HomeTrust Bancshares, Inc.
Form 10-Q
February 14, 2013

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 December 31, 2012

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

For the transition period from _______ to ________

Commission file number: 001-35593

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

Maryland	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 [X]No [ ]

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

Indicate by check mark 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

There were 21,160,000 shares of common stock, par value of $.01 per share, issued and outstanding as of February 11, 2013.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARIES
10-Q
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Consolidated Balance Sheets
(Dollar amounts in thousands except per share data)

	(Unaudited) December 31, 2012	June 30, 2012
Assets		
Cash	$17,462	$13,909
Interest-bearing deposits	99,288	210,892
Cash and cash equivalents	116,750	224,801
Certificates of deposit in other banks	124,914	108,010
Securities available for sale, at fair value	28,977	31,335
Loans held for sale	11,728	10,787
Total loans, net of deferred loan fees and discount	1,181,370	1,229,045
Allowance for loan losses	(34,249)	(35,100)
Net loans	1,147,121	1,193,945
Premises and equipment, net	22,356	23,106
Federal Home Loan Bank stock, at cost	2,368	6,300
Accrued interest receivable	5,693	6,008
Real estate owned	12,731	16,130
Deferred income taxes	48,662	48,927
Other assets	65,560	50,707
Total Assets	$1,586,860	$1,720,056
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$1,149,247	$1,466,175
Other borrowings	7,167	22,265
Capital lease obligations	2,020	2,024
Other liabilities	54,525	57,107
Total liabilities	1,212,959	1,547,571
Stockholders' Equity		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, none issued or outstanding	-	-
Common stock, $0.01 par value, 60,000,000 shares authorized, 21,160,000 shares issued and outstanding at December 31, 2012; none at June 30, 2012	212	-
Additional paid in capital	239,435	31,367
Retained earnings	144,357	140,937
Unearned Employee Stock Ownership Plan (ESOP) shares	(10,316)	-
Accumulated other comprehensive income	213	181
Total stockholders' equity	373,901	172,485
Total Liabilities and Stockholders' Equity	$1,586,860	$1,720,056

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

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Consolidated Statements of Income
(Dollar amounts in thousands except per share data)

	(Unaudited) Three Months Ended December 31,		(Unaudited) Six Months Ended December 31,	
	2012	2011	2012	2011
Interest and Dividend Income				
Loans	$14,980	$16,649	$30,196	$33,552
Securities available for sale	80	73	177	197
Certificates of deposit and other interest-bearing deposits	392	507	783	669
Federal Home Loan Bank stock	29	19	53	37
Total interest and dividend income	15,481	17,248	31,209	34,455
Interest Expense				
Deposits	1,817	2,751	3,837	5,739
Other borrowings	87	378	276	769
Total interest expense	1,904	3,129	4,113	6,508
Net Interest Income	13,577	14,119	27,096	27,947
Provision for Loan Losses	300	3,800	1,800	9,100
Net Interest Income after Provision for Loan Losses	13,277	10,319	25,296	18,847
Noninterest Income				
Service charges on deposit accounts	650	658	1,303	1,367
Mortgage banking income and fees	1,509	1,008	2,685	1,680
Loss on sale of premises and equipment	-	-	-	(3)
Other, net	694	385	1,208	681
Total other income	2,853	2,051	5,196	3,725
Noninterest Expense				
Salaries and employee benefits	6,329	5,220	12,658	10,399
Net occupancy expense	1,356	1,218	2,615	2,374
Marketing and advertising	425	391	739	758
Telephone, postage, and supplies	452	361	816	692
Deposit insurance premiums	331	440	853	1,041
Computer services	601	576	1,154	822
Loss on sale and impairment of real estate owned	288	1,599	615	1,985
Federal Home Loan Bank advance prepayment penalty	1,509	-	3,069	-
Other	2,090	1,805	4,255	3,571
Total other expense	13,381	11,610	26,774	21,642

Income Before Income Taxes	2,749	760	3,718	930
Income Tax Expense (Benefit)	481	(83)	298	(197)
Net Income	$2,268	$843	$3,420	$1,127
Per Share Data:				
Net income per common share:				
Basic	$0.11	n/a	$0.17	n/a
Diluted	$0.11	n/a	$0.17	n/a
Average shares outstanding:				
Basic	20,121,837	n/a	20,115,225	n/a
Diluted	20,121,837	n/a	20,115,225	n/a

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

4

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Consolidated Statements of Comprehensive Income
(Dollar amounts in thousands)

	(Unaudited) Three Months Ended December 31,		(Unaudited) Six Months Ended December 31,	
	2012	2011	2012	2011
Net Income	$2,268	$843	$3,420	$1,127
Other Comprehensive Income (Loss)				
Unrealized holding gains on securities available for sale				
Gains (losses) arising during the period	$(129)	$(45)	$48	$142
Deferred income tax benefit (expense)	44	15	(16)	(48)
Total other comprehensive income (loss)	$(85)	$(30)	$32	$94
Comprehensive Income	$2,183	$813	$3,452	$1,221

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

5

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Consolidated Statements of Changes in Stockholders' Equity
(Dollar amounts in thousands)

	Common Stock	Additional Paid In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
(Unaudited)						
Balance at June 30, 2011	$-	$31,367	$136,410	$-	$ (8)	$167,769
Net income	-	-	1,127	-	-	1,127
Other comprehensive income	-	-	-	-	94	94
Balance at December 31, 2011	$-	$31,367	$137,537	$-	$ 86	$168,990

	Common Stock	Additional Paid In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
(Unaudited)						
Balance at June 30, 2012	$-	$31,367	$140,937	$-	$181	$172,485
Net income	-	-	3,420	-	-	3,420
Issuance of common stock	212	211,388	-	-	-	211,600
Common stock issuance costs	-	(3,396)	-	-	-	(3,396)
Loan to ESOP for purchase of shares	-	-	-	(10,580)	-	(10,580)
ESOP shares allocated	-	76	-	264	-	340
Other comprehensive income	-	-	-	-	32	32
Balance at December 31, 2012	$212	$239,435	$144,357	$(10,316)	$213	$373,901

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

6

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
(Dollar amounts in thousands)

	(Unaudited) Six Months Ended December 31, 2012	2011
Operating Activities:		
Net income	$3,420	$1,127
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses	1,800	9,100
Depreciation	1,132	1,088
Deferred income tax expense (benefit)	249	(144)
Net amortization and accretion	(64)	(313)
Federal Home Loan Bank advance prepayment penalty	3,069	-
Loss on sale of premises and equipment	-	3
Loss on sale and impairment of real estate owned	615	1,985
Gain on sale of loans held for sale	(2,160)	(1,294)
Origination of loans held for sale	(127,213)	(89,650)
Proceeds from sales of loans held for sale	128,432	77,307
Decrease in deferred loan fees, net	(325)	(472)
Increase in accrued interest receivable and other assets	1,462	5,861
ESOP compensation expense	340	-
Decrease in other liabilities	(2,582)	(3,734)
Net cash provided by operating activities	8,175	864
Investing Activities:		
Purchase of securities available for sale	(6,000)	(12,539)
Proceeds from maturities of securities available for sale	6,100	33,241
Purchase of certificates of deposit in other banks	(50,253)	(17,652)
Maturities of certificates of deposit in other banks	33,349	26,543
Principal repayments of mortgage-backed securities	2,273	1,375
Net redemptions of Federal Home Loan Bank Stock	3,932	2,027
Net decrease in loans	42,623	17,341
Purchase of bank owned life insurance	(16,000)	(31,000)
Proceeds from redemption of bank owned life insurance	-	21,580
Purchase of premises and equipment	(382)	(2,130)
Capital improvements to real estate owned	(216)	(258)
Proceeds from sale of real estate owned	5,823	5,646
Net cash provided by investing activities	21,249	44,174
Financing Activities:		
Net decrease in deposits	(316,928)	(19,672)
Net decrease in other borrowings	(18,167)	(37,062)
Proceeds from stock conversion	208,204	-
Loan to ESOP for purchase of shares	(10,580)	-

Decrease in capital lease obligations	(4)	(4)
Net cash used in financing activities	(137,475)	(56,738)
Net Decrease in Cash and Cash Equivalents	(108,051)	(11,700)
Cash and Cash Equivalents at Beginning of Period	224,801	34,671
Cash and Cash Equivalents at End of Period	$116,750	$22,971
Supplemental Disclosures:		
Cash paid during the period for:		
Interest	$4,307	$7,283
Income taxes	20	96
Noncash transactions:		
Unrealized gain in value of securities available for sale, net of income taxes	32	94
Transfers of loans to real estate owned	4,014	4,898
Loans originated to finance the sale of real estate owned	1,191	623

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

7

HOMETRUST BANCSHARES, INC. 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 States 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 Form 10-K of HomeTrust Bancshares, Inc. filed with the Securities and Exchange Commission (the “SEC”) on September 28, 2012 (“2012 Form 10-K”). 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 accounting principles generally accepted in the United States of America (“US GAAP”). The results for the three months and six months ended December 31, 2012 are not necessarily indicative of the results that may be expected for the year ending June 30, 2013 or any other future period.

Organization and Description of Business – HomeTrust Bancshares, Inc. was incorporated in Maryland on December 27, 2011 and became the holding company for HomeTrust Bank (the “Bank”) (collectively, the “Company”), on July 10, 2012 upon the completion of the Bank’s conversion from the mutual to stock form of organization (the “Conversion”) . In connection with the Conversion, the Company issued an aggregate of 21,160,000 shares of common stock at an offering price of $10.00 per share for gross proceeds of $211.6 million. The Company received $208.2 million in net proceeds from the stock offering of which $104.1 million or 50% of the net proceeds were contributed to the Bank upon Conversion. Included in the issuance of shares was 1,058,000 shares to a newly formed ESOP for which the Company loaned the ESOP $10,580,000 to purchase the shares. The Bank is a federally chartered savings bank headquartered in Asheville, North Carolina with twenty retail offices located in western and central 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 Company conform to US GAAP.

Principles of Consolidation and Subsidiary Activities – The accompanying consolidated financial statements include the accounts of the Company, the Bank, and its wholly-owned subsidiary, Western North Carolina Service Corporation (“WNCSC”) at or for the three months and six months ended December 31, 2012 and of the Bank and WNCSC only for the three months and six months ended December 31, 2011 and at June 30, 2012. WNCSC owns office buildings in Asheville, North Carolina that are leased to the Bank. All intercompany items have been eliminated.

Cash Flows – Cash and cash equivalents include cash and interest-bearing deposits with initial terms to maturity of ninety days or less.

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 – The Company classifies investment securities as trading, available for sale or held to maturity.

Securities available for sale are carried at fair value. Such securities are used to execute asset/liability management strategies, manage liquidity, and leverage capital, and therefore may be sold prior to maturity. Adjustments for unrealized gains or losses, net of the income tax effect, are made to accumulated other comprehensive income, a separate component of total stockholders' equity.

Securities held to maturity are stated at cost, net of unamortized balances of premiums and discounts. When such securities are purchased, the Company intends to and has the ability to hold such securities until maturity.

Declines in the fair value of individual securities available for sale or held to maturity 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 Company 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 Company 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 Company will be required to sell the security prior to a recovery.

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.

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 Company's loan portfolio is grouped into two segments (retail consumer loans and commercial loans) and into four classes within each segment. The Company originates, services, and manages its loans based on these segments and classes. The Company'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 Company 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 Company'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 Company'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.

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 Company'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 Company'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 Company's commercial lenders and underwriters work to understand the borrower's businesses and management experiences. The majority of the Company'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 Company's commercial lenders and underwriters analyze the relative financial strength and liquidity of each guarantor. Risks that are common to the Company’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 Company’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 Company’s markets as well as the demand for the newly constructed residential homes and lots being developed by the Company’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 Company’s commercial borrowers.

Commercial real estate and commercial and industrial loans are primarily dependent on the ability of the Company’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 Company’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 future income.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollar amounts in thousands)

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.

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 Company's loan portfolios at the balance sheet date. The allowance increases when the Company provides for loan losses through charges to operating earnings and when the Company recovers amounts from loans previously written down or charged off. The allowance decreases when the Company writes down or charges off loan 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 Company 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 Company’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 two 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 Company’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 Company’s allowance for loan losses and may require the Company 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 Company's policies related to when loans are placed on nonaccruing status conform to guidelines prescribed by bank regulatory authorities. Generally, the Company 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 Company'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 Company 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 Company 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 Company charges off loan balances, in whole or in part to fair market value, 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 Company or its regulatory examiners.

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 Company 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 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 Company 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.

Premises and Equipment—Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the 150% declining balance method and the straight-line method over the estimated useful lives which range from fifteen to forty years for buildings and three to ten years for furniture, fixtures, and equipment. Maintenance and repair costs are expensed as incurred.

Federal Home Loan Bank Stock—As a requirement for membership, the Bank invests in stock of the Federal Home Loan Bank of Atlanta ("FHLB"). This investment is carried at cost. Due to the redemption provisions of the FHLB, the Bank estimated that fair value equals cost and that this investment was not impaired at December 31, 2012 and June 30, 2012.

Business Combinations—Effective July 1, 2009, the Company adopted a new accounting standard which requires the acquisition method of accounting, formerly referred to as the purchase method, be used for all business combinations. An acquirer must be identified for each business combination, and the acquisition date is the date the acquirer achieves control. The acquisition method of accounting requires the Company as acquirer to recognize the fair value of assets acquired and liabilities assumed at the acquisition date as well as recognize goodwill or a gain from a bargain purchase, if appropriate. In addition, prior to the Conversion in July 2012, the Company recognized the fair value of the acquired institution's equity as a separate component to equity capital on the balance sheet as required for business combinations of mutual institutions. Any acquisition-related costs and restructuring costs are recognized as period expenses as incurred.

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

Comprehensive Income—Comprehensive income consists of net income and net unrealized gains (losses) on securities available for sale and is presented in the consolidated statements of comprehensive income.

Derivative Instruments and Hedging—The Company recognizes all derivatives as either assets or liabilities in the balance sheet, and measures those instruments at fair value. Changes in the fair value of those derivatives are reported in current earnings or other comprehensive income depending on the purpose for which the derivative is held and whether the derivative qualifies for hedge accounting. Loan commitments related to the origination or acquisition of mortgage loans that will be held for sale must be accounted for as derivative instruments. The Company enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). The Company also enters into forward sales commitments for the mortgage loans underlying the rate lock commitments. The fair values of these two derivative financial instruments are collectively insignificant to the consolidated financial statements.

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.

Recent Accounting Pronouncements –In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU No. 2011-05. This ASU was made to allow FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While FASB is considering the operational concerns about the presentation requirements for reclassification adjustments, and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report reclassification out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. The amendments in this ASU were effective at the same time as the amendments in ASU 2011-05 so that entities will not be required to comply with the presentation requirements effective at the same time as the amendments in ASU 2011-05 that this ASU is deferring. The amendments in this ASU were effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this ASU did not have a material effect on the Company's Consolidated Financial Statements.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollar amounts in thousands)

In July 2012, the FASB issued ASU No. 2012-02 "Testing Indefinite-Lived Intangible Assets for Impairment", regarding goodwill which will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under this ASU, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The ASU includes a number of events and circumstances for an entity to consider in conducting the qualitative assessment. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before July 27, 2012, if an entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. The adoption of this ASU did not have a material impact on the Company's Consolidated Financial Statements.

2. Securities Available for Sale

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

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government Agencies	$ 6,000	$ 4	$ -	$ 6,004
Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises	22,654	331	(12)	22,973
Total	$ 28,654	$ 335	$ (12)	$ 28,977

	June 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government Agencies	$ 6,102	$ 2	$ (2)	$ 6,102
Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises	24,958	286	(11)	25,233
Total	$ 31,060	$ 288	$ (13)	$ 31,335

13

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollar amounts in thousands)

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

	December 31, 2012	
	Amortized Cost	Estimated Fair Value
Due within one year	$ -	$ -
Due after one year through five years	6,000	6,004
Due after five years through ten years	-	-
Due after ten years	-	-
Mortgage-backed securities	22,654	22,973
Total	$ 28,654	$ 28,977

	June 30, 2012	
	Amortized Cost	Estimated Fair Value
Due within one year	$ 6,000	$ 6,002
Due after one year through five years	102	100
Due after five years through ten years	-	-
Due after ten years	-	-
Mortgage-backed securities	24,958	25,233
Total	$ 31,060	$ 31,335

The Company had no sales of securities during the three months or six months ended December 31, 2012 or 2011.

Securities available for sale with costs totaling $14,321 (unaudited) and $15,563 (market value of $14,723 (unaudited) and $15,727) at December 31, 2012 and June 30, 2012, respectively, were pledged as collateral to secure various public deposits and retail repurchase agreements.

The gross unrealized losses and the fair value for securities available for sale aggregated by the length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2012 and June 30, 2012 are as follows:

	December 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	$ -	$ -	$ -	$ -	$ -	$ -
Residential Mortgage-backed						

Securities of U.S. Government Agencies and Government-Sponsored Enterprises	114	(2)	2,444	(10)	2,558	(12)
Total	$ 114	$ (2)	$ 2,444	$ (10)	$ 2,558	$ (12)

	June 30, 2012					
	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	$ -	$ -	$ 100	$ (2)	$ 100	$ (2)
Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises	2,908	(8)	100	(3)	3,008	(11)
Total	$ 2,908	$ (8)	$ 200	$ (5)	$ 3,108	$ (13)

14

(Dollar amounts in thousands)

The total number of securities with unrealized losses at December 31, 2012, and June 30, 2012 were 15 (unaudited) and 22, 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 decreases in market interest rates. The Company had no other than temporary impairment losses during the three months or six months ended December 31, 2012 (unaudited) or the year ended June 30, 2012. 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.

3. Loans

Loans consist of the following at the dates indicated:

	(Unaudited) December 31, 2012	June 30, 2012
Retail consumer loans:		
One to four family	$ 605,482	$ 620,486
Home equity lines of credit	133,874	143,052
Construction and land/lots	49,773	53,572
Consumer	3,593	3,819
Total retail consumer loans	792,722	820,929
Commercial loans:		
Commercial real estate	229,491	238,644
Construction and development	33,526	42,362
Commercial and industrial	13,124	14,578
Municipal leases	115,069	115,516
Total commercial loans	391,210	411,100
Total loans	1,183,932	1,232,029
Deferred loan fees, net	(1,535)	(1,860)
Discount on loans from business combination	(1,027)	(1,124)
Total loans, net of deferred loan fees and discount	1,181,370	1,229,045
Allowance for loan and lease losses	(34,249)	(35,100)
Loans, net	$ 1,147,121	$ 1,193,945

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

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollar amounts in thousands)

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

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2012 (Unaudited)						
Retail consumer loans:						
One to four family	$ 536,272	$ 13,982	$ 50,269	$ 4,938	$ 21	$ 605,482
Home equity lines of credit	124,679	1,605	5,430	2,156	4	133,874
Construction and land/lots	46,320	349	2,333	771	-	49,773
Consumer	3,053	113	320	106	1	3,593
Commercial loans:						
Commercial real estate	181,098	14,543	33,727	123	-	229,491
Construction and development	15,665	5,155	12,559	146	1	33,526
Commercial and industrial	10,188	1,043	1,735	157	1	13,124
Municipal leases	112,436	2,633	-	-	-	115,069
Total loans	$ 1,029,711	$ 39,423	$ 106,373	$ 8,397	$ 28	$ 1,183,932

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
June 30, 2012						
Retail consumer loans:						
One to four family	$ 553,457	$ 9,305	$ 55,338	$		