HomeTrust Bancshares, Inc.
Form 10-Q
June 28, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2012

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _______ to ________

Commission file number: 333-178817

HOMETRUST BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Maryland	45-5055422
(State or other jurisdiction of incorporation of organization)	(IRS Employer Identification No.)

10 Woodfin Street, Asheville, North Carolina 28801
(Address of principal executive offices; Zip Code)

(828) 259-3939
(Registrant's telephone number, including area code)

None
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer [ ]   Accelerated filer [ ]

Non-accelerated filer [X] (Do not check if a smaller reporting company)   Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each issuer's classes of common equity, as of the latest practicable date:

At June 27, 2012, there were no issued and outstanding shares of the issuer’s common stock.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARIES
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HomeTrust Bancshares, Inc., a Maryland corporation, was formed in connection with the conversion of HomeTrust Bank from the mutual to the stock form of organization. As of the date hereof, the conversion has not been completed and HomeTrust Bancshares, Inc. has not issued any shares of its common stock, and has no assets or liabilities, and has not conducted any business other than that of an organizational nature. For a further discussion of HomeTrust Bancshares, Inc.'s formation and operations, see the Registration Statement (SEC Registration No. 333-178817). Based on the foregoing, the information presented in this Form 10-Q is for HomeTrust Bank, the proposed subsidiary of HomeTrust Bancshares, Inc.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HOMETRUST BANK AND SUBSIDIARY
Consolidated Balance Sheets
(Dollar amounts in thousands)

	(Unaudited) March 31, 2012	June 30, 2011
Assets		
Cash	$16,089	$12,556
Interest-bearing deposits	29,193	22,115
Cash and cash equivalents	45,282	34,671
Certificates of deposit in other banks	108,588	118,846
Securities available for sale, at fair value	32,291	59,016
Loans held for sale	11,770	4,570
Total loans	1,257,310	1,326,517
Allowance for loan losses	(36,121)	(50,140)
Net loans	1,221,189	1,276,377
Premises and equipment, net	23,158	22,406
Federal Home Loan Bank stock, at cost	7,698	9,630
Accrued interest receivable	6,033	7,119
Real estate owned	12,433	13,857
Deferred income taxes	48,926	48,489
Current taxes receivable	2,222	2,400
Other assets	44,761	40,262
TOTAL	$1,564,351	$1,637,643
Liabilities and Equity Capital		
Deposits	$1,251,279	$1,264,585
Other borrowings	83,271	145,278
Advances by borrowers for taxes and insurance	2,167	2,734
Capital lease obligations	2,026	2,031
Other liabilities	54,606	55,246
Total liabilities	1,393,349	1,469,874
Commitments and contingencies (see note 5)		
Retained earnings	139,553	136,410
Additional paid in capital	31,367	31,367
Accumulated other comprehensive income (loss)	82	(8)
Total equity capital	171,002	167,769
TOTAL	$1,564,351	$1,637,643

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

HOMETRUST BANK AND SUBSIDIARY
Consolidated Statements of Income
(Dollar amounts in thousands)

	(Unaudited) Three Months Ended March 31,		(Unaudited) Nine Months Ended March 31,	
	2012	2011	2012	2011
Interest and Dividend Income:				
Loans	$16,164	$17,107	$49,715	$52,729
Securities available for sale	123	226	320	843
Certificates of deposit and other interest-bearing deposits	336	201	1,006	966
Federal Home Loan Bank stock	25	20	62	42
Total interest and dividend income	16,648	17,554	51,103	54,580
Interest Expense:				
Deposits	2,353	3,252	8,093	11,689
Other borrowings	388	1,435	1,156	4,382
Total interest expense	2,741	4,687	9,249	16,071
Net Interest Income	13,907	12,867	41,854	38,509
Provision for Loan Losses	4,500	2,500	13,600	17,600
Net Interest Income after Provision for Loan Losses	9,407	10,367	28,254	20,909
Other Income:				
Service charges on deposit accounts	646	706	2,013	2,164
Mortgage banking income and fees	1,090	544	2,770	2,781
Rental income	140	34	209	98
Loss on sale and impairment of real estate owned	(710)	(1,612)	(2,695)	(1,898)
Gain from sales of securities available for sale	-	-	-	430
Gain from business combination	-	-	-	5,844
Gain on sale of premises and equipment	1,231	-	1,228	-
Other, net	801	362	1,413	3,886
Total other income	3,198	34	4,938	13,305
Other Expense:				
Salaries and employee benefits	5,693	5,444	16,092	17,993
Net occupancy expense	1,220	1,291	3,594	3,537
Marketing and advertising	449	634	1,207	1,741
Telephone, postage, and supplies	357	397	1,049	1,155
Deposit insurance premiums	510	605	1,551	1,716
Computer services	497	516	1,318	1,349
Other	2,162	1,602	5,734	9,061
Total other expense	10,888	10,489	30,545	36,552
Income (Loss) Before Income Taxes	1,717	(88)	2,647	(2,338)

Income Tax Benefit	(299)	(730)	(496)	(4,330)
Net Income	$2,016	$642	$3,143	$1,992

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

HOMETRUST BANK AND SUBSIDIARY
Consolidated Statements of Comprehensive Income (Loss)
(Dollar amounts in thousands)

	(Unaudited) Three Months Ended March 31,		(Unaudited) Nine Months Ended March 31,	
	2012	2011	2012	2011
Net Income	$2,016	$642	$3,143	$1,992
Other Comprehensive Income:				
Unrealized holding gains (losses) on securities available for sale:				
Reclassification of securities losses (gains) recognized in net income	$-	$-	$-	538
Deferred income tax benefit (expense)	-	-	-	(183)
Gains arising during the period	(6)	(53)	136	(1,864)
Deferred income tax expense	2	18	(46)	634
Total other comprehensive income (loss)	$(4)	$(35)	$90	$(875)
Comprehensive Income	$2,012	$607	$3,233	$1,117

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

HOMETRUST BANK AND SUBSIDIARY
Consolidated Statement of Changes in Equity Capital
(Dollar amounts in thousands)

	Retained Earnings	Additional Paid In Capital	Accumulated Other Comprehensive Income (Loss)	Total Equity Capital
Balance at June 30, 2010	$151,147	$23,054	$ 614	$174,815
Net income	1,992	-	-	1,992
Capital from business combination	-	8,313	-	8,313
Other comprehensive income	-	-	(875)	(875)
Balance at March 31, 2011 (unaudited)	$153,139	$31,367	$ (261)	$184,245
Balance at June 30, 2011	$136,410	$31,367	$ (8)	$167,769
Net income	3,143	-	-	3,143
Other comprehensive income	-	-	90	90
Balance at March 31, 2012 (unaudited)	$139,553	$31,367	$ 82	$171,002

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

HOMETRUST BANK AND SUBSIDIARY
Consolidated Statements of Cash Flows
(Dollar amounts in thousands)

	(Unaudited) Nine Months Ended March 31, 2012	2011
Operating Activities:		
Net income	$3,143	$1,992
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	13,600	17,600
Depreciation	1,621	1,580
Deferred income tax benefit	(485)	708
Net amortization and accretion	(159)	26
Gain on sale of premises and equipment	(1,228)	-
Loss on sale and impairment of real estate owned	2,695	1,898
Gain from sales of securities available for sale	-	(430)
Gain from business combination	-	(5,844)
Gain on sale of loans held for sale	(2,144)	(2,387)
Origination of loans held for sale	(148,029)	(132,038)
Proceeds from sales of loans held for sale	142,973	139,383
Decrease in deferred loan fees, net	(49)	(228)
Decrease (increase) in accrued interest receivable and other assets	(3,413)	3,601
Decrease (increase) in income taxes receivable	178	(2,821)
Increase (decrease) in other liabilities	(1,207)	3,772
Net cash provided by operating activities	7,496	26,812
Investing Activities:		
Purchase of securities available for sale	(12,539)	(35,260)
Proceeds from sales of securities available for sale	-	8,555
Proceeds from maturities of securities available for sale	37,132	21,022
Purchase of certificates of deposit in other banks	(25,312)	(82,227)
Maturities of certificates of deposit in other banks	35,570	58,935
Principal repayments of mortgage-backed securities	2,179	4,939
Net redemptions of Federal Home Loan Bank Stock	1,932	1,161
Net decrease (increase) in loans	31,594	(18,409)
Cash received from business combination	-	8,190
Purchase of premises and equipment	(2,545)	(2,025)
Capital improvements to real estate owned	(302)	(434)
Proceeds from sales of premises and equipment	1,400	-
Proceeds from sale of real estate owned	9,324	3,751
Net cash provided by (used in) investing activities	78,433	(31,802)

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

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HOMETRUST BANK AND SUBSIDIARY
Consolidated Statements of Cash Flows (Continued)
(Dollar amounts in thousands)

	(Unaudited) Nine Months Ended March 31, 2012	(Unaudited) Nine Months Ended March 31, 2011
Financing Activities:		
Net decrease in deposits	$(13,306)	$(97,884)
Net increase (decrease) in other borrowings	(62,007)	8,542
Decrease in capital lease obligations	(5)	(5)
Net cash used in financing activities	(75,318)	(89,347)
Net Increase (Decrease) in Cash and Cash Equivalents	10,611	(94,337)
Cash and Cash Equivalents at Beginning of Period	34,671	116,830
Cash and Cash Equivalents at End of Period	$45,282	$22,493
Supplemental Disclosures:		
Cash paid during the period for:		
Interest	$9,186	$13,849
Income taxes	97	23
Noncash transactions:		
Unrealized gain in value of securities available for sale, net of income taxes	90	875
Transfers of loans to real estate owned	11,223	8,713
Loans originated to finance the sale of real estate owned	930	5,952
Business combination:		
Assets acquired	-	105,126
Liabilities assumed	-	90,969
Net assets acquired	-	14,157

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

HOMETRUST BANK AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollar amounts in thousands)

1. Summary of Significant Accounting Policies

These interim financial statements do not contain all necessary disclosures required by accounting principles generally accepted in the United State of America ("US GAAP") for a complete set of financial statements and, therefore, should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Prospectus of HomeTrust Bancshares, Inc. filed with the Securities and Exchange Commission (the "SEC") on May 24, 2012. These financial statements were prepared on a basis consistent with the audited consolidated financial statements previously referenced and include all normal and recurring adjustments that management believes are necessary in order to conform to US GAAP. The results for the three and nine months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending June 30, 2012 or any other future period.

Description of Business – HomeTrust Bank (the "Bank") is a federally chartered mutual savings bank with twenty retail offices located in North Carolina. The current business of the Bank is conducted through its seven operating divisions – HomeTrust Bank, Cherryville Federal Bank, Home Savings Bank of Eden, Industrial Federal Bank of Lexington, Shelby Savings Bank, Tryon Federal Bank, and Rutherford County Bank. All divisions operate under a single set of corporate policies and procedures and are recognized as a single banking segment for financial reporting purposes.

Accounting Principles – The accounting and reporting policies of the Bank conform to US GAAP.

Principles of Consolidation and Subsidiary Activities – The accompanying consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiary, Western North Carolina Service Corporation ("WNCSC"). WNCSC owns office buildings in Asheville and Hendersonville, North Carolina that are leased to the Bank and several other tenants. All intercompany items have been eliminated.

Use of Estimates in Financial Statements – The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Securities – Premiums and discounts are amortized or accreted over the life of the security as an adjustment to yield. Dividend and interest income are recognized when earned. Gains or losses on the sale of securities are recognized on a specific identification, trade date basis.

Declines in the fair value of individual securities below their cost that are other-than-temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than temporary impairment losses, the Bank considers among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery of the unrealized loss, and in the case of debt securities, whether it is more likely than not that the Bank will be required to sell the security prior to a recovery.

Loans – Loans are carried at their outstanding principal amount, less unearned income and deferred nonrefundable loan fees, net of certain origination costs. Interest income is recorded as earned on an accrual basis. Net deferred loan origination fees/costs are deferred and amortized to interest income over the life of the related loan. The premium or discount on purchased loans is amortized over the expected life of the loans and is included in interest income.

Loan Segments and Classes

The Bank's loan portfolio is grouped into two segments (retail consumer loans and commercial loans) and into four classes within each segment. The Bank originates, services, and manages its loans based on these segments and classes. The Bank's portfolio segments and classes within those segments are subject to risks that could have an adverse impact on the credit quality of the loan portfolio. Management identified the risks described below as significant risks that are generally similar among the loan segments and classes.

Retail Consumer loan segment

The Bank underwrites its retail consumer loans using automated credit scoring and analysis tools. These credit scoring tools take into account factors such as payment history, credit utilization, length of credit history, types of credit currently in use, and recent credit inquiries. To the extent that the loan is secured by collateral, the value of the collateral is also evaluated. Common risks to each class of retail consumer loans include general economic conditions within the Bank's markets, such as unemployment and potential declines in collateral values, and the personal circumstances of the borrowers. In addition to these common risks for the Bank's retail consumer loans, various retail consumer loan classes may also have certain risks specific to them.

One to four family and construction and land/lot loans are to individuals and are typically secured by 1-4 family residential property, undeveloped land, and partially developed land in anticipation of pending construction of a personal residence. Significant and rapid declines in real estate values can result in residential mortgage loan borrowers having debt levels in excess of the current market value of the collateral. Recent declines in value have led to unprecedented levels of foreclosures and losses within the banking industry. Construction and land/lot loans often experience delays in completion and cost overruns that exceed the borrower's financial ability to complete the project. Such cost overruns can routinely result in foreclosure of partially completed and unmarketable collateral.

HOMETRUST BANK AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollar amounts in thousands)

Home equity lines of credit are often secured by second liens on residential real estate, thereby making such loans particularly susceptible to declining collateral values. A substantial decline in collateral value could render the Bank's second lien position to be effectively unsecured. Additional risks include lien perfection inaccuracies and disputes with first lien holders that may further weaken collateral positions. Further, the open-end structure of these loans creates the risk that customers may draw on the lines in excess of the collateral value if there have been significant declines since origination.

Consumer loans include loans secured by deposit accounts or personal property such as automobiles, boats, and motorcycles, as well as unsecured consumer debt. The value of underlying collateral within this class is especially volatile due to potential rapid depreciation in values since date of loan origination in excess of principal repayment.

Commercial loan segment

The Bank's commercial loans are centrally underwritten based primarily on the customer's ability to generate the required cash flow to service the debt in accordance with the contractual terms and conditions of the loan agreement. The Bank's commercial lenders and underwriters work to understand the borrower's businesses and management experiences. The majority of the Bank's commercial loans are secured by collateral, so collateral values are important to the transaction. In commercial loan transactions where the principals or other parties provide personal guarantees, the Bank's commercial lenders and underwriters analyze the relative financial strength and liquidity of each guarantor. Risks that are common to the Bank's commercial loan classes include general economic conditions, demand for the borrowers' products and services, the personal circumstances of the principals, and reductions in collateral values. In addition to these common risks for the Bank's commercial loans, the various commercial loan classes also have certain risks specific to them.

Construction and development loans are highly dependent on the supply and demand for commercial real estate in the Bank's markets as well as the demand for the newly constructed residential homes and lots being developed by the Bank's commercial loan customers. Prolonged deterioration in demand could result in significant decreases in the underlying collateral values and make repayment of the outstanding loans more difficult for the Bank's commercial borrowers.

Commercial real estate and commercial and industrial loans are primarily dependent on the ability of the Bank's commercial loan customers to achieve business results consistent with those projected at loan origination resulting in cash flow sufficient to service the debt. To the extent that a borrower's actual business results significantly underperform the original projections, the ability of that borrower to service the Bank's loan on a basis consistent with the contractual terms may be at risk. While these loans and leases are generally secured by real property, personal property, or business assets such as inventory or accounts receivable, it is possible that the liquidation of the collateral will not fully satisfy the obligation.

Municipal leases are primarily made to volunteer fire departments and depend on the tax revenues received from the county or municipality. These leases are mainly secured by vehicles, fire stations, land, or equipment. The underwriting of the municipal leases is based on the cash flows of the fire department as well as projections of income for the future.

Credit Quality Indicators

Loans are monitored for credit quality on a recurring basis and the composition of the loans outstanding by credit quality indicator is provided below. Loan credit quality indicators are developed through review of individual borrowers on an ongoing basis. Generally, loans are monitored for performance on a quarterly basis with the credit quality indicators adjusted as needed. The indicators represent the rating for loans as of the date presented based on the most recent assessment performed. These credit quality indicators are defined as follows:

Pass—A pass rated asset is not adversely classified because it does not display any of the characteristics for adverse classification.

Special Mention—A special mention asset has potential weaknesses that deserve management’s close attention. If left uncorrected, such potential weaknesses may result in deterioration of the repayment prospects or collateral position at some future date. Special mention assets are not adversely classified and do not warrant adverse classification.

Substandard—A substandard asset is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Assets classified as substandard generally have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. These assets are characterized by the distinct possibility of loss if the deficiencies are not corrected.

Doubtful—An asset classified doubtful has all the weaknesses inherent in an asset classified substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable, on the basis of currently existing facts, conditions, and values.

Loss—Assets classified loss are considered uncollectible and of such little value that their continuing to be carried as an asset is not warranted. This classification is not necessarily equivalent to no potential for recovery or salvage value, but rather that it is not appropriate to defer a full write-off even though partial recovery may be effected in the future.

HOMETRUST BANK AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollar amounts in thousands)

Loans Held for Sale—Loans held for sale are residential mortgages and are valued at the lower of cost or fair value less estimated costs to sell as determined by outstanding commitments from investors on a “best efforts” basis or current investor yield requirements, calculated on the aggregate loan basis. Loans sold are generally sold at par value and sold with servicing released.

Allowance for Loan Losses—The allowance for loan losses is management’s estimate of probable credit losses that are inherent in the Bank’s loan portfolios at the balance sheet date. The allowance increases when the Bank provides for loan losses through charges to operating earnings and when the Bank recovers amounts from loans previously written down or charged off. The allowance decreases when the Bank writes down or charges off loans amounts that are deemed uncollectible.

Management determines the allowance for loan losses based on periodic evaluations that are inherently subjective and require substantial judgment because the evaluations require the use of material estimates that are susceptible to significant change. The Bank generally uses two allowance methodologies that are primarily based on management’s determination as to whether or not a loan is considered to be impaired.

All classified loans above a certain threshold are evaluated for impairment on a loan-by-loan basis and are considered impaired when it is probable, based on current information, that the borrower will be unable to pay contractual interest or principal as required by the loan agreement. Loans that experience insignificant payment delays and payment shortfalls are not necessarily considered impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment history, and the amount of the shortfall relative to the principal and interest owed. Impaired loans are measured at their estimated net realizable value based on either the value of the loan’s expected future cash flows discounted at the loan’s effective interest rate or on the collateral value, net of the estimated costs of disposal, if the loan is collateral dependent. For loans considered impaired, an individual allowance for loan losses is recorded when the loan principal balance exceeds the estimated net realizable value.

For loans not considered impaired, management determines the allowance for loan losses based on estimated loss percentages that are determined by and applied to the various classes of loans that comprise the segments of the Bank’s loan portfolio. The estimated loss percentages by loan class are based on a number of factors that include by class (i) average historical losses over the past three years, (ii) levels and trends in delinquencies, impairments, and net charge-offs, (iii) trends in the volume, terms, and concentrations, (iv) trends in interest rates, (v) effects of changes in the Bank’s risk tolerance, underwriting standards, lending policies, procedures, and practices, and (vi) national and local business and economic conditions.

Future material adjustments to the allowance for loan losses may be necessary due to changing economic conditions or declining collateral values. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank’s allowance for loan losses and may require the Bank to make adjustments to the allowance for loan losses based upon judgments that differ significantly from those of management.

Nonperforming Assets—Nonperforming assets can include loans that are past due 90 days or more and continue to accrue interest, loans on which interest is not being accrued, and foreclosed real estate.

Loans Past Due 90 Days or More, Nonaccruing, Impaired, or Restructured—The Bank's policies related to when loans are placed on nonaccruing status conform to guidelines prescribed by bank regulatory authorities. Generally, the Bank suspends the accrual of interest on loans (i) that are maintained on a cash basis because of the deterioration of the financial condition of the borrower, (ii) for which payment in full of principal or interest is not expected (impaired loans), or (iii) on which principal or interest has been in default for a period of 90 days or more, unless the loan is both well secured and in the process of collection. Under the Bank's cost recovery method, interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accruing status when all principal and interest amounts contractually due are brought current and concern no longer exists as to the future collectability of principal and interest, which is generally confirmed when the loan demonstrates performance for six consecutive months or payment cycles.

Restructured loans to borrowers who are experiencing financial difficulty, and on which the Bank has granted concessions that modify the terms of the loan are accounted for as troubled debt restructurings. These loans remain as troubled debt restructurings until the loan has been paid in full, modified to its original terms, or charged off. The Bank may place these loans on accrual or nonaccrual status depending on the individual facts and circumstances of the borrower. Generally, these loans are put on nonaccrual status until there is adequate performance that evidences the ability of the borrower to make the contractual payments. This period of performance is normally at least nine months, and may include performance immediately prior to or after the modification, depending on the specific facts and circumstances of the borrower.

Loan Charge-offs—The Bank charges off loan balances, in whole or in part, when available, verifiable, and documentable information confirms that specific loans, or portions of specific loans, are uncollectible or unrecoverable. For unsecured loans, losses are confirmed when it can be determined that the borrower, or any guarantors, are unwilling or unable to pay the amounts as agreed. When the borrower, or any guarantor, is unwilling or unable to pay the amounts as agreed on a loan secured by collateral and any recovery will be realized upon the sale of the collateral, the loan is deemed to be collateral dependent. Repayments or recoveries for collateral dependent loans are directly affected by the value of the collateral at liquidation. As such, loan repayment can be affected by factors that influence the amount recoverable, the timing of the recovery, or a combination of the two. Such factors include economic conditions that affect the markets in which the loan or its collateral is sold, bankruptcy, repossession and foreclosure laws, and consumer banking regulations. Losses are also confirmed when the loan, or a portion of the loan, is classified as loss resulting from loan reviews conducted by the Bank or its regulatory examiners.

HOMETRUST BANK AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollar amounts in thousands)

Charge-offs of loans in the commercial loan segment are recognized when the uncollectibility of the loan balance and the inability to recover sufficient value from the sale of any collateral securing the loan is confirmed. The uncollectibility of the loan balance is evidenced by the inability of the commercial borrower to generate cash flows sufficient to repay the loan as agreed causing the loan to become delinquent. For collateral dependent commercial loans, the Bank determines the net realizable value of the collateral based on appraisals, current market conditions, and estimated costs to sell the collateral. For collateral dependent commercial loans where the loan balance, including any accrued interest, net deferred fees or costs, and unamortized premiums or discounts, exceeds the net realizable value of the collateral securing the loan, the deficiency is identified as unrecoverable, is deemed to be a confirmed loss, and is charged off.

Charge-offs of loans in the retail consumer loan segment are generally confirmed and recognized in a manner similar to loans in the commercial loan segment. Secured retail consumer loans that are identified as uncollectible and are deemed to be collateral dependent are confirmed as loss to the extent the net realizable value of the collateral is insufficient to recover the loan balance. Consumer loans not secured by real estate that become 90 cumulative days past due are charged off to the extent that the fair value of any collateral, less estimated costs to sell the collateral, is insufficient to recover the loan balance. Consumer loans secured by residential real estate that become 120 days past due are charged off to the extent that the fair value of the residential real estate securing the loan, less estimated costs to sell the collateral, is insufficient to recover the loan balance. Loans to borrowers in bankruptcy are subject to modification by the bankruptcy court and are charged off to the extent that the fair value of any collateral securing the loan, less estimated costs to sell the collateral, is insufficient to recover the loan balance, unless the Bank expects repayment is likely to occur. Such loans are charged off within 60 days of the receipt of notification from a bankruptcy court or when the loans become 120 days past due, whichever is shorter.

Real Estate Owned—Real estate owned consists of real estate acquired as a result of customers' loan defaults. Foreclosed real estate is stated at the lower of the related loan balance or the fair value of the property net of the estimated costs of disposal with a charge to the allowance for loan losses upon foreclosure. Any write-downs subsequent to foreclosure are charged against operating earnings. To the extent recoverable, costs relating to the development and improvement of property are capitalized, whereas those costs relating to holding the property are charged to expense.

Income Taxes – The Bank accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced, if necessary, by the amount of such benefits that are not expected to be realized based upon available evidence.

The Bank recognizes interest and penalties accrued relative to unrecognized tax benefits in its respective federal or state income taxes accounts. As of March 31, 2012 (unaudited) and June 30, 2011, there were no accruals for uncertain tax positions and no accruals for interest and penalties. The Bank and its subsidiary file a consolidated United States federal income tax return, as well as separate unconsolidated North Carolina state income tax returns. The Bank's filed income tax returns are no longer subject to examination by taxing authorities for years before June 30, 2008.

Recent Accounting Pronouncements – Accounting Standards Update ASU 2011-04 – In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and International Financial Reporting Standards ("IFRS"). The amendments improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with US GAAP and IFRSs. The effective date is the first interim or annual period beginning on or after December 15, 2011. Early application is not permitted. The adoption of the new guidance did not have a significant impact on the Bank's financial statements.

Accounting Standards Update ASU 2011-05 – In June 2011, the FASB issued Accounting Standards Update 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. The amendments improve the comparability, consistency and transparency of financial reporting to increase the prominence of items reported on other comprehensive income. The effective date is the first interim or annual period beginning on or after December 15, 2011. Early application is permitted. The adoption of the new guidance did not have a significant impact on the Bank's financial statements.

Accounting Standards Update ASU 2011-11 – In December, 2011, the FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities, in an effort to improve comparability between US GAAP and IFRS financial statements with regard to the presentation of offsetting assets and liabilities on the statement of financial position arising from financial and derivative instruments, and repurchase agreements. The ASU establishes additional disclosures presenting the gross amounts of recognized assets and liabilities, offsetting amounts, and the net balance reflected in the statement of financial position. Descriptive information regarding the nature and rights of the offset must also be disclosed. The adoption of the new guidance is not expected to have an impact on the Bank's financial statements.

Accounting Standards Update ASU 2011-12 – In December, 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date to the Presentation of Reclassifications of Items out of Accumulated Other Comprehensive Income in Accounting Standards Update 2011-05. In response to stakeholder concerns regarding the operational ramifications of the presentation of these reclassifications for current and previous years, the FASB has deferred the implementation date of this provision to allow time for further consideration. The requirement in ASU 2011-05, Presentation of Comprehensive Income, for the presentation of a combined statement of comprehensive income or separate, but consecutive, statements of net income and other comprehensive income is still effective for fiscal years and interim periods beginning after December 15, 2011 for public companies, and fiscal years ending after December 15, 2011 for nonpublic companies. The adoption of the new guidance is not expected to have a significant impact on the Bank's financial statements.

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2. Business Combinations

Effective October 1, 2010, the Bank completed a business combination with Cherryville Savings and Loan Association (Cherryville) of Cherryville, NC. Cherryville was a mutually-chartered savings bank operating one full service banking office in Gaston County, NC. This combination continued the Bank's strategy to combine with other institutions to better respond to increasing regulatory burdens while preserving the value and culture of community banks. This business combination was accounted for under the acquisition method of accounting. The acquired assets, assumed liabilities, and identifiable intangible assets were recorded at their respective acquisition date fair values. The Bank recognized $8,313 as the fair value of Cherryville's equity as a separate component to equity capital as required for business combinations of mutual institutions. In determining this fair value, both the market approach and the income approach were used and weighted as deemed appropriate for the valuation of a mutual institution. The fair value of Cherryville's equity was less than the fair value of net assets due to its distinct characteristics as a mutual institution and current market conditions that had an overall negative impact on the valuation of financial institutions. As a result, the Bank recorded a gain of $5,844 which represented the excess of the net fair value of assets and liabilities over the fair value of Cherryville's equity.

The statement of net assets as of the effective date is presented in the following table.

		As of October 1, 2010	
Net assets acquired at fair value from the business combination with Cherryville:			
Cash and cash equivalents	$	8,190	
Investment securities		31,817	
Loans, net		59,037	
Premises and equipment		760	
Other assets		5,112	
Core deposit intangible		40	
Deposits		(86,460	)
Other liabilities		(4,339	)
Total identifiable net assets at fair value		14,157	
Fair value of the equity of Cherryville		8,313	
Gain on business combination	$	5,844	

The purchase accounting adjustments related to investments, loans, and deposits are being accreted or amortized into income using methods that approximate a level yield over their respective estimated lives. Purchase accounting adjustments related to core deposit intangibles are being amortized and recorded as noninterest expense over their respective estimated lives using accelerated methods.

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The carrying amount of acquired loans from Cherryville as of October 1, 2010 consisted of purchased performing loans and purchased impaired loans as detailed in the following table:

	Purchased Performing Loans	Purchased Impaired Loans	Total Loans
One to four family loans	$ 44,812	$ 2,094	$ 46,906
Commercial real estate loans	7,433	55	7,488
Home equity lines of credit	3,130	202	3,332
Commercial loans	823	205	1,028
Consumer loans	282	-	282
Total	$ 56,480	$ 2,556	$ 59,036

The following table presents the purchased performing loans and purchased impaired loans receivable for Cherryville at March 31, 2012 (unaudited), June 30, 2011, and October 1, 2010 (the combination date). The amounts include principal only and do not reflect accrued interest as of the date of the acquisition or beyond:

	Purchased Performing Loans		
	March 31, 2012 (Unaudited)	June 30, 2011	October 1, 2010
Contractually required principal payments receivable	$ 42,590	$ 44,987	$ 56,445
Fair value adjustment for credit, interest rate, and liquidity	93	85	35
Fair value of purchased loans receivable	$ 42,683	$ 45,072	$ 56,480

	Purchased Impaired Loans		
	March 31, 2012 (Unaudited)	June 30, 2011	October 1, 2010
Contractually required principal payments receivable	$ 2,547	$ 2,812	$ 2,992
Non-accretable fair value adjustment	(365)	(416)	(436)
Fair value of purchased loans receivable	$ 2,182	$ 2,396	$ 2,556

The amounts of Cherryville's net interest income and net income included in the Bank's consolidated income statement for the year ended June 30, 2011 and the net interest income and net income of the combined entity had the acquisition date been July 1, 2010, July 1, 2009, or July 1, 2008 are:

	Net Interest Income	Net Income/(Loss)
Actual from October 1, 2010 to June 30, 2011	$ 39,415	$ (15,780)
Supplemental pro forma from July 1, 2010 to June 30, 2011	52,168	(15,021)

Supplemental pro forma from July 1, 2009 to June 30, 2010	48,350	7,570

3. Securities Available for Sale

Securities available for sale consist of the following:

	March 31, 2012 (Unaudited)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government Agencies	$ 6,307	$ 2	$ (5)	$ 6,304
Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises	25,860	143	(16)	25,987
Total	$ 32,167	$ 145	$ (21)	$ 32,291

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	June 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government Agencies	$ 37,494	$ 31	$ (121)	$ 37,404
Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises	21,534	131	(53)	21,612
Total	$ 59,028	$ 162	$ (174)	$ 59,016

Debt securities available for sale by contractual maturity 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, 2012 (Unaudited)	
	Amortized Cost	Estimated Fair Value
Due within one year	$ 6,000	$ 6,002
Due after one year through five years	102	101
Due after five years through ten years	205	201
Due after ten years	-	-
Mortgage-backed securities	25,860	25,987
Total	$ 32,167	$ 32,291

	June 30, 2011	
	Amortized Cost	Estimated Fair Value
Due within one year	$ 8,002	$ 8,003
Due after one year through five years	18,663	18,642
Due after five years through ten years	6,198	6,140
Due after ten years	4,631	4,619
Mortgage-backed securities	21,534	21,612
Total	$ 59,028	$ 59,016

Gross proceeds and gross realized gains and losses from sales of securities recognized in net income follow:

	(Unaudited) Three Months Ended March 31,		(Unaudited) Nine Months Ended March 31,	
	2012	2011	2012	2011
Gross proceeds from sales of securities	$ -	$ -	$ -	$ 8,555
	-	-	-	443

Gross realized gains from sales of securities				
Gross realized losses from sales of securities	-	-	-	13

Securities available for sale with costs totaling $15,692 (unaudited) and $10,081 (market value of $15,711 (unaudited) and $10,103) at March 31, 2012 and June 30, 2011, respectively, were pledged as collateral to secure various public deposits and retail repurchase agreements.

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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, 2012 and June 30, 2011 are as follows:

	March 31, 2012 (Unaudited)					
	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	$ -	$ -	$ 302	$ (5)	$ 302	$ (5)
Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises	12,048	(13)	109	(3)	12,157	(16)
Total	$ 12,048	$ (13)	$ 411	$ (8)	$ 12,459	$ (21)

	June 30, 2011					
	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	$ 20,304	$ (121)	$ -	$ -	$ 20,304	$ (121)
Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises	10,278	(52)	63	(1)	10,341	(53)
Total	$ 30,582	$ (173)	$ 63	$ (1)	$ 30,645	$ (174)

The total number of securities with unrealized losses at March 31, 2012, and June 30, 2011 were 18 (unaudited) and 71, 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 Bank will be required to sell the securities prior to a recovery in value. The decline in fair value is largely due to decreases in market interest rates. The Bank had no other than temporary impairment losses during the nine month period ended March 31, 2012 (unaudited) or the year ended June 30, 2011. The Bank, as a member of the FHLB, is required to maintain an investment in FHLB capital stock. No ready market exists for the FHLB stock and the carrying value approximates its fair value based on the redemption provisions of the FHLB.

4. Loans

Loans consist of the following:

	(Unaudited) March 31, 2012	June 30, 2011
Retail consumer loans:		

One to four family	$	623,961		$	610,528	
Home equity lines of credit		145,637			156,720	
Construction and land/lots		58,681			68,199	
Consumer		3,930			4,265	
Total retail consumer loans		832,209			839,712	
Commercial loans:						
Commercial real estate		247,361			269,449	
Construction and development		46,760			79,458	
Commercial and industrial		15,294			19,250	
Municipal leases		119,035			122,921	
Total commercial loans		428,450			491,078	
Total loans		1,260,659			1,330,790	
Less:						
Allowance for loan and lease losses		(36,121	)		(50,140	)
Deferred loan fees, net		(2,040	)		(2,713	)
Discount on loans from business combination		(1,309	)		(1,560	)
Loans, net	$	1,221,189		$	1,276,377	

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All the qualifying first mortgage loans, home equity lines of credit, and FHLB Stock were pledged as collateral to secure the FHLB advances.

The Bank's total loans by segment, class, and grade follow:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
March 31, 2012 (unaudited)						
Retail consumer loans:						
One to four family	$ 560,099	$ 6,408	$ 51,421	$ 6,030	$ 3	$ 623,961
Home equity lines of credit	137,250	2,115	5,069	1,201	2	145,637
Construction and land/lots	53,125	964	3,152	1,440	-	58,681
Consumer	3,687	3	220	20	-	3,930
Commercial loans:						
Commercial real estate	197,994	20,177	26,791	2,399	-	247,361
Construction and development	22,355	5,462	18,942	-	1	46,760
Commercial and industrial	10,882	767	3,484	157	4	15,294
Municipal leases	117,348	243	1,444	-	-	119,035
Total loans	$ 1,102,740	$ 36,139	$ 110,523	$ 11,247	$ 10	$ 1,260,659

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
June 30, 2011						
Retail consumer loans:						
One to four family	$ 546,232	$ 5,922	$ 58,328	$ 46	$ -	$ 610,528
Home equity lines of credit	147,769	907	7,903	141	-	156,720
Construction and land/lots	60,040	814	7,345	-	-	68,199
Consumer	3,873	115	254	15	8	4,265
Commercial loans:						
Commercial real estate	217,701	26,090	25,646	12	-	269,449
Construction and development	28,789	7,070	43,599	-	-	79,458
Commercial and industrial	15,240	1,017	2,836	157	-	19,250
Municipal leases	121,551	547	823	-	-	122,921
Total loans	$ 1,141,195	$ 42,482	$ 146,734	$ 371	$ 8	$ 1,330,790

The Bank's total loans by segment, class, and delinquency status follows:

	Past Due 30-89 Days	Past Due 90 Days +	Total	Current	Total Loans
March 31, 2012 (unaudited)					
Retail consumer loans:					
One to four family	$ 10,227	$ 17,761	$ 27,988	$ 595,973	$ 623,961
Home equity lines of credit	535	2,632	3,167	142,470	145,637
Construction and land/lots	751	1,820	2,571	56,110	58,681
Consumer	25	50	75	3,855	3,930
Commercial loans:					
Commercial real estate	4,391	8,057	12,448	234,913	247,361
Construction and development	4,341	4,936	9,277	37,483	46,760
Commercial and industrial	49	234	283	15,011	15,294
Municipal leases	-	-	-	119,035	119,035
Total loans	$ 20,319	$ 35,490	$ 55,809	$ 1,204,850	$ 1,260,659

	Past Due 30-89 Days	Past Due 90 Days +	Total	Current	Total Loans
June 30, 2011					
Retail consumer loans:					
One to four family	$ 13,569	$ 15,082	$ 28,651	$ 581,877	$ 610,528
Home equity lines of credit	824	1,984	2,808	153,912	156,720
Construction and land/lots	594	2,766	3,360	64,839	68,199
Consumer	4	22	26	4,239	4,265
Commercial loans:					
Commercial real estate	2,594	8,045	10,639	258,810	269,449
Construction and development	1,511	15,788	17,299	62,159	79,458
Commercial and industrial	19	2	21	19,229	19,250
Municipal leases	-	474	474	122,447	122,921
Total loans	$ 19,115	$ 44,163	$ 63,278	$ 1,267,512	$ 1,330,790

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The Bank'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 follow:

	(Unaudited) March 31, 2012		June 30, 2011	
	Nonaccruing	90 Days + & still accruing	Nonaccruing	90 Days + & still accruing
Retail consumer loans:				
One to four family	$ 33,536	$ -	$ 17,821	$ -
Home equity lines of credit	4,100	-	2,536	-
Construction and land/lots	3,747	-	2,766	-
Consumer	75	-	23	-
Commercial loans:				
Commercial real estate	18,761	-	8,197	-
Construction and development	16,320	-	16,620	-
Commercial and industrial	581	-	40	-
Municipal Leases	-	-	474	-
Total loans	$ 77,120	$ -	$ 48,477	$ -

The Bank's loans that were performing under the terms of troubled debt restructurings (TDRs) that were excluded from nonaccruing loans above follow:

	(Unaudited) March 31, 2012	June 30, 2011
Performing restructured loans included in impaired loans	$ 18,503	$ 49,379

An analysis of the allowance for loan losses follows:

	(Unaudited) Three Months Ended March 31, 2012	(Unaudited) Nine Months Ended March 31, 2012
Balance at beginning of period	$ 36,774	$ 50,140
Provision for loan losses	4,500	13,600
Charge-offs	(5,447)	(28,807)
Recoveries	294	1,188
Balance at end of period	$ 36,121	$ 36,121

An analysis of the allowance for loan losses by segment follows:

(Unaudited) Three Months Ended March 31, 2012			(Unaudited) Nine Months Ended March 31, 2012		
Retail Consumer	Commercial	Total	Retail Consumer	Commercial	Total

Balance at beginning of period	$ 21,156	$ 15,618	$ 36,774	$ 23,511	$ 26,629	$ 50,140
Provision for loan losses	3,526	974	4,500	11,449	2,151	