

HomeTrust Bancshares, Inc.  
Form 10-Q  
May 12, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

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 (IRS Employer Identification  
organization) 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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

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Large accelerated filer

Accelerated filer

Non-accelerated filer  (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

APPLICABLE ONLY TO CORPORATE ISSUERS

There were 19,101,752 shares of common stock, par value of \$.01 per share, issued and outstanding as of May 8, 2014.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARIES  
 10-Q  
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## 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) March 31, 2014	June 30, 2013
Assets		
Cash	\$13,721	\$13,251
Interest-bearing deposits	69,694	112,462
Cash and cash equivalents	83,415	125,713
Certificates of deposit in other banks	159,699	136,617
Securities available for sale, at fair value	89,882	24,750
Loans held for sale	2,276	10,770
Total loans, net of deferred loan fees and discount	1,166,119	1,164,183
Allowance for loan losses	(25,269)	(32,073)
Net loans	1,140,850	1,132,110
Premises and equipment, net	24,240	22,400
Federal Home Loan Bank (FHLB) stock, at cost	1,537	1,854
Accrued interest receivable	5,552	5,549
Real estate owned (REO)	9,199	11,739
Deferred income taxes	45,689	47,428
Bank owned life insurance	63,541	62,242
Goodwill	2,802	-
Other assets	3,626	2,151
Total Assets	\$1,632,308	\$1,583,323
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	\$1,211,904	\$1,154,750
Other borrowings	2,207	-
Capital lease obligations	2,003	2,016
Other liabilities	57,758	59,042
Total liabilities	1,273,872	1,215,808
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, 19,560,115 shares issued and outstanding at March 31, 2014; 20,824,900 at June 30, 2013	196	208
Additional paid in capital	209,155	227,397
Retained earnings	158,799	149,990
Unearned Employee Stock Ownership Plan (ESOP) shares	(9,654)	(10,051)
Accumulated other comprehensive loss	(60)	(29)

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Total stockholders' equity	358,436	367,515
Total Liabilities and Stockholders' Equity	\$1,632,308	\$1,583,323

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)

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2014	2013	2014	2013
<b>Interest and Dividend Income</b>				
Loans	\$13,557	\$14,208	\$42,010	\$44,403
Securities available for sale	376	81	1,097	258
Certificates of deposit and other interest-bearing deposits	439	377	1,346	1,160
FHLB stock	20	17	47	70
Total interest and dividend income	14,392	14,683	44,500	45,891
<b>Interest Expense</b>				
Deposits	1,247	1,643	4,172	5,480
Other borrowings	1	4	5	280
Total interest expense	1,248	1,647	4,177	5,760
Net Interest Income	13,144	13,036	40,323	40,131
Provision for (Recovery of) Loan Losses	(1,800	) 500	(4,800	) 2,300
Net Interest Income after Provision for Loan Losses	14,944	12,536	45,123	37,831
<b>Non-interest Income</b>				
Service charges on deposit accounts	620	621	1,954	1,924
Mortgage banking income and fees	632	1,239	2,417	3,925
Other, net	773	767	2,171	1,975
Total other income	2,025	2,627	6,542	7,824
<b>Non-interest Expense</b>				
Salaries and employee benefits	7,496	6,729	22,192	19,388
Net occupancy expense	1,284	1,264	3,746	3,613
Marketing and advertising	336	488	1,028	1,227
Telephone, postage, and supplies	403	493	1,269	1,369
Deposit insurance premiums	321	216	989	1,069
Computer services	828	754	2,652	2,220
FHLB advance prepayment penalty	-	-	-	3,069
Loss on sale and impairment of real estate owned	468	315	673	930
REO expense	333	445	1,154	1,699
Merger-related expenses	449	-	711	-
Other	1,478	1,354	4,204	4,248
Total other expense	13,396	12,058	38,618	38,832

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Income Before Income Taxes	3,573	3,105	13,047	6,823
Income Tax Expense	967	490	4,238	788
Net Income	\$2,606	\$2,615	\$8,809	\$6,035
Per Share Data:				
Net income per common share:				
Basic	\$0.14	\$0.13	\$0.46	\$0.30
Diluted	\$0.14	\$0.13	\$0.46	\$0.30
Average shares outstanding:				
Basic	18,302,672	20,019,609	18,724,242	20,083,915
Diluted	18,378,159	20,036,875	18,815,416	20,089,586

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



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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Net Income	\$2,606	\$2,615	\$8,809	\$6,035
Other Comprehensive Income (Loss)				
Unrealized holding gains (losses) on securities available for sale				
Gains (losses) arising during the period	\$444	\$(67)	\$(47)	\$(18)
Deferred income tax benefit (expense)	(151)	) 23	16	6
Total other comprehensive income (loss)	\$293	\$(44)	\$(31)	\$(12)
Comprehensive Income	\$2,899	\$2,571	\$8,778	\$6,023

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

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
Balance at June 30, 2012	\$-	\$31,367	\$140,937	\$-	\$ 181	\$ 172,485
Net income	-	-	6,035	-	-	6,035
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 )
Stock repurchased for equity incentive plan	(3 )	(4,755 )	-	-	-	(4,758 )
Granted restricted stock	5	(5 )	-	-	-	-
Stock option expense	-	216	-	-	-	216
Restricted stock expense	-	229	-	-	-	229
ESOP shares allocated	-	140	-	397	-	537
Other comprehensive loss	-	-	-	-	(12 )	(12 )
Balance at March 31, 2013	\$214	\$235,184	\$146,972	\$(10,183 )	\$ 169	\$ 372,356
Balance at June 30, 2013	\$208	\$227,397	\$149,990	\$(10,051 )	\$(29 )	\$367,515
Net income	-	-	8,809	-	-	8,809
Stock repurchased	(12 )	(20,483 )	-	-	-	(20,495 )
Stock option expense	-	971	-	-	-	971
Restricted stock expense	-	1,027	-	-	-	1,027
ESOP shares allocated	-	243	-	397	-	640
Other comprehensive loss	-	-	-	-	(31 )	(31 )
Balance at March 31, 2014	\$196	\$209,155	\$158,799	\$(9,654 )	\$(60 )	\$358,436

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

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

	Nine Months Ended March 31,	
	2014	2013
<b>Operating Activities:</b>		
Net income	\$ 8,809	\$ 6,035
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for (recovery of) loan losses	(4,800)	2,300
Depreciation	1,675	1,638
Deferred income tax expense	4,226	418
Net amortization and accretion	(701)	(129)
FHLB advance prepayment penalty	-	3,069
Gain on sale of securities available for sale	(10)	-
Loss on sale and impairment of real estate owned	673	930
Gain on sale of loans held for sale	(1,276)	(2,897)
Origination of loans held for sale	(55,788)	(178,762)
Proceeds from sales of loans held for sale	69,898	183,449
Decrease in deferred loan fees, net	(260)	(402)
Increase (decrease) in accrued interest receivable and other assets	(1,604)	2,461
ESOP compensation expense	640	537
Restricted stock and stock option expense	1,998	445
Decrease in other liabilities	(2,474)	(1,654)
Net cash provided by operating activities	21,006	17,438
<b>Investing Activities:</b>		
Purchase of securities available for sale	(67,271)	(6,000)
Proceeds from maturities of securities available for sale	27,225	6,100
Proceeds from sale of securities available for sale	2,086	-
Purchase of certificates of deposit in other banks	(37,266)	(38,975)
Maturities of certificates of deposit in other banks	14,184	14,685
Principal repayments of mortgage-backed securities	7,015	3,319
Net redemptions of FHLB stock	764	4,446
Net decrease in loans	36,559	48,026
Purchase of bank owned life insurance	-	(16,000)
Purchase of premises and equipment	(1,174)	(1,119)
Capital improvements to REO	(126)	(380)
Proceeds from sale of REO	8,214	7,712
Acquisition of BankGreenville Financial Corporation, net of cash paid	1,475	-
Net cash provided by (used in) investing activities	(8,315)	21,814
<b>Financing Activities:</b>		
Net decrease in deposits	(31,954)	(299,801)
Net decrease in other borrowings	(2,527)	(25,334)
Proceeds from stock conversion	-	208,204
Loan to ESOP for purchase of shares	-	(10,580)
Common stock repurchased	(20,495)	(4,758)

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Decrease in capital lease obligations	(13	)	(6	)
Net cash used in financing activities	(54,989	)	(132,275	)
Net Decrease in Cash and Cash Equivalents	(42,298	)	(93,023	)
Cash and Cash Equivalents at Beginning of Period	125,713		224,801	
Cash and Cash Equivalents at End of Period	\$ 83,415		\$ 131,778	

Supplemental Disclosures:

Cash paid during the period for:

Interest	\$ 4,047		\$ 5,907	
Income taxes	113		59	

Noncash transactions:

Unrealized loss in value of securities available for sale, net of income taxes	(31	)	(12	)
Transfers of loans to REO	4,166		6,224	
Transfers of loans to held for sale	4,340		-	
Loans originated to finance the sale of REO	94		651	

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

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

1. Summary of Significant Accounting Policies

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“US GAAP”) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all the information and footnotes required by US GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position and results of operations for the periods presented have been included. It is recommended that these unaudited interim consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended June 30, 2013 (“2013 Form 10-K”) filed with the SEC on September 13, 2013. The results of operations for the three and nine months ended March 31, 2014 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2014. Certain prior year amounts have been reclassified to conform to current fiscal year presentation. The reclassifications had no impact on previously reported net income or equity.

Organization and Description of Business – HomeTrust was incorporated in Maryland on December 27, 2011 and became the holding company for the Bank 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, HomeTrust 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. HomeTrust 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 HomeTrust loaned the ESOP \$10,580,000 to purchase the shares. The Bank is a federally chartered savings bank headquartered in Asheville, North Carolina with 21 retail offices located in western and central North Carolina and Greenville, South Carolina. The 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 HomeTrust, the Bank, and its wholly-owned subsidiary, Western North Carolina Service Corporation (“WNCSC”). 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.

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

Securities available for sale are carried at fair value. These 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 these 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 except for non-accruing loans where interest is recorded as earned on a cash basis. Net deferred loan origination fees/costs are deferred and amortized to interest income over the

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

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. Over the past five years, declines in value have led to unprecedented levels of foreclosures and losses within the banking industry. Construction and land/lot loans experienced delays in completion and cost overruns that exceeded the borrower's financial ability to complete the project. Such cost overruns routinely resulted 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 the 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.



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

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.

#### 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 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 meeting certain criteria 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. Impaired loans below the threshold are evaluated as a pool with additional adjustments to the allowance for loan losses. 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.

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

Future material adjustments to the allowance for loan losses may be necessary due to changing economic conditions or declining collateral values. In addition, bank 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 REO.

**Loans Past Due 90 Days or More, Non-accruing, Impaired, or Restructured**—The Company's policies related to when loans are placed on non-accruing 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 ("TDRs"). These loans remain as TDRs 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 six 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 bank 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 real estate that become 120 days past due are charged off to the extent that the fair value of the 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—REO consists of real estate acquired as a result of customers' loan defaults. REO 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

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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 FHLB of Atlanta. 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 March 31, 2014 and June 30, 2013.

**Business Combinations**—The Company uses the acquisition method of accounting, formerly referred to as the purchase method, 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. 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 March 31, 2014 and June 30, 2013, there were no accruals for uncertain tax positions and no accruals for interest and penalties. HomeTrust and the Bank file a consolidated United States federal income tax return, as well as separate unconsolidated state income tax returns. The Company's income tax returns subsequent to 2009 are subject to examination by the taxing authorities.

**Employee Stock Ownership Plan**—In connection with the Conversion, the Bank established an ESOP for the benefit of all of its eligible employees. Full-time employees of the Company who have been credited with at least 1,000 hours of service during a 12-month period and who have attained age 21 are eligible to participate in the ESOP. It is anticipated that the Bank will make contributions to the ESOP in amounts necessary to amortize the ESOP loan payable to HomeTrust over a 20 year period.

Unearned ESOP shares are shown as a reduction of stockholders' equity. Dividends on unearned ESOP shares, if paid, will be considered to be compensation expense. The Company recognizes compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares differs from the cost of such shares, the differential is recognized as additional paid in capital. The Company recognizes a tax deduction equal to the cost of the shares released. Because the ESOP is

internally leveraged through a loan from HomeTrust to the ESOP, the loan receivable by HomeTrust from the ESOP is not reported as an asset, nor is the debt of the ESOP shown as a liability in the consolidated financial statements.

**Equity Incentive Plan**—The Company issues restricted stock and stock options under the HomeTrust Bancshares, Inc. 2013 Omnibus Incentive Plan (“2013 Omnibus Incentive Plan”) to key officers and outside directors. In accordance with the requirements of Accounting Standards Codification (“ASC”) 718, Compensation – Stock Compensation, the Company has adopted a fair value based method of accounting for employee stock compensation plans, whereby compensation cost is measured based on the fair value of the award as of the grant date and recognized over the vesting period. The Company estimates forfeitures when recognizing compensation expense and this estimate is adjusted over the requisite service period or vesting schedule based on the extent to which actual forfeitures differ from such estimate. Changes in estimated forfeitures in future periods are recognized through a cumulative catch-up adjustment, which is recognized in the period of change and also will affect the amount of estimated unamortized compensation expense to be recognized in future periods.

**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

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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 July 2012, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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 was effective for annual and interim goodwill impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption was 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.

In February 2013, the FASB issued ASU No. 2013-02 “Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income”. This ASU requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under US GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under US GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under US GAAP that provide additional detail about these amounts. The new guidance was effective prospectively for reporting periods beginning after December 15, 2012. The adoption of this ASU did not have a material impact on the Company’s Consolidated Financial Statements.

In July 2013, the FASB issued ASU No. 2013-11 “Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists”. This ASU provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss (NOL) carryforward, a similar tax loss, or a tax credit carryforward exists. This ASU applies to all entities with unrecognized tax benefits that also have tax loss or tax credit carryforwards in the same tax jurisdiction as of the reporting date. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 with early adoption permitted. Since the Company does not have any unrecognized tax benefits, the adoption of the ASU did not have a material impact on the Company’s Consolidated Financial Statements.

In January 2014, the FASB issued ASU No. 2014-04, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The objective of this guidance is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be

derecognized and the real estate property recognized. ASU No. 2014-04 states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for interim and annual reporting periods beginning after December 15, 2014. The adoption of ASU No. 2014-04 is not expected to have a material impact on the Company's Consolidated Financial Statements.

2. **Business Combinations**

On July 31, 2013, the Company completed its acquisition of BankGreenville Financial Corporation (“BankGreenville”) in accordance with the terms of the Agreement and Plan of Merger dated May 3, 2013. Under the terms of the agreement, BankGreenville shareholders received \$6.63 per share in cash consideration. This represents approximately \$7.8 million of aggregate deal consideration. Additional contingent cash consideration of up to \$0.75 per share (or approximately \$883,000) may be realized at the expiration of 24 months based on the performance of a select pool of loans totaling approximately \$8.0 million.

BankGreenville was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at acquisition date fair values. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair values becomes available. The excess of the merger consideration over the fair value of BankGreenville’s net assets was allocated to goodwill. The book value as of July 31, 2013, of assets acquired was \$102.2 million and liabilities assumed was \$94.1 million. The Company recorded \$2.8 million in goodwill related to the acquisition.



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

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

- (1) Estimate of additional amount to be paid to shareholders on or about July 31, 2015 based on performance of a select pool of loans totaling approximately \$8.0 million.



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The following table discloses the impact of the merger with BankGreenville since the acquisition on July 31, 2013 through March 31, 2014. The table also presents certain pro forma information as if BankGreenville had been acquired on July 1, 2013 and July 1, 2012. These results combine the historical results of BankGreenville in the Company's Consolidated Statement of Income and, while certain adjustments were made for the estimated impact of certain fair value adjustments and other acquisition-related activity, they are not indicative of what would have occurred had the acquisition taken place on July 1, 2013 and July 1, 2012. Acquisition related costs of \$1,074, net of tax (\$251 of which are included in the Company's consolidated statements of income for the nine months ended March 31, 2014) are not included in the pro forma statements below. In particular, no adjustments have been made to eliminate the impact of REO write-downs recognized by BankGreenville of \$250 in July 2013 that may not have been necessary had the acquired REO been recorded at fair value as of the beginning of fiscal year 2013. Furthermore, expenses related to systems conversions and other costs of integration are expected to be recorded throughout fiscal year 2014. Additionally, the Company expects to achieve further operating cost savings as a result of the acquisition which are not reflected in the pro forma amounts below:

	Actual Nine Months Ended March 31, 2014	Pro Forma Nine Months Ended March 31, 2014	Pro Forma Nine Months Ended March 31, 2013
Total revenues*	\$ 46,865	\$ 47,032	\$ 50,176
Net income	9,060	8,913	6,220

\* Net interest income plus other income

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

	Purchased Performing	Purchased Impaired	Total Loans
Retail Consumer Loans:			
One-to-four family	\$ 8,274	\$ 1,392	\$ 9,666
Home equity lines of credit	3,987	134	4,121
Consumer	522	-	522
Commercial:			
Commercial real estate	23,073	4,552	27,625
Construction and development	2,367	3,529	5,896
Total	\$ 38,223	\$ 9,607	\$ 47,830

The following table presents the purchased performing loans and purchased impaired loans receivable for BankGreenville at March 31, 2014 and July 31, 2013 (the combination date):

Purchased Performing Loans	
March 31, 2014	July 31, 2013

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Contractually required principal payments receivable	\$	32,349	\$	41,077
Fair value adjustment for credit, interest rate, and liquidity		2,272		2,854
Fair value of purchased loans receivable	\$	30,077	\$	38,223

Purchased Impaired Loans

		March 31, 2014		July 31, 2013
Contractually required principal and interest payments receivable	\$	11,733	\$	12,817
Amounts not expected to be collected – nonaccretable difference		1,375		1,375
Estimated payments expected to be received		10,358		11,442
Accretable yield		1,455		1,835
Fair value of purchased impaired loans	\$	8,903	\$	9,607

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3. Securities Available for Sale

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

	March 31, 2014			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. government agencies	\$ 25,595	\$ 8	\$ (15 )	\$ 25,588
Mortgage-backed securities of U.S. government agencies and government sponsored enterprises	53,354	120	(378 )	53,096
Taxable municipal securities	8,107	131	(33 )	8,205
Corporate bonds	2,917	76	-	2,993
Total	\$ 89,973	\$ 335	\$ (426 )	\$ 89,882

	June 30, 2013			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. government agencies	\$ 6,000	\$ 2	\$ -	\$ 6,002
Mortgage-backed securities of U.S. government agencies and government sponsored enterprises	18,794	81	(127 )	18,748
Total	\$ 24,794	\$ 83	\$ (127 )	\$ 24,750

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

	March 31, 2014	
	Amortized Cost	Estimated Fair Value
Due within one year	\$ 6,000	\$ 6,002
Due after one year through five years	19,412	19,428
Due after five years through ten years	8,260	8,387
Due after ten years	2,947	2,969
Mortgage-backed securities	53,354	53,096
Total	\$ 89,973	\$ 89,882

The Company had the following sales of securities during the periods indicated:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Gross proceeds from sales of securities	\$ 2,123	-	\$ 2,123	-
Gross realized gains from sales of securities	42	-	42	-
Gross realized losses from sales of securities	32	-	32	-

Securities available for sale with costs totaling \$31,826 and \$21,429 with market values of \$31,856 and \$21,500 at March 31, 2014 and June 30, 2013, 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, 2014 and June 30, 2013 are as follows:

	March 31, 2014					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	\$ 8,915	\$ (15 )	\$ -	\$ -	\$ 8,915	\$ (15 )
Mortgage-backed securities of U.S. government agencies and government-sponsored enterprises	30,493	(377 )	49	(1 )	30,542	(378 )
Taxable municipal securities	2,055	(33 )	-	-	2,055	(33 )
Total	\$ 41,463	\$ (425 )	\$ 49	\$ (1 )	\$ 41,512	\$ (426 )

	June 30, 2013					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities of U.S. government agencies and government-sponsored enterprises	\$ 5,707	\$ (122 )	\$ 745	\$ (5 )	\$ 6,452	\$ (127 )
Total	\$ 5,707	\$ (122 )	\$ 745	\$ (5 )	\$ 6,452	\$ (127 )

The total number of securities with unrealized losses at March 31, 2014, and June 30, 2013 were 51 and 26, respectively. Unrealized losses on securities have not been recognized in income because management has the intent and ability to hold the securities for the foreseeable future, and has determined that it is not more likely than not that the Company will be required to sell the securities prior to a recovery in value. The decline in fair value was largely due to increases in market interest rates. The Company had no other than temporary impairment losses during the three and nine months ended March 31, 2014 or the year ended June 30, 2013. 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.

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4. Loans

Loans consist of the following at the dates indicated:

	March 31, 2014	June 30, 2013
Retail consumer loans:		
One-to-four family	\$ 578,135	\$ 602,050
Home equity lines of credit	127,217	125,676
Construction and land/lots	47,909	51,546
Consumer	7,977	3,349
Total retail consumer loans	761,238	782,621
Commercial loans:		
Commercial real estate	241,209	231,086
Construction and development	31,520	23,994
Commercial and industrial	20,947	11,452
Municipal leases	112,292	116,377
Total commercial loans	405,968	382,909
Total loans	1,167,206	1,165,530
Deferred loan fees, net	(1,087)	(1,347)
Total loans, net of deferred loan fees and discount	1,166,119	1,164,183
Allowance for loan and lease losses	(25,269)	(32,073)
Loans, net	\$ 1,140,850	\$ 1,132,110

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



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

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
March 31, 2014						
Retail consumer loans:						
One-to-four family	\$ 522,311	\$ 13,406	\$ 38,060	\$ 4,347	\$ 11	\$ 578,135
Home equity lines of credit	119,219	1,449	6,134	414	1	127,217
Construction and land/lots	44,953	1,116	1,649	191	-	47,909
Consumer	7,659	109	193	15	1	7,977
Commercial loans:						
Commercial real estate	196,084	17,394	22,650	5,081	-	241,209
Construction and development	20,641	3,987	6,892	-	-	31,520
Commercial and industrial	18,246	816	1,883	-	2	20,947
Municipal leases	111,540	752	-	-	-	112,292
Total loans	\$ 1,040,653	\$ 39,029	\$ 77,461	\$ 10,048	\$ 15	\$ 1,167,206

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
June 30, 2013						
Retail consumer loans:						
One-to-four family	\$ 536,603	\$ 14,003	\$ 47,753	\$ 3,671	\$ 20	\$ 602,050
Home equity lines of credit	117,438	1,374	6,679	184	1	125,676
Construction and land/lots	48,914	209	2,199	224	-	51,546
Consumer	3,144	62	134	6	3	3,349
Commercial loans:						
Commercial real estate	179,310	20,105	27,116	4,555	-	231,086
Construction and development	9,872	2,853	10,950	318	1	23,994
Commercial and industrial	8,812	835	1,647	157	1	11,452
Municipal leases	114,418	1,959	-	-	-	116,377
Total loans	\$ 1,018,511	\$ 41,400	\$ 96,478	\$ 9,115	\$ 26	\$ 1,165,530



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

	30-89 Days	Past Due 90 Days+	Total	Current	Total Loans
March 31, 2014					
Retail consumer loans:					
One-to-four family	\$6,044	\$9,141	\$15,185	\$562,950	\$578,135
Home equity lines of credit	762	1,591	2,353	124,864	127,217
Construction and land/lots	99	345	444	47,465	47,909
Consumer	32	9	41	7,936	7,977
Commercial loans:					
Commercial real estate	1,605	10,123	11,728	229,481	241,209
Construction and development	1,908	3,194	5,102	26,418	31,520
Commercial and industrial	1,412	432	1,844	19,103	20,947
Municipal leases	168	-	168	112,124	112,292
Total loans	\$12,030	\$24,835	\$36,865	\$1,130,341	\$1,167,206
June 30, 2013					
Retail consumer loans:					
One-to-four family	\$7,031	\$8,827	\$15,858	\$586,192	\$602,050
Home equity lines of credit	450	1,656	2,106	123,570	125,676
Construction and land/lots	242	429	671	50,875	51,546
Consumer	4	35	39	3,310	3,349
Commercial loans:					
Commercial real estate	3,805	7,085	10,890	220,196	231,086
Construction and development	-	5,420	5,420	18,574	23,994
Commercial and industrial	193	172	365	11,087	11,452
Municipal leases	-	-	-	116,377	116,377
Total loans	\$11,725	\$23,624	\$35,349	\$1,130,181	\$1,165,530

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

	March 31, 2014		June 30, 2013	
	Nonaccruing	90 Days + & still accruing	Nonaccruing	90 Days + & still accruing
Retail consumer loans:				
One-to-four family	\$24,318	\$-	\$29,811	\$-
Home equity lines of credit	4,049	-	3,793	-
Construction and land/lots	1,301	-	2,172	-
Consumer	14	-	42	-
Commercial loans:				

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Commercial real estate	17,187	-	21,149	-
Construction and development	5,950	-	10,172	-
Commercial and industrial	1,561	-	1,422	-
Municipal leases	-	-	-	-
Total loans	\$54,380	\$-	\$68,561	\$-

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

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

	March 31, 2014	June 30, 2013
Performing TDRs included in impaired loans	\$ 14,829	\$ 14,012

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

	Three Months Ended March 31, 2014			Three Months Ended March 31, 2013		
	Retail			Retail		
	Consumer	Commercial	Total	Consumer	Commercial	Total
Balance at beginning of period	\$18,217	\$8,908	\$27,125	\$22,173	\$12,076	\$34,249
Provision for (recovery of)						
loan losses	(611 )	(1,189 )	(1,800 )	350	150	500
Charge-offs	(402 )	(253 )	(655 )	(1,219 )	(918 )	(2,137 )
Recoveries	113	486	599	308	41	349
Balance at end of period	\$17,317	\$7,952	\$25,269	\$21,612	\$11,349	\$32,961
	Nine Months Ended March 31, 2014			Nine Months Ended March 31, 2013		
	Retail			Retail		
	Consumer	Commercial	Total	Consumer	Commercial	Total
Balance at beginning of period	\$21,952	\$10,121	\$32,073	\$21,172	\$13,928	\$35,100
Provision for (recovery of)						
loan losses	(1,887 )	(2,913 )	(4,800 )	3,189	(889 )	2,300
Charge-offs	(3,768 )	(550 )	(4,318 )	(3,295 )	(2,958 )	(6,253 )
Recoveries	1,020	1,294	2,314	546	1,268	1,814
Balance at end of period	\$17,317	\$7,952	\$25,269	\$21,612	\$11,349	\$32,961

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

	Allowance for Loan Losses			Total Loans Receivable		
	Loans individually evaluated for impairment	Loans Collectively Evaluated	Total	Loans individually evaluated for impairment	Loans Collectively Evaluated	Total
March 31, 2014						
Retail consumer loans:						
One-to-four family	\$1,098	\$10,638	\$11,736	\$26,937	\$551,198	\$578,135
Home equity	234	2,601	2,835	3,843	123,374	127,217
Construction and land/lots	385	2,124	2,509	2,120	45,789	47,909
Consumer	1	236	237	4	7,973	7,977
Commercial loans:						
Commercial real estate	33	5,227	5,260	19,186	222,023	241,209
Construction and development	390	1,273	1,663	5,550	25,970	31,520
Commercial and industrial	2	210	212	2,375	18,572	20,947
Municipal leases	-	817	817	-	112,292	112,292
Total	\$2,143	\$23,126	\$25,269	\$60,015	\$1,107,191	\$1,167,206
June 30, 2013						
Retail consumer loans:						
One-to-four family	\$1,028	\$14,070	\$15,098	\$35,255	\$566,795	\$602,050
Home equity	479	3,348	3,827	4,322	121,354	125,676
Construction and land/lots	19	2,871	2,890	1,844	49,702	51,546
Consumer	3	135	138	3	3,346	3,349
Commercial loans:						
Commercial real estate	110	6,473	6,583	19,446	211,640	231,086
Construction and development	255	2,144	2,399	9,780	14,214	23,994
Commercial and industrial	1	155	156	2,305	9,147	11,452
Municipal leases	-	982	982	-	116,377	116,377
Total	\$1,895	\$30,178	\$32,073	\$72,955	\$1,092,575	\$1,165,530

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

	Unpaid Principal Balance	Total Impaired Loans		Total	Related Recorded Allowance
		Recorded Investment With a Recorded Allowance	Recorded Investment With No Recorded Allowance		
March 31, 2014					
Retail consumer loans:					
One-to-four family	\$39,196	\$16,554	\$19,022	\$35,576	\$1,253
Home equity lines of credit	8,217	3,588	2,011	5,599	280
Construction and land/lots	4,353	1,095	1,169	2,264	391
Consumer	364	10	4	14	1
Commercial loans:					
Commercial real estate	25,703	6,632	14,867	21,499	108
Construction and development	9,600	1,605	4,670	6,275	434
Commercial and industrial	3,580	741	2,028	2,769	11
Municipal leases	-	-	-	-	-
Total impaired loans	\$91,013	\$30,225	\$43,771	\$73,996	\$2,478
June 30, 2013					
Retail consumer loans:					
One-to-four family	\$49,176	\$14,194	\$30,219	\$44,413	\$1,176
Home equity lines of credit	9,405	3,303	2,651	5,954	518
Construction and land/lots	4,617	551	1,649	2,200	38
Consumer	184	39	3	42	4
Commercial loans:					
Commercial real estate	28,136	998	22,716	23,714	119
Construction and development	17,986	518	10,034	10,552	256
Commercial and industrial	3,801	-	2,864	2,864	-
Municipal leases	-	-	-	-	-
Total impaired loans	\$113,305	\$19,603	\$70,136	\$89,739	\$2,111

The table above includes \$13,981 and \$16,613, of impaired loans that were not individually evaluated at March 31, 2014 and June 30, 2013, respectively, because these loans did not meet the Company's threshold for individual impairment evaluation. The recorded allowance above includes \$335 and \$216 related to these loans that were not individually evaluated at March 31, 2014 and June 30, 2013, respectively.

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

	Three Months Ended			
	March 31, 2014		March 31, 2013	
	Average	Interest	Average	Interest

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	Recorded Investment	Income Recognized	Recorded Investment	Income Recognized
Retail consumer loans:				
One-to-four family	\$ 37,320	\$ 355	\$ 42,957	\$ 453
Home equity lines of credit	5,722	57	5,362	39
Construction and land/lots	2,101	46	3,732	45
Consumer	32	3	69	1
Commercial loans:				
Commercial real estate	22,930	140	23,646	276
Construction and development	6,789	45	16,993	102
Commercial and industrial	2,791	37	3,137	36
Municipal leases	-	-	207	-
Total loans	\$ 77,685	\$ 683	\$ 96,103	\$ 952



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	Nine Months Ended			
	March 31, 2014		March 31, 2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Retail consumer loans:				
One-to-four family	\$ 41,601	\$ 1,247	\$ 44,079	\$ 1,403
Home equity lines of credit	5,855	213	5,601	130
Construction and land/lots	2,205	155	3,334	125
Consumer	40	6	73	2
Commercial loans:				
Commercial real estate	24,434	499	25,173	1,020
Construction and development	8,888	132	13,583	367
Commercial and industrial	2,775	131	3,077	130
Municipal leases	-	-	77	-
Total loans	\$ 85,798	\$ 2,383	\$ 94,997	\$ 3,177

A summary of changes in the accretable yield for purchased impaired loans for the three and nine months ended March 31, 2014 follows. There were no purchased credit impaired loans during the three or nine months ended March 31, 2013.

	Three Months Ended March 31, 2014	Nine Months Ended March 31, 2014
Accretable yield, beginning of period	\$ 1,610	\$ -
Addition from the BankGreenville acquisition	-	1,835
Interest income	(155)	(380)
Accretable yield, end of period	\$ 1,455	\$ 1,455

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For the three and nine months ended March 31, 2014 and 2013, the following table presents a breakdown of the types of concessions made on TDRs by loan class:

	Three Months Ended March 31, 2014			Three Months Ended March 31, 2013		
	Number of Loans	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment	Number of Loans	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment
Below market interest rate:	-	\$ -	\$ -	-	\$ -	\$ -
Total	-	\$ -	\$ -	-	\$ -	\$ -
Extended term:						
Retail consumer:						
One-to-four family	1	\$ 42	\$ 41	-	\$ -	\$ -
Home equity lines of credit	-	-	-	3	45	44
Construction and land/lots	-	-	-	1	188	187
Commercial:						
Commercial and industrial	-	-	-	1	30	29
Total	1	\$ 42	\$ 41	5	\$ 263	\$ 260
Other TDRs:						
Retail consumer:						
One-to-four family	7	\$ 777	\$ 787	7	\$ 824	\$ 798
Home equity lines of credit	-	-	-	2	152	152
Construction and land/lots	1	652	642	-	-	-
Total	8	\$ 1,429	\$ 1,429	9	\$ 976	\$ 950
Total	9	\$ 1,471	\$ 1,470	14	\$ 1,239	\$ 1,210

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	Nine Months Ended March 31, 2014			Nine Months Ended March 31, 2013		
	Number of Loans	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment	Number of Loans	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment
Below market interest rate:						
Retail consumer:						
One-to-four family	3	\$146	\$142	3	\$694	\$686
Home equity lines of credit	2	347	343	-	-	-
Commercial:						
Commercial real estate	-	-	-	1	237	233
Total	5	\$493	\$485	4	\$931	\$919
Extended term:						
Retail consumer:						
One-to-four family	2	\$44	\$41	1	\$13	\$12
Home equity lines of credit	-	-	-	4	85	83
Construction and land/lots	-	-	-	1	188	187
Commercial:						
Commercial and industrial	-	-	-	1	30	29
Total	2	\$44	\$41	7	\$316	\$311
Other TDRs:						
Retail consumer:						
One-to-four family	13	\$1,169	\$1,178	82	\$5,591	\$5,512
Home equity lines of credit	2	42	4	42	1,337	1,326
Construction and land/lots	2	787	773	7	209	202
Commercial:						
Commercial real estate	-	-	-	4	332	127
Total	17	\$1,998	\$1,955	135	\$7,469	\$7,167
Total	24	\$2,535	\$2,481	146	\$8,716	\$8,397

During the nine months ended March 31, 2013, one-to-four family TDRs increased by 82 loans or \$5.6 million and home equity lines of credit TDRs increased by 42 loans or \$1.3 million, including \$4.9 million or 77 one-to-four family TDRs and \$1.2 million or 41 home equity lines of credit TDRs representing loans classified as TDRs as a result of regulatory reporting requirements of the Office of the Comptroller of Currency (“OCC”), the Bank’s primary regulator, requiring that banks classify mortgages and other loans discharged by troubled borrowers in bankruptcy as TDRs.

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The following table presents loans that were modified as TDRs within the previous 12 months and for which there was a payment default during the three and nine months ended March 31, 2014 and 2013.

	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Below market interest rate:				
Retail consumer:				
One-to-four family	-	\$-	4	\$482
Total	-	\$-	4	\$482
Extended payment terms:				
Retail consumer:				
One-to-four family	-	-	2	\$90
Home equity lines of credit	-	-	1	12
Commercial:				
Construction and development	-	-	1	29
Total	-	\$-	4	\$131
Other TDRs:				
Retail consumer:				
One-to-four family	2	\$166	19	\$1,711
Home equity lines of credit	-	-	7	121
Construction and land/lots	-	-	5	92
Commercial:				
Commercial real estate	-	-	2	124
Total	2	\$166	33	\$2,048
Total	2	\$166	41	\$2,661

	Nine Months Ended March 31, 2014		Nine Months Ended March 31, 2013	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Below market interest rate:				
Retail consumer:				
One-to-four family	-	\$-	4	\$482
Total	-	\$-	4	\$482
Extended payment terms:				
Retail consumer:				
One-to-four family	-	\$-	3	\$213
Home equity lines of credit	1	250	1	12
Commercial:				
Construction and development	-	-	1	29
Total	1	\$250	5	\$254
Other TDRs:				
Retail consumer:				

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One-to-four family	4	\$422	24	\$2,125
Home equity lines of credit	1	120	8	131
Construction and land/lots	-	-	5	174
Commercial:				
Commercial real estate	-	-	2	124
Construction and development	-	-	1	68
Total	5	\$542	40	\$2,622
Total	6	\$792	49	\$3,358

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Loans that were modified as TDRs within the previous 12 months for which there was a payment default during the three and nine months ended March 31, 2013 increased by 23 loans or \$1.3 million due to the addition of loans where the borrower's obligation to the Company has been discharged in bankruptcy, per regulatory guidance. Other TDRs include TDRs that have a below market interest rate and extended payment terms. The Company does not typically forgive principal when restructuring troubled debt.

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

5. Employee Stock Ownership Plan

In connection with the Conversion, the Bank established the ESOP for the benefit of all of its eligible employees. Shares released are allocated to each eligible participant based on the ratio of each participant's compensation, as defined in the ESOP, to the total compensation of all eligible plan participants. Forfeited shares shall be reallocated among other participants in the Plan. At the discretion of the Bank, cash dividends, when paid on allocated shares, will be distributed to participants' accounts, paid in cash to the participants, or used to repay the principal and interest on the ESOP loan used to acquire Company stock on which dividends were paid. Cash dividends on unallocated shares will be used to repay the outstanding debt of the ESOP.

Compensation expense related to the ESOP for the three and nine months ended March 31, 2014 was \$209 and \$640, respectively, and for the same periods the prior year was \$196 and \$537, respectively. Shares held by the ESOP include the following:

	March 31,
	2014
Unallocated ESOP shares	965,425
Allocated ESOP shares	52,900
ESOP shares committed to be released	39,675
Total ESOP shares	1,058,000
Fair value of unallocated ESOP shares	\$ 15,234

6. Net income per Share

The following is a reconciliation of the numerator and denominator of basic and diluted net income per share of common stock (in thousands, except share and per share data):

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2014	2013	2014	2013
Numerator:				

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Net income available to common stockholders	\$2,606	\$2,615	\$8,809	\$6,035
Denominator:				
Weighted-average common shares outstanding (1) - basic	18,302,672	20,019,609	18,724,242	20,083,915
Effect of dilutive shares	75,487	17,266	91,174	5,671
Weighted-average common shares outstanding - diluted	18,378,159	20,036,875	18,815,416	20,089,586
Net income per share - basic	\$0.14	\$0.13	\$0.46	\$0.30
Net income per share - diluted	\$0.14	\$0.13	\$0.46	\$0.30
(1)	Excludes unallocated ESOP shares and unvested restricted stock			

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

7. Equity Incentive Plan

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



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Shares of common stock issued under the 2013 Omnibus Incentive Plan may be authorized but unissued shares or repurchased shares. During fiscal 2013, the Company had repurchased all 846,400 shares on the open market for issuance under the 2013 Omnibus Incentive Plan, for \$13.3 million, at an average cost of \$15.71 per share.

Share based compensation expense related to stock options for the three and nine months ended March 31, 2014 was \$322 and \$971, respectively, before the tax related benefit of \$119 and \$359, respectively. Restricted stock expense recognized for the three and nine months ended March 31, 2014 was \$341 and \$1,027, respectively, before the tax related benefit of \$126 and \$380, respectively. Share based compensation expense related to stock options and restricted stock recognized for the three and nine months ended March 31, 2013 was \$445.

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

	Options	Weighted- average exercise price	Remaining contractual life (years)	Aggregate Intrinsic Value
Options outstanding at June 30, 2013	1,557,000	\$ 14.37	9.6	\$ 4,033
Granted	30,000	15.83	10.0	
Exercised	-	-	-	
Forfeited	1,500	14.37	-	
Expired	-	-	-	
Options outstanding at March 31, 2014	1,585,500	\$ 14.40	8.9	\$ 2,193
Options exercisable at March 31, 2014	290,175	\$ 14.37		\$ 409

At March 31, 2014 and March 31, 2013, the Company had \$5.6 million and \$6.8 million of unrecognized compensation expense, respectively, related to 1,585,500 stock options scheduled to vest over five- and seven-year vesting periods. The weighted average period over which compensation cost related to non-vested awards is expected to be recognized was 3.9 years and 4.8 years at March 31, 2014 and 2013, respectively.

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

	Restricted stock awards	Weighted- average grant date fair value	Aggregate Intrinsic Value
Non-vested at June 30, 2013	511,300	\$ 14.37	\$ 8,672
Granted	7,050	15.80	
Vested	95,485	14.37	
Forfeited	-	-	
Non-vested at March 31, 2014	422,865	\$ 14.39	\$ 6,673

At March 31, 2014 and 2013, unrecognized compensation expense was \$5.9 million and \$7.1 million related to 422,865 shares of restricted stock scheduled to vest over five- and seven-year vesting periods, respectively. The weighted average period over which compensation cost related to non-vested awards is expected to be recognized

was 3.9 years and 4.8 at March 31, 2014 and 2013, respectively.

8. Commitments and Contingencies

Loan Commitments – Legally binding commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. In the normal course of business, there are various outstanding commitments to extend credit that are not reflected in the consolidated financial statements. At March 31, 2014 and June 30, 2013, respectively, loan commitments (excluding \$30,121 and \$27,013 of undisbursed portions of construction loans) totaled \$20,215 and \$27,147 of which \$2,653 and \$3,083 were variable rate commitments and \$17,562 and \$24,064 were fixed rate commitments. The fixed rate loans had interest rates ranging from 1.99% to 16.00% at March 31, 2014 and 2.50% to 9.25% at June 30, 2013, and terms ranging from 3 to 30 years. Pre-approved but unused lines of credit (principally second mortgage home equity loans and overdraft protection loans) totaled \$166,743 and \$151,611 at March 31, 2014 and June 30, 2013, respectively. These amounts

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represent the Company's exposure to credit risk, and in the opinion of management have no more than the normal lending risk that the Company commits to its borrowers. The Company has freestanding derivative instruments consisting of commitments to originate fixed rate conforming loans and commitments to sell fixed rate conforming loans. The fair value of these commitments was not material at March 31, 2014 or June 30, 2013.

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

**Restrictions on Cash** – The Bank is required by regulation to maintain a varying cash reserve balance with the Federal Reserve System. The daily average calculated cash reserve required as of March 31, 2014 and June 30, 2013 was \$1,299, and \$1,284, respectively, which was satisfied by vault cash and balances held at the Federal Reserve.

**Guarantees** – Standby letters of credit obligate the Company to meet certain financial obligations of its customers, if, under the contractual terms of the agreement, the customers are unable to do so. The financial standby letters of credit issued by the Company are irrevocable and payment is only guaranteed upon the borrower's failure to perform its obligations to the beneficiary. Total commitments under standby letters of credit as of March 31, 2014 and June 30, 2013 were \$557 and \$66. There was no liability recorded for these letters of credit at March 31, 2014 or June 30, 2013.

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

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

9. Fair Value of Financial Instruments

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

or write-downs of individual assets.

#### Fair Value Hierarchy

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

- Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

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

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#### Investment Securities Available for Sale

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

#### Loans

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

At December 31, 2013 and June 30, 2013, most of the total impaired loans were evaluated based on the fair value of the collateral. For these collateral dependent impaired loans, the Company obtains updated appraisals at least annually. These appraisals are reviewed for appropriateness and then discounted for estimated closing costs to determine if an allowance is necessary. As part of the quarterly review of impaired loans, the Company reviews these appraisals to determine if any additional discounts to the fair value are necessary. If a current appraisal is not obtained, the Company determines whether a discount is needed to the value from the original appraisal based on the decline in value of similar properties with recent appraisals. Impaired loans where a charge-off has occurred or an allowance is established during the period being reported require classification in the fair value hierarchy. The Company records all impaired loans with an allowance as nonrecurring Level 3.

#### Loans Held for Sale

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

#### Real Estate Owned

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

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

Description	Total	March 31, 2014		
		Level 1	Level 2	Level 3
U.S government agencies	\$ 25,588	\$ -	\$ 25,588	\$ -

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Mortgage-backed securities of U.S. government agencies and government sponsored enterprises	53,096	-	53,096	-
Taxable municipal securities	8,205	-	8,205	-
Corporate bonds	2,993	-	2,993	-
Total	\$ 89,882	\$ -	\$ 89,882	\$ -

Description	June 30, 2013			
	Total	Level 1	Level 2	Level 3
U.S government agencies	\$ 6,002	\$ -	\$ 6,002	\$ -
Mortgage-backed securities of U.S. government agencies and government sponsored enterprises	18,748	-	18,748	-
Total	\$ 24,750	\$ -	\$ 24,750	\$ -

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY  
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The following table presents financial assets measured at fair value on a non-recurring basis during the periods indicated:

Description	Total	Nine Months Ended March 31, 2014		
		Level 1	Level 2	Level 3
Impaired loans	\$ 2,744	\$ -	\$ -	\$ 2,744
REO	6,223	-	-	6,223
Total	\$ 8,967	\$ -	\$ -	\$ 8,967

  

Description	Total	Year Ended June 30, 2013		
		Level 1	Level 2	Level 3
Impaired loans	\$ 12,106	\$ -	\$ -	\$ 12,106
REO	2,403	-	-	2,403
Total	\$ 14,509	\$ -	\$ -	\$ 14,509

Quantitative information about Level 3 fair value measurements during the period ended March 31, 2014 is shown in the table below:

Nonrecurring measurements:	Fair Value at March 31, 2014	Valuation Techniques	Unobservable Input	Range	Weighted Average	
Impaired loans, net	\$ 2,744	Discounted appraisals	Collateral discounts	3% - 46 %	10	%
REO	\$ 6,223	Discounted appraisals	Collateral discounts	10% - 28 %	14	%

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The stated carrying value and estimated fair value amounts of financial instruments as of March 31, 2014 and June 30, 2013, are summarized below:

	Carrying Value	Fair Value	March 31, 2014		
			Level 1	Level 2	Level 3
Cash and interest-bearing deposits	\$ 83,415	\$ 83,415	\$ 83,415	\$ -	\$ -
Certificates of deposit in other banks	159,699	159,699	-	159,699	-
Securities available for sale	89,882	89,882	-	89,882	-
Loans, net	1,140,850	1,069,164	-	-	1,069,164
Loans held for sale	2,276	2,312	-	-	2,312
FHLB stock	1,537	1,537	1,537	-	-
Accrued interest receivable	5,552	5,552	-	358	5,194
Non-interest-bearing and NOW deposits	301,833	301,833	-	301,833	-
Money market accounts	304,851	304,851	-	304,851	-
Savings accounts	87,197	87,197	-	87,197	-
Certificates of deposit	518,023	521,490	-	521,490	-
Other borrowings	2,207	2,213	-	2,213	-
Accrued interest payable	213	213	-	213	-
	Carrying Value	Fair Value	June 30, 2013		
			Level 1	Level 2	Level 3
Cash and interest-bearing deposits	\$ 125,713	\$ 125,713	\$ 125,713	\$ -	\$ -
Certificates of deposit in other banks	136,617	136,617	-	136,617	-
Securities available for sale	24,750	24,750	-	24,750	-
Loans, net	1,132,110	1,064,954	-	-	1,064,954
Loans held for sale	10,770	10,942	-	-	10,942
FHLB stock	1,854	1,854	1,854	-	-
Accrued interest receivable	5,549	5,549	-	157	5,392
Non-interest-bearing and NOW deposits	256,487	256,487	-	256,487	-
Money market accounts	275,718	275,718	-	275,718	-
Savings accounts	82,158	82,158	-	82,158	-
Certificates of deposit	540,387	545,716	-	545,716	-
Accrued interest payable	84	84	-	84	-

The Company had off-balance sheet financial commitments, which include approximately \$217,079 and \$205,771 of commitments to originate loans, undisbursed portions of interim construction loans, and unused lines of credit at



March 31, 2014 and June 30, 2013 (see Note 8). Since these commitments are based on current rates, the carrying amount approximates the fair value.

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

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

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

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

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

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

FHLB Stock – No ready market exists for this stock and it has no quoted market value. However, redemption of this stock has historically been at par value. Accordingly, cost is deemed to be a reasonable estimate of fair value.

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Deposits – Fair values for demand deposits, money market accounts, and savings accounts are the amounts payable on demand as of March 31, 2014 and June 30, 2013. The fair value of certificates of deposit is estimated by discounting the contractual cash flows using current market interest rates for accounts with similar maturities.

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

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

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

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

10. Subsequent Events

On March 4, 2014, HomeTrust Bank and Bank of Commerce, Charlotte, North Carolina, entered into an Agreement and Plan of Share Exchange, pursuant to which Bank of Commerce will be merged with and into HomeTrust Bank, with HomeTrust Bank as the surviving entity. The agreement has been unanimously approved by the boards of directors of both companies. The transaction is anticipated to close in the third calendar quarter of 2014, subject to customary closing conditions, including regulatory approvals and Bank of Commerce shareholder approval. Under the terms of the agreement, Bank of Commerce shareholders will receive \$6.25 per share in cash consideration, representing approximately \$10.1 million of aggregate deal consideration. In addition, all \$3.2 million of Bank of Commerce's preferred stock will be redeemed. Bank of Commerce reported total assets of \$126.4 million, total deposits of \$97.4 million, and stockholders' equity of \$12.1 million at March 31, 2014.

On January 23, 2014, the Company and Jefferson Bancshares, Inc., Morristown, Tennessee ("Jefferson") entered into an Agreement and Plan of Merger, pursuant to which Jefferson will be merged with and into the Company, with the Company as the surviving entity. The merger agreement has been unanimously approved by the boards of directors of both companies. The transaction is anticipated to close in the second calendar quarter of 2014, subject to customary closing conditions, including regulatory approvals and Jefferson shareholder approval. Under the terms of the

agreement, Jefferson shareholders will receive a total of \$8.00 per share in merger consideration consisting of \$4.00 in cash plus \$4.00 in the Company's common stock. This represents approximately \$51.2 million of aggregate transaction consideration. The number of HomeTrust shares to be issued will be determined based on the Company's average closing stock price during the 10 trading days ending on the fifth trading day prior to the closing date, with the exchange ratio fixed at 0.2667 if the average closing price is equal to or less than \$15.00 per share and at 0.2222 if the average closing price is equal to or greater than \$18.00 per share. Jefferson reported total assets of \$506.8 million, total deposits of \$384.0 million, and stockholders' equity of \$54.4 million at March 31, 2014.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Forward-Looking Statements

Certain matters in this Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to our financial condition, results of operations, plans, objectives, future performance or business. Forward-looking statements are not statements of historical fact, are based on certain assumptions and are generally identified by use of the words “believes,” “expects,” “anticipates,” “estimates,” “forecasts,” “intends,” “plans,” “targets,” “potentially,” “probably,” “projects,” “outlook” or similar expressions or future or conditional verbs such as “may,” “will,” “should,” “would” and “could.” Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, assumptions and statements about future economic performance and projections of financial items. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated or implied by our forward-looking statements, including, but not limited to: the expected cost savings, synergies and other financial benefits from the pending Jefferson and Bank of Commerce acquisitions might not be realized within the expected time frames or at all, and costs or difficulties relating to integration matters might be greater than expensed; requisite stockholder and regulatory approvals for the pending Jefferson and Bank of Commerce acquisitions might not be obtained; the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the housing and commercial real estate markets; changes in general economic conditions, either nationally or in our market areas; changes in the levels of general interest rates, and the relative differences between short and long term interest rates, deposit interest rates, our net interest margin and funding sources; fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in our market areas; decreases in the secondary market for the sale of loans that we originate; results of examinations of us by the Office of the Comptroller of the Currency (“OCC”) or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to increase our allowance for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings; legislative or regulatory changes that adversely affect our business including the effect of Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules, including as a result of Basel III; our ability to attract and retain deposits; increases in premiums for deposit insurance; management’s assumptions in determining the adequacy of the allowance for loan losses; our ability to control operating costs and expenses, especially new costs associated with our operation as a public company; the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation; difficulties in reducing risks associated with the loans on our balance sheet; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce and potential associated charges; computer systems on which we depend could fail or experience a security breach; our ability to retain key members of our senior management team; costs and effects of litigation, including settlements and judgments; our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we may in the future acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; adverse changes in the securities markets; inability of key third-party providers to perform their obligations to us; statements with respect to our intentions regarding disclosure and other changes resulting from the Jumpstart Our Business Startups Act of 2012 (“JOBS Act”); changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies, the Public Company Accounting Oversight Board or the Financial Accounting Standards Board; and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services; and the other risks detailed from time to time in our filings

with the Securities and Exchange Commission, including our 2013 Form 10-K.

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

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

#### Overview

Our principal business consists of attracting deposits from the general public and investing those funds, along with borrowed funds in loans secured primarily by first and second mortgages on one- to four-family residences, including home equity loans and construction and land/lot loans, commercial real estate loans, construction and development loans, and municipal leases. Municipal

leases are secured primarily by a ground lease for a firehouse or an equipment lease for fire trucks and firefighting equipment to fire departments located throughout North and South Carolina. We also purchase investment securities consisting primarily of mortgage-backed securities issued by United States government agencies and government-sponsored enterprises, as well as, certificates of deposit insured by the Federal Deposit Insurance Corporation (“FDIC”).

We offer a variety of deposit accounts for individuals, businesses and nonprofit organizations. Deposits are our primary source of funds for our lending and investing activities. We completed our conversion to the stock form of ownership in July, 2012, primarily to increase our capital to grow our loan portfolio organically and through acquisitions and to continue to build our franchise.

We are significantly affected by prevailing economic conditions as well as government policies and regulations concerning, among other things, monetary and fiscal affairs, housing and financial institutions. Deposit flows are influenced by a number of factors, including interest rates paid on competing time deposits, other investments, account maturities, and the overall level of personal income and savings. Lending activities are influenced by the demand for funds, the number and quality of lenders, and regional economic cycles. Our primary source of pre-tax income is net interest income. Net interest income is the difference between interest income, which is the income that we earn on our loans and investments, and interest expense, which is the interest that we pay on our deposits and borrowings. Changes in levels of interest rates affect our net interest income. A secondary source of income is non-interest income, which includes revenue we receive from providing products and services, including service charges on deposit accounts, mortgage banking income and gains and losses from sales of securities.

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

Beginning in fiscal year 2009 and continuing throughout much of fiscal year 2012, housing markets deteriorated in many of our market areas and we experienced significantly higher levels of delinquencies and non-performing assets, primarily in our construction and land development loan portfolios. During this period, home and lot sales activity was exceptionally slow, causing stress on builders’ and developers’ cash flows and their ability to service debt, which was reflected in our increased non-performing asset totals. Further, property values generally declined, reducing the value of the collateral securing loans. In addition, other non-housing-related segments of the loan portfolio developed signs of stress and increasing levels of non-accruing loans as the effects of the recent recession became more evident and the pace of the recovery remained slow. As a result, during these periods our provision for loan losses was significantly higher than historical levels and our normal expectations. This higher than normal level of delinquencies and non-accruals also had a material adverse effect on operating income as a result of foregone interest revenues, increased loan collection costs and carrying costs and valuation adjustments for REO. Beginning in fiscal 2013, home and lot sales activity and real estate values have modestly improved along with general economic conditions resulting in materially lower loan charge-offs and write-downs of REO. As a result of a continuing trend of lower non-performing and classified loans, fewer loan charge-offs and lower average loan balances compared to the same period during the prior fiscal year, the Company recorded a recovery for loan losses of \$(4.8) million for the nine months ended March 31, 2014 compared to a \$2.3 million provision for loan losses for the nine months ended March 31, 2013. Despite persistently weak economic conditions and exceptionally low interest rates which have created an unusually challenging banking environment for an extended period, for the three and nine months ended March 31, 2014 we had net income of \$2.6 million, or \$0.14 per diluted share, and \$8.8 million, or \$0.46 per diluted share, respectively, as compared to net income of \$2.6 million, or \$0.13 per diluted share, and \$6.0 million, or \$0.30 per diluted share, for the three and nine months ended March 31, 2013.

We currently have 21 banking offices serving nine counties in Western North Carolina, including the Asheville metropolitan area, the “Piedmont” region of North Carolina, and Greenville, South Carolina. We intend to expand through organic growth and through the acquisition of other community financial institutions and/or bank branches. Our goal is to continue to enhance our franchise value and earnings through strategic, planned growth in our banking operations, while maintaining the community-focused, relationship style of exceptional customer service that has differentiated our brand and characterized our success to date.

On January 23, 2014, the Company and Jefferson Bancshares, Inc. (“Jefferson”) entered into an Agreement and Plan of Merger, pursuant to which Jefferson will be merged with and into the Company, with the Company as the surviving entity. The transaction is anticipated to close in the second calendar quarter of 2014, subject to customary closing conditions, including regulatory approvals and Jefferson shareholder approval. Under the terms of the agreement, Jefferson shareholders will receive a total of \$8.00 per share in merger consideration consisting of \$4.00 in cash plus \$4.00 in the Company’s common stock. This represents approximately \$51.2 million of aggregate transaction consideration. Jefferson operates a total of 12 banking facilities in Hamblen County, Knoxville, and the greater Johnson City and Kingsport, Tennessee areas (the “Tri-Cities region”).

On March 4, 2014, HomeTrust Bank and Bank of Commerce entered into an Agreement and Plan of Share Exchange pursuant to which Bank of Commerce will be merged with and into HomeTrust Bank, with HomeTrust Bank as the surviving entity. The transaction is anticipated to close in the third calendar quarter of 2014, subject to customary closing conditions, including regulatory approvals and Bank of Commerce shareholder approval. Under the terms of the agreement, Bank of Commerce shareholders will receive \$6.25 per share in cash consideration, representing approximately \$10.1 million of aggregate deal consideration. In addition, all \$3.2 million of Bank of Commerce's preferred stock will be redeemed. Bank of Commerce has one office in midtown Charlotte.

#### Critical Accounting Policies and Estimates

Certain of our accounting policies are important to the portrayal of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Facts and circumstances which could affect these judgments include, but are not limited to, changes in interest rates, changes in the performance of the economy and changes in the financial condition of borrowers.

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

The following represent our critical accounting policies:

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

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



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

Post Retirement Plan Assumptions. We have various post retirement plans for the benefit of our directors, executive officers and employees. For some of these plans, the computations include assumptions with regard to discount rates and expected rates of return, which are used to calculate benefit expense and the accrued benefit plan obligation. Changes in management's assumptions can materially affect amounts recognized in our Consolidated Financial Statements.

**Deferred Tax Assets.** We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion of the deferred tax asset will not be realized. We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. These judgments require us to make projections of future taxable income. The judgments and estimates we make in determining our deferred tax assets, which are inherently subjective, are reviewed on a continual basis as regulatory and business factors change. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets.

**Recent Accounting Pronouncements.** Refer to Note 1 of our consolidated financial statements for a description of recent accounting pronouncements including the respective dates of adoption and effects on results of operations and financial condition.

#### Comparison of Financial Condition at March 31, 2014 and June 30, 2013

**Assets.** Total assets increased \$49.0 million, or 3.1%, to \$1.63 billion at March 31, 2014 from \$1.58 billion at June 30, 2013. This increase was largely due to the July 31, 2013 BankGreenville acquisition. The Company added \$2.8 million of goodwill as a result of the BankGreenville acquisition. Assets acquired totaled \$101.1 million and liabilities assumed were \$94.4 million, net of all fair value adjustments. Nonperforming assets decreased to \$63.6 million, or 3.90% of total assets, at March 31, 2014, compared to \$80.3 million, or 5.07% of total assets, at June 30, 2013 and \$85.1 million, or 5.33% at March 31, 2013. The decrease in nonperforming assets during the first nine months of fiscal 2014 was primarily driven by a reduction in nonaccruing loans and REO. Nonperforming assets included \$54.4 million in nonaccruing loans and \$9.2 million in REO at March 31, 2014, compared to nonaccruing loans and REO of \$68.6 million and \$11.7 million at June 30, 2013 and \$71.7 million and \$13.4 million at March 31, 2013, respectively. At March 31, 2014, \$24.4 million, or 44.8%, of nonaccruing loans were current on their loan payments.

**Cash and cash equivalents.** Total cash and cash equivalents, primarily excess cash deposited with the Federal Reserve Bank of Richmond, decreased \$42.3 million, or 33.6%, to \$83.4 million at March 31, 2014 from \$125.7 million at June 30, 2013. The decrease was primarily attributable to the purchase of \$67.3 million in investment securities during the period. Securities available for sale increased \$65.1 million, or 263.2%, to \$89.9 million at March 31, 2014 from \$24.8 million at June 30, 2013 as a result of the purchase of investment securities coupled with \$34.3 million in investment securities acquired from BankGreenville. As a part of the Company's liquidity strategy, the Company also invests a portion of its excess cash in certificates of deposit in other banks which have a higher yield than cash held in interest-earning accounts in order to maximize earnings. All of the certificates of deposit in other banks are fully insured under the FDIC. At March 31, 2014, certificates of deposits in other banks totaled \$159.7 million compared to \$136.6 million at June 30, 2013. In addition, the Company repurchased \$20.5 million of stock for cash during the nine month period.

**Loans.** Net loans receivable increased \$8.7 million, or 0.8%, to \$1.14 billion at March 31, 2014 from \$1.13 billion at June 30, 2013, as the \$47.8 million in loans acquired from BankGreenville and new loan originations were partially offset by loan repayments, charge-offs and transfers to REO. Since June 30, 2013, commercial real estate loans increased \$10.1 million, commercial construction and development loans increased \$7.5 million and commercial and industrial loans increased \$9.5 million. Excluding loans acquired from BankGreenville, net loans would have otherwise decreased \$39.1 million as demand for new loans from creditworthy borrowers remains relatively weak and utilization of existing credit lines was low despite the modest recovery in the general economy. In addition, the rise in

mortgage interest rates has significantly during the last year reduced refinancing activity. Total loan originations decreased \$124.4 million, or 35.6%, to \$224.7 million during the nine months ended March 31, 2014 compared to \$349.1 million during the nine months ended March 31, 2013.

Allowance for loan losses. The allowance for loan losses was \$25.3 million, or 2.16% of total loans, at March 31, 2014 compared to \$32.1 million, or 2.75% of total loans, at June 30, 2013. The Company recorded net loan charge-offs of \$56,000 and \$2.0 million for the three and nine months ended March 31, 2014, respectively, as compared to \$1.8 million and \$4.4 million, respectively, for the same periods last year. Net loan charge-offs as a percentage of average loans also decreased significantly to 0.02% and 0.22% for the three and nine months ended March 31, 2014, respectively, from 0.60% and 0.49%, respectively, for the three and nine months ended March 31, 2013. Nonaccruing loans decreased 20.7% to \$54.4 million at March 31, 2014 from \$68.6 million at June 30, 2013 despite the acquisition of \$1.2 million of nonaccruing loans from BankGreenville. Nonaccruing loans to total loans decreased to 4.66% at March 31, 2014 from 5.88% at June 30, 2013. At March 31, 2014, \$24.4 million or 44.8% of total nonaccruing loans were current on their loan payments. The allowance as a percentage of nonaccruing loans decreased slightly from 46.78% at June 30, 2013 to 46.47% at March 31, 2014.

The ratio of classified assets to total assets decreased to 5.93% at March 31, 2014 from 7.43% at June 30, 2013 and 7.86% at March 31, 2013. Classified assets decreased to \$96.7 million at March 31, 2014 compared to \$117.6 million and \$125.5 million at June 30, 2013 and March 31, 2013, respectively, primarily as a result of our efforts to improve borrower payment performance, loan payoffs, and sales of REO.

**Investments.** Securities available for sale increased \$65.1 million, or 263.2%, to \$89.9 million at March 31, 2014 from \$24.8 million at June 30, 2013 as a result of the purchase of \$67.3 million in investment securities coupled with the acquisition of \$34.3 million in investment securities from BankGreenville. A total of \$27.2 million of securities available for sale matured, \$2.1 million were sold and \$7.0 million of principal payments were received on securities available for sale during the nine months ended March 31, 2014. The securities purchased and acquired during the period were primarily short- to intermediate-term U.S. government agency notes and mortgage-backed securities and, to a lesser extent, intermediate-term taxable municipal securities. We evaluate individual investment securities quarterly for other-than-temporary declines in market value. We do not believe that there are any other-than-temporary impairments at March 31, 2014; therefore, no impairment losses have been recorded during the first nine months of fiscal 2014. FHLB stock decreased \$317,000 due to redemption of stock by FHLB during the period.

**Real estate owned.** REO decreased \$2.5 million, to \$9.2 million at March 31, 2014 primarily due to the sale of \$8.2 million in REO during the period partially offset by \$6.3 million in REO added from the BankGreenville acquisition and other foreclosures. During the nine months ended March 31, 2014, we transferred \$4.2 million of loans into REO, disposed of \$8.2 million of properties and recognized a net loss of \$673,000 on sales and impairment adjustments. The total balance of REO at March 31, 2014 included \$5.4 million in land, construction and development projects (both residential and commercial), \$1.4 million in commercial real estate and \$2.4 million in single-family homes.

**Deposits.** Deposits increased \$57.2 million, or 4.9%, from \$1.15 billion at June 30, 2013 to \$1.21 billion at March 31, 2014. This increase was due to \$89.1 million of deposits acquired from BankGreenville. The Company also recorded \$530,000 of core deposit intangibles in connection with the BankGreenville acquisition. Excluding the BankGreenville acquisition, certificates of deposit decreased \$54.9 million during the nine month period primarily as a result of the managed decline of higher rate certificates of deposit as we competed less aggressively on time deposit interest rates, consistent with the Company's strategy to decrease the percentage of time deposits in its deposit base and to increase the percentage of lower cost checking and savings accounts.

**Borrowings.** Other borrowings increased to \$2.2 million at March 31, 2014 from none at June 30, 2013, as a result of obligations assumed in the BankGreenville acquisition.

**Equity.** Stockholders' equity at March 31, 2014 decreased to \$358.4 million from \$367.5 million at June 30, 2013. This decrease was primarily a result of the repurchase of 1,257,280 shares at a total cost of \$20.5 million during the nine months ended March 31, 2014, partially offset by an \$8.8 million increase in retained earnings as a result of the net income during the period. As of March 31, 2014, the Company had repurchased on the open market 216,035 shares of the 989,183 authorized in the February 2014 stock repurchase plan at an average cost of \$15.78 per share.

## Average Balances, Interest and Average Yields/Cost

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

	For the Three Months Ended March 31,							
	Average Balance Outstanding	2014 Interest Earned/ Paid(2)	Yield/ Rate(2)		Average Balance Outstanding	2013 Interest Earned/ Paid(2)	Yield/ Rate(2)	
	(Dollars in thousands)							
<b>Interest-earning assets:</b>								
Loans receivable (1)	\$1,173,290	\$14,356	4.89	%	\$1,198,623	\$15,057	5.02	%
Deposits in other financial institutions	223,476	437	0.78	%	213,136	353	0.66	%
Investment securities	74,463	262	1.41	%	28,219	82	1.16	%
Other	16,404	136	3.32	%	27,825	40	0.58	%
Total interest-earning assets	1,487,633	15,191	4.08	%	1,467,803	15,532	4.23	%
<b>Interest-bearing liabilities:</b>								
Interest-bearing checking accounts	215,292	55	0.10	%	185,270	50	0.11	%
Money market accounts	306,083	187	0.24	%	265,502	216	0.33	%
Savings accounts	86,036	33	0.15	%	80,021	42	0.21	%
Certificate accounts	529,923	972	0.73	%	561,160	1,335	0.95	%
Borrowings	2,214	1	0.18	%	6,811	4	0.23	%
Total interest-bearing liabilities	1,139,548	1,248	0.43	%	1,098,764	1,647	0.60	%
Net earning assets	\$348,085				\$369,039			
Average interest-earning assets to average interest-bearing liabilities								
	130.55	%			133.59	%		
<b>Tax-equivalent:</b>								
Net interest income		\$13,943				\$13,885		
Interest rate spread			3.65	%			3.63	%
Net interest margin(3)			3.75	%			3.78	%
<b>Non-tax-equivalent:</b>								
Net interest income		\$13,144				\$13,036		
Interest rate spread			3.43	%			3.40	%
Net interest margin(3)			3.53	%			3.55	%

- 
- (1) The average loans receivable, net balances include loans held for sale and non-accruing loans.
  - (2) Interest income used in the average interest/earned and yield calculation includes the tax equivalent adjustment of \$799,000 and \$849,000 for the three months ended March 31, 2014 and 2013, respectively, calculated based on a federal tax rate of 34%.
  - (3) Net interest income divided by average interest-earning assets.

	For the Nine Months Ended March 31,							
	Average Balance Outstanding	2014 Interest Earned/ Paid(2)	Yield/ Rate(2)		Average Balance Outstanding	2013 Interest Earned/ Paid(2)	Yield/ Rate(2)	
(Dollars in thousands)								
<b>Interest-earning assets:</b>								
Loans receivable (1)	\$1,187,679	\$44,353	4.98	%	\$1,217,337	\$46,939	5.14	%
Deposits in other financial institutions	215,383	1,306	0.81	%	217,230	1,104	0.68	%
Investment securities	68,254	768	1.50	%	29,699	258	1.16	%
Other	28,416	416	1.95	%	22,076	125	0.75	%
Total interest-earning assets	1,499,732	46,843	4.16	%	1,486,342	48,426	4.34	%
<b>Interest-bearing liabilities:</b>								
Interest-bearing checking accounts	213,265	218	0.14	%	178,698	159	0.12	%
Money market accounts	302,156	593	0.26	%	262,139	704	0.36	%
Savings accounts	84,251	106	0.17	%	93,308	160	0.23	%
Certificate accounts	546,253	3,255	0.79	%	577,171	4,457	1.03	%
Borrowings	2,269	5	0.29	%	13,899	280	2.69	%
Total interest-bearing liabilities	1,148,194	4,177	0.48	%	1,125,215	5,760	0.68	%
Net earning assets	\$351,538				\$361,127			
<b>Average interest-earning assets to average interest-bearing liabilities</b>								
	130.62	%			132.09	%		
<b>Tax-equivalent:</b>								
Net interest income		\$42,666				\$42,666		
Interest rate spread			3.68	%			3.66	%
Net interest margin(3)			3.79	%			3.83	%
<b>Non-tax-equivalent:</b>								
Net interest income		\$40,323				\$40,131		
Interest rate spread			3.47	%			3.43	%
Net interest margin(3)			3.58	%			3.60	%

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

(2) Interest income used in the average interest/earned and yield calculation includes the tax equivalent adjustment of \$2.3 million and \$2.5 million for the nine months ended March 31, 2014 and 2013, respectively, calculated based on a federal tax rate of 34%.

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





## Rate/Volume Analysis

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

	Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013		
	Increase (decrease) due to		Total increase/ (decrease)
	Volume	Rate	
<b>Interest-earning assets:</b>			
Loans receivable	\$ (318)	) \$ (383)	) \$ (701)
Deposits in other financial institutions	17	67	84
Investment securities	134	46	180
Other	(16)	) 112	96
<b>Total interest-earning assets</b>	<b>\$ (183)</b>	<b>) \$ (158)</b>	<b>) \$ (341)</b>
<b>Interest-bearing liabilities:</b>			
Interest-bearing checking accounts	\$ 8	\$ (3)	) \$ 5
Money market accounts	33	(62)	) (29)
Savings accounts	3	(12)	) (9)
Certificate accounts	(74)	) (289)	) (363)
Borrowings	(3)	) -	(3)
<b>Total interest-bearing liabilities</b>	<b>\$ (33)</b>	<b>) \$ (366)</b>	<b>) \$ (399)</b>
<b>Net increase (decrease) in tax equivalent interest income</b>	<b>\$ (150)</b>	<b>) \$ 208</b>	<b>\$ 58</b>

	Nine Months Ended March 31, 2014 Compared to Nine Months Ended March 31, 2013		
	Increase/ (decrease) due to		Total increase/ (decrease)
	Volume	Rate	
<b>Interest-earning assets:</b>			
Loans receivable	\$(1,144	)	\$(1,442
Deposits in other financial institutions	(9	)	211
Investment securities	335		175
Other	36		255
			510
			291
<b>Total interest-earning assets</b>	<b>\$(782</b>	<b>)</b>	<b>\$(801</b>
			<b>) \$(1,583</b>
<b>Interest-bearing liabilities:</b>			
Interest-bearing checking accounts	\$31		\$28
Money market accounts	107		(218
Savings accounts	(16	)	(38
Certificate accounts	(239	)	(963
Borrowings	(234	)	(41
			(275
<b>Total interest-bearing liabilities</b>	<b>\$(351</b>	<b>)</b>	<b>\$(1,232</b>
			<b>) \$(1,583</b>
<b>Net increase (decrease) in tax equivalent interest income</b>	<b>\$(431</b>	<b>)</b>	<b>\$431</b>
			<b>\$-</b>

#### Comparison of Results of Operation for the Three Months Ended March 31, 2014 and 2013

General. During the three months ended March 31, 2014, we had net income of \$2.6 million unchanged from the same period a year ago. On a basic and diluted per share basis, the Company earned \$0.14 per share for the three months ended March 31, 2014; while it earned \$0.13 per share for the three months ended March 31, 2013, respectively.

Net Interest Income. Net interest income before provision for loan losses was \$13.1 million for the three months ended March 31, 2014 compared to \$13.0 million for the three months ended March 31, 2013. Net interest income for the third quarter of fiscal 2014 increased \$108,000, or 0.8%, compared to the same period in the prior fiscal year as declines in interest income on loans of \$651,000 were offset by a \$295,000 increase in income from securities available for sale due to an increase in the average balance and a decrease in deposit and other borrowing costs of \$399,000 due to a reduction in market rates of interest. The net interest margin (on a fully taxable-equivalent basis) for the three months ended March 31, 2014 decreased three basis points over the same period last year to 3.75%. Due to a significant number of adjustable-rate loans in the loan portfolio with interest rate floors below which the loans' contractual interest rate may not adjust, net interest income will be negatively impacted in a rising interest rate environment until such time as the current rate exceeds these interest rate floors. As of March 31, 2014, our loans with interest rate floors totaled approximately \$380.1 million and had a weighted average floor rate of 4.40% of which \$208.5 million or 54.9% had yields that would begin floating again once prime rates increase at least 200 basis points.

Interest Income. Interest income for the three months ended March 31, 2014 was \$14.4 million, compared to \$14.7 million for the three months ended March 31, 2013, a decrease of \$291,000, or 2.0%. The decrease in interest income occurred primarily as a result of the \$25.3 million decrease in average loans receivable coupled with a 13 basis point decrease in the average tax-equivalent loan yields. Interest income on loans receivable decreased by \$651,000, or 4.6%, to \$13.6 million for the three months ended March 31, 2014 from \$14.2 million for the three months ended March 31, 2013. The decrease in average tax-equivalent loan yields reflects the continuing very low level of market interest rates, the maturity or repayment of higher yielding loans, and downward repricing of adjustable rate loans to current market rates. The average tax-equivalent yield on loans was 4.89% for the three months ended March 31, 2014, compared to 5.02% for the same three month period one year earlier.

The combined average balance of investment securities, deposits in other financial institutions, and other interest-earning assets increased by \$45.2 million, or 16.8%, to \$314.3 million for the three months ended March 31, 2014, while the interest and dividend income from those investments increased by \$360,000 compared to the prior fiscal year. The increase in average balance was primarily due to the purchase of \$67.3 million in investment securities coupled with the acquisition of \$34.3 million in investment

securities from BankGreenville, partially offset by \$36.3 million of payments received from principal payments and investment securities that were sold, called, or matured. In addition, the average yield on investment securities increased 25 basis points to 1.41% during the quarter ended March 31, 2014 from 1.16% during the quarter ended March 31, 2013, primarily as a result of the higher rate earned on the longer-term investment securities acquired from BankGreenville.

**Interest Expense.** Interest expense for the three months ended March 31, 2014 was \$1.2 million, compared to \$1.6 million for the three months ended March 31, 2013, a decrease of \$399,000, or 24.2%. The decrease in interest expense occurred as a result of a 17 basis point decrease in the average cost of interest-bearing liabilities to 0.43% for the three months ended March 31, 2014, from 0.60% for the same period one year earlier, despite a \$40.8 million increase in average interest-bearing liabilities over the same time period. These decreases reflect lower deposit rates, specifically, the managed decline in certificates of deposit as our pricing decreases were designed to allow higher rate certificates of deposit to run off.

Deposit interest expense decreased \$396,000, or 24.1%, to \$1.2 million for the three months ended March 31, 2014 compared to \$1.6 million for the same three month period in the prior fiscal year primarily as a result of a \$31.2 million decrease in the average balance of certificates of deposit and a 22 basis point decrease in the cost of deposits. Average borrowings decreased to \$2.2 million for the three months ended March 31, 2014, from \$6.8 million for the three months ended March 31, 2013, while the average rate paid on borrowings decreased to 0.18% in the current three month period. This decrease in the average rate paid on borrowings was primarily a result of the repayment of \$2.5 million in FHLB advances since March 31, 2013. While we do not anticipate further significant reductions in market interest rates, we do expect additional modest declines in deposit costs over the near term as maturities of certificates of deposit will present further downward repricing opportunities and aggressive competitive pricing has been reduced in response to modest loan demand in the current economic environment.

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

During the three months ended March 31, 2014, the recovery for loan losses was (\$1.8 million), compared to a \$500,000 provision for loan losses for the three months ended March 31, 2013. The large decrease in the provision was due to the combination of lower non-performing and classified loans, significantly lower loan charge-offs, and lower average loan balances compared to the same period during the prior fiscal year. The provision for loan losses reflects the amount required to maintain the allowance for losses at an appropriate level based upon management's evaluation of the adequacy of general and specific loss reserves, trends in delinquencies and net charge-offs and current economic conditions.

The allowance for loan losses at March 31, 2014 primarily reflected the lingering weakness in the economy in our market areas and continued elevated level of delinquent, nonaccruing and classified loans, as well as declines in real estate values as compared to historical levels. It also reflected our continued concerns that the significant number of distressed sellers in the market and additional expected lender foreclosures may further disrupt certain housing markets and adversely affect home prices and the demand for building lots. These concerns have remained elevated over recent periods as price declines for housing and related lot and land markets have occurred in most of our market areas and are only recently beginning to stabilize or improve. Aside from housing-related construction and development loans, nonaccruing loans generally reflect unique operating difficulties for the individual borrower;

however, the weak pace of general economic activity has also become a significant contributing factor to more recent late-cycle defaults in other non-housing-related segments of the portfolio which also factored into our provision calculation.

Nonaccruing loans decreased to \$54.4 million at March 31, 2014 from \$71.7 million at March 31, 2013. Delinquent loans (loans delinquent 30 days or more) decreased to \$36.9 million at March 31, 2014, from \$38.9 million at March 31, 2013.

Net charge-offs decreased to \$56,000 for the three months ended March 31, 2014 from \$1.8 million for the same period last year. Net charge-offs as a percentage of average loans decreased to 0.02% for the quarter ended March 31, 2014 from 0.60% for the same period last fiscal year. A comparison of the allowance at March 31, 2014 and 2013 reflects a decrease of \$7.7 million to \$25.3 million at March 31, 2014, from \$33.0 million at March 31, 2013. The allowance as a percentage of total loans decreased to 2.16% at March 31, 2014, compared to 2.81% at March 31, 2013. The allowance as a percentage of nonaccruing loans increased to 46.47% at March 31, 2014, compared to 45.97% at March 31, 2013. At March 31, 2014, \$24.4 million, or 44.8%, of total nonaccruing loans were current on their loan payments, of which \$11.8 million were TDRs.

As of March 31, 2014, we had identified \$74.0 million of impaired loans. Our impaired loans are comprised of loans on nonaccrual status and all TDRs, whether performing or on nonaccrual status under their restructured terms. Impaired loans may be evaluated for reserve purposes using either a specific impairment analysis or on a collective basis as part of homogeneous pools. For more information on these impaired loans, see Note 4 of the Notes to Consolidated Financial Statements under Item 1 of this report.

We believe that the allowance for loan losses as of March 31, 2014 was adequate to absorb the known and inherent risks of loss in the loan portfolio at that date. While we believe the estimates and assumptions used in our determination of the adequacy of the allowance are reasonable, there can be no assurance that such estimates and assumptions will not be proven incorrect in the future, or that the actual amount of future provisions will not exceed the amount of past provisions or that any increased provisions that may be required will not adversely impact our financial condition and results of operations. In addition, the determination of the amount of the allowance for loan losses is subject to review by bank regulators as part of the routine examination process, which may result in the establishment of additional reserves based upon their judgment of information available to them at the time of their examination.

**Non-interest Income.** Non-interest income was \$2.0 million for the third quarter of fiscal 2014 compared to \$2.6 million for the third quarter of fiscal 2013. This decrease was primarily due to a \$607,000 reduction in mortgage banking income and fees resulting from a decrease in mortgage loan originations due to rising interest rates, which has slowed refinancing activity compared to the same quarter in the prior fiscal year.

**Non-interest Expense.** Non-interest expense for the quarter ended March 31, 2014 increased \$1.3 million, or 11.1%, to \$13.4 million compared to \$12.1 million for the quarter ended March 31, 2013. This increase was primarily related to a \$767,000, or 11.4%, increase in salaries and employee benefits as compared to the same period in the prior fiscal year. Salaries and employee benefits increased during the three months ended March 31, 2014 primarily as a result of awards made under the Company's 2013 Omnibus Incentive Plan and additional employees from the BankGreenville acquisition, as compared to the same period in the prior fiscal year. Additionally, non-interest expense increased as a result of a \$449,000 in merger-related expenses associated with the pending acquisitions of both Jefferson Bancshares, Inc. and Bank of Commerce.

**Income Taxes.** For the three months ended March 31, 2014, we recorded income tax expense of \$967,000, which was an effective tax rate of 27.1%, compared to an expense of \$490,000 for the three months ended March 31, 2013. This increase was due to higher income before income taxes. At March 31, 2014 and March 31, 2013, our deferred tax asset valuation allowance was \$1.3 million and \$2.2 million, respectively. The decrease in the tax asset valuation allowance reflects a reduction in value due to the state tax rate reduction.

#### Comparison of Results of Operation for the Nine Months Ended March 31, 2014 and 2013

**General.** During the nine months ended March 31, 2014, we had net income of \$8.8 million as compared to net income of \$6.0 million for the nine months ended March 31, 2013. The increase in net income for the nine months ended March 31, 2014 was primarily a result of a \$4.8 million recovery from the allowance for loan losses partially offset by a \$3.5 million increase in income tax expense. On a basic and diluted per share basis, the Company earned \$0.46 per share in the first nine months of fiscal 2014, compared to \$0.30 per share in the first nine months of fiscal 2013.

**Net Interest Income.** Net interest income before provision for loan losses was \$40.3 million for the nine months ended March 31, 2014 compared to \$40.1 million for the nine months ended March 31, 2013. Net interest income increased \$192,000, or 0.5%, compared to the same period in the prior fiscal year as a \$2.4 million decline in loan interest income was virtually offset by an \$839,000 increase in income from securities available for sale due to an increase in the average balance and a decrease in deposit and other borrowing costs of \$1.6 million due to a reduction in market rates of interest. The net interest margin (on a fully taxable-equivalent basis) for the nine months ended March 31, 2014 decreased 4 basis points over the same period last year to 3.79%. Due to a significant number of adjustable-rate loans in the loan portfolio with interest rate floors below which the loans' contractual interest rate may not adjust, net interest income will be negatively impacted in a rising interest rate environment until such time as the current rate exceeds these interest rate floors.

**Interest Income.** Interest income for the nine months ended March 31, 2014 was \$44.5 million, compared to \$45.9 million for the nine months ended March 31, 2013, a decrease of \$1.4 million, or 3.0%. The decrease in interest income occurred primarily as a result of the \$29.7 million decrease in average loans receivable coupled with a 16 basis point decrease in the average tax-equivalent loan yield. Interest income on loans receivable decreased by \$2.4 million, or 5.4%, to \$42.0 million for the nine months ended March 31, 2014 from \$44.4 million for the nine months ended March 31, 2013. The decrease in the average tax-equivalent loan yields reflects the continuing very low level of market interest rates, the maturity or repayment of higher yielding loans, and downward repricing of adjustable rate loans to current market rates. The average tax-equivalent yield on loans was 4.98% for the nine months ended March 31, 2014, compared to 5.14% for the same nine month period one year earlier.

The combined average balance of investment securities, deposits in other financial institutions, and other interest-earning assets increased by \$43.0 million, or 16.0%, to \$312.1 million for the nine months ended March 31, 2014, while the interest and dividend income from those investments increased by \$1.0 million compared to the prior fiscal year. The increase in average balance was primarily due to the purchase of \$38.0 million in investment securities (net of sales and maturities) coupled with the acquisition of \$34.3 million in investment securities from BankGreenville. In addition, the average yield on investment securities increased 34 basis points to 1.50% during the nine months ended March 31, 2014 from 1.16% during the nine months ended March 31, 2013, primarily as a result of the investment securities acquired from BankGreenville. The yield on other interest-earning assets increased from 0.75% to 1.95% due to higher yielding corporate bonds acquired from BankGreenville.

**Interest Expense.** Interest expense for the nine months ended March 31, 2014 was \$4.2 million, compared to \$5.8 million for the nine months ended March 31, 2013, a decrease of \$1.6 million, or 27.5%. The decrease in interest expense occurred as a result of a 20 basis point decrease in the average cost of interest-bearing liabilities to 0.48% for the nine months ended March 31, 2014, from 0.68% for the same period one year earlier, despite a \$23.0 million increase in average interest-bearing liabilities. This decrease is primarily attributable to the managed decline in rates paid on certificates of deposit.

Deposit interest expense decreased \$1.3 million, or 23.9%, to \$4.2 million for the nine months ended March 31, 2014 compared to \$5.5 million for the same nine month period in the prior fiscal year primarily as a result of a \$30.9 million decrease in the average balance of certificates of deposit and a 24 basis point decrease in the cost of these deposits. Average borrowings decreased to \$2.3 million for the nine months ended March 31, 2014, from \$13.9 million for the nine months ended March 31, 2013, while the average rate paid on borrowings decreased to 0.29% in the current nine month period from 2.69% for the nine months ended March 31, 2013. This decrease in the average rate paid on borrowings was primarily a result of the repayment of all of HomeTrust Bank's FHLB advances during the quarter ended March 31, 2013, with no new advances since then other than the assumption of \$2.5 million in advances from BankGreenville. While we do not anticipate further significant reductions in market interest rates, we do expect additional modest declines in deposit costs over the near term as maturities of certificates of deposit will present further downward repricing opportunities and aggressive competitive pricing has been reduced in response to modest loan demand in the current economic environment.

**Provision for Loan Losses.** During the nine months ended March 31, 2014, the recovery for loan losses was (\$4.8 million), compared to a \$2.3 million provision for loan losses for the nine months ended March 31, 2013. The decrease in the provision was due to the combination of lower non-performing and classified loans, significantly lower loan charge-offs, and lower average loan balances compared to the same period during the prior fiscal year. Net loan charge-offs decreased to \$2.0 million during the nine months ending March 31, 2014 compared to \$4.4 million for the same period in the prior fiscal year. Net charge-offs as a percentage of average loans also decreased to 0.22% for the nine months ended March 31, 2014 from 0.49% for the same period last fiscal year. Average loans receivable decreased \$29.7 million, or 2.4%, to \$1.19 billion for the nine months ended March 31, 2014 from \$1.22 billion for the same period last year. The provision for loan losses reflects the amount required to maintain the allowance for losses at an appropriate level based upon management's evaluation of the adequacy of general and specific loss reserves, trends in delinquencies and net charge-offs and current economic conditions.

**Non-interest Income.** Non-interest income was \$6.5 million for the nine months ended March 31, 2014 compared to \$7.8 million for the nine months ended March 31, 2013. Mortgage banking income and fees decreased \$1.5 million or 38.4% as proceeds from sales of loans held for sale decreased to \$69.9 million during the nine month period compared to \$183.4 million for the same period for fiscal 2013. Mortgage loan origination volume has decreased due to rising interest rates, which has slowed refinancing activity compared to the same nine month period in the prior fiscal year.

**Non-interest Expense.** Non-interest expense for the nine months ended March 31, 2014 decreased \$214,000, or 0.6%, to \$38.6 million from \$38.8 million for the nine months ended March 31, 2013. This decrease was primarily related to \$3.1 million in prepayment penalties on FHLB borrowings repaid during the prior fiscal year period, partially offset by a \$2.8 million, or 14.5%, increase in salaries and employee benefits during the current nine month period as compared to the same period in the prior fiscal year. Salaries and employee benefits increased during the nine months ended March 31, 2014 primarily as a result of awards made under the Company's 2013 Omnibus Incentive Plan and additional employees from the BankGreenville acquisition, as compared to the same period in the prior fiscal year. Non-interest expenses as a percentage of average assets decreased to 3.14% for the nine months ended March 31, 2014, as compared to 3.22% for the same period one year earlier.



Income Taxes. For the nine months ended March 31, 2013, the Company's income tax expense was \$4.2 million, an increase of \$3.5 million, compared to an expense of \$788,000 for the nine months ended March 31, 2012. This increase was due to higher income before income taxes, as well as a nonrecurring \$962,000 charge to tax expense for the decrease in the value of our deferred tax assets as a result of reductions in North Carolina's state corporate tax rates over the next two years. Beginning January 1, 2014, North Carolina's corporate tax rate was reduced to 6.0% from 6.9% and will be further reduced to 5.0% in 2015 with possible further reductions to 3.0% in 2017 in the event certain state revenue triggers are achieved. The Company's effective income tax rate for the nine months ended March 31, 2014 was 32.5%.

## Liquidity

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

In addition to these primary sources of funds, management has several secondary sources available to meet potential funding requirements. As of March 31, 2014, HomeTrust Bank had an additional borrowing capacity of \$277.4 million with the FHLB of Atlanta, a \$139.5 million line of credit with the Federal Reserve Bank of Richmond and a \$5.0 million line of credit with another unaffiliated bank. At March 31, 2014, we had \$2.2 million in FHLB advances outstanding and nothing outstanding under our other lines

of credit. Additionally, the Company classifies its securities portfolio as available for sale, providing an additional source of liquidity. Management believes that our security portfolio is of high quality and the securities would therefore be marketable. In addition, we have historically sold longer term fixed-rate mortgage loans in the secondary market to reduce interest rate risk and to create still another source of liquidity. From time to time we also utilize brokered time deposits to supplement our other sources of funds. Brokered time deposits are obtained by utilizing an outside broker that is paid a fee. This funding requires advance notification to structure the type of deposit desired by us. Brokered deposits can vary in term from one month to several years and have the benefit of being a source of longer-term funding. We also utilize brokered deposits to help manage interest rate risk by extending the term to repricing of our liabilities, enhance our liquidity and fund asset growth. Brokered deposits are typically from outside our primary market areas, and our brokered deposit levels may vary from time to time depending on competitive interest rate conditions and other factors. At March 31, 2014 brokered deposits totaled \$10.0 million, or 0.8% of total deposits.

Liquidity management is both a daily and long-term function of business management. Excess liquidity is generally invested in short-term investments, such as overnight deposits and federal funds. On a longer term basis, we maintain a strategy of investing in various lending products and investment securities, including mortgage-backed securities. HomeTrust Bancshares on a stand-alone level is a separate legal entity from HomeTrust Bank and must provide for its own liquidity and pay its own operating expenses. The Company's primary source of funds consists of the net proceeds retained from the Conversion. The Company also has the ability to receive dividends or capital distributions from HomeTrust Bank, although there are regulatory restrictions on the ability of HomeTrust Bank to pay dividends. At March 31, 2014, the Company (on an unconsolidated basis) had liquid assets of \$44.7 million.

We use our sources of funds primarily to meet our ongoing commitments, pay maturing deposits and fund withdrawals, and to fund loan commitments. At March 31, 2014, the total approved loan commitments and unused lines of credit outstanding amounted to \$50.3 million and \$166.7 million, respectively, as compared to \$54.2 million and \$151.6 million, respectively, as of June 30, 2013. Certificates of deposit scheduled to mature in one year or less at March 31, 2014, totaled \$364.6 million. It is management's policy to manage deposit rates that are competitive with other local financial institutions. Based on this management strategy, we believe that a majority of maturing deposits will remain with us.

During the first nine months of fiscal 2014, cash and cash equivalents decreased \$42.3 million, or 33.6%, from \$125.7 million as of June 30, 2013 to \$83.4 million as of March 31, 2014. The decrease was primarily attributable to the purchase of \$67.3 million in investment securities during the period. Securities available for sale increased \$65.1 million, or 263.2%, to \$89.9 million at March 31, 2014 from \$24.8 million at June 30, 2013 as a result of the purchase of \$38.0 million in investment securities (net of sales and maturities) coupled with the acquisition of \$34.3 million in investment securities from BankGreenville. Cash used for financing activities of \$55.0 million and cash used for investing activities of \$8.3 million was partially offset by cash provided by operating activities of \$21.0 million. Primary sources of cash for the nine months ended March 31, 2014 included a net decrease in portfolio loans of \$36.6 million, proceeds from the sale of REO of \$8.2 million, and \$7.0 million in principal repayments of mortgage-backed securities. Primary uses of cash during the period included the purchase of securities available for sale of \$67.3 million, the \$32.0 million decrease in deposits, the purchase of certificates of deposit in other banks, net of maturities, of \$23.1 million and the repurchase of \$20.5 million in common stock.

#### Off-Balance Sheet Activities

In the normal course of operations, we engage in a variety of financial transactions that are not recorded in our financial statements. These transactions involve varying degrees of off-balance sheet credit, interest rate and liquidity risks. These transactions are used primarily to manage customers' requests for funding and take the form of loan commitments and lines of credit. For the three or nine months ended March 31, 2014, we engaged in no off-balance

sheet transactions likely to have a material effect on our financial condition, results of operations or cash flows.

A summary of our off-balance sheet commitments to extend credit at March 31, 2014, is as follows (in thousands):

Commitments to make	
loans	\$ 50.3
Unused lines of	
credit	166.7
Total loan	
commitments	\$217.0

#### Capital Resources

At March 31, 2014, equity totaled \$358.4 million. Management monitors the capital levels of the Company to provide for current and future business opportunities and to ensure HomeTrust Bank meets regulatory guidelines for “well-capitalized” institutions. HomeTrust Bank is subject to minimum capital requirements imposed by the OCC. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by bank regulators that, if undertaken, could have a direct material effect on HomeTrust Bank’s financial statements. As of March 31, 2014, HomeTrust Bank was “well-capitalized” as defined under the regulatory framework for prompt corrective action. To be categorized as “well-capitalized,” HomeTrust Bank must maintain the minimum capital ratios set forth in the table below.

HomeTrust Bank's actual and required minimum capital amounts and ratios to be categorized "adequately" and "well capitalized" are as follows (dollars in thousands):

	Actual		Regulatory Requirements			
	Amount	Ratio	Minimum for Capital Adequacy Purposes		Minimum to Be Well Capitalized	
			Amount	Ratio	Amount	Ratio
As of March 31, 2014:						
Tier I Capital (to Total Adjusted Assets)	\$ 226,003	14.54%	\$ 62,176	4.00%	\$ 77,720	5.00%
Tier I Capital (to Risk-weighted Assets)	\$ 226,003	21.09%	\$ 42,864	4.00%	\$ 64,296	6.00%
Total Risk-based Capital (to Risk-weighted Assets)	\$ 239,546	22.35%	\$ 85,728	8.00%	\$ 107,161	10.00%
As of June 30, 2013:						
Tier I Capital (to Total Adjusted Assets)	\$ 228,454	15.25%	\$ 59,920	4.00%	\$ 74,901	5.00%
Tier I Capital (to Risk-weighted Assets)	\$ 228,454	21.89%	\$ -	-%	\$ 62,620	6.00%
Total Risk-based Capital (to Risk-weighted Assets)	\$ 241,736	23.16%	\$ 83,493	8.00%	\$ 104,367	10.00%

#### Impact of Inflation

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

#### Item 3. Quantitative and Qualitative Disclosure About Market Risk

There has not been any material change in the market risk disclosures contained in our 2013 Form 10-K.

#### Item 4. Controls and Procedures

An evaluation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Act")) as of March 31, 2014, was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and several other members of the Company's senior

management. The Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures in effect as of March 31, 2014, were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is: (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. In addition, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Act) that occurred during the quarter ended March 31, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

On March 14, 2012, a civil suit was filed (which was amended on April 25, 2012) in the County of Buncombe, North Carolina, Civil Superior Court Division, Twenty-Eighth Judicial Circuit, case number 2012CV-01206, by Leslie A. Whittington and 20 other plaintiffs against HomeTrust Bank and a third party brokerage firm. The plaintiffs seek actual damages of \$12.5 million and additional treble or such other punitive damages as determined by the court. The suit alleges that the defendants should have been aware of the Ponzi scheme perpetrated by Mr. William Bailey through his company, Southern Financial Services, as a result of the transactions into and from the accounts at HomeTrust Bank and the brokerage firm. The suit further alleges that the defendants were negligent and reckless in not monitoring, discovering and reporting the unlawful conduct of Mr. Bailey, including that he was kiting checks and converting funds for his own use. In addition, the suit claims the defendants were unjustly enriched by the fees they received from their business relationship with Mr. Bailey. Mr. Bailey pled guilty to federal criminal charges of securities fraud, mail fraud and filing false income taxes related to this matter in February, 2011.

The Company believes that the lawsuit is without merit and intends to defend itself vigorously; however, there can be no assurance that the Company will successfully defend or resolve this litigation matter. Based on the information available to the Company's litigation counsel at this time, they believe that the claims in this case are legally and factually without merit. Because this lawsuit is still in discovery, such counsel is unable to give an opinion at this time as to the likely outcome. Management, after review with its legal counsel, is of the opinion that this litigation should not have a material effect on the Company's financial position or results of operations, although new developments could result in management modifying its assessment.

On January 31, 2014, a class action complaint, captioned William P. Cooper III v. Jefferson Bancshares, Inc., et al., was filed under Case No. 2014-cv-35 in the Chancery Court of Hamblen County, Tennessee, against Jefferson, its directors, Jefferson Federal Bank, HomeTrust and HomeTrust Bank challenging the merger. On April 1, 2014, the plaintiff filed an amended class action complaint. The complaint alleges, among other things, that the Jefferson directors breached their fiduciary duties to Jefferson and its stockholders by agreeing to the proposed merger at an unfair price pursuant to a flawed sales process, by agreeing to terms with HomeTrust that discourages other bidders and by filing an initial Form S-4 registration statement which included a preliminary proxy statement/prospectus that purportedly omits material information. The plaintiff further alleges that Jefferson's directors and officers were not independent or disinterested with respect to the merger. The plaintiff also alleges that HomeTrust and HomeTrust Bank aided and abetted the Jefferson directors' breaches of fiduciary duties. The complaint seeks, among other things, an order enjoining the defendants from consummating the merger, as well as attorneys' and experts' fees and certain other damages. Jefferson, its directors, and HomeTrust believe this action is without merit and intend to vigorously defend against the lawsuit. On April 24 and 25, Jefferson Federal Bank, its directors, and HomeTrust filed motions with the court seeking dismissal of the lawsuit for failing to state a cognizable claim. A hearing date has not yet been set for these motions.

Apart from the foregoing, from time to time we are involved as plaintiff or defendant in various legal actions arising in the normal course of business. We do not anticipate incurring any material liability as a result of any such litigation.

### Item 1A. Risk Factors

There have been no material changes in the Risk Factors previously disclosed in Item 1A of the Company's 2013 Form 10-K.

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

The table below sets forth information regarding HomeTrust Bancshares' common stock repurchases during the three months ended March 31, 2014.

Period	Total Number Of Shares Purchased	Average Price Paid per Share	Total Number Of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans
January 1, 2014 – January 31, 2014	-	\$ -	-	989,183
February 1, 2014 – February 28, 2014	47,632	15.65	47,632	941,551
March 1, 2014 – March 31, 2014	168,403	15.82	168,403	773,148
Total	216,035	\$ 15.78	216,035	-

The Company did not sell any securities that were not registered under the Securities Act of 1933 during the three months ended March 31, 2014.

On January 31, 2014 the Company announced that its Board of Directors had authorized the repurchase of up to 989,183 shares of the Company's common stock, representing 5% of the Company's outstanding shares. The shares may be purchased in the open market or in privately negotiated transactions, from time to time depending upon market conditions and other factors. As of March 31, 2014, 216,035 shares were purchased.

Item 3. Defaults Upon Senior Securities

Nothing to report.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Nothing to report.

Item 6. Exhibits

See Exhibit Index.



SIGNATURES

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

HomeTrust Bancshares, Inc.

Date: May 12, 2014

By: /s/ Dana L. Stonestreet  
Dana L. Stonestreet  
Chairman, President and CEO  
(Duly Authorized Officer)

Date: May 12, 2014

By: /s/ Tony J. VunCannon  
Tony J. VunCannon  
Senior Vice President, CFO, and Treasurer  
(Principal Financial and Accounting Officer)

## EXHIBIT INDEX

Regulation S-K Exhibit Number	Document	Reference to Prior Filing or Exhibit Number Attached Hereto
2.1	Agreement and Plan of Merger, dated as of January 22, 2014, by and between HomeTrust Bancshares, Inc. and Jefferson Bancshares, Inc.	(a)
3.1	Charter of HomeTrust Bancshares, Inc.	(b)
3.2	Articles Supplementary to the Charter of HomeTrust Bancshares, Inc. for HomeTrust Bancshares, Inc.'s Junior Participating Preferred Stock, Series A	(c)
3.3	Bylaws of HomeTrust Bancshares, Inc.	(d)
4.1	Tax Benefits Preservation Plan, dated as of September 25, 2012, between HomeTrust Bancshares, Inc. and Registrar and Transfer Company, as Rights Agent	(c)
10.1	Employment Agreement entered into between HomeTrust Bancshares, Inc. and F. Edward Broadwell, Jr.	(b)
10.2	Amended and Restated Employment Agreement entered into between HomeTrust Bancshares, Inc. and Dana L. Stonestreet	(e)
10.3	Employment Agreement entered into between HomeTrust Bancshares, Inc. and each of Tony J. VunCannon, Howard L. Sellinger and Charles I. Abbitt, Jr.	(b)
10.4	Employment Agreement entered into between HomeTrust Bancshares, Inc. and C. Hunter Westbrook	(f)
10.5	Employment Agreement between HomeTrust Bank and Sidney A. Biesecker	(b)
10.6	Employment Agreement between HomeTrust Bank and Stan Allen	(b)
10.7	HomeTrust Bank Executive Supplemental Retirement Income Master Agreement ("SERP")	(b)
10.7A	SERP Joinder Agreement for F. Edward Broadwell, Jr.	(b)
10.7B	SERP Joinder Agreement for Dana L. Stonestreet	(b)
10.7C	SERP Joinder Agreement for Tony J. VunCannon	(b)
10.7D	SERP Joinder Agreement for Howard L. Sellinger	(b)
10.7E	SERP Joinder Agreement for Stan Allen	(b)
10.7F	SERP Joinder Agreement for Sidney A. Biesecker	(b)
10.7G	SERP Joinder Agreement for Peggy C. Melville	(b)
10.7H	SERP Joinder Agreement for William T. Flynt	(b)
10.7I	Amended and Restated Supplemental Income Agreement between HomeTrust Bank, as successor to Industrial Federal Savings Bank, and Sidney Biesecker	(g)

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10.8	HomeTrust Bank Director Emeritus Plan (“Director Emeritus Plan”)	*
10.8A	Director Emeritus Plan Joinder Agreement for Franklin V. Beam	*
10.8B	Director Emeritus Plan Joinder Agreement for William T. Flynt	*
10.8C	Director Emeritus Plan Joinder Agreement for J. Steven Goforth	*
10.8D	Director Emeritus Plan Joinder Agreement for Craig C. Koontz	*
10.8E	Director Emeritus Plan Joinder Agreement for Larry S. McDevitt	*
10.8F	Director Emeritus Plan Joinder Agreement for F.K. McFarland, III	*
10.8G	Director Emeritus Plan Joinder Agreement for Peggy C. Melville	*
10.8H	Director Emeritus Plan Joinder Agreement for Robert E. Shepherd, Sr.	*
10.9	HomeTrust Bank Defined Contribution Executive Medical Care Plan	*
10.10	HomeTrust Bank 2005 Deferred Compensation Plan	*
10.11	HomeTrust Bank Pre-2005 Deferred Compensation Plan	*
10.12	HomeTrust Bancshares, Inc. Strategic Operating Committee Incentive Plan	(h)
10.13	HomeTrust Bancshares, Inc. 2013 Omnibus Incentive Plan (“Omnibus Incentive Plan”)	(i)
10.14	Form of Incentive Stock Option Award Agreement under Omnibus Incentive Plan	(j)
10.15	Form of Non-Qualified Stock Option Award Agreement under Omnibus Incentive Plan	(j)
10.16	Form of Stock Appreciation Right Award Agreement under Omnibus Incentive Plan	(j)
10.17	Form of Restricted Stock Award Agreement under Omnibus Incentive Plan	(j)
10.18	Form of Restricted Stock Unit Award Agreement under Omnibus Incentive Plan	(j)
31.1	Certification of Chief Executive Officer pursuant to the Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	31.1
31.2	Certification of Chief Financial Officer pursuant to the Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	31.2
32.0	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	32.0
101	The following materials from HomeTrust Bancshares’ Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, formatted in Extensible Business Reporting Language (XBRL): (a) Consolidated Balance Sheets; (b) Consolidated Statements of Income; (c) Consolidated Statements of Comprehensive Income; (d) Consolidated Statements of Changes in Stockholders' Equity; (e) Consolidated Statements of Cash Flows; and (f) Notes to Consolidated Financial Statements. *	101



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- (a) Attached as Appendix A to the joint proxy statement/prospectus filed by HomeTrust Bancshares on April 28, 2014 pursuant to Rule 424(b) of the Securities Act of 1933.
  - (b) Filed as an exhibit to HomeTrust Bancshares's Registration Statement on Form S-1 (File No. 333-178817) filed on December 29, 2011.
  - (c) Filed as an exhibit to HomeTrust Bancshares's Current Report on Form 8-K filed on September 25, 2012 (File No. 001-35593).
  - (d) Filed as an exhibit to HomeTrust Bancshares's Current Report on Form 8-K filed on January 29, 2014 (File No. 001-35593).
  - (e) Filed as an exhibit to HomeTrust Bancshares's Current Report on Form 8-K filed on November 27, 2013 (File No. 001-35593).
  - (f) Filed as an exhibit to HomeTrust Bancshares's Annual Report on Form 10-K for the fiscal year ended June 30, 2012 (File No. 001-35593).
  - (g) Filed as an exhibit to Amendment No. One to HomeTrust Bancshares's Registration Statement on Form S-1 (File No. 333-178817) filed on March 9, 2012.
  - (h) Filed as an exhibit to HomeTrust Bancshares's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 (File No. 001-35593).
  - (i) Attached as Appendix A to HomeTrust Bancshares's definitive proxy statement filed on December 5, 2012 (File No. 001-35593).
  - (j) Filed as an exhibit to HomeTrust Bancshares's Registration Statement on Form S-8 (File No. 333-186666) filed on February 13, 2013.
  - \* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.



