statement. At least one member of the Committee shall be designated by the Board as an "audit committee financial expert," as defined in Item 3(b) of SEC Form N-CSR, unless the Board determines that the Fund does not have an audit committee financial expert on the Committee.

II. <u>Purposes of the Committee</u>.

The function of the Committee is to be directly responsible for overseeing the Fund's accounting and auditing processes, which shall include the appointment, compensation, retention and oversight of the work of the Fund's independent registered public accounting firm ("auditors") engaged (including resolution of disagreements between management and the auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Fund. It is management's responsibility to maintain appropriate systems for accounting and internal controls. It is the auditors' responsibility to plan and carry out an audit in accordance with the standards of the Public Company Accounting Oversight Board and to report directly to the Committee. It is not the duty of the Committee to plan or conduct audits or to determine that the Fund's financial statements are complete and in accordance with generally accepted accounting principles; it is the responsibility of the auditors to conduct audits and the responsibility of management to prepare the Fund's financial statements in accordance with generally accepted accounting principles.

31

In giving its recommendations to the Board with respect to the Fund's financial statements, the Committee will rely on:

1) management's representation that such financial statements have been prepared with integrity and objectivity and in conformity with generally accepted accounting principles,

2) the report of the Fund's auditors with respect to such financial statements.

Consistent with such allocation of functions, the purposes of the Committee are:

(a) To oversee the Fund's accounting and financial reporting policies and practices and its internal controls, and to obtain, where it deems appropriate, reports on internal controls of service providers to the Fund;

(b) To oversee the quality, objectivity and integrity of the Fund's financial statements and the independent audit thereof;

(c) To act as a liaison between the Fund's auditors and

the Board; and

(d) To consider such other matters as it deems appropriate in carrying out its purpose and any other matters that may be assigned to it by the Board.

In addition, the Committee shall serve as the Fund's Qualified Legal Compliance Committee ("QLCC") pursuant to Section 205 of the SEC's Standards of Professional Conduct for Attorneys (the "Standards"). In this capacity, the Committee is required to adopt and maintain written procedures for the confidential receipt, retention and consideration of any report of evidence of a material violation. "Evidence of a material violation" means credible evidence, based upon which it would be unreasonable, under the circumstances, for a prudent and competent attorney not to conclude that it is reasonably likely that a material violation of an applicable U.S. federal or state securities law, a material breach of fiduciary (or similar duty) to the Fund arising under U.S. federal or state law, or a similar material violation of any U.S. federal or state law has occurred, is ongoing, or is about to occur.

III. <u>Powers and Duties</u>.

The Committee shall have the following powers and duties to carry out its purposes:

(a) To select the auditors, subject to approval both by the Board and by a separate vote of the Disinterested Board members, and, in connection therewith, to evaluate the independence and qualifications of the auditors in accordance with applicable federal securities laws and regulations and the rules and standards of the Independence Standards Board and American Institute of Certified Public Accountants.

(b) To be directly responsible for approving the services to be provided by, and the compensation of, the auditors, including:

(i) pre-approval of all audit and audit related services;

(ii)pre-approval of all non-audit related services to be provided to the Fund by the auditors;

(iii)pre-approval of all non-audit related services to be provided by the auditors to the Fund’s investment adviser or to any entity that controls, is controlled by or is under common control with the Fund’s investment adviser and that provides ongoing services to the Fund where the non-audit services relate directly to the operations or financial reporting of the Fund; and

(iv)if deemed necessary or appropriate, as an alternative to Committee pre-approval of services to be provided by the auditors, as required by paragraphs (ii) and (iii) above;

(A) establishment by the Committee of policies and procedures to pre-approve such services , provided the policies and procedures are detailed as to the particular service and the Committee is informed of each service and such policies and procedures do not include delegation of audit committee responsibilities, as

33

contemplated under the Securities Exchange Act of 1934, to management; or

(B) delegation by the Committee to one or more designated members of the Committee who are Disinterested Board members authority to pre-approve such services, provided the Committee is informed of the decisions of any member pursuant to such delegated authority no later than its next scheduled meeting;

subject, in the case of (ii) through (iv), to any waivers, exceptions or exemptions that may be available under applicable law or rules.

(c) To meet with the auditors, including private meetings, as necessary to (i) review the arrangements for and scope of the annual audit and any special audits; (ii) discuss any matters or concerns relating to the Fund’s financial statements, including any recorded and/or unrecorded adjustments to such statements recommended by the auditors, or other results of audits; (iii) consider the auditors’ comments with respect to the Fund’s financial, accounting and reporting policies, procedures and internal controls and management’s responses thereto; and (iv) to review the form of opinion the auditors propose to render.

(d) To receive and consider reports from the auditors:

(i) as required by generally accepted accounting standards; and

(ii) annually and by update as required by SEC Regulation S-X, regarding: (w) all critical accounting policies and practices of the Fund to be used; (x) alternative treatments within generally accepted accounting principles for policies and practices related to material items that have been discussed with management of the Fund, including ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the auditors; (y) other material written communications between the auditors and management of the Fund, such as any management letter or schedule of unadjusted differences; and (z) all non-audit services provided to any entity in an investment company complex, as defined in SEC Regulation S-X, that were not pre-approved by the Committee pursuant to SEC Regulation S-X.

34

(e) To consider the effect upon the Fund of any changes in accounting principles or practices proposed by management or the auditors.

(f) In considering the independence of the auditors, to request from, and discuss with, the auditors a written statement, and other reports as necessary, describing all relationships between the auditors and the Fund, the Fund’s investment adviser and service providers, and other entities advised or serviced by, including any entities controlling, controlled by or under common control with, the investment adviser or any other service providers to the Fund that, in the auditors’ judgment, could be thought to bear upon the auditors’ independence; to receive and consider, if applicable, periodic reports from the auditors regarding whether the provision of non-audit services is compatible with maintaining the auditors’ independence; and to request from the auditors a certificate that they are independent auditors under the Federal securities laws and are in compliance with all standards adopted by the Independence Standards Board.

(g) To require that the auditors regularly provide timely information to the Committee with respect to new rules and pronouncements by applicable regulatory and accounting standards agencies, along with an explanation of how such developments may affect the Fund’s financial statements and accounting principles and practices.

(h) To review, at such times and in the manner deemed appropriate by the Committee, the results of the annual audit of, and the report of the auditors on the Fund’s annual financial statements, including footnotes and any significant audit findings.

(i) To consider any reports of difficulties that may have arisen during the course of the audit, including any limitations of the scope of the audit, and management’s response thereto.

(j) To review certifications of the Fund’s Chief Executive Officer - Finance and Administration, and Chief Financial Officer and Chief Accounting Officer concerning (i) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Fund's ability to record, process, summarize and report financial information; and (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Fund's internal controls over financial reporting, and for any other purposes the Committee deems appropriate, as required by §302 of the Sarbanes-Oxley Act.

(k) To inform the chief legal officer (“CLO”) and chief executive officer (“CEO”) of the Fund (or the equivalents thereof) of any report of evidence of a material violation by the Fund, its officers, directors/trustees, employees (if any), or agents (collectively, “affiliates”). In connection therewith, the Committee shall:

(i) determine whether an investigation is necessary regarding any report of evidence of a material violation by the Fund or its affiliates;

(ii) if the Committee determines such an investigation is necessary or appropriate, (A) notify the Board; (B) initiate an investigation, which may be conducted by either the CLO or by outside attorneys; and (C) retain such additional expert personnel as the Committee deems necessary to assist in the investigation;

(iii) at the conclusion of any such investigation, (A) recommend by a majority vote, that the Fund implement an appropriate response (as defined in Section 205.2(b) of the Standards) to evidence of a material violation, and (B) inform the CLO and the CEO and the Board of the results of such investigation and the appropriate remedial measures to be adopted;

(iv) acting by majority vote, take all other appropriate action, including the authority to notify the SEC in the event the Fund fails in any material respect to implement an appropriate response that the Committee has recommended the Fund to take; and

(v) otherwise respond to evidence of a material violation.

IV. <u>Other Functions and Procedures of the Committee</u>.

(a) The Committee shall meet at least twice each year or more frequently, in open or executive sessions, as may be necessary to fulfill its responsibilities. The Committee shall meet as frequently as circumstances require with (i) the auditors as provided in III (c), above; and (ii) management's internal audit department to review and discuss internal audit functions and reports. The Committee may invite members of management, the auditors, counsel, advisers and others to attend its meetings as it deems appropriate. The Committee shall have separate sessions with the auditors, management and others, as and when it deems appropriate.

(b) The Committee shall establish procedures for (i) the receipt, retention and treatment of complaints received by the Fund or the Fund's adviser regarding accounting, internal accounting controls, or accounting matters relating to the Fund; and (ii) the confidential, anonymous submission by employees of the Fund or the Fund's adviser, administrator, principal underwriter or any other provider of accounting related services for the Fund, of concerns regarding questionable accounting or auditing matters.

(c) The Committee shall have the authority to engage special counsel, experts and advisers as and when it determines necessary to carry out its duties and the Fund must provide for appropriate funding, as determined by the Committee, for payment of (i) compensation to any auditors engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Fund; (ii) compensation to any advisers employed by the Committee; and (iii) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

(d) The Committee shall have unrestricted access to the Fund's management and management of the Fund's adviser, including, but not limited to, their chief executive officer(s), chief financial officer(s), internal auditors and any other executives and financial officers.

(e) The Committee shall report its activities to the Board and make such recommendations as the Committee may deem necessary or appropriate.

37

(f) The Committee shall review and assess the adequacy of this Charter annually, or more frequently if it chooses, and recommend any changes to the Board.

(g) The Chair of the Committee shall meet periodically on an informal basis with the Chairpersons of the Audit Committees of other Funds within the Franklin/Templeton/Mutual Series complex to share information and discuss items of mutual interest and shall report back to the Committee on any issues of substance discussed at such periodic meetings. In addition, the Committee shall meet jointly with Audit Committees of other Funds within the Franklin/Templeton/Mutual Series complex as may be appropriate, to attend presentations and review proposals and other matters of common concern to all such Audit Committees.

ADDITIONAL STATEMENTS FOR CLOSED-END FUNDS ONLY

(The provisions set forth in Appendix A hereto are intended to cover specific requirements and wording mandated by applicable Stock Exchange listing requirements.)

Appendix to Audit Committee Charter

In addition to the purposes set forth above, the purposes of the Committee include:

(a) preparation of the Audit Committee Disclosure Report required to be included in the Fund's annual proxy statement; and

(b) the assistance of oversight, as either part of the full Board or as a Committee, of the Fund's compliance with legal and regulatory requirements.

In addition to the powers and duties set forth above, the Committee shall have the following powers and duties to carry out its purposes:

(a) To obtain and review a report by the auditors, at least annually, describing:

(i) All relationships between the auditors and the Fund, the Fund's adviser, and any control affiliate of the adviser that provides ongoing services to the Fund;

(ii) Any material issues raised by the most recent internal quality-control review, or peer review, of the auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditors, and any steps taken to deal with any such issues; and

(iii) The auditors' internal quality-control procedures;

(b) To discuss generally, to the extent the Fund issues any earnings press releases or any financial information and earnings guidance provided to analysts and rating agencies, any such releases or information and guidance;

(c) To discuss in a general manner, as either part of the full Board or as a Committee, the Fund's processes with respect to risk assessment and risk management;

(d) To review and approve, as either part of the full Board or as a Committee, clear policies relating to the hiring by entities within Franklin Templeton Investments of employees or former employees of the auditors;

(e) To evaluate, as either part of the full Board or as a Committee, its performance at least annually; and

(f) Upon appointment of a member (i) to the Committee or (ii) to the audit committee of another public company, who simultaneously serves on the audit committees of three or more public companies, to request the Board to determine that such simultaneous service would not impair the ability of such member to effectively serve on the Committee.

The Committee shall comply with such other rules of the New York Stock Exchange, Inc., other applicable national securities exchanges and the U.S. Securities and Exchange Commission applicable to closed-end funds, as such may be adopted and amended from time to time.

ont>
(1,276
)
Origination of loans held for sale
(47,381
)

(55,788
)
Proceeds from sales of loans held for sale
48,925

69,898

Gain on sale of securities available for sale
(61
)

(10
)
Decrease in deferred loan fees, net
(915
)

(260
)
Increase in accrued interest receivable and other assets
(2,754
)

(1,699
)
Amortization of core deposit intangibles
1,740

95

ESOP compensation expense
617

640

Restricted stock and stock option expense
2,088

1,998

Decrease in other liabilities
(6,800
)

(2,474
)
Net cash provided by operating activities
535

21,006

Investing Activities:

Purchase of securities available for sale
(87,955
)

(67,271
)
Proceeds from maturities of securities available for sale
21,885

27,225

Proceeds from sale of securities available for sale
10,387

2,086

Purchase of certificates of deposit in other banks
(80,591
)

(37,266
)
Maturities of certificates of deposit in other banks
39,775

14,184

Principal repayments of mortgage-backed securities
20,017

7,015

Net redemptions (purchases) of other investments
(14,654
)

764

Net decrease (increase) in loans
(54,796
)

36,559

Purchase of premises and equipment
(5,111
)

(1,174
)
Capital improvements to REO
(93
)

(126
)
Proceeds from sale of REO
8,564

8,214

Acquisition of BankGreenville Financial Corporation, net of cash paid
—

1,475

Acquisition of Bank of Commerce, net of cash received
(7,759
)

—

Acquisition of Bank of America branches, net of cash paid
310,868

—

Net cash provided by (used in) investing activities
160,537

(8,315
)
Financing Activities:

Net decrease in deposits
(92,090
)

(31,954
)
Net increase (decrease) in other borrowings
184,828

(2,527
)
Common stock repurchased
(5,226
)

(20,495
)
Exercised stock options
259

—

Decrease in capital lease obligations
(14
)

(13
)
Net cash provided by (used in) financing activities
87,757

(54,989

)
Net Increase (Decrease) in Cash and Cash Equivalents
248,829

(42,298
)
Cash and Cash Equivalents at Beginning of Period
45,830

125,713

Cash and Cash Equivalents at End of Period
$
294,659

$
83,415

6

Supplemental Disclosures:	Nine Months Ended March 31,	
	2015	2014
Cash paid during the period for:		
Interest	$3,589	$4,047
Income taxes	222	113
Noncash transactions:		
Unrealized gain (loss) in value of securities available for sale, net of income taxes	1,579	(31)
Transfers of loans to REO	2,171	4,166
Transfers of loans to held for sale	—	4,340
Loans originated to finance the sale of REO	460	94
Business Combinations:		
Assets acquired	464,179	103,905
Liabilities assumed	444,374	94,352
Net assets acquired	19,805	9,553

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

7

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)
1. Summary of Significant Accounting Policies
The consolidated financial statements presented in this report include the accounts of HomeTrust Bancshares, Inc., a Maryland corporation ("HomeTrust"), and its wholly-owned subsidiary, HomeTrust Bank, National Association (the "Bank"). As used throughout this report, the term the "Company" refers to HomeTrust and the Bank, its consolidated subsidiary, unless the context otherwise requires.
The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all the information and footnotes required by US GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position and results of operations for the periods presented have been included. It is recommended that these unaudited interim consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2014 ("2014 Form 10-K") filed with the SEC on September 15, 2014. The results of operations for the three and nine months ended March 31, 2015 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2015. Certain prior year amounts have been reclassified to conform to current fiscal year presentation. The reclassifications had no impact on previously reported net income or equity.
The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Various elements of the Company's accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. In particular, management has identified several accounting policies that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of the Company's financial statements. These policies relate to (i) the determination of the provision and the allowance for loan losses, (ii) business combinations, (iii) the valuation of REO, (iv) the calculation of post-retirement plan expenses and benefits, and (v) the valuation of or recognition of deferred tax assets and liabilities. These policies and judgments, estimates and assumptions are described in greater detail in subsequent notes to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations (Critical Accounting Policies) in our 2014 Form 10-K. Management believes that the judgments, estimates and assumptions used in the preparation of the financial statements are appropriate based on the factual circumstances at the time. However, given the sensitivity of the financial statements to these critical accounting policies, the use of other judgments, estimates and assumptions could result in material differences in the Company's results of operations or financial condition. Further, subsequent changes in economic or market conditions could have a material impact on these estimates and the Company's financial condition and operating results in future periods.
2. Recent Accounting Pronouncements
In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-04, "Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure". The objective of this guidance is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU No. 2014-04 states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded

investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective, for the Company, for interim and annual reporting periods beginning after June 30, 2015. The adoption of ASU No. 2014-04 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In August 2014, the FASB issued ASU No. 2014-14, "Receivables-Troubled Debt Restructuring by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure". The amendments in this ASU require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure; (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim of the guarantee, and the creditor has the ability to recover under that claim; and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this ASU are effective, for the Company, for annual periods, and interim periods within those annual periods, beginning after June 30, 2015. The adoption of ASU No. 2014-14 is not expected to have a material impact on the Company's Consolidated Financial Statements.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)

In January 2015, the FASB issued ASU No. 2015-01, "Income Statement-Extraordinary and Unusual Items (Subtopic 225-20)". The ASU eliminates the need to separately classify, present, and disclose extraordinary events. The disclosure of events or transactions that are unusual or infrequent in nature will be included in other guidance. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. The adoption of ASU No. 2015-1 is not expected to have a material impact on the Company's consolidated financial statements.

3. Business Combinations

On November 14, 2014, the Bank completed its acquisition of ten branch banking operations in Southwest Virginia and Eden, North Carolina from Bank of America Corporation (the "Branch Acquisition"). Under the terms of the agreement, the Bank paid a deposit premium of $9,805 equal to 2.86% of the average daily deposits for the 30 calendar day period prior to the acquisition date. In addition, the Bank acquired approximately $1,045 in loans and all related premises and equipment valued at $8,993.

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

The following table presents the consideration paid by the Bank in the acquisition of these Bank of America branches and the assets acquired and liabilities assumed as of November 14, 2014:

	As Recorded By Bank of America	Fair Value and Other Merger Related Adjustments	As Recorded by the Company
Consideration Paid			
Cash paid as deposit premium			$9,805
Total consideration			$9,805
Assets			
Cash and cash equivalents	$320,673	$—	$320,673
Loans, net of allowance	1,045	—	1,045
Premises and equipment, net	6,303	2,690	8,993
Accrued interest receivable	3	—	3
Deferred income taxes	—	353	353
Core deposit intangibles	—	8,156	8,156
Total assets acquired	$328,024	$11,199	$339,223
Liabilities			
Deposits	$328,007	$1,394	$329,401
Other liabilities	17	—	17
Total liabilities assumed	$328,024	$1,394	$329,418
Net identifiable assets acquired over liabilities assumed	$—	$9,805	$9,805
Goodwill			$—

On July 31, 2014, the Bank completed its acquisition of Bank of Commerce in accordance with the terms of the Agreement and Plan of Share Exchange dated March 3, 2014. Under the terms of the agreement, Bank of Commerce shareholders received $6.25 per share in cash consideration, representing approximately $10,000 of aggregate deal consideration. In addition, all $3,200 of Bank of Commerce's preferred stock was redeemed.

Bank of Commerce was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at acquisition date fair values. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair values becomes available. The excess of the merger consideration over the fair value of Bank of Commerce's net assets was allocated to goodwill. The book value as of July 31, 2014, of assets acquired was $122,530 and liabilities assumed was $114,672. The Company recorded $3,953 in goodwill related to the acquisition.

9

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)

The following table presents the consideration paid by the Bank in the acquisition of Bank of Commerce and the assets acquired and liabilities assumed as of July 31, 2014:

	As Recorded By Bank of Commerce	Fair Value and Other Merger Related Adjustments	As Recorded by the Company
Consideration Paid			
Cash paid			$10,000
Total consideration			$10,000
Assets			
Cash and cash equivalents	$2,241	$—	$2,241
Securities available for sale	24,228	—	24,228
Loans, net of allowance	89,339	(3,131)	86,208
Federal Home Loan Bank ("FHLB") Stock	791	—	791
REO	224	—	224
Premises and equipment, net	135	—	135
Accrued interest receivable	355	(100)	255
Deferred income taxes	286	1,064	1,350
Core deposit intangibles	—	640	640
Other assets	4,931	—	4,931
Total assets acquired	$122,530	$(1,527)	$121,003
Liabilities			
Deposits	$93,303	$112	$93,415
Other borrowings	15,000	172	15,172
Other liabilities	6,369	—	6,369
Total liabilities assumed	$114,672	$284	$114,956
Net identifiable assets acquired over liabilities assumed	$7,858	$(1,811)	$6,047
Goodwill			$3,953

The carrying amount of acquired loans from Bank of Commerce as of July 31, 2014 consisted of purchased performing loans and purchased credit-impaired ("PCI") loans as detailed in the following table:

	Purchased Performing	PCI	Total Loans
Retail Consumer Loans:			
One-to-four family	$2,717	$2,979	$5,696
Home equity lines of credit	8,823	317	9,140
Consumer	37	15	52
Commercial:			
Commercial real estate	28,772	30,047	58,819
Construction and development	202	3,020	3,222
Commercial and industrial	5,402	3,877	9,279
Total	$45,953	$40,255	$86,208

On May 31, 2014, the Company completed its acquisition of Jefferson Bancshares, Inc. ("Jefferson") in accordance with the terms of the Agreement and Plan of Merger dated January 22, 2014. Under the terms of the agreement, Jefferson shareholders received 0.2661 shares of HomeTrust common stock, and $4.00 in cash for each share of Jefferson common stock. This represents approximately $50,490 of aggregate deal consideration.

Jefferson was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at acquisition date fair values. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair values becomes available. The excess of the merger consideration over the fair value of Jefferson's net assets was allocated to goodwill. The book value as of May 31, 2014, of assets acquired was $494,261 and liabilities assumed was $441,858. The Company recorded $7,013 in goodwill related to the acquisition.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)

The following table presents the consideration paid by the Company in the acquisition of Jefferson and the assets acquired and liabilities assumed as of May 31, 2014:

	As Recorded by Jefferson	Fair Value and Other Merger Related Adjustments	As Recorded by the Company
Consideration Paid			
Cash paid including cash in lieu of fractional shares			$25,251
Fair value of HomeTrust common stock at $15.03 per share			25,239
Total consideration			$50,490
Assets			
Cash and cash equivalents	$18,325	$—	$18,325
Securities available for sale	85,744	(700)	85,044
Loans, net of allowance	338,616	(9,134)	329,482
FHLB Stock	4,635	—	4,635
REO	3,288	—	3,288
Premises and equipment, net	24,662	(1,311)	23,351
Accrued interest receivable	1,367	(90)	1,277
Deferred income taxes	9,606	3,395	13,001
Core deposit intangibles	847	2,683	3,530
Other assets	7,171	—	7,171
Total assets acquired	$494,261	$(5,157)	$489,104
Liabilities			
Deposits	$376,985	$371	$377,356
Other borrowings	55,081	858	55,939
Subordinated debentures	7,460	2,540	10,000
Other liabilities	2,332	—	2,332
Total liabilities assumed	$441,858	$3,769	$445,627
Net identifiable assets acquired over liabilities assumed	$52,403	$(8,926)	43,477
Goodwill			$7,013

The carrying amount of acquired loans from Jefferson as of May 31, 2014 consisted of purchased performing loans and PCI loans as detailed in the following table:

	Purchased Performing	PCI	Total Loans
Retail Consumer Loans:			
One-to-four family	$74,378	$6,066	$80,444
Home equity lines of credit	16,857	18	16,875
Construction and land/lots	7,810	924	8,734
Consumer	4,181	2	4,183
Commercial:			
Commercial real estate	118,714	15,649	134,363
Construction and development	24,658	1,012	25,670
Commercial and industrial	52,863	6,350	59,213
Total	$299,461	$30,021	$329,482

On July 31, 2013, the Company completed its acquisition of BankGreenville Financial Corporation ("BankGreenville") in accordance with the terms of the Agreement and Plan of Merger dated May 3, 2013. Under the terms of the agreement, BankGreenville shareholders received $6.63 per share in cash consideration. This represents approximately $7,823 of aggregate deal consideration. Additional contingent cash consideration of up to $0.75 per share (or approximately $883) may be realized at the expiration of 24 months based on the performance of a select pool of loans totaling approximately $8,000.

11

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)

BankGreenville was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at acquisition date fair values. The excess of the merger consideration over the fair value of BankGreenville's net assets was allocated to goodwill. The book value as of July 31, 2013, of assets acquired was $102,180 and liabilities assumed was $94,117. The Company recorded $2,802 in goodwill related to the acquisition.

The following table presents the consideration paid by the Company in the acquisition of BankGreenville and the assets acquired and liabilities assumed as of July 31, 2013:

	As Recorded by BankGreenville	Fair Value and Other Merger Related Adjustments	As Recorded by the Company
Consideration Paid			
Cash			$7,823
Repayment of BankGreenville preferred stock			1,050
Contingent cash consideration (1)			680
Total consideration			$9,553
Assets			
Cash and cash equivalents	$10,348	$—	$10,348
Investment securities	34,345	—	34,345
Loans, net of allowance	51,622	(3,792)	47,830
FHLB Stock	447	—	447
REO	2,317	(168)	2,149
Premises and equipment, net	2,458	(117)	2,341
Accrued interest receivable	429	—	429
Deferred tax asset	—	2,470	2,470
Other assets	214	—	214
Core deposit intangibles	—	530	530
Total assets acquired	$102,180	$(1,077)	$101,103
Liabilities			
Deposits	$88,906	$201	$89,107
Other borrowings	4,700	34	4,734
Other liabilities	511	—	511
Total liabilities assumed	$94,117	$235	$94,352
Net identifiable assets acquired over liabilities assumed	$8,063	$(1,312)	6,751
Goodwill			$2,802

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(1) Estimate of additional amount to be paid to shareholders on or about July 31, 2015 based on performance of a select pool of loans totaling approximately $8,000.

The carrying amount of acquired loans from BankGreenville as of July 31, 2013 consisted of purchased performing loans and PCI loans as detailed in the following table:

	Purchased Performing	PCI	Total Loans
Retail Consumer Loans:			
One-to-four family	$8,274	$1,392	$9,666
Home equity lines of credit	3,987	134	4,121
Consumer	522	—	522
Commercial:			

Commercial real estate	23,073	4,552	27,625
Construction and development	2,367	3,529	5,896
Total	$38,223	$9,607	$47,830

12

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)

The following table discloses the impact of the acquisition of Bank of Commerce since the effective date of July 31, 2014 through March 31, 2015 and the Branch Acquisition since the effective date of November 14, 2014 through March 31, 2015. In addition, the table presents certain pro forma information as if the Branch Acquisition, Bank of Commerce, Jefferson, and BankGreenville had been acquired on July 1, 2014 and July 1, 2013. Although, this pro forma information combines the historical results from each company, it is not indicative of what would have occurred had the acquisition taken place on July 1, 2014 and July 1, 2013. Adjustments were made for the estimated impact of certain fair value adjustments and other acquisition-related activity while significant one-time merger-related expenses are not included. Furthermore, expenses related to systems conversions and other costs of integration have been recorded throughout fiscal year 2014 and are expected to be recorded throughout fiscal year 2015. Additionally, the Company expects to achieve further operating cost savings as a result of the acquisitions which are not reflected in the pro forma amounts below:

	Actual Nine Months Ended March 31, 2015	Pro Forma Nine Months Ended March 31, 2015	Pro Forma Nine Months Ended March 31, 2014
Total revenues*	$67,879	$72,183	$71,341
Net income	5,467	8,194	12,542

* Net interest income plus other income

4. Securities Available for Sale

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

	March 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government Agencies	$87,263	$854	$—	$88,117
Residential Mortgage-backed Securities of U.S. Government				
Agencies and Government-Sponsored Enterprises	120,101	1,313	(130)	121,284
Municipal Bonds	16,426	608	(32)	17,002
Corporate Bonds	3,895	151	—	4,046
Equity Securities	63	—	—	63
Total	$227,748	$2,926	$(162)	$230,512

	June 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government Agencies	$38,085	$45	$(37)	$38,093
Residential Mortgage-backed Securities of U.S. Government				
Agencies and Government-Sponsored Enterprises	111,430	393	(412)	111,411
Municipal Bonds	15,951	282	(13)	16,220
Corporate Bonds	2,912	113	—	3,025
Total	$168,378	$833	$(462)	$168,749

13

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)

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

	March 31, 2015	
	Amortized Cost	Estimated Fair Value
Due within one year	$1,001	$1,001
Due after one year through five years	69,225	69,502
Due after five years through ten years	33,579	34,706
Due after ten years	3,779	3,956
Mortgage-backed securities	120,101	121,284
Total	$227,685	$230,449

The Company did not sell any securities available for sale in the three months ended March 31, 2015. Proceeds from sales of securities available for sale were $10,387 in the nine months ended March 31, 2015. Gross realized gains were $74 and gross realized losses were $13 for the nine months ended March 31, 2015. Proceeds from sales of securities available for sale were $2,086 in the three and nine months ended March 31, 2014. Gross realized gains were $42 and gross realized losses were $32 for the three and nine months ended March 31, 2014.

Securities available for sale with costs totaling $153,590 and $51,036 with market values of $155,285 and $51,297 at March 31, 2015 and June 30, 2014, respectively, were pledged as collateral to secure various public deposits.

The gross unrealized losses and the fair value for securities available for sale aggregated by the length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2015 and June 30, 2014 were as follows:

	March 31, 2015					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government Agencies	$—	$—	$—	$—	$—	$—
Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises	12,404	(43)	5,263	(87)	17,667	(130)
Municipal Bonds	2,594	(32)	—	—	2,594	(32)
Total	$14,998	$(75)	$5,263	$(87)	$20,261	$(162)

	June 30, 2014					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government Agencies	$19,475	$(37)	$—	$—	$19,475	$(37)
Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises	75,761	(399)	162	(13)	75,923	(412)
Municipal Bonds	6,668	(13)	—	—	6,668	(13)
Total	$101,904	$(449)	$162	$(13)	$102,066	$(462)

The total number of securities with unrealized losses at March 31, 2015, and June 30, 2014 were 48 and 159, respectively. Unrealized losses on securities have not been recognized in income because management has the intent and ability to hold the securities for the foreseeable future, and has determined that it is not more likely than not that the Company will be required to sell the securities prior to a recovery in value. The decline in fair value was largely due to increases in market interest rates. The Company had no other than temporary impairment losses during the three and nine months ended March 31, 2015 or the year ended June 30, 2014.

14

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)

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

5. Loans

Loans consist of the following at the dates indicated:

	March 31, 2015	June 30, 2014
Retail consumer loans:		
One-to-four family	$651,588	$660,200
Home equity lines of credit	198,717	148,379
Construction and land/lots	48,248	59,249
Indirect auto finance	32,230	8,833
Consumer	4,135	6,331
Total retail consumer loans	934,918	882,992
Commercial loans:		
Commercial real estate	452,431	377,769
Construction and development	58,989	56,457
Commercial and industrial	88,451	74,435
Municipal leases	106,693	106,215
Total commercial loans	706,564	614,876
Total loans	1,641,482	1,497,868
Deferred loan fees, net	(425)	(1,340)
Total loans, net of deferred loan fees and discount	1,641,057	1,496,528
Allowance for loan and lease losses	(22,681)	(23,429)
Loans, net	$1,618,376	$1,473,099

All the qualifying first mortgage loans, home equity lines of credit, and FHLB Stock are pledged as collateral by a blanket pledge to secure any outstanding FHLB advances.

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

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
March 31, 2015						
Retail consumer loans:						
One-to-four family	$593,246	$13,794	$31,940	$3,111	$4	$642,095
Home equity lines of credit	192,665	635	4,542	407	100	198,349
Construction and land/lots	44,642	517	2,060	163	—	47,382
Indirect auto finance	32,185	45	—	—	—	32,230
Consumer	3,927	78	97	9	11	4,122
Commercial loans:						
Commercial real estate	379,567	14,363	18,261	311	—	412,502
Construction and development	45,076	2,047	5,928	—	—	53,051
Commercial and industrial	79,329	565	2,217	—	1	82,112
Municipal leases	104,355	1,757	581	—	—	106,693
Total loans	$1,474,992	$33,801	$65,626	$4,001	$116	$1,578,536

15

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
June 30, 2014						
Retail consumer loans:						
One-to-four family	$602,409	$17,639	$28,974	$2,907	$10	$651,939
Home equity lines of credit	141,008	1,605	4,967	420	2	148,002
Construction and land/lots	55,374	1,878	807	113	—	58,172
Indirect auto finance	8,801	32	—	—	—	8,833
Consumer	6,115	62	97	13	3	6,290
Commercial loans:						
Commercial real estate	313,437	16,931	19,746	1,944	—	352,058
Construction and development	41,336	2,927	5,972	570	—	50,805
Commercial and industrial	66,481	873	1,723	—	3	69,080
Municipal leases	104,404	1,811	—	—	—	106,215
Total loans	$1,339,365	$43,758	$62,286	$5,967	$18	$1,451,394

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

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
March 31, 2015						
Retail consumer loans:						
One-to-four family	$5,643	$1,222	$2,571	$57	$—	$9,493
Home equity lines of credit	260	—	108	—	—	368
Construction and land/lots	599	—	267	—	—	866
Indirect auto finance	—	—	—	—	—	—
Consumer	13	—	—	—	—	13
Commercial loans:						
Commercial real estate	28,725	5,166	6,038	—	—	39,929
Construction and development	2,433	156	3,349	—	—	5,938
Commercial and industrial	4,891	677	771	—	—	6,339
Municipal leases	—	—	—	—	—	—
Total loans	$42,564	$7,221	$13,104	$57	$—	$62,946

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
June 30, 2014						
Retail consumer loans:						
One-to-four family	$4,904	$—	$3,357	$—	$—	$8,261
Home equity lines of credit	7	—	370	—	—	377
Construction and land/lots	791	—	286	—	—	1,077
Indirect auto finance	—	—	—	—	—	—
Consumer	41	—	—	—	—	41
Commercial loans:						
Commercial real estate	20,853	—	4,858	—	—	25,711
Construction and development	2,443	2,169	1,040	—	—	5,652
Commercial and industrial	4,647	—	708	—	—	5,355
Municipal leases	—	—	—	—	—	—
Total loans	$33,686	$2,169	$10,619	$—	$—	$46,474

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)

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

	Past Due 30-89 Days	90 Days+	Total	Current	Total Loans
March 31, 2015					
Retail consumer loans:					
One-to-four family	$6,861	$7,289	$14,150	$637,438	$651,588
Home equity lines of credit	931	490	1,421	197,296	198,717
Construction and land/lots	48	639	687	47,561	48,248
Indirect auto finance	—	—	—	32,230	32,230
Consumer	8	5	13	4,122	4,135
Commercial loans:					
Commercial real estate	2,466	6,431	8,897	443,534	452,431
Construction and development	1,597	4,213	5,810	53,179	58,989
Commercial and industrial	1,102	1,185	2,287	86,164	88,451
Municipal leases	1,037	—	1,037	105,656	106,693
Total loans	$14,050	$20,252	$34,302	$1,607,180	$1,641,482

The table above includes PCI loans of $2,912 30-89 days past due and $6,372 90 days or more past due as of March 31, 2015.

	Past Due 30-89 Days	90 Days+	Total	Current	Total Loans
June 30, 2014					
Retail consumer loans:					
One-to-four family	$4,929	$8,208	$13,137	$647,063	$660,200
Home equity lines of credit	400	939	1,339	147,040	148,379
Construction and land/lots	508	122	630	58,619	59,249
Indirect auto finance	—	—	—	8,833	8,833
Consumer	34	16	50	6,281	6,331
Commercial loans:					
Commercial real estate	306	6,729	7,035	370,734	377,769
Construction and development	1,165	3,789	4,954	51,503	56,457
Commercial and industrial	183	576	759	73,676	74,435
Municipal leases	—	—	—	106,215	106,215
Total loans	$7,525	$20,379	$27,904	$1,469,964	$1,497,868

The table above includes PCI loans of $1,817 30-89 days past due and $4,189 90 days or more past due as of June 30, 2014.

17

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)

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

	March 31, 2015		June 30, 2014	
	Nonaccruing	90 Days + & still accruing	Nonaccruing	90 Days + & still accruing
Retail consumer loans:				
One-to-four family	$13,189	$—	$14,917	$—
Home equity lines of credit	2,204	—	2,749	—
Construction and land/lots	633	—	443	—
Indirect auto finance	—	—	—	—
Consumer	21	—	27	—
Commercial loans:				
Commercial real estate	9,581	—	12,953	—
Construction and development	4,046	—	5,697	—
Commercial and industrial	903	—	1,134	—
Municipal leases	316	—	—	—
Total loans	$30,893	$—	$37,920	$—

PCI loans totaling $10,354 at March 31, 2015 and $9,220 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.

Troubled debt restructurings ("TDRs") are loans which have renegotiated loan terms to assist borrowers who are unable to meet the original terms of their loans. Such modifications to loan terms may include a lower interest rate, a reduction in principal, or a longer term to maturity. Additionally, all TDRs are considered impaired.

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

	March 31, 2015	June 30, 2014
Performing TDRs included in impaired loans	$21,189	$22,179

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

	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014		
	Retail Consumer	Commercial	Total	Retail Consumer	Commercial	Total
Balance at beginning of period	$14,603	$8,753	$23,356	$18,217	$8,908	$27,125
Provision for (recovery of) loan losses	184	(184)	—	(611)	(1,189)	(1,800)
Charge-offs	(1,313)	(354)	(1,667)	(402)	(253)	(655)
Recoveries	101	891	992	113	486	599
Balance at end of period	$13,575	$9,106	$22,681	$17,317	$7,952	$25,269
	Nine Months Ended March 31, 2015			Nine Months Ended March 31, 2014		
	Retail Consumer	Commercial	Total	Retail Consumer	Commercial	Total
Balance at beginning of period	$15,731	$7,698	$23,429	$21,952	$10,121	$32,073
Provision for (recovery of) loan losses	(745)	495	(250)	(1,887)	(2,913)	(4,800)
Charge-offs	(2,369)	(682)	(3,051)	(3,768)	(550)	(4,318)
Recoveries	958	1,595	2,553	1,020	1,294	2,314
Balance at end of period	$13,575	$9,106	$22,681	$17,317	$7,952	$25,269

18

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)

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

	Allowance for Loan Losses				Total Loans Receivable			
	PCI	Loans individually evaluated for impairment	Loans Collectively Evaluated	Total	PCI	Loans individually evaluated for impairment	Loans Collectively Evaluated	Total
March 31, 2015								
Retail consumer loans:								
One-to-four family	$—	$ 480	$ 8,042	$8,522	$9,493	$ 24,438	$617,657	$651,588
Home equity	—	407	1,897	2,304	368	2,724	195,625	198,717
Construction and land/lots	—	573	1,636	2,209	866	2,129	45,253	48,248
Indirect auto finance	—	—	438	438	—	—	32,230	32,230
Consumer	—	11	91	102	13	17	4,105	4,135
Commercial loans:								
Commercial real estate	—	60	5,736	5,796	39,929	15,650	396,852	452,431
Construction and development	—	412	1,475	1,887	5,938	6,022	47,029	58,989
Commercial and industrial	—	1	751	752	6,339	2,173	79,939	88,451
Municipal leases	—	—	671	671	—	316	106,377	106,693
Total	$—	$ 1,944	$ 20,737	$22,681	$62,946	$ 53,469	$1,525,067	$1,641,482
June 30, 2014								
Retail consumer loans:								
One-to-four family	$—	$ 493	$ 10,034	$10,527	$8,261	$ 23,929	$628,010	$660,200
Home equity	—	134	2,353	2,487	377	3,014	144,988	148,379
Construction and land/lots	—	379	2,041	2,420	1,077	1,735	56,437	59,249
Indirect auto finance	—	—	113	113	—	—	8,833	8,833
Consumer	—	3	181	184	41	10	6,280	6,331
Commercial loans:								
Commercial real estate	—	26	5,413	5,439	25,711	13,784	338,274	377,769
Construction and development	—	26	1,215	1,241	5,652	5,571	45,234	56,457
Commercial and industrial	—	3	246	249	5,355	2,378	66,702	74,435
Municipal leases	—	—	769	769	—	—	106,215	106,215
Total	$—	$ 1,064	$ 22,365	$23,429	$46,474	$ 50,421	$1,400,973	$1,497,868

In December 2014, the Company purchased $40,914 of home equity lines of credit from a third party. 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. These loans were originated in 2014, have an average FICO score of 757 and loan to values of less than 90%. The Company established an allowance for loan losses based on the historical losses in the states where these loans were originated. The Company will monitor the performance of these loans and adjust the allowance for loan losses as necessary.

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

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)

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

	Total Impaired Loans				
	Unpaid Principal Balance	Recorded Investment With a Recorded Allowance	Recorded Investment With No Recorded Allowance	Total	Related Recorded Allowance
March 31, 2015					
Retail consumer loans:					
One-to-four family	$35,707	$12,373	$19,036	$31,409	$578
Home equity lines of credit	6,391	3,110	1,380	4,490	429
Construction and land/lots	3,670	1,466	816	2,282	579
Indirect auto finance	31	—	—	—	—
Consumer	1,617	10	19	29	11
Commercial loans:					
Commercial real estate	22,047	2,651	14,626	17,277	88
Construction and development	8,631	3,344	3,476	6,820	436
Commercial and industrial	3,439	171	2,202	2,373	3
Municipal leases	316	—	316	316	—
Total impaired loans	$81,849	$23,125	$41,871	$64,996	$2,124
June 30, 2014					
Retail consumer loans:					
One-to-four family	$34,243	$12,946	$18,047	$30,993	$618
Home equity lines of credit	6,161	2,110	2,299	4,409	160
Construction and land/lots	3,287	1,053	793	1,846	383
Indirect auto finance	—	—	—	—	—
Consumer	364	16	11	27	3
Commercial loans:					
Commercial real estate	18,558	1,714	13,082	14,796	59
Construction and development	9,091	928	4,930	5,858	48
Commercial and industrial	2,987	313	2,030	2,343	7
Municipal leases	—	—	—	—	—
Total impaired loans	$74,691	$19,080	$41,192	$60,272	$1,278

Impaired loans above excludes $10,354 at March 31, 2015 and $9,220 at June 30, 2014 in PCI loans due to the accretion of discounts established in accordance with the acquisition method of accounting for business combinations. The table above includes $11,527 and $12,406, of impaired loans that were not individually evaluated at March 31, 2015 and June 30, 2014, respectively, because these loans did not meet the Company's threshold for individual impairment evaluation. The recorded allowance above includes $180 and $427 related to these loans that were not individually evaluated at March 31, 2015 and June 30, 2014, respectively.

20

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)

The Company's average recorded investment in loans individually evaluated for impairment and interest income recognized on impaired loans for the three and nine months ended March 31, 2015 and 2014 was as follows:

	Three Months Ended			
	March 31, 2015		March 31, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Retail consumer loans:				
One-to-four family	$30,155	$395	$37,320	$355
Home equity lines of credit	4,316	66	5,722	57
Construction and land/lots	2,152	38	2,101	46
Indirect auto finance	—	—	—	—
Consumer	55	5	32	3
Commercial loans:				
Commercial real estate	15,551	147	22,930	140
Construction and development	6,019	55	6,789	45
Commercial and industrial	2,270	18	2,791	37
Municipal leases	447	12	—	—
Total loans	$60,965	$736	$77,685	$683

	Nine Months Ended			
	March 31, 2015		March 31, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Retail consumer loans:				
One-to-four family	$31,914	$1,283	$41,601	$1,247
Home equity lines of credit	4,730	195	5,855	213
Construction and land/lots	2,153	125	2,205	155
Indirect auto finance	—	1	—	—
Consumer	37	16	40	6
Commercial loans:				
Commercial real estate	17,281	406	24,434	499
Construction and development	6,104	133	8,888	132
Commercial and industrial	2,622	74	2,775	131
Municipal leases	239	17	—	—
Total loans	$65,080	$2,250	$85,798	$2,383

A summary of changes in the accretable yield for PCI loans for the three and nine months ended March 31, 2015 and 2014 was as follows:

	Three Months Ended	
	March 31, 2015	March 31, 2014
Accretable yield, beginning of period	$10,335	$1,610
Interest income	(1,616)	(155)
Accretable yield, end of period	$8,719	$1,455

21

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)

	Nine Months Ended	
	March 31, 2015	March 31, 2014
Accretable yield, beginning of period	$6,151	$—
Addition from the BankGreenville acquisition	—	1,835
Addition from the Bank of Commerce acquisition	7,315	—
Interest income	(4,747)	(380)
Accretable yield, end of period	$8,719	$1,455

The following table presents the purchased performing loans receivable for Bank of Commerce at July 31, 2014 (the acquisition date):

	July 31, 2014
Contractually required principal payments receivable	$47,112
Adjustment for credit, interest rate, and liquidity	1,159
Balance of purchased loans receivable	$45,953

The following table presents the PCI loans for Bank of Commerce at July 31, 2014 (the acquisition date):

	July 31, 2014
Contractually required principal and interest payments receivable	$49,870
Amounts not expected to be collected – nonaccretable difference	2,300
Estimated payments expected to be received	47,570
Accretable yield	7,315
Fair value of PCI loans	$40,255

For the three and nine months ended March 31, 2015 and 2014, the following table presents a breakdown of the types of concessions made on TDRs by loan class:

	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014		
	Number of Loans	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment	Number of Loans	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment
Below market interest rate:						
Retail consumer:						
One-to-four family	3	$388	$386	—	$—	$—
Total	3	$388	$386	—	$—	$—
Extended term:						
Retail consumer:						
One-to-four family	—	$—	$—	1	$42	$41
Total	—	$—	$—	1	$42	$41
Other TDRs:						
Retail consumer:						
One-to-four family	6	$3,091	$3,006	7	$777	$787
Home equity lines of credit	2	41	9	—	—	—
Construction and land/lots	—	$—	$—	1	652	642
Total	8	$3,132	$3,015	8	$1,429	$1,429

Total	11	$3,520	$3,401	9	$1,471	$1,470

22

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)

	Nine Months Ended March 31, 2015			Nine Months Ended March 31, 2014		
	Number of Loans	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment	Number of Loans	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment
Below market interest rate:						
Retail consumer:						
One-to-four family	4	$449	$473	3	$146	$142
Home equity lines of credit	—	—	—	2	347	343
Construction and land/lots	1	110	103	—	—	—
Total	5	$559	$576	5	$493	$485
Extended term:						
Retail consumer:						
One-to-four family	—	$—	$—	2	$44	$41
Home equity lines of credit	3	91	87	—	—	—
Consumer	2	10	9	—	—	—
Commercial:						
Commercial real estate	2	$426	471	—	$—	$—
Total	7	$527	$567	2	$44	$41
Other TDRs:						
Retail consumer:						
One-to-four family	16	$3,684	$3,568	13	$1,169	$1,178
Home equity lines of credit	4	155	121	2	42	4
Construction and land/lots	1	106	103	2	787	773
Commercial:						
Construction and land development	2	173	172	—	—	—
Total	23	$4,118	$3,964	17	$1,998	$1,955
Total	35	$5,204	$5,107	24	$2,535	$2,481

The following table presents loans that were modified as TDRs within the previous 12 months and for which there was a payment default during the three and nine months ended March 31, 2015 and 2014:

	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Below market interest rate:				
Retail consumer:				
One-to-four family	2	$380	—	$—
Total	2	$380	—	$—
Extended payment terms:	—	$—	—	$—
Total	—	$—	—	$—
Other TDRs:				

Retail consumer:				
One-to-four family	2	$716	2	$166
Home equity lines of credit	2	9	—	—
Total	4	$725	2	$166
Total	6	$1,105	2	$166

23

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)

	Nine Months Ended March 31, 2015		Nine Months Ended March 31, 2014	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Below market interest rate:				
Retail consumer:				
One-to-four family	2	$380	—	$—
Total	2	$380	—	$—
Extended payment terms:				
Home equity lines of credit	—	$—	1	$250
Total	—	$—	1	$250
Other TDRs:				
Retail consumer:				
One-to-four family	10	$1,116	4	$422
Home equity lines of credit	2	9	1	120
Construction and land/lots	1	172	—	—
Total	13	$1,297	5	$542
Total	15	$1,677	6	$792

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

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

6. Net income per Share

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

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

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2015	2014	2015	2014
Numerator:				
Net income available to common stockholders	$1,162	$2,606	$5,467	$8,809
Denominator:				
Weighted-average common shares outstanding - basic	19,113,387	18,302,672	19,146,025	18,724,242
Effect of dilutive shares	79,315	75,487	86,766	91,174
Weighted-average common shares outstanding - diluted	19,192,702	18,378,159	19,232,791	18,815,416
Net income per share - basic	$0.06	$0.14	$0.28	$0.46

Net income per share - diluted	$0.06	$0.14	$0.28	$0.46

There were 1,450,100 and 1,585,500 outstanding stock options that were anti-dilutive for the three and nine months ended March 31, 2015 and 2014, respectively.

24

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)

7. Equity Incentive Plan

On January 17, 2013, the Company's stockholders approved the 2013 Omnibus Incentive Plan, which provides for awards of restricted stock, restricted stock units, stock options, stock appreciation rights and cash awards to directors, emeritus directors, officers, employees and advisory directors. The cost of equity-based awards under the 2013 Omnibus Incentive Plan generally is based on the fair value of the awards on their grant date. The maximum number of shares that may be utilized for awards under the plan is 2,962,400, including 2,116,000 for stock options and stock appreciation rights and 846,400 for awards of restricted stock and restricted stock units.

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

Share based compensation expense related to stock options and restricted stock recognized for the three months ended March 31, 2015 and 2014 was $662 and $662, respectively, before the tax related benefit of $245 and $245, respectively. Share based compensation expense related to stock options and restricted stock recognized for the nine months ended March 31, 2015 and 2014 was $2,088 and $1,999, respectively, before the tax related benefit of $773 and $740, respectively.

The table below presents stock option activity for the nine months ended March 31, 2015 and 2014:

	Options	Weighted-average exercise price	Remaining contractual life (years)	Aggregate Intrinsic Value
Options outstanding at June 30, 2013	1,557,000	$14.37	9.6	$4,033
Granted	30,000	15.83	10.0	—
Exercised	—	—	—	—
Forfeited	1,500	14.37	—	—
Expired	—	—	—	—
Options outstanding at March 31, 2014	1,585,500	$14.40	8.9	$2,193
Exercisable at March 31, 2014	290,175	$14.37		
Options outstanding at June 30, 2014	1,513,500	$14.40	8.6	$2,077
Granted	10,000	16.08	10.0	—
Exercised	18,000	14.37	—	—
Forfeited	5,400	14.37	—	—
Expired	—	—	—	—
Options outstanding at March 31, 2015	$1,500,100	$14.4	7.9	$2,340
Exercisable at March 31, 2015	549,150	$14.39		

The fair value of each option is estimated on the date of grant using the Black-Scholes-Merton option pricing model. The weighted average fair value of each option granted in 2015, 2014 and 2013 was $3.59, $4.49 and $4.50, respectively. 10,000 options were granted in fiscal year 2015. Assumptions used for grants were as follows:

Assumptions in Estimating Option Values

	2015		2014		2013	
Weighted-average volatility	18.90	%	28.19	%	28.19	%
Expected dividend yield	—	%	—	%	—	%
Risk-free interest rate	1.56	%	2.04	%	1.28	%
Expected life (years)	6.0		6.5		6.6	

At March 31, 2015, the Company had $3,851 of unrecognized compensation expense related to 1,500,100 stock options scheduled to vest over five- and seven-year vesting periods. The weighted average period over which compensation cost related to non-vested awards expected to be recognized was 2.0 years at March 31, 2015. At March 31, 2014, the Company had $5,650 of unrecognized compensation expense related to 1,585,500 stock options scheduled to vest over five- and seven-year vesting periods. The weighted average period over which compensation cost related to non-vested awards expected to be recognized was 3.9 years at March 31, 2014.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)

The table below presents restricted stock award activity for the nine months ended March 31, 2015 and 2014:

	Restricted stock awards	Weighted-average grant date fair value	Aggregate Intrinsic Value
Non-vested at June 30, 2013	511,300	$14.37	$8,672
Granted	7,050	15.80	—
Vested	95,485	14.37	—
Forfeited	—	—	—
Non-vested at March 31, 2014	422,865	$14.39	$6,673
Non-vested at June 30, 2014	403,965	$14.39	$6,371
Granted	—	—	—
Vested	91,895	14.39	—
Forfeited	1,600	14.37	—
Non-vested at March 31, 2015	310,470	$14.40	$4,958

At March 31, 2015, unrecognized compensation expense was $4,163 related to 310,470 shares of restricted stock scheduled to vest over five- and seven-year vesting periods. The weighted average period over which compensation cost related to non-vested awards is expected to be recognized was 2.0 years at March 31, 2015. At March 31, 2014, unrecognized compensation expense was $5,859 related to 422,865 shares of restricted stock scheduled to vest over five- and seven-year vesting periods. The weighted average period over which compensation cost related to non-vested awards is expected to be recognized was 3.9 years at March 31, 2014.

8. Commitments and Contingencies

Loan Commitments – Legally binding commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. In the normal course of business, there are various outstanding commitments to extend credit that are not reflected in the consolidated financial statements. At March 31, 2015 and June 30, 2014, respectively, loan commitments (excluding $46,151 and $27,086 of undisbursed portions of construction loans) totaled $28,013 and $28,360 of which $9,995 and $3,620 were variable rate commitments and $18,018 and $24,740 were fixed rate commitments. The fixed rate loans had interest rates ranging from 1.99% to 6.25% at March 31, 2015 and 1.85% to 10.51% at June 30, 2014, and terms ranging from 3 to 30 years. Pre-approved but unused lines of credit (principally second mortgage home equity loans and overdraft protection loans) totaled $223,181 and $167,630 at March 31, 2015 and June 30, 2014, respectively. These amounts represent the Company's exposure to credit risk, and in the opinion of management have no more than the normal lending risk that the Company commits to its borrowers. The Company has freestanding derivative instruments consisting of commitments to originate fixed rate conforming loans and commitments to sell fixed rate conforming loans. The fair value of these commitments was not material at March 31, 2015 or June 30, 2014.

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

Restrictions on Cash – The Bank is required by regulation to maintain a varying cash reserve balance with the Federal Reserve System. The daily average calculated cash reserve required as of March 31, 2015 and June 30, 2014 was $1,873, and $8,087, respectively, which was satisfied by vault cash and balances held at the Federal Reserve Bank.

Guarantees – Standby letters of credit obligate the Company to meet certain financial obligations of its customers, if, under the contractual terms of the agreement, the customers are unable to do so. The financial standby letters of credit issued by the Company are irrevocable and payment is only guaranteed upon the borrower's failure to perform its obligations to the beneficiary. Total commitments under standby letters of credit as of March 31, 2015 and June 30, 2014 were $2,768 and $483. There was no liability recorded for these letters of credit at March 31, 2015 or June 30, 2014, respectively.

Litigation – The Company is involved in several litigation matters in the ordinary course of business. One matter, originally filed in March 2012, involves claims of $12.5 million in compensatory damages and a request for additional punitive treble damages resulting from the purported failure of the Company and a third party brokerage firm to discover a Ponzi scheme conducted by a customer holding accounts at each entity. The Company received a favorable summary judgment ruling on February 20, 2015, however the plaintiffs filed an appeal. The Company continues to believe that the lawsuit is without merit and intends to defend itself vigorously. Management, after review with its legal counsel, is of the opinion that this litigation should not have a material effect on the Company's financial position or results of operations, although new developments could result in management modifying its assessment. There can be no assurance that the Company will successfully defend or resolve this litigation matter.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)

The Company is also subject to a variety of other legal matters that have arisen in the ordinary course of our business. In the current economic environment, litigation has increased significantly, primarily as a result of defaulted borrowers asserting claims to defeat or delay foreclosure proceedings. There can be no assurance that loan workouts and other activities will not expose the Company to additional legal actions, including lender liability or environmental claims. Therefore, the Company may be exposed to substantial liabilities, which could adversely affect its results of operations and financial condition. Moreover, the expenses of legal proceedings will adversely affect its results of operations until they are resolved.

9. Fair Value of Financial Instruments

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

Fair Value Hierarchy

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

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

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

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

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

Investment Securities Available for Sale

Securities available for sale are valued on a recurring basis at quoted market prices where available. If quoted market prices are not available, fair values are based on quoted prices of comparable securities. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange or U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities and debentures issued by government sponsored enterprises, municipal bonds, and corporate debt securities.

Loans

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

At March 31, 2015 and June 30, 2014, most of the total impaired loans were evaluated based on the fair value of the collateral. For these collateral dependent impaired loans, the Company obtains updated appraisals at least annually. These appraisals are reviewed for appropriateness and then discounted for estimated closing costs to determine if an allowance is necessary. As part of the quarterly review of impaired loans, the Company reviews these appraisals to determine if any additional discounts to the fair value are necessary. If a current appraisal is not obtained, the

Company determines whether a discount is needed to the value from the original appraisal based on the decline in value of similar properties with recent appraisals. Impaired loans where a charge-off has occurred or an allowance is established during the period being reported require classification in the fair value hierarchy. The Company records all impaired loans with an allowance as nonrecurring Level 3.

Loans Held for Sale

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

Real Estate Owned

REO is considered held for sale and is adjusted to fair value less estimated selling costs upon transfer of the loan to foreclosed assets. Fair value is based upon independent market prices, appraised value of the collateral or management's estimation of the value of the collateral. The Company considers all REO carried at fair value as nonrecurring Level 3.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)

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

	March 31, 2015			
Description	Total	Level 1	Level 2	Level 3
U.S Government Agencies	$88,117	$—	$88,117	$—
Residential Mortgage-backed Securities of U.S. Government Agencies and Government Sponsored Enterprises	121,284	—	121,284	—
Municipal Bonds	17,002	—	17,002	—
Corporate Bonds	4,046	—	3,046	1,000
Equity Securities	63	—	63	—
Total	$230,512	$—	$229,512	$1,000
	June 30, 2014			
Description	Total	Level 1	Level 2	Level 3
U.S Government Agencies	$38,093	$—	$38,093	$—
Residential Mortgage-backed Securities of U.S. Government Agencies and Government Sponsored Enterprises	111,411	—	111,411	—
Municipal Bonds	16,220	—	16,220	—
Corporate Bonds	3,025	—	3,025	—
Total	$168,749	$—	$168,749	$—

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

	Nine Months Ended March 31, 2015			
Description	Total	Level 1	Level 2	Level 3
Impaired loans	$5,319	$—	$—	$5,319
REO	1,185	—	—	1,185
Total	$6,504	$—	$—	$6,504
	Year Ended June 30, 2014			
Description	Total	Level 1	Level 2	Level 3
Impaired loans	$3,686	$—	$—	$3,686
REO	9,185	—	—	9,185
Total	$12,871	$—	$—	$12,871

Quantitative information about Level 3 fair value measurements during the period ended March 31, 2015 is shown in the table below:

	Fair Value at March 31, 2015	Valuation Techniques	Unobservable Input	Range	Weighted Average
Nonrecurring measurements:					
Impaired loans, net	$5,319	Discounted appraisals	Collateral discounts	3% - 60%	15%
REO	$1,185	Discounted appraisals	Collateral discounts	10% - 15%	14%

28

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)

The stated carrying value and estimated fair value amounts of financial instruments as of March 31, 2015 and June 30, 2014, are summarized below:

	March 31, 2015				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Cash and interest-bearing deposits	$294,659	$294,659	$294,659	$—	$—
Certificates of deposit in other banks	204,596	204,596	—	204,596	—
Securities available for sale	230,512	230,512	—	229,512	1,000
Other investments	19,142	19,142	19,142	—	—
Loans held for sale	2,225	2,261	—	—	2,261
Loans, net	1,618,376	1,524,874	—	—	1,524,874
Accrued interest receivable	7,249	7,249	—	1,095	6,154
Non-interest-bearing and NOW deposits	592,338	592,338	—	592,338	—
Money market accounts	489,606	489,606	—	489,606	—
Savings accounts	223,748	223,748	—	223,748	—
Certificates of deposit	608,081	607,650	—	607,650	—
Other borrowings	250,000	250,000	—	250,000	—
Accrued interest payable	146	146	—	146	—
	June 30, 2014				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Cash and interest-bearing deposits	$45,830	$45,830	$45,830	$—	$—
Certificates of deposit in other banks	163,780	163,780	—	163,780	—
Securities available for sale	168,749	168,749	—	168,749	—
Other investments	3,697	3,697	3,697	—	—
Loans held for sale	2,537	2,578	—	—	2,578
Loans, net	1,473,099	1,381,438	—	—	1,381,438
Accrued interest receivable	6,787	6,787	—	736	6,051
Non-interest-bearing and NOW deposits	418,671	418,671	—	418,671	—
Money market accounts	354,247	354,247	—	354,247	—
Savings accounts	175,974	175,974	—	175,974	—
Certificates of deposit	634,154	620,196	—	620,196	—
Other borrowings	50,000	50,000	—	50,000	—
Accrued interest payable	244	244	—	244	—

The Company had off-balance sheet financial commitments, which include approximately $297,345 and $223,076 of commitments to originate loans, undisbursed portions of interim construction loans, and unused lines of credit at March 31, 2015 and June 30, 2014, respectively (see Note 8). Since these commitments are based on current rates, the carrying amount approximates the fair value.

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

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

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

Securities available for sale and investment securities – Fair values are based on quoted market prices where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

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

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

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)

Other investments – This represents stock in the FHLB of Atlanta and the Federal Reserve Bank with no existing market and no quoted market value. However, redemption of this stock has historically been at par value. Accordingly, cost is deemed to be a reasonable estimate of fair value.

Deposits – Fair values for demand deposits, money market accounts, and savings accounts are the amounts payable on demand as of March 31, 2015 and June 30, 2014. The fair value of certificates of deposit is estimated by discounting the contractual cash flows using current market interest rates for accounts with similar maturities.

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

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

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

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Forward-Looking Statements
Certain matters in this Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to our financial condition, results of operations, plans, objectives, future performance or business. Forward-looking statements are not statements of historical fact, are based on certain assumptions and are generally identified by use of the words "believes," "expects," "anticipates," "estimates," "forecasts," "intends," "plans," "targets," "potentially," "probably," "projects," "outlook" or similar expressions or future or conditional verbs such as "may," "will," "should," "would" and "could." Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, assumptions and statements about future economic performance and projections of financial items. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated or implied by our forward-looking statements, including, but not limited to: expected cost savings, synergies and other financial benefits from our recent acquisitions might not be realized within the expected time frames or at all, and costs or difficulties relating to integration matters might be greater than expected; the 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 Office of the Comptroller of the Currency ("OCC") or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to increase our allowance for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings; legislative or regulatory changes that adversely affect our business including the effect of Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules, including as a result of Basel III; our ability to attract and retain deposits; increases in premiums for deposit insurance; management's assumptions in determining the adequacy of the allowance for loan losses; our ability to control operating costs and expenses, especially costs associated with our operation as a public company; the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation; difficulties in reducing risks associated with the loans on our balance sheet; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce and potential associated charges; computer systems on which we depend could fail or experience a security breach; our ability to retain key members of our senior management team; costs and effects of litigation, including settlements and judgments; our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we may in the future acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; adverse changes in the securities markets; inability of key third-party providers to perform their obligations to us; statements with respect to our intentions regarding disclosure and other changes resulting from the Jumpstart Our Business Startups Act of 2012 ("JOBS Act"); changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies, the Public Company Accounting Oversight Board or the Financial Accounting Standards Board; and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services; and the other risks detailed from time to time in our filings with the Securities and Exchange Commission ("SEC"), including our 2014 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, National Association (the "Bank") unless the context indicates otherwise.

Overview

HomeTrust Bancshares, Inc., a Maryland corporation, was organized in July 2012 for the purpose of becoming the holding company of HomeTrust Bank, upon the Bank's conversion from a federal mutual to a federal stock savings bank ("Conversion"). The Conversion was completed on July 10, 2012. On August 25, 2014, the Bank converted from a federal savings bank charter to a national bank charter and the Company is now a bank holding company. HomeTrust Bancshares, Inc. is regulated by the Federal Reserve Board ("FRB"). The Company has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this report, including financial statements and related data, relates primarily to the Bank and its subsidiary.

The Bank, founded in 1926, is a national bank headquartered in Asheville, North Carolina. The Bank is regulated by the OCC, its primary federal regulator, and the Federal Deposit Insurance Corporation ("FDIC"), the insurer of its deposits. The Bank's deposits are federally insured up to applicable limits by the FDIC.

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

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

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

Our primary source of pre-tax income is net interest income. Net interest income is the difference between interest income, which is the income that we earn on our loans and investments, and interest expense, which is the interest that we pay on our deposits and borrowings. Changes in levels of interest rates affect our net interest income. A secondary source of income is noninterest income, which includes revenue we receive from providing products and services, including service charges on deposit accounts, mortgage banking income and gains and losses from sales of securities.

An offset to net interest income is the provision for loan losses which is required to establish the allowance for loan losses at a level that adequately provides for probable losses inherent in our loan portfolio. As a loan's risk rating improves, property values increase, or recoveries of amounts previously charged off are received, a recapture of previously recognized provision for loan losses may be added to net interest income.

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

We intend to expand through organic growth and through the acquisition of other community financial institutions and/or bank branches. Our goal is to continue to enhance our franchise value and earnings through strategic, planned growth in our banking operations, while maintaining the community-focused, relationship style of exceptional customer service that has differentiated our brand and characterized our success to date. As part of this strategy, on July 31, 2013, we completed our first acquisition as a public company, by acquiring BankGreenville Financial Corporation ("BankGreenville") with one office in Greenville, South Carolina. BankGreenville reported total assets of $105.1 million, total deposits of $90.0 million, and stockholders' equity of $9.6 million at June 30, 2013. On May 31, 2014, we completed our acquisition of Jefferson Bancshares, Inc. ("Jefferson"), the holding company for Jefferson Federal Bank. Jefferson had 12 offices located across East Tennessee and reported total assets of $506.8 million, total deposits of $384.0 million, and stockholders' equity of $54.4 million at March 31, 2014. On July 31, 2014, we completed our acquisition of Bank of Commerce with one office in midtown Charlotte, North Carolina. As of June 30, 2014, Bank of Commerce had total assets of $123.0 million, total deposits of $92.8 million, and stockholders' equity of $12.5 million. On July 21, 2014, the Bank opened a commercial loan production office in downtown Roanoke, Virginia. Additionally, on November 12, 2014, the Bank opened a commercial loan production office in Raleigh, North Carolina. On November 14, 2014, we completed our acquisition of ten branch banking operations in Virginia and North Carolina from Bank of America Corporation (the "Branch Acquisition") with six of the branches located in Roanoke Valley, two in Danville, one in Martinsville, Virginia, and one in Eden, North Carolina. We purchased total loans of $1.0 million, premises and equipment of $9.0 million, and total deposits of $329.4 million in the Branch Acquisition.

At March 31, 2015, we had 45 locations in North Carolina (including the Asheville metropolitan area, the "Piedmont" region, Charlotte, and a loan production office in Raleigh), Upstate South Carolina (Greenville), East Tennessee (including Kingsport/Johnson City, Knoxville, and Morristown) and Southwest Virginia (including the Roanoke Valley).

Critical Accounting Policies and Estimates

Certain of our accounting policies are important to the portrayal of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Facts and circumstances which could affect these judgments include, but are not limited to, changes in interest rates, changes in the performance of the economy and changes in the financial condition of borrowers. These policies relate to (i) the determination of the provision and the allowance for loan losses, (ii) business combinations, (iii) the valuation of REO, (iv) the calculation of post retirement plan expenses and benefits, and (v) the valuation of or recognition of deferred tax assets and liabilities. These policies and estimates are described in further detail in Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 1, Summary of Significant Accounting Policies with the 2014 Form 10-K. There have not been any material changes in the Company's critical accounting policies and estimates as compared to the disclosure contained in the Company's 2014 Form 10-K.

On April 5, 2012, the JOBS Act was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an "emerging growth company" we may delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We intend to take advantage of the benefits of this extended transition period, although we have not done so to date. Accordingly, our financial statements may not be comparable to companies that comply with such new or revised accounting standards or disclosures.

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

Non-GAAP Financial Measures

In addition to results presented in accordance with generally accepted accounting principles utilized in the United States ("GAAP"), this report contains certain non-GAAP financial measures, which include 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 excluding merger-related expenses and recovery of loan losses, and earnings per share excluding merger expenses and recovery of loan losses. Management elected to obtain additional FHLB borrowings beginning November 2014 as part of a plan to increase net interest income. The Company believes that showing the effects of the additional borrowings on net interest income and net interest margins is useful to both management and investors as these measures are commonly used to measure financial institutions performance and against peers.

Management has presented the non-GAAP financial measures in this discussion and analysis excluding merger-related expenses and recovery of loan losses because it believes excluding these items is more indicative of and provides useful and comparative information to assess trends in our core operations while facilitating comparison of the quality and composition of the Company’s earnings over time and in comparison to its competitors. However, these non-GAAP financial measures are supplemental, are not audited and are not a substitute for operating results or any analysis determined in accordance with GAAP. Where applicable, we have also presented comparable earnings information using GAAP financial measures. Because not all companies use the same calculations, our presentation may not be comparable to other similarly titled measures as calculated by other companies. See “Comparison of Results of Operations for the Three Months Ended March 31, 2015 and 2014” and “Comparison of Results of Operations for the Nine Months Ended March 31, 2015 and 2014” for more detailed information about our financial performance.

The following tables set forth reconciliations of non-GAAP financial measures discussed in this report:

	Three Months Ended March 31, 2015			
	Average Balance Outstanding	Interest Earned / Paid	Yield/ Rate	
Interest-earning assets	$2,369,957	$22,232	3.75	%
Less: Interest-earning assets funded by additional FHLB borrowings (1)	250,000	367	0.59	%
Interest-earning assets - adjusted	$2,119,957	$21,865	4.13	%
Interest-bearing liabilities	1,981,930	1,348	0.27	%
Additional FHLB borrowings (2)	250,000	128	0.20	%
Interest-bearing liabilities - adjusted	$1,731,930	$1,220	0.28	%
Net interest income and net interest margin		20,884	3.52	%
Net interest income and net interest margin - adjusted		20,645	3.90	%
Difference		$239	(0.38	)%

	Nine Months Ended March 31, 2015			
	Average Balance Outstanding	Interest Earned / Paid	Yield/ Rate	
Interest-earning assets	$2,178,954	$65,011	3.98	%
Less: Interest-earning assets funded by additional FHLB borrowings (1)	137,005	494	1.44	%
Interest-earning assets - adjusted	$2,041,949	$64,517	4.21	%
Interest-bearing liabilities	1,793,972	3,981	0.30	%
Additional FHLB borrowings (2)	137,005	216	0.21	%
Interest-bearing liabilities - adjusted	$1,656,967	$3,765	0.30	%
Net interest income and net interest margin		61,030	3.73	%
Net interest income and net interest margin - adjusted		60,752	3.97	%
Difference		$278	(0.24	)%

(1) Proceeds from the additional borrowings were invested in various interest-earning assets including: deposits with the Federal Reserve Bank, FHLB stock, and commercial paper.

(2) Additional borrowings were obtained in November 2014.

34

Set forth below is a reconciliation to GAAP net income and earnings per share (EPS) as adjusted to exclude merger-related expenses and the recovery of loan losses:

(Dollars in thousands, except per share data)	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014	Nine Months Ended March 31, 2015	Nine Months Ended March 31, 2014
Merger-related expenses	$1,686	$449	$5,417	$711
Recovery of loan losses	—	(1,800)	(250)	(4,800)
Total adjustments	1,686	(1,351)	5,167	(4,089)
Tax effect [(1)]	(624)	500	(1,897)	1,650
Total adjustments, net of tax	1,062	(851)	3,270	(2,439)
Net income (GAAP)	1,162	2,606	5,467	8,809
Net income (non-GAAP)	$2,224	$1,755	$8,737	$6,370
Per Share Data				
Average shares outstanding - basic	19,113,387	18,302,672	19,146,025	18,724,242
Average shares outstanding - diluted	19,192,702	18,378,159	19,232,791	18,815,416
Basic EPS				
EPS (GAAP)	$0.06	$0.14	$0.28	$0.46
Non-GAAP adjustment	0.06	(0.04)	0.18	(0.12)
EPS (non-GAAP)	$0.12	$0.10	$0.46	$0.34
Diluted EPS				
EPS (GAAP)	$0.06	$0.14	$0.28	$0.46
Non-GAAP adjustment	0.06	(0.04)	0.17	(0.12)
EPS (non-GAAP)	$0.12	$0.10	$0.45	$0.34

(1) Tax amounts have been adjusted for certain nondeductible merger-related expenses.

Comparison of Financial Condition at March 31, 2015 and June 30, 2014

Assets. Total assets increased $534.2 million, or 25.8%, to $2.6 billion at March 31, 2015 from $2.1 billion at June 30, 2014. This increase was largely due to the Branch Acquisition, the Bank of Commerce acquisition, and proceeds from additional FHLB borrowings this fiscal year. The Company recorded $4.0 million of goodwill and $640,000 of core deposit intangibles in connection with the Bank of Commerce acquisition and $8.1 million of core deposit intangibles in connection with the Branch Acquisition. The increase in FHLB borrowings was part of management's strategic plan to leverage low cost borrowings to generate additional interest income from investments as well as dividend income from the required purchase of additional FHLB stock.

Cash and cash equivalents. Total cash and cash equivalents increased $248.8 million, or 542.9%, to $294.7 million at March 31, 2015 from $45.8 million at June 30, 2014. The increase was primarily due to funds received from the Branch Acquisition. At March 31, 2015, certificates of deposits in other banks totaled $204.6 million compared to $163.8 million at June 30, 2014. All of the certificates of deposit in other banks are fully insured under the FDIC.

Investments. The increase in securities available for sale of $61.8 million, or 36.6%, to $230.5 million at March 31, 2015 from $168.7 million at June 30, 2014 primarily as a result of the acquisition of Bank of Commerce and investing proceeds from the Branch Acquisition. During the nine months ended March 31, 2015, $88.0 million of securities available for sale were purchased, $21.9 million matured, $10.4 million in proceeds from sales were received, and $20.0 million of principal payments were made. The securities purchased and acquired during the period were primarily short- to intermediate-term U.S. government agency notes and mortgage-backed securities and, to a lesser extent, intermediate-term taxable municipal securities. Other investments increased $15.4 million primarily due to the purchase of $6.2 million of Federal Reserve Bank stock in conjunction with the Bank's conversion to a national bank and $8.5 million in additional FHLB stock. 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 March 31, 2015; therefore, no impairment losses have been recorded during the first nine months of fiscal 2015.

Loans. Net loans receivable increased $145.3 million, or 9.9%, at March 31, 2015 to $1.6 billion from $1.5 billion at June 30, 2014 primarily due to $86.2 million in loans acquired from Bank of Commerce, $40.9 million in home equity lines of credit purchased in December 2014, and $315.2 million portfolio loan originations, that were partially offset by unusually high payoffs occurring during the period relating to the assimilation and transition of loans recently acquired.

Since June 30, 2014, retail consumer and commercial loans have increased $51.9 million, or 5.9% to $934.9 million; and $91.7 million, or 14.9%, to $706.6 million, respectively. The composition of the Company's loan portfolio at March 31, 2015 was 39.7% in one-to-four family, 12.1%

in home equity lines of credit, 2.9% in retail construction and land, 2.0% in indirect auto finance, 0.3% in consumer loans, 27.5% in commercial real estate, 3.6% in commercial construction and development, 5.4% in commercial and industrial, and 6.5% in municipal leases. The composition of the Company's loan portfolio at June 30, 2014 was 44.1% in one-to-four family, 9.9% in home equity lines of credit, 4.0% in retail construction and land, 0.6% in indirect auto finance, 0.4% in consumer loans, 25.1% in commercial real estate, 3.8% in commercial construction and development, 5.0% in commercial and industrial, and 7.1% in municipal leases.

Asset Quality. Nonperforming assets decreased 26.5% to $39.5 million, or 1.51% of total assets, at March 31, 2015, compared to $53.6 million, or 2.59% of total assets, at June 30, 2014. Nonperforming assets included $30.9 million in nonaccruing loans and $8.6 million in REO at March 31, 2015, compared to $37.9 million and $15.7 million, in nonaccruing loans and REO respectively, at June 30, 2014. Included in nonperforming loans are $10.4 million of loans restructured from their original terms of which $6.2 million were current with respect to their modified payment terms. The decrease in nonaccruing loans was primarily due to loans returning to performing status as payment history and the borrower's financial status improved. At March 31, 2015, $14.9 million, or 48.1%, of nonaccruing loans were current on their required loan payments. Purchased impaired loans aggregating $10.4 million acquired from BankGreenville, Jefferson, and Bank of Commerce are excluded from nonaccruing loans due to the accretion of discounts established in accordance with the acquisition method of accounting for business combinations.

The ratio of classified assets to total assets decreased to 3.51% at March 31, 2015 from 4.56% at June 30, 2014. Classified assets decreased 3.2% to $91.7 million at March 31, 2015 compared to $94.7 million at June 30, 2014. Delinquent loans (loans delinquent 30 days or more) increased to $34.3 million at March 31, 2015, from $27.9 million at June 30, 2014.

As of March 31, 2015, we had identified $65.0 million of impaired loans. 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 5 of the Notes to Consolidated Financial Statements under Item 1 of this report.

Allowance for loan losses. We establish an allowance for loan losses by charging amounts to the loan provision at a level required to reflect estimated credit losses in the loan portfolio. In evaluating the level of the allowance for loan losses, management considers, among other factors, historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect borrowers' ability to repay, estimated value of any underlying collateral, prevailing economic conditions and current risk factors specifically related to each loan type.

The allowance for loan losses was $22.7 million, or 1.38% of total loans, at March 31, 2015 compared to $23.4 million, or 1.56% of total loans, at June 30, 2014. The allowance for loan losses was 1.72% of total loans at March 31, 2015, excluding loans acquired from BankGreenville, Jefferson, and Bank of Commerce as the loans acquired from these acquisitions are excluded from the allowance for loan losses in accordance with the acquisition method of accounting for business combinations. The Company recorded these loans at fair value, which includes a credit discount, therefore, no allowance for loan losses is established for these acquired loans unless the credit quality deteriorates further subsequent to the acquisition.

The recovery for loan losses was $250,000 for the nine months ended March 31, 2015 compared to a $4.8 million recovery for loan losses for the same period in 2014. Net loan charge-offs decreased to $498,000 for the nine months ended March 31, 2015 from a $2.0 million for the same period during the prior fiscal year. Net charge-offs as a percentage of average loans decreased to 0.04% for the nine months ended March 31, 2015 from 0.22% for the same period last fiscal year.

The allowance as a percentage of nonaccruing loans increased from 61.79% at June 30, 2014 to 73.42% at March 31, 2015.

We believe that the allowance for loan losses as of March 31, 2015 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 $7.2 million, to $8.6 million at March 31, 2015 primarily due to the sale of $8.6 million in REO during the period partially offset by $210,000 in REO acquired in the Bank of Commerce acquisition and $2.2 million in other foreclosures. The total balance of REO at March 31, 2015 included $4.7 million in land, construction and development projects (both residential and commercial), $1.2 million in commercial real estate and $2.7 million in single-family homes.
Deposits. Deposits increased $330.7 million, or 20.9%, from $1.6 billion at June 30, 2014 to $1.9 billion at March 31, 2015. This increase was primarily due to the Branch Acquisition and Bank of Commerce acquisition which increased total deposits in the aggregate by $422.8 million partially offset by a $92.1 million decrease in deposits due to a managed reduction in certificates of deposits and expected runoff from the acquisitions.
Borrowings. Other borrowings increased to $250.0 million at March 31, 2015 from $50.0 million at June 30, 2014 as a result of a $200.0 million increase in FHLB advances as part of management's short-term leveraging strategy. All FHLB advances have maturities of less than 90 days with a weighted average interest rate of 0.21% at March 31, 2015.

Equity. Stockholders' equity at March 31, 2015 increased to $381.9 million from $377.2 million at June 30, 2014. The increase in stockholders' equity primarily reflected a $5.5 million increase in retained earnings as a result of the net income from the nine months ended March 31, 2015 partially offset by the repurchase of 302,195 shares of common stock at an average cost of $15.64 per share, or approximately $4.7 million in total.

Average Balances, Interest and Average Yields/Cost

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

	For the Three Months Ended March 31,							
	2015				2014			
	Average Balance Outstanding	Interest Earned/ Paid(2)	Yield/ Rate(2)		Average Balance Outstanding	Interest Earned/ Paid(2)	Yield/ Rate(2)	
	(Dollars in thousands)							
Interest-earning assets:								
Loans receivable(1)	$1,645,993	$20,271	4.93	%	$1,173,290	$14,356	4.89	%
Deposits in other financial institutions	387,264	661	0.68	%	223,476	437	0.78	%
Investment securities	205,447	919	1.79	%	74,463	262	1.41	%
Other	131,254	381	1.16	%	16,404	136	3.32	%
Total interest-earning assets	2,369,958	22,232	3.75	%	1,487,633	15,191	4.08	%
Interest-bearing liabilities:								
Interest-bearing checking accounts	386,652	136	0.14	%	215,292	55	0.10	%
Money market accounts	491,221	260	0.21	%	306,083	187	0.24	%
Savings accounts	222,697	75	0.13	%	86,036	33	0.15	%
Certificate accounts	631,361	749	0.47	%	529,923	972	0.73	%
Borrowings	250,000	128	0.20	%	2,214	1	0.18	%
Total interest-bearing liabilities	1,981,931	1,348	0.27	%	1,139,548	1,248	0.43	%
Net earning assets	$388,027				$348,085			
Average interest-earning assets to average interest-bearing liabilities	119.58 %				130.55 %			
Tax-equivalent:								
Net interest income		$20,884				$13,943		
Interest rate spread			3.48	%			3.65	%
Net interest margin(3)			3.52	%			3.75	%
Non-tax-equivalent:								
Net interest income		$20,188				$13,144		
Interest rate spread			3.36	%			3.43	%
Net interest margin(3)			3.41	%			3.53	%

(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 $696,000 and $799,000 for the three months ended March 31, 2015 and 2014, respectively, calculated based on a federal tax rate of 34%.
(3) Net interest income divided by average interest-earning assets.

37

	For the Nine Months Ended March 31,							
	2015				2014			
	Average Balance Outstanding	Interest Earned/ Paid(2)	Yield/ Rate(2)		Average Balance Outstanding	Interest Earned/ Paid(2)	Yield/ Rate(2)	
	(Dollars in thousands)							
Interest-earning assets:								
Loans receivable(1)	$1,609,285	$60,006	4.97	%	$1,187,679	$44,353	4.98	%
Deposits in other financial institutions	320,574	1,690	0.70	%	215,383	1,306	0.81	%
Investment securities	185,844	2,608	1.87	%	68,254	768	1.50	%
Other	63,251	707	1.49	%	28,416	416	1.95	%
Total interest-earning assets	2,178,954	65,011	3.98	%	1,499,732	46,843	4.16	%
Interest-bearing liabilities:								
Interest-bearing checking accounts	339,138	323	0.13	%	213,265	218	0.14	%
Money market accounts	442,514	785	0.24	%	302,156	593	0.26	%
Savings accounts	205,579	230	0.15	%	84,251	106	0.17	%
Certificate accounts	632,016	2,372	0.50	%	546,253	3,255	0.79	%
Borrowings	174,724	271	0.21	%	2,269	5	0.29	%
Total interest-bearing liabilities	1,793,971	3,981	0.30	%	1,148,194	4,177	0.48	%
Net earning assets	$384,983				$351,538			
Average interest-earning assets to average interest-bearing liabilities	121.46	%			130.62	%		
Tax-equivalent:								
Net interest income		$61,030				$42,666		
Interest rate spread			3.68	%			3.68	%
Net interest margin(3)			3.73	%			3.79	%
Non-tax-equivalent:								
Net interest income		$58,977				$40,323		
Interest rate spread			3.56	%			3.47	%
Net interest margin(3)			3.61	%			3.58	%

(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 $2.1 million and $2.3 million for the nine months ended March 31, 2015 and 2014, respectively, calculated based on a federal tax rate of 34%.
(3) Net interest income divided by average interest-earning assets.

38

Rate/Volume Analysis

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

	Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014		
	Increase/ (decrease) due to		Total increase/(decrease)
(Dollars in thousands)	Volume	Rate	
Interest-earning assets:			
Loans receivable	$5,783	$132	$ 5,915
Deposits in other financial institutions	320	(96)	224
Investment securities	461	196	657
Other	952	(707)	245
Total interest-earning assets	$7,516	$(475)	$ 7,041
Interest-bearing liabilities:			
Interest-bearing checking accounts	$44	$37	$ 81
Money market accounts	113	(40)	73
Savings accounts	52	(10)	42
Certificate accounts	186	(409)	(223)
Borrowings	112	15	127
Total interest-bearing liabilities	$507	$(407)	$ 100
Net increase in tax equivalent interest income	$7,009	$(68)	$ 6,941

	Nine Months Ended March 31, 2015 Compared to Nine Months Ended March 31, 2014		
	Increase/ (decrease) due to		Total increase/(decrease)
(Dollars in thousands)	Volume	Rate	
Interest-earning assets:			
Loans receivable	$15,744	$(91)	$ 15,653
Deposits in other financial institutions	637	(253)	384
Investment securities	1,323	517	1,840
Other	510	(219)	291
Total interest-earning assets	$18,214	$(46)	$ 18,168
Interest-bearing liabilities:			
Interest-bearing checking accounts	$129	$(24)	$ 105
Money market accounts	275	(83)	192
Savings accounts	153	(29)	124
Certificate accounts	511	(1,394)	(883)
Borrowings	380	(114)	266
Total interest-bearing liabilities	$1,448	$(1,644)	$ (196)

Net increase in tax equivalent interest income	$16,766	$1,598	$ 18,364

39

Comparison of Results of Operation for the Three Months Ended March 31, 2015 and 2014

General. During the three months ended March 31, 2015, we had net income of $1.2 million compared to $2.6 million for the three months ended March 31, 2014. The decrease in net income for the third quarter of fiscal 2015 was driven by an increase in merger-related expenses of $1.2 million related to recent acquisitions and the recovery of loan losses for $1.8 million that occurred in the same period last year as compared to no recovery in the current quarter. On a basic and diluted per share basis, the Company earned $0.06 per share in the third quarter of fiscal 2015, compared to $0.14 per share in the third quarter of fiscal 2014. Excluding merger-related expenses and recovery of loan losses, the Company's net income was $2.2 million in the current quarter compared to $1.8 million in the comparative quarter in 2014. Using the same exclusions, the Company's earnings per share increased 20.0% to $0.12 from $0.10 per share for the three months ended March 31, 2015 from the comparative period in 2014.

Net Interest Income. Net interest income was $20.2 million for the three months ended March 31, 2015 compared to $13.1 million for the three months ended March 31, 2014. The $7.1 million, or 53.6%, increase was a primarily driven by a $7.1 million increase in interest income as average interest-earning assets increased $882.3 million mainly through recent acquisitions to $2.4 billion for the quarter ended March 31, 2015 compared to the same quarter in the prior year.

Net interest margin (on a fully taxable-equivalent basis) for the three months ended March 31, 2015 contracted 23 basis points over the same period last year to 3.52% as a result of increasing average short-term FHLB borrowings by $247.8 million. Management made a strategic decision to leverage FHLB borrowings beginning in November 2014 to generate additional net interest income with the proceeds, as well as dividend income from the required purchase of additional FHLB stock. The borrowings with an average cost of 0.21% were invested in various short-term assets (including the additional FHLB stock) with an average yield of 0.59%, which generated approximately $239,000 in net interest income during the quarter. Excluding the effect of these additional borrowings, net interest margin was 3.90%.

Average loans increased $472.7 million, or 40.3% to $1.6 billion, which increased gross tax equivalent interest income by $5.9 million or 41.2% from the comparative quarter in 2014. The corresponding yield increased marginally by four basis points to 4.93% as the $1.4 million in accretion of loan discounts on purchased loans more than offset new loans originated at lower rates and payoffs of higher yielding loans. Net interest margin is enhanced by the amortization of purchase accounting discounts on purchased loans and certificates of deposit received in the acquisitions of Jefferson, Bank of Commerce and BankGreenville, 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. The amortization of purchase accounting discounts on loans and certificates of deposit of $1.7 million increased the net interest margin (on a fully taxable-equivalent basis) 28 basis points for the quarter ended March 31, 2015.

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 March 31, 2015, our loans with interest rate floors totaled approximately $574.1 million and had a weighted average floor rate of 4.36% of which $271.3 million, or 47.3%, had yields that would begin floating again once prime rates increase at least 200 basis points.

The combined average balance of investment securities, deposits in other financial institutions, and other interest-earning assets increased by $409.6 million, or 130.3%, to $724.0 million for the three months ended March 31, 2015, while the interest and dividend income from those investments increased by $1.1 million compared to the prior fiscal year. The increase in average balances was primarily due to the acquisition of investment securities from the Jefferson and Bank of Commerce acquisitions, invested funds acquired from the Branch Acquisition, and proceeds from the additional FHLB borrowings.

Interest expense increased slightly by $100,000, or 8.0% to $1.3 million for the three months ended March 31, 2015 in comparison to 2014. The average cost of interest-bearing liabilities decreased 16 basis points to 0.27% for the three months ended March 31, 2015, from 0.43% for the same period one year earlier while average interest-bearing liabilities increased $842.4 million over the same time period as a result of our recent acquisitions and additional FHLB borrowings.

Deposit interest expense remained flat at $1.2 million for the three months ended March 31, 2015 compared to $1.3 million for the same period in 2014 primarily as a result of average cost of certificates of deposit decreasing by 26 basis points to 0.47% primarily the result of our strategy to utilize our excess liquidity, mainly cash, to reduce higher-cost deposits by competing less aggressively on certain deposit interest rates.

Provision 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 loan losses, management considers, among other factors, historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect borrowers' ability to repay, estimated value of any underlying collateral, prevailing economic conditions and current risk factors specifically related to each loan type. During the three months ended March 31, 2015, there was no provision for loan losses compared to a recovery of $1.8 million for the three months ended March 31, 2014. The provision for loan losses reflects the amount required to maintain the allowance for losses at an appropriate 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. Net loan charge-offs increased to $675,000 for the three months ended March 31, 2015 compared to $56,000 for the same period last year, however, our overall credit quality continues to improve. Net charge-offs as a percentage of average loans increased to 0.16% for the quarter ended March 31, 2015 from 0.11% for the same period last fiscal year.
See Comparison of Financial Condition - Asset Quality for additional details.
Noninterest Income. Noninterest income increased $1.3 million, or 63.6%, to $3.3 million for the third quarter of fiscal 2015 from $2.0 million for the third quarter of fiscal 2014, primarily due to a $1.1 million, or 179.4%, increase in service charges on deposit accounts related to the increase in the number of deposit accounts as a result of our recent acquisitions.
Noninterest Expense. Noninterest expense for the quarter ended March 31, 2015 increased $8.6 million, or 64.4%, to $22.0 million compared to $13.4 million for the quarter ended March 31, 2014. This increase was primarily related to a $3.1 million increase in salaries and employee benefits, a $1.2 million increase in merger-related expenses, a $1.1 million increase in net occupancy expense, $935,000 increase in computer services, and an $811,000 increase in amortization of core deposit intangibles, all of which were primarily related to our recent acquisitions. These increases in noninterest expense were partially offset by a $443,000 decrease in REO related expenses for the quarter ended March 31, 2015 compared to the same period last year reflecting the reduction in the number of REO properties held by us and improvement in the real estate markets.
Income Taxes. The Company's income tax expense was $314,000 for the three months ended March 31, 2015, a decrease of $653,000 compared to $967,000 income tax expense for the three months ended March 31, 2014. The decrease was primarily due to lower taxable income. The Company's effective income tax rate for the quarter ended March 31, 2015 was 21.3%.
Comparison of Results of Operation for the Nine Months Ended March 31, 2015 and 2014
General. During the nine months ended March 31, 2015, we had net income of $5.5 million compared to $8.8 million for the nine months ended March 31, 2014. The decrease in net income for the first nine months of fiscal 2015 was driven by an increase in merger expenses of $4.7 million to $5.4 million related to recent acquisitions and the additional $4.6 million recovery of loan losses that occurred in the same period last year. On a basic and diluted per share basis, the Company earned $0.28 per share for the first nine months fiscal year 2015, compared to $0.46 per share in 2014. Excluding merger-related expenses and recovery of loan losses, the Company's net income was $8.7 million for the nine months ended March 31, 2015 compared to $6.4 million in the comparative period in 2014. Based on the same exclusions, the Company's diluted earnings per share increased 32.4% to $0.45 from $0.34 per share for the nine months ended March 31, 2015 from the comparative period in 2014.
Net Interest Income. Net interest income was $59.0 million for the nine months ended March 31, 2015 compared to $40.3 million for the nine months ended March 31, 2014. The $18.7 million, or 46.3%, increase was primarily driven by an $18.5 million increase in interest income as average interest-earning assets increased $679.2 million mainly through recent acquisitions to $2.2 billion for the nine months ended March 31, 2015 compared to the same period last year. Net interest margin (on a fully taxable-equivalent basis) for the nine months ended March 31, 2015 decreased six basis points over the same period last year to 3.73%. Excluding the effect of the additional $172.5 million in average FHLB borrowings, which generated $278,000 in net interest income, net interest margin was 3.97%. The amortization of purchase accounting discounts on loans and certificates of deposit of $4.4 million increased the net interest margin (on a fully taxable-equivalent basis) 27 basis points for the nine months ended March 31, 2015.
Average loans increased $421.6 million, or 35.5% to $1.6 billion, which increased gross tax equivalent interest income by $15.7 million or 35.3% from the comparative period in 2014. The corresponding yield decreased by one basis point to 4.97% as new loans originated at lower market rates, payoffs of higher yielding loans, and downward repricing of adjustable rate loans contracted the yield, but was partially offset by $3.7 million in accretion of loan discounts on purchased loans.
The combined average balance of investment securities, deposits in other financial institutions, and other interest-earning assets increased by $257.6 million, or 82.6%, to $570.0 million for the nine months ended March 31, 2015, while the interest and dividend income from those investments increased by $2.5 million compared to the prior fiscal year. The increase in average balance was primarily due to the acquisition of investment securities from the

Jefferson and Bank of Commerce mergers, invested funds acquired from the Branch Acquisition, and proceeds from the additional FHLB borrowings.

Interest expense decreased by $196,000, or 4.7% to $4.0 million for the nine months ended March 31, 2015 in comparison to 2014. The average cost of interest-bearing liabilities decreased 18 basis points to 0.30% for the nine months ended March 31, 2015, from 0.48% for the same period one year earlier while average interest-bearing liabilities increased $645.8 million over the same time period as a result of our recent acquisitions and additional FHLB borrowings.

Deposit interest expense decreased $462,000, or 11.1% to $3.7 million for the nine months ended March 31, 2015 compared to $4.2 million for the same period in 2014 primarily as a result of average cost of certificates of deposit decreasing by 29 basis points to 0.50%.

Provision for Loan Losses. During the nine months ended March 31, 2015 and 2014, there was a recovery of loan losses of $250,000 and $4.8 million, respectively. Net charge offs for the nine months ended March 31, 2015 decreased to $498,000 from $2.0 million for the comparable period in 2014. Net charge-offs as a percentage of average loans decreased to 0.04% for the nine months ended March 31, 2015 from 0.22% for the same period last fiscal year.

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

Noninterest Income. Noninterest income increased $2.4 million, or 36.1%, to $8.9 million for the nine months ended March 31, 2015 from $6.5 million for the nine months ended March 31, 2014, primarily due to a $2.2 million, or 110.4%, increase in service charges on deposit accounts related to the increase in the number of deposit accounts as a result of our recent acquisitions.

Noninterest Expense. Noninterest expense for the nine months ended March 31, 2015 increased $22.0 million, or 57.1%, to $60.7 million compared to $38.6 million for the nine months ended March 31, 2014. This increase was primarily related to a $8.3 million increase in salaries and employee benefits, a $4.7 million increase in merger-related expenses, a $2.5 million increase in net occupancy expense, a $1.7 million increase in computer services, and a $1.6 million increase in amortization of core deposit intangibles, all of which were primarily related to our recent acquisitions. These increases in other expenses were partially offset by a $917,000 decrease in REO related expenses for the nine months ended March 31, 2015 compared to the same period last year.

Income Taxes. For the nine months ended March 31, 2015, the Company's income tax expense was $2.0 million, compared to an expense of $4.2 million for the nine months ended March 31, 2014. This decrease was due to lower income before taxes, as well as a nonrecurring $962,000 charge incurred in the first quarter of fiscal 2014 related to the decline in value of our deferred tax assets based on decreases in North Carolina's state corporate tax rates. Beginning January 1, 2014, North Carolina's corporate tax rate was reduced from 6.9% to 6.0% and to 5.0% in 2015 with additional reductions to 3.0% in 2017 possible in the event certain state revenue triggers are achieved. The Company's effective income tax rate for the nine months ended March 31, 2015 was 26.8%.

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 March 31, 2015, the Bank had an additional borrowing capacity of $152.7 million with the FHLB of Atlanta, a $114.4 million line of credit with the Federal Reserve Bank and a $20.0 million line of credit with another unaffiliated bank. At March 31, 2015, we had $250.0 million in FHLB advances outstanding and nothing outstanding under our other lines of credit. Additionally, the Company classifies its securities portfolio as available for sale, providing an additional source of liquidity. Management believes that our security portfolio is of high quality and the securities would therefore be marketable. In addition, we have historically sold longer term fixed-rate mortgage loans in the secondary market to reduce interest rate risk and to create still another source of liquidity. From time to time we also utilize brokered time deposits to supplement our other sources of funds. Brokered time deposits are obtained by utilizing an outside broker that is paid a fee. This funding requires advance notification to structure the type of deposit desired by us. Brokered deposits can vary in term from one month to several years and have the benefit of being a source of longer-term funding. We also utilize brokered deposits to help manage interest rate risk by extending the term to repricing of our liabilities, enhance our liquidity and fund asset growth. Brokered deposits are typically from outside our primary market areas, and our brokered deposit levels may vary from time to time depending on competitive interest rate conditions and other factors. At March 31, 2015 brokered deposits totaled $14.5 million, or 0.8% 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.

HomeTrust Bancshares on a stand-alone level is a separate legal entity from the Bank and must provide for its own liquidity and pay its own operating expenses. The Company's primary source of funds consists of the net proceeds retained from the Conversion. The Company also has the ability to receive dividends or capital distributions from the Bank, although there are regulatory restrictions on the ability of the Bank to pay dividends. At March 31, 2015, the Company (on an unconsolidated basis) had liquid assets of $39.1 million.

We use our sources of funds primarily to meet our ongoing commitments, pay maturing deposits and fund withdrawals, and to fund loan commitments. At March 31, 2015, the total approved loan commitments and unused lines of credit outstanding amounted to $74.2 million and $223.2 million, respectively, as compared to $55.4 million and $167.6 million, respectively, as of June 30, 2014. Certificates of deposit scheduled to mature in one year or less at March 31, 2015, totaled $438.3 million. It is management's policy to manage deposit rates that are competitive with other local financial institutions. Based on this management strategy, we believe that a majority of maturing deposits will remain with us.

During the first nine months of fiscal 2015, cash and cash equivalents increased $248.8 million, or 542.9%, from $45.8 million as of June 30, 2014 to $294.7 million as of March 31, 2015. The increase was primarily attributable to the $310.9 million in cash provided by the Branch Acquisition, net of deposit premium that occurred in the second quarter of fiscal 2015. Cash provided by operating, investing and financing activities was $535,000, $160.5 million and $87.8 million, respectively. Primary sources of cash for the nine months ended March 31, 2015 included $310.9 million from the Branch Acquisition, an increase in other borrowings of $184.8 million and proceeds from the sale and maturities of securities available for sale of $32.2 million. Primary uses of cash during the period included a $92.1 million decrease in deposits (excluding the $422.6 million in deposits acquired from Bank of Commerce and the Branch Acquisition), an increase in loans of $54.8 million, the purchase of certificates of deposit in other banks, net of maturities, of $40.8 million and the purchases of $88.0 million of securities available for sale.

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 three or nine months ended March 31, 2015, 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 March 31, 2015, is as follows (in thousands):

Commitments to make loans	$74,200
Unused lines of credit	223,200
Total loan commitments	$297,400

Capital Resources

At March 31, 2015, stockholder's equity totaled $381.9 million. HomeTrust Bancshares, Inc. is a bank holding company registered with the FRB. Bank holding companies are subject to capital adequacy requirements of the FRB under the Bank Holding Company Act of 1956, as amended and the regulations of the FRB. The Bank, as a national bank is subject to the capital requirements established by the OCC.

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. The FRB requires HomeTrust Bancshares, Inc. to maintain capital adequacy that generally parallels the OCC requirements. 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.

New Capital Rules. Effective January 1, 2015 (with some changes transitioned into full effectiveness over two to four years), HomeTrust Bank is now subject to new capital requirements adopted by the OCC, which create a new required ratio for common equity Tier 1 ("CET1") capital, increases the leverage and Tier 1 capital ratios, changes the risk-weightings of certain assets for purposes of the risk-based capital ratios, creates an additional capital conservation buffer over the required capital ratios and changes what qualifies as capital for purposes of meeting these various capital requirements. HomeTrust Bancshares, Inc. and the Bank are required to maintain additional levels of Tier 1 common equity over the minimum risk-based capital levels before they may pay dividends, repurchase shares or pay discretionary bonuses.

The new minimum requirements are a ratio of common equity Tier 1 capital (CET1 capital) to total risk-weighted assets the ("CET1 risk-based ratio") of 4.5%, a Tier 1 capital ratio of 6.0%, a total capital ratio of 8.0%, and a leverage ratio of 4.0%.

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. HomeTrust Bancshares, Inc. and the Bank do 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. CET1 consists of Tier 1 capital less all capital components that are not considered common equity. In addition, Tier 1 capital includes accumulated other comprehensive income, which includes all unrealized gains and losses on available for sale debt and equity securities, subject to a transition period ending December 31, 2017. Because of our asset size, we are not considered an advanced approaches banking organization 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.

The new requirements also include changes in the risk-weighting of assets to better reflect credit risk and other risk exposure. These include a 150% risk weight (up from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and for non-residential mortgage loans that are 90 days past due or otherwise in nonaccrual status; a 20% (up from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable; and a 250% risk weight (up from

100%) for mortgage servicing and deferred tax assets that are not deducted from capital.

In addition to the minimum CET1, Tier 1 and total capital ratios, HomeTrust Bancshares, Inc. and the Bank will have to maintain a capital conservation buffer consisting of additional CET1 capital equal to 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. This new capital conservation buffer requirement is to be phased in beginning in January 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented in January 2019.

Under the new standards, in order to be considered well-capitalized, HomeTrust Bank must maintain a CET1 risk-based ratio of 6.5% (new), a Tier 1 risk-based ratio of 8% (increased from 6%), a total risk-based capital ratio of 10% (unchanged) and a leverage ratio of 5% (unchanged).

Capital Ratios. At March 31, 2015, HomeTrust Bancshares, Inc. and the Bank each exceeded all regulatory capital requirements. The Bank was categorized as "well-capitalized" at March 31, 2015 under the regulations of the OCC. HomeTrust Bancshares, Inc. and the Bank's actual and required minimum capital amounts and ratios are as follows (dollars in thousands):

	Actual			Regulatory Requirements Minimum for Capital Adequacy Purposes			Minimum to Be Well Capitalized		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
HomeTrust Bancshares, Inc.									
As of March 31, 2015									
Common Equity Tier I Capital [(1)]	$337,817	18.12	%	$83,911	4.50	%	$121,205	6.50	%
Tier I Capital (to Total Adjusted Assets)	$337,817	13.08	%	$103,269	4.00	%	$129,086	5.00	%
Tier I Capital (to Risk-weighted Assets)	$337,817	18.12	%	$111,882	6.00	%	$149,176	8.00	%
Total Risk-based Capital (to Risk-weighted Assets)	$360,498	19.33	%	$149,176	8.00	%	$186,470	10.00	%
As of June 30, 2014									
Tier I Capital (to Total Adjusted Assets)[(2)]	$303,631	18.03	%	$67,378	4.00	%	n/a	n/a	
Tier I Capital (to Risk-weighted Assets)[(2)]	$303,631	20.87	%	$58,208	4.00	%	n/a	n/a	
Total Risk-based Capital (to Risk-weighted Assets)[(2)]	$321,886	22.12	%	$116,415	8.00	%	n/a	n/a	
HomeTrust Bank:									
As of March 31, 2015									
Common Equity Tier I Capital [(1)]	$268,394	14.56	%	$82,950	4.50	%	$119,817	6.50	%
Tier I Capital (to Total Adjusted Assets)	$268,394	10.52	%	$102,021	4.00	%	$127,527	5.00	%
Tier I Capital (to Risk-weighted Assets)	$268,394	14.56	%	$110,600	6.00	%	$147,467	8.00	%
Total Risk-based Capital (to Risk-weighted Assets)	$290,983	15.79	%	$147,467	8.00	%	$184,334	10.00	%
As of June 30, 2014									
Tier I Capital (to Total Adjusted Assets)	$264,041	13.37	%	$78,985	4.00	%	$98,719	5.00	%
Tier I Capital (to Risk-weighted Assets)	$264,041	18.29	%	$57,750	4.00	%	$86,625	6.00	%
Total Risk-based Capital (to Risk-weighted Assets)	$282,160	19.54	%	$115,501	8.00	%	$144,376	10.00	%

(1) New capital ratio effective January 1, 2015, not applicable for earlier periods.
(2) Certain ratios were not applicable as of June 30, 2014 as the conversion to a national bank charter did not occur until August 25, 2014.

Impact of Inflation

The effects of price changes and inflation can vary substantially for most financial institutions. While management believes that inflation affects the growth of total assets, it believes that it is difficult to assess the overall impact. Management believes this to be the case due to the fact that generally neither the timing nor the magnitude of the inflationary changes in the consumer price index ("CPI") coincides with changes in interest rates. The price of one or more of the components of the CPI may fluctuate considerably and thereby influence the overall CPI without having a corresponding effect on interest rates or upon the cost of those goods and services normally purchased by the Company. In years of high inflation and high interest rates, intermediate and long-term interest rates tend to increase, thereby adversely impacting the market values of investment securities, mortgage loans and other long-term fixed rate loans. In addition, higher short-term interest rates caused by inflation tend to increase the cost of funds. In other years, the opposite may occur.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

There has not been any material change in the market risk disclosures contained in our 2014 Form 10-K.

Item 4. Controls and Procedures

An evaluation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Act") as of March 31, 2015, was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and several other members of the Company's senior management. The Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures in effect as of March 31, 2015, were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is: (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. In addition, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Act) that occurred during the quarter ended March 31, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The "Litigation" section of Note 8 to the Consolidated Financial Statements included in Part I, Item 1 is incorporated herein by reference.

Item 1A. Risk Factors

There have been no material changes in the Risk Factors previously disclosed in Item 1A of the Company's 2014 Form 10-K.

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

(a) Not applicable

(b) Not applicable

(c) The table below sets forth information regarding HomeTrust Bancshares' common stock repurchases during the three months ended March 31, 2015.

Period	Total Number Of Shares Purchased	Average Price Paid per Share	Total Number Of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans
January 1 – January 31, 2015	53,184	$15.72	53,184	956,263
February 1 – February 28, 2015	30,628	15.87	30,628	925,635

March 1 – March 31, 2015	19,880	15.99	19,880	905,755
Total	103,692	$15.82	103,692	905,755

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. The shares may be purchased in the open market or in privately negotiated transactions, from time to time depending upon market conditions and other factors. As of March 31, 2015, 117,511 shares were purchased.

45

Item 3. Defaults Upon Senior Securities
Nothing to report.
Item 4. Mine Safety Disclosures
Not applicable.
Item 5. Other Information
Nothing to report.
Item 6. Exhibits
See Exhibit Index.

SIGNATURES

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

HomeTrust Bancshares, Inc.

Date: May 8, 2015	By:	/s/ Dana L. Stonestreet Dana L. Stonestreet Chairman, President and CEO (Duly Authorized Officer)
Date: May 8, 2015	By:	/s/ Tony J. VunCannon Tony J. VunCannon Executive Vice President, CFO, and Treasurer (Principal Financial and Accounting Officer)

47

EXHIBIT INDEX

Regulation S-K Exhibit Number	Document	Reference to Prior Filing or Exhibit Number Attached Hereto
2.1	Purchase and Assumption Agreement, dated as of June 9, 2014, between Bank of America, National Association and HomeTrust Bank	(a)
2.2	Agreement and Plan of Merger, dated as of January 22, 2014, by and between HomeTrust Bancshares, Inc. and Jefferson Bancshares, Inc.	(b)
3.1	Charter of HomeTrust Bancshares, Inc.	(c)
3.2	Articles Supplementary to the Charter of HomeTrust Bancshares, Inc. for HomeTrust Bancshares, Inc.'s Junior Participating Preferred Stock, Series A	(d)
3.3	Bylaws of HomeTrust Bancshares, Inc.	(e)
4.1	Tax Benefits Preservation Plan, dated as of September 25, 2012, between HomeTrust Bancshares, Inc. and Registrar and Transfer Company, as Rights Agent	(d)
10.1	Employment Agreement entered into between HomeTrust Bancshares, Inc. and F. Edward Broadwell, Jr.	(c)
10.2	Amended and Restated Employment Agreement entered into between HomeTrust Bancshares, Inc. and Dana L. Stonestreet	(f)
10.3	Employment Agreement entered into between HomeTrust Bancshares, Inc. and each of Tony J. VunCannon and Howard L. Sellinger	(c)
10.4	Employment Agreement entered into between HomeTrust Bancshares, Inc. and C. Hunter Westbrook	(g)
10.5	Employment Agreement between HomeTrust Bank and Sidney A. Biesecker	(c)
10.6	Employment Agreement between HomeTrust Bank and Stan Allen	(c)
10.7	HomeTrust Bank Executive Supplemental Retirement Income Master Agreement ("SERP")	(c)
10.7A	SERP Joinder Agreement for F. Edward Broadwell, Jr.	(c)
10.7B	SERP Joinder Agreement for Dana L. Stonestreet	(c)
10.7C	SERP Joinder Agreement for Tony J. VunCannon	(c)
10.7D	SERP Joinder Agreement for Howard L. Sellinger	(c)
10.7E	SERP Joinder Agreement for Stan Allen	(c)
10.7F	SERP Joinder Agreement for Sidney A. Biesecker	(c)
10.7G	SERP Joinder Agreement for Peggy C. Melville	(c)
10.7H	SERP Joinder Agreement for William T. Flynt	(c)
10.7I	Amended and Restated Supplemental Income Agreement between HomeTrust Bank, as successor to Industrial Federal Savings Bank, and Sidney Biesecker	(h)
10.8	HomeTrust Bank Director Emeritus Plan ("Director Emeritus Plan")	(c)
10.8A	Director Emeritus Plan Joinder Agreement for William T. Flynt	(c)
10.8B	Director Emeritus Plan Joinder Agreement for J. Steven Goforth	(c)
10.8C	Director Emeritus Plan Joinder Agreement for Craig C. Koontz	(c)
10.8D	Director Emeritus Plan Joinder Agreement for Larry S. McDevitt	(c)
10.8E	Director Emeritus Plan Joinder Agreement for F.K. McFarland, III	(c)
10.8F	Director Emeritus Plan Joinder Agreement for Peggy C. Melville	(c)
10.8G	Director Emeritus Plan Joinder Agreement for Robert E. Shepherd, Sr.	(c)
10.9	HomeTrust Bank Defined Contribution Executive Medical Care Plan	(c)
10.10	HomeTrust Bank 2005 Deferred Compensation Plan	(c)

10.11	HomeTrust Bank Pre-2005 Deferred Compensation Plan	(c)
10.12	HomeTrust Bancshares, Inc. Strategic Operating Committee Incentive Plan	(n)
10.13	HomeTrust Bancshares, Inc. 2013 Omnibus Incentive Plan ("Omnibus Incentive Plan")	(i)
10.14	Form of Incentive Stock Option Award Agreement under Omnibus Incentive Plan	(j)
10.15	Form of Non-Qualified Stock Option Award Agreement under Omnibus Incentive Plan	(j)

10.16	Form of Stock Appreciation Right Award Agreement under Omnibus Incentive Plan	(j)
10.17	Form of Restricted Stock Award Agreement under Omnibus Incentive Plan	(j)
10.18	Form of Restricted Stock Unit Award Agreement under Omnibus Incentive Plan	(j)
10.19	Fully Restated Employment Agreement between HomeTrust Bank and Anderson L. Smith	(k)
10.20	Amended and Restated Jefferson Federal Bank Supplemental Executive Retirement Plan	(l)
10.21	Money Purchase Deferred Compensation Agreement, dated as of September 1, 1987, between HomeTrust Bank and F. Edward Broadwell, Jr.	(m)
10.22	Retirement Payment Agreement, dated as of September 1, 1987, between HomeTrust Bank and F. Edward Broadwell, Jr., as amended	(m)
10.23	Retirement Payment Agreement, dated as of September 1, 1987, between HomeTrust Bank and Larry S. McDevitt, as amended	(m)
10.24	Retirement Payment Agreement, dated as of September 1, 1987, between HomeTrust Bank and Peggy C. Melville, as amended	(m)
10.25	Retirement Payment Agreement, dated as of August 1, 1988, between HomeTrust Bank and Robert E. Shepherd, Sr., as amended	(m)
10.26	Retirement Payment Agreement, dated as of May 1, 1991, between HomeTrust Bank and William T. Flynt, as amended	(m)
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	31.1
31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	31.2
32	Certificate of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	32.0
101*	The following materials from HomeTrust Bancshares' Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, formatted in Extensible Business Reporting Language (XBRL): (a) Consolidated Balance Sheets; (b) Consolidated Statements of Income; (c) Consolidated Statements of Comprehensive Income; (d) Consolidated Statements of Changes in Stockholders' Equity; (e) Consolidated Statements of Cash Flows; and (f) Notes to Consolidated Financial Statements.	101

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

(a) Filed as an exhibit to HomeTrust Bancshares's Current Report on Form 8-K filed on June 10, 2014 (File No. 001-35593).

(b) Attached as Appendix A to the joint proxy statement/prospectus filed by HomeTrust Bancshares on April 28, 2014 pursuant to Rule 424(b) of the Securities Act of 1933.

(c) Filed as an exhibit to HomeTrust Bancshares's Registration Statement on Form S-1 (File No. 333-178817) filed on December 29, 2011.

(d) Filed as an exhibit to HomeTrust Bancshares's Current Report on Form 8-K filed on September 25, 2012 (File No. 001-35593).

(e) Filed as an exhibit to HomeTrust Bancshares's Current Report on Form 8-K filed on January 29, 2014 (File No. 001-35593).

(f)

Filed as an exhibit to HomeTrust Bancshares's Current Report on Form 8-K filed on November 27, 2013 (File No. 001-35593).

(g) Filed as an exhibit to HomeTrust Bancshares's Annual Report on Form 10-K for the fiscal year ended June 30, 2012 (File No. 001-35593).

(h) Filed as an exhibit to Amendment No. One to HomeTrust Bancshares's Registration Statement on Form S-1 (File No. 333-178817) filed on March 9, 2012.

(i) Attached as Appendix A to HomeTrust Bancshares's definitive proxy statement filed on December 5, 2012 (File No. 001-35593).

(j) Filed as an exhibit to HomeTrust Bancshares's Registration Statement on Form S-8 (File No. 333-186666) filed on February 13, 2013.

(k) Filed as an exhibit to HomeTrust Bancshares's Current Report on Form 8-K filed on June 3, 2014 (File No. 001-35593).

(l) Filed as an exhibit to Jefferson Bancshares, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2008 (File No. 000-50347).

(m) Filed as an exhibit to HomeTrust Bancshares's Annual Report on Form 10-K for the fiscal year ended June 30, 2014 (File No. 001-35593).

(n) Filed as an exhibit to HomeTrust Bancshares's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 (File No. 001-35593).