HOME BANCORP, INC.
Form 10-Q
November 07, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended: September 30, 2018

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from __________ to __________

Commission File Number: 001-34190

HOME BANCORP, INC.

(Exact name of Registrant as specified in its charter)

Louisiana	**71-1051785**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification Number)**
503 Kaliste Saloom Road, Lafayette, Louisiana	**70508**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s telephone number, including area code: (337) 237-1960

Not Applicable

(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 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months 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 every Interactive Data File required to be submitted 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 such files). YES NO

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES NO

At October 31, 2018, the registrant had 9,480,140 shares of common stock, $0.01 par value, outstanding.

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HOME BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in thousands, except share data)	**(Unaudited) September 30, 2018**	**(Audited) December 31, 2017**
Assets		
Cash and cash equivalents	$ 61,724	$ 150,418
Interest-bearing deposits in banks	1,184	2,421
Investment securities available for sale, at fair value	258,948	234,993
Investment securities held to maturity (fair values of $10,868 and $13,055, respectively)	10,942	13,034
Mortgage loans held for sale	3,470	5,873
Loans, net of unearned income	1,633,019	1,657,795
Allowance for loan losses	(15,743)	(14,807)
Total loans, net of unearned income and allowance for loan losses	1,617,276	1,642,988
Office properties and equipment, net	45,758	45,605
Cash surrender value of bank-owned life insurance	29,394	28,904
Goodwill and core deposit intangibles	66,493	68,033
Accrued interest receivable and other assets	45,341	35,852
Total Assets	$ 2,140,530	$ 2,228,121
Liabilities		
Deposits:		
Noninterest-bearing	$ 447,422	$ 461,999
Interest-bearing	1,323,890	1,404,228
Total deposits	1,771,312	1,866,227
Short-term Federal Home Loan Bank advances	41	3,642
Long-term Federal Home Loan Bank advances	59,536	68,183
Accrued interest payable and other liabilities	13,953	12,198
Total Liabilities	1,844,842	1,950,250
Shareholders Equity		
Preferred stock, $0.01 par value - 10,000,000 shares authorized; none issued		
Common stock, $0.01 par value - 40,000,000 shares authorized; 9,479,611 and 9,395,488 shares issued and outstanding, respectively	95	94
Additional paid-in capital	167,942	165,341
Unallocated common stock held by:		
Employee Stock Ownership Plan (ESOP)	(3,571)	(3,838)
Recognition and Retention Plan (RRP)	(77)	(84)

Retained earnings	135,848	117,313
Accumulated other comprehensive loss	(4,549)	(955)
Total Shareholders Equity	295,688	277,871
Total Liabilities and Shareholders Equity	$ 2,140,530	$ 2,228,121

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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HOME BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Dollars in thousands, except per share data)	For the Three Months Ended September 30, 2018	For the Three Months Ended September 30, 2017	For the Nine Months Ended September 30, 2018	For the Nine Months Ended September 30, 2017
Interest Income				
Loans, including fees	$ 24,118	$ 16,336	$ 70,449	$ 48,747
Investment securities:				
Taxable interest	1,516	983	4,355	2,807
Tax-exempt interest	178	152	543	471
Other investments and deposits	297	194	1,063	403
Total interest income	26,109	17,665	76,410	52,428
Interest Expense				
Deposits	2,312	1,396	6,141	3,538
Short-term Federal Home Loan Bank advances	6		39	95
Long-term Federal Home Loan Bank advances	281	313	877	972
Total interest expense	2,599	1,709	7,057	4,605
Net interest income	23,510	15,956	69,353	47,823
Provision for loan losses	786	660	2,331	1,117
Net interest income after provision for loan losses	22,724	15,296	67,022	46,706
Noninterest Income				
Service fees and charges	1,638	1,056	4,812	2,983
Bank card fees	1,110	718	3,405	2,168
Gain on sale of loans, net	206	303	614	919
Income from bank-owned life insurance	166	121	490	361
(Loss) gain on sale of assets, net	(68)	(43)	77	(147)
Other income	289	138	768	999
Total noninterest income	3,341	2,293	10,166	7,283
Noninterest Expense				
Compensation and benefits	9,328	7,062	27,492	20,730
Occupancy	1,661	1,219	5,056	3,711
Marketing and advertising	286	287	852	802
Data processing and communication	1,804	928	5,827	3,076
Professional services	265	407	856	819
Forms, printing and supplies	180	119	811	410
Franchise and shares tax	362	193	1,091	587

Regulatory fees		455		317		1,177		952
Foreclosed assets, net		58		(70)		247		(230)
Other expenses		1,297		879		4,199		2,565
Total noninterest expense		15,696		11,341		47,608		33,422
Income before income tax expense		10,369		6,248		29,580		20,567
Income tax expense		2,107		2,158		6,079		6,985
Net Income	$	8,262	$	4,090	$	23,501	$	13,582
Earnings per share:								
Basic	$	0.91	$	0.58	$	2.60	$	1.95
Diluted	$	0.89	$	0.56	$	2.53	$	1.88
Cash dividends declared per common share	$	0.19	$	0.14	$	0.51	$	0.41

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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HOME BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(Dollars in thousands)	For the Three Months Ended September 30, 2018	For the Three Months Ended September 30, 2017	For the Nine Months Ended September 30, 2018	For the Nine Months Ended September 30, 2017
Net Income	$ 8,262	$ 4,090	$ 23,501	$ 13,582
Other Comprehensive (Loss) Income				
Unrealized (losses) gains on investment securities	(1,279)	(60)	(4,289)	103
Tax effect	269	21	901	(36)
Other comprehensive (loss) income, net of taxes	(1,010)	(39)	(3,388)	67
Comprehensive Income	$ 7,252	$ 4,051	$ 20,113	$ 13,649

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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HOME BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

(Dollars in thousands, except share and per share data)	Common Stock	Additional Paid-in Capital	Unallocated Common Stock Held by ESOP	Unallocated Common Stock Held by RRP	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2016	$ 74	$ 79,426	$ (4,196)	$ (120)	$ 104,647	$ 12	$ 179,843
Net income					13,582		13,582
Other comprehensive income						67	67
Purchase of Company s common stock at cost, 1,233 shares		(12)			(36)		(48)
Cash dividends declared, $0.41 per share					(3,028)		(3,028)
Common stock issued under incentive plans, net of shares surrendered in payment, including tax benefit 7,905 shares		20			(35)		(15)
Exercise of stock options		650					650
RRP shares released for allocation		(6)		14			8
ESOP shares released for allocation		915	268				1,183
Share-based compensation cost		383					383
Balance, September 30, 2017	$ 74	$ 81,376	$ (3,928)	$ (106)	$ 115,130	$ 79	$ 192,625
Balance, December 31, 2017	$ 94	$ 165,341	$ (3,838)	$ (84)	$ 117,313	$ (955)	$ 277,871
Net income					23,501		23,501
Other comprehensive loss						(3,388)	(3,388)
Reclassification of stranded tax effects in accumulated other comprehensive income[(1)]					206	(206)	
Purchase of Company s common stock at cost, 8,283 shares		(83)			(297)		(380)
Cash dividends declared, $0.51 per share					(4,810)		(4,810)
Common Stock issued under incentive plans, net of shares surrendered in payment, including tax benefit, 16,898 shares		139			(65)		74
Exercise of stock options	1	897					898
RRP shares released for allocation		(7)		7			
ESOP shares released for allocation		1,109	267				1,376
Share-based compensation cost		546					546
Balance, September 30, 2018	$ 95	$ 167,942	$ (3,571)	$ (77)	$ 135,848	$ (4,549)	$ 295,688

(1) See Note 2 - Recent Accounting Pronouncements

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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HOME BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Dollars in thousands)	For the Nine Months Ended September 30, 2018	2017
Cash flows from operating activities:		
Net income	$ 23,501	$ 13,582
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,331	1,117
Depreciation	1,832	1,439
Amortization and accretion of purchase accounting valuations and intangibles	6,259	3,496
Net amortization of mortgage servicing asset	113	150
Federal Home Loan Bank stock dividends	(90)	(83)
Net amortization of discount on investments	1,516	1,269
Gain on loans sold, net	(614)	(919)
Proceeds, including principal payments, from loans held for sale	73,539	94,171
Originations of loans held for sale	(70,521)	(94,714)
Non-cash compensation	1,922	1,566
Deferred income tax expense (benefit)	225	(315)
(Increase) decrease in accrued interest receivable and other assets	(9,003)	1,460
Increase in cash surrender value of bank-owned life insurance	(490)	(361)
Decrease (increase) in accrued interest payable and other liabilities	1,685	(63)
Net cash provided by operating activities	32,205	21,795
Cash flows from investing activities:		
Purchases of securities available for sale	(67,539)	(48,408)
Proceeds from maturities, prepayments and calls on securities available for sale	38,016	29,022
Proceeds from maturities, prepayments and calls on securities held to maturity	1,855	
Decrease (increase) in loans, net	18,222	(2,516)
Reimbursement from FDIC for covered assets		142
Decrease in interest-bearing deposits in banks	1,237	693
Proceeds from sale of repossessed assets	616	2,632
Purchases of office properties and equipment	(2,824)	(1,360)
Proceeds from sale of office properties and equipment	1,051	640
Proceeds from redemption of Federal Home Loan Bank stock		4,180
Net cash (used in) provided by investing activities	(9,366)	(14,975)
Cash flows from financing activities:		
(Decrease) increase in deposits, net	(94,992)	71,645
Borrowings on Federal Home Loan Bank advances		130,750
Repayments of Federal Home Loan Bank advances	(12,323)	(184,463)
Proceeds from exercise of stock options	898	650

Issuance of stock under incentive plans	74	(15)
Dividends paid to shareholders	(4,810)	(3,028)
Purchase of Company s common stock	(380)	(48)
Net cash (used in) provided by financing activities	(111,533)	15,491
Net change in cash and cash equivalents	(88,694)	22,311
Cash and cash equivalents at beginning of year	150,418	29,315
Cash and cash equivalents at end of year	$ 61,724	$ 51,626

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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HOME BANCORP, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Home Bancorp, Inc. (the Company) were prepared in accordance with instructions for Form 10-Q and Regulation S-X and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations, comprehensive income, changes in shareholders equity and cash flows in conformity with accounting principles generally accepted in the United States of America. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial statements have been included. The results of operations for the nine-month period ended September 30, 2018 are not necessarily indicative of the results which may be expected for the entire fiscal year. These statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) for the year ended December 31, 2017.

Critical Accounting Policies and Estimates

There were no material changes or developments during the reporting period with respect to methodologies the Company uses when applying critical accounting policies and developing critical accounting estimates as disclosed in its Annual Report on Form 10-K for the year ended December 31, 2017.

In preparing the financial statements, the Company is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the Company s financial condition, results of operations, comprehensive income, changes in shareholders equity and cash flows for the interim periods presented. These adjustments are of a normal recurring nature and include appropriate estimated provisions.

2. Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Conforming Amendments Related to Leases . This ASU amends the codification regarding leases in order to increase transparency and comparability. The ASU requires companies to recognize lease assets and liabilities on the statement of condition and disclose key information about leasing arrangements. Upon implementation, a lessee will recognize a liability to make lease payments and a right-of-use asset representing its right to use the leased asset for the lease term. The ASU is effective for annual and interim periods beginning after December 15, 2018. The Company is currently assessing the amendment but does not anticipate it will have a material impact on our Consolidated Financial Statements. Based on the Company s preliminary assessment of its current leases, the impact to the Company s consolidated balance sheet is estimated to be less than a 1% increase in assets and liabilities.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments . The ASU requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net carrying value at the amount expected to be collected on the financial assets. The income statement reflects the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period.

The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount of financial assets. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The allowance for credit losses for purchased financial assets with a more-than-insignificant amount of credit deterioration since origination that are measured at amortized cost basis is determined in a similar manner to other financial assets measured at amortized cost basis; however, the initial allowance for credit losses is added to the purchase price rather than being reported as a credit loss expense. Only subsequent changes in the allowance for credit losses are recorded as a credit loss expense for these assets. Off-balance-sheet arrangements such as commitments to extend credit, guarantees, and standby letters of credit that and are not unconditionally cancellable are also within the scope of this amendment. Credit losses relating to debt securities should be recorded through an allowance for credit losses. This ASU is effective for fiscal years beginning after December 31, 2019. An entity will apply the amendments in this update on a modified retrospective basis, through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company is currently assessing this accounting standard and the implementation of a new software application during 2018 to assist in determining the impact to our Consolidated Financial Statements. The adoption of this ASU could result in material changes in our accounting for credit losses. The extent of the impact upon adoption will depend on the characteristics of the Company s loan portfolio and economic conditions on that date as well as forecasted conditions thereafter.

In January 2017, FASB issued ASU No. 2017-04, Intangibles Goodwill and Other, Simplifying the Test for Goodwill Impairment . The amendment in this ASU eliminates the requirement to calculate the implied fair value of goodwill in order to measure a goodwill impairment charge. An entity will record an impairment charge based on the excess of the carrying amount over its fair value. This ASU is effective for fiscal and interim testing periods beginning after December 15, 2019. The Company is currently assessing the amendment and does not anticipate it will have a material impact on our Consolidated Financial Statements.

In April 2017, FASB issued ASU No. 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities . This ASU shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. The accounting for purchased callable debt securities held at a discount does not change under the new guidance. This ASU is effective for fiscal and interim periods beginning after December 15, 2018. The Company is currently assessing the amendment and does not anticipate it will have an impact on our Consolidated Financial Statements.

ASU 2018-02, Income Statement Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. ASU 2018-02 was issued to address the income tax accounting treatment of the stranded tax effects within accumulated other comprehensive income as a result of tax reform. This issue came about from the enactment of the Tax Cuts and Jobs Act of 2017 on December 22, 2017 that changed the Company s statutory income tax rate from 35% to 21%. The ASU changed current accounting whereby an entity may elect to reclassify the stranded tax effect from accumulated other comprehensive income to retained earnings. The ASU is effective for periods beginning after December 15, 2018 although early adoption is permitted. The Company adopted ASU 2018-02 in the first quarter of 2018 and reclassified its stranded tax credit of $206,000 from accumulated other comprehensive income to retained earnings.

In July 2018, the FASB issued ASU No. 2018-11, Leases Targeted Improvements to provide alternative transition methods to reduce the costs and complexities of implementing the new leases standard, ASU No. 2016-02. The amendments in the update allow entities to recognize a cumulative-effect adjustment in the opening balance of retained earnings in the period of adoption of ASU No. 2016-02, which eliminates the need to re-state amounts presented for prior-periods. In addition, under certain conditions, lessors are allowed to account for lease and non-lease components as a single component. The amendments have the same effective date as ASU No. 2016-02 (periods beginning after December 15, 2018). The Company is currently assessing ASU No. 2018-11, but does not anticipate it will have a material impact on our Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. The ASU removes, modifies, and adds certain disclosure requirements for fair value measurements. For example, public entities will no longer be required to disclose the valuation processes for Level 3 fair value measurements, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU No. 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019. In addition, entities may early adopt the modified or eliminated disclosure requirements and delay adoption of the additional disclosure requirements until their effective date. The Company does not believe ASU No. 2018-13 will have a material impact on our Consolidated Financial Statements, as the update only revises disclosure requirements.

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3. Investment Securities

Summary information regarding the Company s investment securities classified as available for sale and held to maturity as of September 30, 2018 and December 31, 2017 is as follows.

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less Than 1 Year	Gross Unrealized Losses Over 1 Year	Fair Value
September 30, 2018					
Available for sale:					
U.S. agency mortgage-backed	$ 80,917	$ 447	$ 1,083	$ 789	$ 79,492
Collateralized mortgage obligations	151,719	42	1,321	2,999	147,441
Municipal bonds	21,690	57	73		21,674
U.S. government agency	10,380	27	33	33	10,341
Total available for sale	$ 264,706	$ 573	$ 2,510	$ 3,821	$ 258,948
Held to maturity:					
Municipal bonds	$ 10,942	$ 6	$ 40	$ 40	$ 10,868
Total held to maturity	$ 10,942	$ 6	$ 40	$ 40	$ 10,868

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less Than 1 Year	Gross Unrealized Losses Over 1 Year	Fair Value
December 31, 2017					
Available for sale:					
U.S. agency mortgage-backed	$ 84,639	$ 619	$ 270	$ 298	$ 84,690
Collateralized mortgage obligations	115,435	46	671	1,075	113,735
Municipal bonds	25,362	177	17	1	25,521
U.S. government agency	11,026	42	21		11,047
Total available for sale	$ 236,462	$ 884	$ 979	$ 1,374	$ 234,993
Held to maturity:					
Municipal bonds	$ 13,034	$ 54	$ 18	$ 15	$ 13,055
Total held to maturity	$ 13,034	$ 54	$ 18	$ 15	$ 13,055

The estimated fair value and amortized cost by contractual maturity of the Company s investment securities as of September 30, 2018 are shown in the following tables. Securities are classified according to their contractual maturities without consideration of principal amortization, potential prepayments or call options. The expected maturity of a security may differ from its contractual maturity because of prepayments or the exercise of call options. Accordingly, actual maturities may differ from contractual maturities.

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(dollars in thousands)	One Year or Less	After One Year through Five Years	After Five Years through Ten Years	After Ten Years	Total
Fair Value					
Securities available for sale:					
U.S. agency mortgage-backed	$ 1,718	$ 12,321	$ 37,171	$ 28,282	$ 79,492
Collateralized mortgage obligations		5,662	18,171	123,608	147,441
Municipal bonds	3,585	9,919	5,355	2,815	21,674
U.S. government agency	4,965		3,940	1,436	10,341
Total securities available for sale	$ 10,268	$ 27,902	$ 64,637	$ 156,141	$ 258,948
Securities held to maturity:					
Municipal bonds	$	$ 5,767	$ 4,055	$ 1,046	$ 10,868
Total securities held to maturity	$	$ 5,767	$ 4,055	$ 1,046	$ 10,868

(dollars in thousands)	One Year or Less	After One Year through Five Years	After Five Years through Ten Years	After Ten Years	Total
Amortized Cost					
Securities available for sale:					
U.S. agency mortgage-backed	$ 1,720	$ 12,693	$ 38,212	$ 28,292	$ 80,917
Collateralized mortgage obligations		5,719	18,694	127,306	151,719
Municipal bonds	3,580	9,920	5,345	2,845	21,690
U.S. government agency	4,998		3,913	1,469	10,380
Total securities available for sale	$ 10,298	$ 28,332	$ 66,164	$ 159,912	$ 264,706
Securities held to maturity:					
Municipal bonds	$	$ 5,777	$ 4,108	$ 1,057	$ 10,942
Total securities held to maturity	$	$ 5,777	$ 4,108	$ 1,057	$ 10,942

Management evaluates securities for other-than-temporary impairment at least quarterly, and more frequently when economic and market conditions warrant such evaluations. Consideration is given to (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in value; and (3) the Company s intent to sell a security or whether it is more likely than not the Company will be required to sell the security before the recovery of its amortized cost, which may extend to maturity.

The Company performs a process to identify securities that could potentially have a credit impairment that is other-than-temporary. This process involves evaluating each security for impairment by monitoring credit performance, collateral type, collateral geography, bond credit support, loan-to-value ratios, credit scores, loss severity levels, pricing levels, downgrades by rating agencies, cash flow projections and other factors as indicators of potential credit issues. When the Company determines that a security is deemed other-than-temporarily impaired, an impairment loss is recognized.

As of September 30, 2018, 184 of the Company s investment securities had unrealized losses totaling 2.8% of the individual securities amortized cost basis and 2.3% of the Company s total amortized cost basis of the investment securities portfolio. At such date, 59 of the 184 securities had been in a continuous loss position for over 12 months. The 59 securities had an aggregate amortized cost basis of $94.1 million and an unrealized loss of $3.8 million at September 30, 2018. Management has the intent and ability to hold these securities until maturity, or until anticipated recovery; hence, no declines in these securities were deemed other-than-temporary at September 30, 2018.

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As of September 30, 2018 and December 31, 2017, the Company had $152,374,000 and $121,984,000, respectively, of securities pledged to secure public deposits.

4. Earnings Per Share

Earnings per common share were computed based on the following:

(in thousands, except per share data)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Numerator:				
Net income available to common shareholders	$ 8,262	$ 4,090	$ 23,501	$ 13,582
Denominator:				
Weighted average common shares outstanding	9,098	7,007	9,053	6,972
Effect of dilutive securities:				
Restricted stock	19	3	21	3
Stock options	204	271	223	266
Weighted average common shares outstanding assuming dilution	9,321	7,281	9,297	7,241
Basic earnings per common share	$ 0.91	$ 0.58	$ 2.60	$ 1.95
Diluted earnings per common share	$ 0.89	$ 0.56	$ 2.53	$ 1.88

Options on 27,934 and 77,024 shares of common stock were not included in the computation of diluted earnings per share for the three months ended September 30, 2018 and September 30, 2017, respectively, because the effect of these shares was anti-dilutive. Options on 15,850 and 60,849 shares of common stock were not included in the computation of diluted earnings per share for the nine months ended September 30, 2018 and September 30, 2017, respectively, because the effect of these shares was anti-dilutive.

5. Credit Quality and Allowance for Loan Losses

The following briefly describes the distinction between originated and Acquired Loans and certain significant accounting policies relevant to each category.

Originated Loans

Loans originated for investment are reported at the principal balance outstanding net of unearned income. Interest on loans and accretion of unearned income are computed in a manner that approximates a level yield on recorded principal. Interest on loans is recorded as income is earned. The accrual of interest on an originated loan is discontinued when it is probable the borrower will not be able to meet payment obligations as they become due. The Company maintains an allowance for loan losses on originated loans that represents management s estimate of probable losses incurred in this portfolio category.

Acquired Loans

Loans that were acquired as a result of business combinations are referred to as Acquired Loans. Acquired Loans were recorded at estimated fair value at the acquisition date with no carryover of the related allowance for loan losses. The Acquired Loans were segregated between those considered to be performing (acquired performing) and those with evidence of credit deterioration (acquired impaired), and then further segregated into loan pools designed to facilitate the estimation of expected cash flows. The fair value estimate for each pool of acquired performing and acquired impaired loans was based on the estimate of expected cash flows, both principal and interest, from that pool, discounted at prevailing market interest rates.

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The difference between the fair value of an acquired performing loan pool and the contractual amounts due at the acquisition date (the fair value discount) is accreted into income over the estimated life of the pool. Management estimates an allowance for loan losses for acquired performing loans using a methodology similar to that used for originated loans. The allowance determined for each loan pool is compared to the remaining fair value discount for that pool. If the allowance amount calculated under the Company s methodology is greater than the Company s remaining discount, the additional amount called for is added to the reported allowance through a provision for loan losses. If the allowance amount calculated under the Company s methodology is less than the Company s recorded discount, no additional allowance or provision is recognized. Actual losses first reduce any remaining nonaccretable discount for the loan pool. Once the nonaccretable discount is fully depleted, losses are applied against the allowance established for that pool. Acquired performing loans are placed on nonaccrual status and considered and reported as nonperforming or past due using the same criteria applied to the originated portfolio.

The excess of cash flows expected to be collected from an acquired impaired loan pool over the pool s estimated fair value at acquisition is referred to as the accretable yield and is recognized in interest income using an effective yield method over the remaining life of the pool. Each pool of acquired impaired loans is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows.

Management recasts the estimate of cash flows expected to be collected on each acquired impaired loan pool periodically. If the present value of expected cash flows for a pool is less than its carrying value, an impairment is recognized by an increase in the allowance for loan losses and a charge to the provision for loan losses. If the present value of expected cash flows for a pool is greater than its carrying value, any previously established allowance for loan losses is reversed and any remaining difference increases the accretable yield, which will be taken into interest income over the remaining life of the loan pool. Acquired impaired loans are generally not subject to individual evaluation for impairment and are not reported with impaired loans, even if they would otherwise qualify for such treatment.

Allowance for Loan Losses

The allowance for loan losses and recorded investment in loans as of the dates indicated are as follows.

	As of September 30, 2018			
	Originated Loans			
(dollars in thousands)	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Acquired Loans	Total
Allowance for loan losses:				
One- to four-family first mortgage	$ 1,861	$	$ 53	$ 1,914
Home equity loans and lines	692	348	52	1,092
Commercial real estate	5,144	187	237	5,568
Construction and land	2,021		6	2,027
Multi-family residential	540		60	600
Commercial and industrial	2,253	862	575	3,690
Consumer	484		368	852
Total allowance for loan losses	$ 12,995	$ 1,397	$ 1,351	$ 15,743

	As of September 30, 2018			
	Originated Loans			
(dollars in thousands)	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Acquired Loans[1]	Total
Loans:				
One- to four-family first mortgage	$ 221,283	$	$ 235,514	$ 456,797
Home equity loans and lines	52,734	885	32,786	86,405
Commercial real estate	417,338	5,944	206,015	629,297
Construction and land	139,869		34,704	174,573
Multi-family residential	43,219		12,934	56,153
Commercial and industrial	119,987	3,010	50,941	173,938
Consumer	37,929		17,927	55,856
Total loans	$ 1,032,359	$ 9,839	$ 590,821	$ 1,633,019

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(dollars in thousands)	As of December 31, 2017 Originated Loans Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Acquired Loans	Total
Allowance for loan losses:				
One- to four-family first mortgage	$ 1,574	$	$ 89	$ 1,663
Home equity loans and lines	676	348	78	1,102
Commercial real estate	4,766		140	4,906
Construction and land	1,742		7	1,749
Multi-family residential	355			355
Commercial and industrial	2,721	1,625	184	4,530
Consumer	496		6	502
Total allowance for loan losses	$ 12,330	$ 1,973	$ 504	$ 14,807

(dollars in thousands)	As of December 31, 2017 Originated Loans Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Acquired Loans[1]	Total
Loans:				
One- to four-family first mortgage	$ 199,199	$	$ 278,012	$ 477,211
Home equity loans and lines	53,349	925	40,171	94,445
Commercial real estate	369,740	22	241,596	611,358
Construction and land	124,963		52,300	177,263
Multi-family residential	30,540		20,438	50,978
Commercial and industrial	120,818	2,512	61,954	185,284
Consumer	39,854		21,402	61,256
Total loans	$ 938,463	$ 3,459	$ 715,873	$ 1,657,795

(1) $11.0 million and $14.2 million in Acquired Loans were deemed to be acquired impaired loans and were accounted for under ASC 310-30 at September 30, 2018 and December 31, 2017, respectively.

A summary of activity in the allowance for loan losses for the nine months ended September 30, 2018 and September 30, 2017 follows.

(dollars in thousands)	For the Nine Months Ended September 30, 2018 Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
Originated loans:					

Allowance for loan losses:					
One- to four-family first mortgage	$ 1,574	$ (1)	$	$ 288	$ 1,861
Home equity loans and lines	1,024		3	13	1,040
Commercial real estate	4,766			565	5,331
Construction and land	1,742			279	2,021
Multi-family residential	355			185	540
Commercial and industrial	4,346	(1,503)	153	119	3,115
Consumer	496	(60)	13	35	484
Total allowance for loan losses	$ 14,303	$ (1,564)	169	$ 1,484	$ 14,392

Acquired loans:					
Allowance for loan losses:					
One- to four-family first mortgage	$ 89	$	$	$ (36)	$ 53
Home equity loans and lines	78			(26)	52
Commercial real estate	140			97	237
Construction and land	7			(1)	6
Multi-family residential				60	60
Commercial and industrial	184			391	575
Consumer	6			362	368
Total allowance for loan losses	$ 504	$	$	$ 847	$ 1,351
Total loans:					
Allowance for loan losses:					
One- to four-family first mortgage	$ 1,663	$ (1)	$	$ 252	$ 1,914
Home equity loans and lines	1,102		3	(13)	1,092
Commercial real estate	4,906			662	5,568
Construction and land	1,749			278	2,027
Multi-family residential	355			245	600
Commercial and industrial	4,530	(1,503)	153	510	3,690
Consumer	502	(60)	13	397	852
Total allowance for loan losses	$ 14,807	$ (1,564)	$ 169	$ 2,331	$ 15,743

	For the Nine Months Ended September 30, 2017				
(dollars in thousands)	**Beginning Balance**	**Charge-offs**	**Recoveries**	**Provision**	**Ending Balance**
Originated loans:					
Allowance for loan losses:					
One- to four-family first mortgage	$ 1,436	$	$	$ 117	$ 1,553
Home equity loans and lines	654	(10)	18	399	1,061
Commercial real estate	4,177	(4)		431	4,604
Construction and land	1,763			(86)	1,677
Multi-family residential	361			(10)	351
Commercial and industrial	3,316	(358)	203	164	3,325
Consumer	513	(58)	5	9	469
Total allowance for loan losses	$ 12,220	$ (430)	$ 226	$ 1,024	$ 13,040
Acquired loans:					
Allowance for loan losses:					
One- to four-family first mortgage	$ 75	$	$	$ (16)	$ 59
Home equity loans and lines	74			(12)	62
Commercial real estate				77	77
Construction and land	19			(12)	7
Multi-family residential					
Commercial and industrial	123			53	176

Consumer				3	3
Total allowance for loan losses	$ 291	$	$	$ 93	$ 384
Total loans:					
Allowance for loan losses:					
One- to four-family first mortgage	$ 1,511	$	$	$ 101	$ 1,612
Home equity loans and lines	728	(10)	18	387	1,123
Commercial real estate	4,177	(4)		508	4,681
Construction and land	1,782			(98)	1,684
Multi-family residential	361			(10)	351
Commercial and industrial	3,439	(358)	203	217	3,501
Consumer	513	(58)	5	12	472
Total allowance for loan losses	$ 12,511	$ (430)	$ 226	$ 1,117	$ 13,424

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Credit Quality

The following tables present the Company s loan portfolio by credit quality classification as of the dates indicated.

	September 30, 2018				
(dollars in thousands)	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Originated loans:					
One- to four-family first mortgage	$ 216,787	$ 1,745	$ 2,751	$	$ 221,283
Home equity loans and lines	52,011		1,608		53,619
Commercial real estate	410,684	4,610	7,988		423,282
Construction and land	137,578	1,168	1,123		139,869
Multi-family residential	43,219				43,219
Commercial and industrial	112,336	4,537	6,124		122,997
Consumer	37,634	124	171		37,929
Total originated loans	$ 1,010,249	$ 12,184	$ 19,765	$	$ 1,042,198
Acquired loans:					
One- to four-family first mortgage	$ 226,735	$ 1,806	$ 6,973	$	$ 235,514
Home equity loans and lines	32,321	188	277		32,786
Commercial real estate	187,358	8,343	10,314		206,015
Construction and land	32,839	1,302	563		34,704
Multi-family residential	12,091	588	255		12,934
Commercial and industrial	46,948	1,661	2,332		50,941
Consumer	17,510	170	247		17,927
Total acquired loans	$ 555,802	$ 14,058	$ 20,961	$	$ 590,821
Total loans:					
One- to four-family first mortgage	$ 443,522	$ 3,551	$ 9,724	$	$ 456,797
Home equity loans and lines	84,332	188	1,885		86,405
Commercial real estate	598,042	12,953	18,302		629,297
Construction and land	170,417	2,470	1,686		174,573
Multi-family residential	55,310	588	255		56,153
Commercial and industrial	159,284	6,198	8,456		173,938
Consumer	55,144	294	418		55,856
Total loans	$ 1,566,051	$ 26,242	$ 40,726	$	$ 1,633,019

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	December 31, 2017				
(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Originated loans:					
One- to four-family first mortgage	$ 196,203	$ 990	$ 2,006	$	$ 199,199
Home equity loans and lines	52,492	283	1,499		54,274
Commercial real estate	356,020	5,080	8,662		369,762
Construction and land	122,076	2,043	844		124,963
Multi-family residential	30,540				30,540
Commercial and industrial	105,097	4,640	13,593		123,330
Consumer	39,335	120	399		39,854
Total originated loans	$ 901,763	$ 13,156	$ 27,003	$	$ 941,922
Acquired loans:					
One- to four-family first mortgage	$ 269,144	$ 2,825	$ 6,043	$	$ 278,012
Home equity loans and lines	39,603	307	261		40,171
Commercial real estate	218,234	12,522	10,840		241,596
Construction and land	48,748	3,056	496		52,300
Multi-family residential	19,644	636	158		20,438
Commercial and industrial	56,635	2,998	2,321		61,954
Consumer	21,172	69	161		21,402
Total acquired loans	$ 673,180	$ 22,413	$ 20,280	$	$ 715,873
Total loans:					
One- to four-family first mortgage	$ 465,347	$ 3,815	$ 8,049	$	$ 477,211
Home equity loans and lines	92,095	590	1,760		94,445
Commercial real estate	574,254	17,602	19,502		611,358
Construction and land	170,824	5,099	1,340		177,263
Multi-family residential	50,184	636	158		50,978
Commercial and industrial	161,732	7,638	15,914		185,284
Consumer	60,507	189	560		61,256
Total loans	$ 1,574,943	$ 35,569	$ 47,283	$	$ 1,657,795

The above classifications follow regulatory guidelines and can generally be described as follows:

Pass loans are of satisfactory quality.

Special mention loans have an existing weakness that could cause future impairment, including the deterioration of financial ratios, past due status, questionable management capabilities and possible reduction in the collateral values.

Substandard loans have an existing specific and well-defined weakness that may include poor liquidity and deterioration of financial performance. Such loans may be past due and related deposit accounts experiencing overdrafts. Immediate corrective action is necessary.

Doubtful loans have specific weaknesses that are severe enough to make collection or liquidation in full highly questionable and improbable.

In addition, residential loans are classified using an inter-agency regulatory methodology that incorporates, among other factors, the extent of delinquencies and loan-to-value ratios. These classifications were the most current available as of the dates indicated and were generally updated within the quarter.

Age analysis of past due loans as of the dates indicated are as follows.

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(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current Loans	Total Loans
	September 30, 2018					
Originated loans:						
Real estate loans:						
One- to four-family first mortgage	$ 1,271	$ 374	$ 371	$ 2,016	$ 219,267	$ 221,283
Home equity loans and lines	177	44	26	247	53,372	53,619
Commercial real estate	242	1,016	167	1,425	421,857	423,282
Construction and land	6			6	139,863	139,869
Multi-family residential					43,219	43,219
Total real estate loans	1,696	1,434	564	3,694	877,578	881,272
Other loans:						
Commercial and industrial	291	266	257	814	122,183	122,997
Consumer	314	85	84	483	37,446	37,929
Total other loans	605	351	341	1,297	159,629	160,926
Total originated loans	$ 2,301	$ 1,785	$ 905	$ 4,991	$ 1,037,207	$ 1,042,198
Acquired loans:						
Real estate loans:						
One- to four-family first mortgage	$ 3,375	$ 654	$ 4,018	$ 8,047	$ 227,467	$ 235,514
Home equity loans and lines	281	267	93	641	32,145	32,786
Commercial real estate	2,646	129	1,213	3,988	202,027	206,015
Construction and land	506	145	327	978	33,726	34,704
Multi-family residential					12,934	12,934
Total real estate loans	6,808	1,195	5,651	13,654	508,299	521,953
Other loans:						
Commercial and industrial	960	91	160	1,211	49,730	50,941
Consumer	544	105	155	804	17,123	17,927
Total other loans	1,504	196	315	2,015	66,853	68,868
Total acquired loans	$ 8,312	$ 1,391	$ 5,966	$ 15,669	$ 575,152	$ 590,821
Total loans:						
Real estate loans:						
One- to four-family first mortgage	$ 4,646	$ 1,028	$ 4,389	$ 10,063	$ 446,734	$ 456,797
Home equity loans and lines	458	311	119	888	85,517	86,405
Commercial real estate	2,888	1,145	1,380	5,413	623,884	629,297

Construction and land	512	145	327	984	173,589	174,573
Multi-family residential					56,153	56,153
Total real estate loans	8,504	2,629	6,215	17,348	1,385,877	1,403,225
Other loans:						
Commercial and industrial	1,251	357	417	2,025	171,913	173,938
Consumer	858	190	239	1,287	54,569	55,856
Total other loans	2,109	547	656	3,312	226,482	229,794
Total loans	$ 10,613	$ 3,176	$ 6,871	$ 20,660	$ 1,612,359	$ 1,633,019

	December 31, 2017					
(dollars in thousands)	**30-59 Days Past Due**	**60-89 Days Past Due**	**Greater Than 90 Days Past Due**	**Total Past Due**	**Current Loans**	**Total Loans**
Originated loans:						
Real estate loans:						
One- to four-family first mortgage	$ 837	$ 131	$ 44	$ 1,012	$ 198,187	$ 199,199
Home equity loans and lines	1,018		26	1,044	53,230	54,274
Commercial real estate	670			670	369,092	369,762
Construction and land	744		200	944	124,019	124,963
Multi-family residential					30,540	30,540
Total real estate loans	3,269	131	270	3,670	775,068	778,738

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Other loans:						
Commercial and industrial	882	825	1,641	3,348	119,982	123,330
Consumer	380	9	278	667	39,187	39,854
Total other loans	1,262	834	1,919	4,015	159,169	163,184
Total originated loans	$ 4,531	$ 965	$ 2,189	$ 7,685	$ 934,237	$ 941,922
Acquired loans:						
Real estate loans:						
One- to four-family first mortgage	$ 3,867	$ 2,087	$ 2,816	$ 8,770	$ 269,242	$ 278,012
Home equity loans and lines	137	61	46	244	39,927	40,171
Commercial real estate	5,071	436	1,864	7,371	234,225	241,596
Construction and land	2,089	159	239	2,487	49,813	52,300
Multi-family residential					20,438	20,438
Total real estate loans	11,164	2,743	4,965	18,872	613,645	632,517
Other loans:						
Commercial and industrial	809	678	185	1,672	60,282	61,954
Consumer	329	152	95	576	20,826	21,402
Total other loans	1,138	830	280	2,248	81,108	83,356
Total acquired loans	$ 12,302	$ 3,573	$ 5,245	$ 21,120	$ 694,753	$ 715,873
Total loans:						
Real estate loans:						
One- to four-family first mortgage	$ 4,704	$ 2,218	$ 2,860	$ 9,782	$ 467,429	$ 477,211
Home equity loans and lines	1,155	61	72	1,288	93,157	94,445
Commercial real estate	5,741	436	1,864	8,041	603,317	611,358
Construction and land	2,833	159	439	3,431	173,832	177,263
Multi-family residential					50,978	50,978
Total real estate loans	14,433	2,874	5,235	22,542	1,388,713	1,411,255
Other loans:						
Commercial and industrial	1,691	1,503	1,826	5,020	180,264	185,284
Consumer	709	161	373	1,243	60,013	61,256
Total other loans	2,400	1,664	2,199	6,263	240,277	246,540
Total loans	$ 16,833	$ 4,538	$ 7,434	$ 28,805	$ 1,628,990	$ 1,657,795

Excluding Acquired Loans with deteriorated credit quality, the Company did not have any loans greater than 90 days past due and accruing as of September 30, 2018 or December 31, 2017.

The following table summarizes the accretable yield on loans accounted for under ASC 310-30 as of the dates indicated.

	For the Nine Months Ended	
(dollars in thousands)	**September 30, 2018**	**September 30, 2017**
Balance at beginning of period	$ (9,303)	$ (11,091)
Accretion	1,849	2,495
Transfers from nonaccretable difference to accretable yield	(2,559)	(1,208)
Balance at end of period	$ (10,013)	$ (9,804)

The following table summarizes information pertaining to Originated Loans, which were deemed impaired loans as of the dates indicated.

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	For the Period Ended September 30, 2018				
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
One- to four-family first mortgage	$	$	$	$	$
Home equity loans and lines	450	476		458	
Commercial real estate	21	33		22	
Construction and land					
Multi-family residential					
Commercial and industrial	324	440		347	
Consumer					
Total	$ 795	$ 949	$	$ 827	$
With an allowance recorded:					
One- to four-family first mortgage	$	$	$	$	$
Home equity loans and lines	435	461	348	443	
Commercial real estate	5,923	5,923	187	658	
Construction and land					
Multi-family residential					
Commercial and industrial	2,686	2,905	862	1,186	
Consumer					
Total	$ 9,044	$ 9,289	$ 1,397	$ 2,287	$
Total impaired loans:					
One- to four-family first mortgage	$	$	$	$	$
Home equity loans and lines	885	937	348	901	
Commercial real estate	5,944	5,956	187	680	
Construction and land					
Multi-family residential					
Commercial and industrial	3,010	3,345	862	1,533	
Consumer					
Total	$ 9,839	$ 10,238	$ 1,397	$ 3,114	$

	For the Period Ended December 31, 2017				
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
One- to four-family first mortgage	$	$	$	$	$
Home equity loans and lines	470	476		395	1
Commercial real estate	22	32		19	
Construction and land					
Multi-family residential					

Commercial and industrial	428	434		2,849	2
Consumer					
Total	$ 920	$ 942	$	$ 3,263	$ 3
With an allowance recorded:					
One- to four-family first mortgage	$	$	$	$ 42	$
Home equity loans and lines	455	461	348	383	1
Commercial real estate				296	
Construction and land					
Multi-family residential					
Commercial and industrial	2,084	2,157	1,625	1,985	52
Consumer					
Total	$ 2,539	$ 2,618	$ 1,973	$ 2,706	$ 53

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Total impaired loans:					
One- to four-family first mortgage	$	$	$	$ 42	$
Home equity loans and lines	925	937	348	778	2
Commercial real estate	22	32		315	
Construction and land					
Multi-family residential					
Commercial and industrial	2,512	2,591	1,625	4,834	54
Consumer					
Total	$ 3,459	$ 3,560	$ 1,973	$ 5,969	$ 56

	For the Period Ended September 30, 2017				
(dollars in thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
With no related allowance recorded:					
One- to four-family first mortgage	$	$	$	$	$
Home equity loans and lines	473	476		370	18
Commercial real estate	23	33		18	1
Construction and land					
Multi-family residential					
Commercial and industrial	2,952	3,131		3,209	133
Consumer					
Total	$ 3,448	$ 3,640	$	$ 3,597	$ 152
With an allowance recorded:					
One- to four-family first mortgage	$	$	$	$ 55	$
Home equity loans and lines	459	460	348	358	17
Commercial real estate				395	
Construction and land					
Multi-family residential					
Commercial and industrial	1,988	2,102	865	1,985	80
Consumer					
Total	$ 2,447	$ 2,562	$ 1,213	$ 2,793	$ 97
Total impaired loans:					
One- to four-family first mortgage	$	$	$	$ 55	$
Home equity loans and lines	932	936	348	728	35
Commercial real estate	23	33		413	1
Construction and land					
Multi-family residential					
Commercial and industrial	4,940	5,233	865	5,194	213
Consumer					
Total	$ 5,895	$ 6,202	$ 1,213	$ 6,390	$ 249

The following table summarizes information pertaining to nonaccrual loans as of dates indicated.

	September 30, 2018			December 31, 2017		
(dollars in thousands)	**Originated**	**Acquired**[1]	**Total**	**Originated**	**Acquired**[1]	**Total**
Nonaccrual loans:						
One- to four-family first mortgage	$ 2,637	$ 2,753	$ 5,390	$ 2,006	$ 1,167	$ 3,173
Home equity loans and lines	1,339	144	1,483	1,434	108	1,542
Commercial real estate	7,374	729	8,103	8,662	95	8,757
Construction and land	3	345	348	200	249	449
Multi-family residential						
Commercial and industrial	4,281	873	5,154	9,678	932	10,610
Consumer	171	226	397	399	103	502
Total	$ 15,805	$ 5,070	$ 20,875	$ 22,379	$ 2,654	$ 25,033

(1) Table excludes Acquired Loans which were being accounted for under ASC 310-30 because they continue to earn interest from accretable yield regardless of their status as past due or otherwise not in compliance with their contractual terms. Acquired Loans with deteriorated credit quality which were being accounting for under ASC 310-30 and which were 90 days or more past due totaled $2.5 million and $4.3 million as of September 30, 2018 and December 31, 2017, respectively.

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As of September 30, 2018, the Company had no outstanding commitments to lend additional funds to any customer whose loan was classified as impaired.

Troubled Debt Restructurings

During the course of its lending operations, the Company periodically grants concessions to its customers in an attempt to protect as much of its investment as possible and to minimize risk of loss. These concessions may include restructuring the terms of a customer loan to alleviate the burden of the customer s near-term cash requirements. Loans are considered troubled debt restructurings (TDR) when the Company agrees to restructure a loan to a borrower who is experiencing financial difficulties in a manner that is deemed to be a concession . The Company defines a concession as a modification of existing terms granted to a borrower for economic or legal reasons related to the borrower s financial difficulties that the Company would otherwise not consider. The concession either is granted through an agreement with the customer or is imposed by a court or by law. Concessions include modifying original loan terms to reduce or defer cash payments required as part of the loan agreement, including but not limited to:

- a reduction of the stated interest rate for the remaining original life of the debt,
- an extension of the maturity date or dates at an interest rate lower than the current market rate for new debt with similar risk characteristics,
- a reduction of the face amount or maturity amount of the debt, or
- a reduction of accrued interest receivable on the debt.

In its determination of whether the customer is experiencing financial difficulties, the Company considers numerous indicators, including, but not limited to:

- whether the customer is currently in default on its existing loan, or is in an economic position where it is probable the customer will be in default on its loan in the foreseeable future without a modification,
- whether the customer has declared or is in the process of declaring bankruptcy,
- whether there is substantial doubt about the customer s ability to continue as a going concern,
- whether, based on its projections of the customer s current capabilities, the Company believes the customer s future cash flows will be insufficient to service the debt, including interest, in accordance with the contractual terms of the existing agreement for the foreseeable future, and

whether, without modification, the customer cannot obtain sufficient funds from other sources at an effective interest rate equal to the current market rate for similar debt for a non-troubled debtor.

If the Company concludes that both a concession has been granted and the concession was granted to a customer experiencing financial difficulties, the Company identifies the loan as a TDR. For purposes of the determination of an allowance for loan losses on TDRs, such loans are reviewed for specific impairment in accordance with the Company s allowance for loan loss methodology. If it is determined that losses are probable on such TDRs, either because of delinquency or other credit quality indicators, the Company specifically allocates a portion of the allowance for loan losses to these loans.

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Information about the Company s TDRs is presented in the following tables.

	As of September 30, 2018			
(dollars in thousands)	**Current**	**Past Due Greater Than 30 Days**	**Nonaccrual TDRs**	**Total TDRs**
Originated loans:				
Real estate loans:				
One- to four-family first mortgage	$ 219	$	$ 1,824	$ 2,043
Home equity loans and lines	210	59	312	581
Commercial real estate	705		6,307	7,012
Construction and land	145			145
Multi-family residential				
Total real estate loans	1,279	59	8,443	9,781
Other loans:				
Commercial and industrial			466	466
Consumer			87	87
Total other loans			553	553
Total loans	$ 1,279	$ 59	$ 8,996	$ 10,334
Acquired loans:				
Real estate loans:				
One- to four-family first mortgage	$ 210	$	$	$ 210
Home equity loans and lines			68	68
Commercial real estate				
Construction and land				
Multi-family residential				
Total real estate loans	210		68	278
Other loans:				
Commercial and industrial	71		787	858
Consumer	8		12	20
Total other loans	79		799	878
Total loans	$ 289	$	$ 867	$ 1,156
Total loans:				
Real estate loans:				
One- to four-family first mortgage	$ 429	$	$ 1,824	$ 2,253
Home equity loans and lines	210	59	380	649

Commercial real estate	705		6,307	7,012
Construction and land	145			145
Multi-family residential				
Total real estate loans	1,489	59	8,511	10,059
Other loans:				
Commercial and industrial	71		1,253	1,324
Consumer	8		99	107
Total other loans	79		1,352	1,431
Total loans	$ 1,568	$ 59	$ 9,863	$ 11,490

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	As of December 31, 2017			
(dollars in thousands)	**Current**	**Past Due Greater Than 30 Days**	**Nonaccrual TDRs**	**Total TDRs**
Originated loans:				
Real estate loans:				
One- to four-family first mortgage	$ 306	$ 274	$ 473	$ 1,053
Home equity loans and lines	275	64	316	655
Commercial real estate	96	332	1,942	2,370
Construction and land	169			169
Multi-family residential				
Total real estate loans	846	670	2,731	4,247
Other loans:				
Commercial and industrial			4,581	4,581
Consumer			178	178
Total other loans			4,759	4,759
Total loans	$ 846	$ 670	$ 7,490	$ 9,006
Acquired loans:				
Real estate loans:				
One- to four-family first mortgage	$ 214	$ 3	$ 59	$ 276
Home equity loans and lines			91	91
Commercial real estate		803		803
Construction and land				
Multi-family residential				
Total real estate loans	214	806	150	1,170
Other loans:				
Commercial and industrial			203	203
Consumer				
Total other loans			203	203
Total loans	$ 214	$ 806	$ 353	$ 1,373
Total loans:				
Real estate loans:				
One- to four-family first mortgage	$ 520	$ 277	$ 532	$ 1,329
Home equity loans and lines	275	64	407	746
Commercial real estate	96	1,135	1,942	3,173
Construction and land	169			169
Multi-family residential				

Total real estate loans	1,060	1,476	2,881	5,417
Other loans:				
Commercial and industrial			4,784	4,784
Consumer			178	178
Total other loans			4,962	4,962
Total loans	$ 1,060	$ 1,476	$ 7,843	$ 10,379

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The following table summarizes information pertaining to loans modified as of the periods indicated.

	For the Nine Months Ended September 30,					
	2018			2017		
(dollars in thousands)	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:						
One- to four-family first mortgage	2	$ 1,132	$ 1,131	5	$ 268	$ 263
Home equity loans and lines				2	38	37
Commercial real estate	1	6,423	5,923	1	431	431
Construction and land						
Multi-family residential						
Commercial and industrial	2	738	676	1	1,439	1,146
Other consumer	3	20	20	2	60	57
Total	8	$ 8,313	$ 7,750	11	$ 2,236	$ 1,934

None of the performing troubled debt restructurings as of September 30, 2018 had defaulted subsequent to the restructuring through the date the financial statements were available to be issued.

6. Fair Value Measurements and Disclosures

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The Company groups assets and liabilities measured or disclosed at fair value in three levels as required by ASC 820, *Fair Value Measurements and Disclosures*. Under this guidance, fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the inputs used to develop those assumptions and measure fair value. The hierarchy requires companies to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels used to measure fair value are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

An asset s or liability s categorization within the fair value hierarchy is based upon the lowest level that is significant to the fair value measurement. Management reviews and updates the fair value hierarchy classifications of the Company s assets and liabilities quarterly.

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Recurring Basis

Investment Securities Available for Sale

Fair values of investment securities available for sale are primarily measured using information from a third-party pricing service. This pricing service provides pricing information by utilizing pricing models supported with market data information. Standard inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities bids, offers and other reference data from market research publications. If quoted prices are available in an active market, investment securities are classified as Level 1 measurements. If quoted prices are not available in an active market, fair values are estimated primarily by the use of pricing models. Level 2 investment securities are primarily comprised of mortgage-backed securities issued by government agencies and U.S. government-sponsored enterprises. In certain cases, where there is limited or less transparent information provided by the Company s third-party pricing service, fair value is estimated by the use of secondary pricing services or through the use of non-binding third-party broker quotes. Investment securities are classified within Level 3 when little or no market activity supports the fair value.

Management primarily identifies investment securities, which may have traded in illiquid or inactive markets, by identifying instances of a significant decrease in the volume and frequency of trades, relative to historical levels, as well as instances of a significant widening of the bid-ask spread in the brokered markets. Investment securities that are deemed to have been trading in illiquid or inactive markets may require the use of significant unobservable inputs. For example, management may use quoted prices for similar investment securities in the absence of a liquid and active market for the investment securities being valued. As of September 30, 2018, management did not make adjustments to prices provided by the third-party pricing service as a result of illiquid or inactive markets.

The following tables present the balances of assets measured for fair value on a recurring basis as of September 30, 2018 and December 31, 2017.

(dollars in thousands)	**September 30, 2018**	**Level 1**	**Level 2**	**Level 3**
Available for sale securities:				
U.S. agency mortgage-backed	$ 79,492	$	$ 79,492	$
Collateralized mortgage obligations	147,441		147,441	
Municipal bonds	21,674		21,674	
U.S. government agency	10,341		10,341	
Total	$ 258,948	$	$ 258,948	$

(dollars in thousands)	**December 31, 2017**	**Level 1**	**Level 2**	**Level 3**
Available for sale securities:				
U.S. agency mortgage-backed	$ 84,690	$	$ 84,690	$
Collateralized mortgage obligations	113,735		113,735	
Municipal bonds	25,521		25,521	
U.S. government agency	11,047		11,047	

Total	$ 234,993	$	$ 234,993	$

The Company did not record any liabilities at fair value for which measurement of the fair value was made on a recurring basis.

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Nonrecurring Basis

In accordance with the provisions of ASC 310, *Receivables*, the Company records loans considered impaired at fair value. A loan is considered impaired if it is probable the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Fair value is measured at the fair value of the collateral for collateral-dependent loans. For non-collateral-dependent loans, fair value is measured by present valuing expected future cash flows. Impaired loans are classified as Level 3 assets when measured using appraisals from third parties of the collateral less any prior liens and when there is no observable market price. Repossessed assets are initially recorded at fair value less estimated costs to sell. The fair value of repossessed assets is based on property appraisals and an analysis of similar properties available. As such, the Company classifies repossessed assets as Level 3 assets.

The Company has segregated all financial assets that are measured at fair value on a nonrecurring basis into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date as reflected in the table below.

		Fair Value Measurements Using		
(dollars in thousands)	**September 30, 2018**	**Level 1**	**Level 2**	**Level 3**
Assets				
Impaired loans	$ 8,442	$	$	$ 8,442
Repossessed assets	571			571
Total	$ 9,013	$	$	$ 9,013

		Fair Value Measurements Using		
(dollars in thousands)	**December 31, 2017**	**Level 1**	**Level 2**	**Level 3**
Assets				
Impaired loans	$ 1,486	$	$	$ 1,486
Repossessed assets	728			728
Total	$ 2,214	$	$	$ 2,214

The following table shows significant unobservable inputs used in the fair value measurement of Level 3 assets.

(dollars in thousands)	**Fair Value**	**Valuation Technique**	**Unobservable Inputs**	**Range of Discounts**	**Weighted Average Discount**
As of September 30, 2018:					
Impaired loans	$ 8,442	Third party appraisals and discounted cash flows	Collateral discounts and discount rates	0% - 80%	14%
Repossessed assets	$ 571			6% - 100%	42%

	Third party appraisals, sales contracts, broker price opinions	Collateral discounts and estimated costs to sell

(dollars in thousands)	**Fair Value**	**Valuation Technique**	**Unobservable Inputs**	**Range of Discounts**	**Weighted Average Discount**
As of December 31, 2017:					
Impaired loans	$ 1,486	Third party appraisals and discounted cash flows	Collateral discounts and discount rates	0% - 100%	57%
Repossessed assets	$ 728	Third party appraisals, sales contracts, broker price opinions	Collateral discounts and estimated costs to sell	6% - 100%	28%

ASC 820, *Fair Value Measurements and Disclosures*, requires the disclosure of each class of financial instruments for which it is practicable to estimate. The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. ASC 820 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial statements. These estimates are subjective in nature, 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 included herein are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the fair value of assets and liabilities that are not required to be recorded or disclosed at fair value like premises and equipment. In addition, the 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 the estimates.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

The carrying value of cash and cash equivalents and interest-bearing deposits in banks approximate their fair value.

The fair value for investment securities is determined from quoted market prices when available. If a quoted market price is not available, fair value is estimated using first party pricing services or quoted market prices of securities with similar characteristics.

The carrying value of mortgage loans held for sale approximates their fair value.

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturity.

The cash surrender value of bank-owned life insurance (BOLI) approximates its fair value.

The fair value of customer deposits, excluding certificates of deposit, is the amount payable on demand. The fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.

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The fair value of short-term FHLB advances is the amount payable at maturity. The fair value of long-term FHLB advances is estimated by discounting the future cash flows using the rates currently offered for advances of similar maturities.

The following table presents estimated fair values of the Company s financial instruments as of the dates indicated.

		Fair Value Measurements at September 30, 2018			
(dollars in thousands)	Carrying Amount	Total	Level 1	Level 2	Level 3
Financial Assets					
Cash and cash equivalents	$ 61,724	$ 61,724	$ 61,724	$	$
Interest-bearing deposits in banks	1,184	1,184	1,184		
Investment securities available for sale	258,948	258,948		258,948	
Investment securities held to maturity	10,942	10,868		10,868	
Mortgage loans held for sale	3,470	3,470		3,470	
Loans, net	1,617,276	1,590,380		1,581,938	8,442
Cash surrender value of BOLI	29,394	29,394	29,394		
Financial Liabilities					
Deposits	$ 1,771,312	$ 1,766,441	$	$ 1,766,441	$
Short-term FHLB advances	41	41	41		
Long-term FHLB advances	59,536	57,879		57,879	

		Fair Value Measurements at December 31, 2017			
(dollars in thousands)	Carrying Amount	Total	Level 1	Level 2	Level 3
Financial Assets					
Cash and cash equivalents	$ 150,418	$ 150,418	$ 150,418	$	$
Interest-bearing deposits in banks	2,421	2,421	2,421		
Investment securities available for sale	234,993	234,993		234,993	
Investment securities held to maturity	13,034	13,055		13,055	
Mortgage loans held for sale	5,873	5,873		5,873	
Loans, net	1,642,988	1,642,634		1,641,148	1,486
Cash surrender value of BOLI	28,904	28,904	28,904		
Financial Liabilities					
Deposits	$ 1,866,227	$ 1,864,735	$	$ 1,864,735	$
Short-term FHLB advances	3,642	3,642	3,642		
Long-term FHLB advances	68,183	67,143		67,143	

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

The purpose of this discussion and analysis is to focus on significant changes in the financial condition of Home Bancorp, Inc. (the Company) and its wholly owned subsidiary, Home Bank, N. A. (the Bank), from

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December 31, 2017 through September 30, 2018 and on its results of operations for the three and nine months ended September 30, 2018 and September 30, 2017. This discussion and analysis is intended to highlight and supplement information presented elsewhere in this quarterly report on Form 10-Q, particularly the consolidated financial statements and related notes appearing in Item 1.

Forward-Looking Statements

To the extent that statements in this Form 10-Q relate to future plans, objectives, financial results or performance of the Company or Bank, these statements are deemed to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements, which are based on management s current information, estimates and assumptions and the current economic environment, are generally identified by the use of words such as plan , believe , expect , intend , anticipate , estimate , project or similar expressions, or by futur conditional terms such as will , would , should , could , may , likely , probably , or possibly . The Company actual strategies and results in future periods may differ materially from those currently expected due to various risks and uncertainties. Factors that may cause actual results to differ materially from these forward-looking statements include, but are not limited to, the risk factors described under the heading Risk Factors in the Company s Annual Report on Form 10-K filed with the Securities Exchange Commission (SEC) for the year ended December 31, 2017. The Company undertakes no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date on which such statements were made.

EXECUTIVE OVERVIEW

During the third quarter of 2018, the Company earned $8.3 million, an increase of $4.2 million, or 102.0%, compared to the third quarter of 2017. Diluted earnings per share for the third quarter of 2018 were $0.89, an increase of $0.33, or 58.9%, compared to the third quarter of 2017. The increase in earnings is primarily due to the acquisition of St. Martin Bancshares, Inc. (SMB). In addition, net income for the third quarter of 2017 included merger expenses related to the acquisition of SMB totaling $225,000, net of taxes. No merger-related expenses were recorded during the third quarter of 2018.

During the nine months ended September 30, 2018, the Company earned $23.5 million, an increase of $9.9 million, or 73.0%, compared to the nine months ended September 30, 2017. Diluted earnings per share for the nine months ended September 30, 2018 were $2.53, an increase of $0.65, or 34.6%, compared to the nine months ended September 30, 2017. The nine months ended September 30, 2018 and September 30, 2017 included merger expenses related to the acquisition of SMB totaling $1.6 million and $225,000, net of taxes, respectively.

Key components of the Company s performance during the three and nine months ended September 30, 2018 include:

Assets totaled $2.1 billion as of September 30, 2018, a decrease of $87.6 million, or 3.9%, from December 31, 2017.

Loans as of September 30, 2018 were $1.6 billion, a decrease of $24.8 million, or 1.5%, from December 31, 2017.

Investment securities totaled $269.9 million as of September 30, 2018, an increase of $21.9 million, or 8.8%, from December 31, 2017.

Deposits totaled $1.8 billion as of September 30, 2018, a decrease of $94.9 million, or 5.1%, from December 31, 2017.

Interest income increased $8.4 million, or 47.8%, in the third quarter of 2018 compared to the third quarter of 2017. For the nine months ended September 30, 2018, interest income increased $24.0 million, or 45.7%, compared to the nine months ended September 30, 2017. The increases in 2018 were driven primarily by the addition of the interest-earning assets acquired from SMB.

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Interest expense increased $890,000, or 52.0%, in the third quarter of 2018 compared to the third quarter of 2017. For the nine months ended September 30, 2018, interest expense increased $2.5 million, or 53.2%, compared to the nine months ended September 30, 2017. The increases in 2018 were driven primarily by the addition of the interest-bearing liabilities acquired from SMB.

The provision for loan losses totaled $786,000 for the third quarter of 2018, an increase of $126,000, or 19.1%, compared to the third quarter of 2017. For the nine months ended September 30, 2018, the Company recorded a provision for loan losses of $2.3 million, a $1.2 million, or 108.7%, increase from the provision recorded for the same period in 2017. The Company recorded net loan charge-offs for the third quarter of 2018 of $15,000 and net loan charge-offs for the nine months ended September 30, 2018 of $1.4 million. The Company recorded net loan charge-offs for the third quarter of 2017 of $246,000 and net loan charge-offs for the nine months ended September 30, 2017 of $204,000.

Noninterest income for the third quarter of 2018 increased $1.0 million, or 45.7%, compared to the third quarter of 2017. For the nine months ended September 30, 2018, noninterest income increased $2.9 million, or 39.6%, compared to the nine months ended September 30, 2017. The increase for the comparative quarters resulted primarily from additional service fees and charges, bank card fees, and other income due to the SMB acquisition. The increase in the nine-month comparative periods resulted primarily from additional service fees and charges and bank card fees due to the SMB acquisition, which were partially offset by decreases in gains on the sale of mortgage loans.

Noninterest expense for the third quarter of 2018 increased $4.4 million, or 38.4%, compared to the third quarter of 2017. Noninterest expense for the nine months ended September 30, 2018 increased $14.2 million, or 42.4%, compared to the nine months ended September 30, 2017. Noninterest expense includes merger-related expenses, which totaled $2.0 million (pre-tax) for the nine months ended September 30, 2018 and $247,000 (pre-tax) for the three and nine months ended September 30, 2017. The increases in noninterest expense related primarily to the growth of the Company s employee base, higher occupancy and data processing costs due to the SMB acquisition.

FINANCIAL CONDITION

Loans, Asset Quality and Allowance for Loan Losses

Loans Loans outstanding as of September 30, 2018 were $1.6 billion, a decrease of $24.8 million from December 31, 2017. Growth in originated loans of 10.6% (14.2% annualized) during the first nine months of 2018 was offset by reductions in Acquired Loan balances. Organic loan growth resulted primarily from increases in the Company s commercial real estate loan portfolio.

The following table summarizes the composition of the Company s loan portfolio as of the dates indicated.

(dollars in thousands)	September 30, 2018	December 31, 2017	Increase/(Decrease) Amount	Percent
Real estate loans:				
One- to four-family first mortgage	$ 456,797	$ 477,211	$ (20,414)	(4.3)%
Home equity loans and lines	86,405	94,445	(8,040)	(8.5)

Commercial real estate	629,297	611,358	17,939	2.9
Construction and land	174,573	177,263	(2,690)	(1.5)
Multi-family residential	56,153	50,978	5,175	10.2
Total real estate loans	1,403,225	1,411,255	(8,030)	(0.6)
Other loans:				
Commercial and industrial	173,938	185,284	(11,346)	(6.1)
Consumer	55,856	61,256	(5,400)	(8.8)
Total other loans	229,794	246,540	(16,746)	(6.8)
Total loans	$ 1,633,019	$ 1,657,795	$ (24,776)	(1.5)%

Asset Quality One of management s key objectives has been, and continues to be, maintaining a high level of asset quality. In addition to maintaining credit standards for new loan originations, we proactively monitor loans and collection and workout processes of delinquent or problem loans. When a borrower fails to make a scheduled payment, we attempt to cure the deficiency by making personal contact with the borrower. Initial contacts are generally made within 10 days after the date payment is due. In most cases, deficiencies are promptly resolved. If the delinquency continues, late charges are assessed and additional efforts are made to collect the deficiency. All loans which are designated as special mention, classified or which are delinquent 90 days or more are reported to the Board of Directors of the Bank monthly. For loans where the collection of principal or interest payments is doubtful, the accrual of interest income ceases. It is our policy, with certain limited exceptions, to discontinue accruing interest and reverse any interest accrued on any loan which is 90 days or more past due. On occasion, this action may be taken earlier if the financial condition of the borrower raises significant concern with regard to their ability to service the debt in accordance with the terms of the loan agreement. Interest income is not accrued on these loans until the borrower s financial condition and payment record demonstrate an ability to service the debt.

Repossessed assets, which are acquired as a result of foreclosure, are classified as repossessed assets until sold. Third party property valuations are obtained at the time the asset is repossessed and periodically until the property is liquidated. Repossessed assets are initially recorded at fair value less estimated costs to sell. Costs associated with acquiring and improving a foreclosed property are usually capitalized to the extent that the carrying value does not exceed fair value less estimated selling costs. Holding costs are charged to expense. Gains and losses on the sale of repossessed assets are charged to operations, as incurred.

An impaired loan generally is one for which it is probable, based on current information, that the lender will not collect all the amounts due under the contractual terms of the loan. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Loans collectively evaluated for impairment include smaller balance commercial loans, residential real estate loans and consumer loans. These loans are evaluated as a group because they have similar characteristics and performance experience. Larger (i.e., loans with balances of $250,000 or greater) commercial real estate loans, multi-family residential loans, construction and land loans and commercial and industrial loans are individually evaluated for impairment. Third party property valuations are obtained at the time of origination for real estate secured loans. When a determination is made that a loan has deteriorated to the point of becoming a problem loan, updated valuations may be ordered to help determine if there is impairment, which may lead to a recommendation for partial charge off or appropriate allowance allocation. Property valuations are ordered through, and are reviewed by, an appraisal officer at the bank. The Company typically orders an as is valuation for collateral property if a loan is in a criticized loan classification. The Board of Directors is provided with monthly reports on impaired loans. As of September 30, 2018 and December 31, 2017, loans individually evaluated with impairment, excluding Acquired Loans, amounted to $9.8 million and $3.5 million, respectively. As of September 30, 2018 and December 31, 2017, acquired impaired loans (loans considered to have deteriorated credit quality at the time of acquisition) amounted to $11.0 million and $14.2 million, respectively. As of September 30, 2018 and December 31, 2017, substandard loans, excluding Acquired Loans, amounted to $19.8 million and $27.0 million, respectively. The amount of the allowance for loan losses allocated to substandard loans originated by Home Bank totaled $1.4 million as of September 30, 2018 and $2.0 million as of December 31, 2017. The amount of the allowance for loan losses allocated to Acquired Loans totaled $1.4 million and $504,000, respectively, at such dates. There were no assets classified as doubtful or loss as of September 30, 2018 or December 31, 2017.

Federal regulations and our policies require that we utilize an internal asset classification system as a means of reporting problem and potential problem assets. We have incorporated an internal asset classification system, substantially consistent with Federal banking regulations, as a part of our credit monitoring system. Federal banking regulations set forth a classification scheme for problem and potential problem assets as substandard, doubtful or loss assets. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

A bank s determination as to the classification of its assets and the amount of its valuation allowances is subject to review by Federal bank regulators which can order the establishment of additional general or specific loss allowances. The Federal banking agencies have adopted an interagency policy statement on the allowance for loan and lease losses. The policy statement provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of allowances and guidance for banking agency examiners to use in determining the adequacy of general valuation guidelines. Generally, the policy statement recommends that institutions have effective systems and controls to identify, monitor and address asset quality problems; that management analyze all significant factors that affect the collectability of the portfolio in a reasonable manner; and that management establish acceptable allowance evaluation processes that meet the objectives set forth in the policy statement. Our management believes that, based on information currently available, our allowance for loan losses is maintained at a level which covers all known and inherent losses that are both probable and reasonably estimable as of each reporting date. However, actual losses are dependent upon future events and, as such, further additions to the level of allowance for loan losses may become necessary.

Real estate, or other collateral, which is acquired as a result of foreclosure is classified as a foreclosed asset until sold. Foreclosed assets are recorded at the lesser of the balance of the loan or fair value less estimated selling costs, at the date acquired or upon receiving new property valuations. Holding costs are charged to expense. Gains and losses on the sale of real estate owned are charged to operations, as incurred.

The following table sets forth the composition of the Company s nonperforming assets (NPAs) and performing troubled debt restructurings as of the dates indicated.

	September 30, 2018			**December 31, 2017**		
(dollars in thousands)	**Originated**	**Acquired(1)**	**Total**	**Originated**	**Acquired(1)**	**Total**
Nonaccrual loans(2):						
Real estate loans:						
One- to four-family first mortgage	$ 2,637	$ 2,753	$ 5,390	$ 2,006	$ 1,167	$ 3,173
Home equity loans and lines	1,339	144	1,483	1,434	108	1,542
Commercial real estate	7,374	729	8,103	8,662	95	8,757
Construction and land	3	345	348	200	249	449
Multi-family residential						
Other loans:						
Commercial and industrial	4,281	873	5,154	9,678	932	10,610
Consumer	171	226	397	399	103	502
Total nonaccrual loans	15,805	5,070	20,875	22,379	2,654	25,033
Accruing loans 90 days or more past due						
Total nonperforming loans	15,805	5,070	20,875	22,379	2,654	25,033
Foreclosed assets	86	485	571	144	584	728

Total nonperforming assets	15,891	5,555	21,446	22,523	3,238	25,761
Performing troubled debt restructurings	1,338	288	1,626	1,516	1,020	2,536
Total nonperforming assets and troubled debt restructurings	$ 17,229	$ 5,843	$ 23,072	$ 24,039	$ 4,258	$ 28,297
Nonperforming loans to total loans			1.28%			1.51%
Nonperforming loans to total assets			0.98%			1.12%
Nonperforming assets to total assets			1.00%			1.16%

(1) Table excludes Acquired Loans, which were being accounted for under ASC 310-30 because they continue to earn interest from accretable yield regardless of their status as past due or otherwise not in compliance with their contractual terms. Acquired Loans with deteriorated credit quality, which were being accounted for under ASC 310-30 and which were 90 days or more past due, totaled $2.5 million and $4.3 million as of September 30, 2018 and December 31, 2017, respectively.

(2) Nonaccrual loans include originated restructured loans placed on nonaccrual totaling $9.0 million and $7.5 million at September 30, 2018 and December 31, 2017, respectively. Acquired restructured loans placed on nonaccrual totaled $868,000 and $353,000 at September 30, 2018 and December 31, 2017, respectively.

The Company recorded net loan charge-offs for the third quarter of 2018 of $15,000 and net loan charge-offs for the nine months ended September 30, 2018 of $1.4 million. The Company recorded net loan charge-offs for the third quarter of 2017 of $246,000 and net loan charge-offs for the nine months ended September 30, 2017 of $204,000.

Allowance for Loan Losses The allowance for loan losses is established through provisions for loan losses. The Company maintains the allowance at a level believed, to the best of management s knowledge, to cover all known and inherent losses in the portfolio that are both probable and reasonable to estimate at each reporting date. Management reviews the allowance for loan losses at least quarterly in order to identify those inherent losses and to assess the overall collection probability for the loan portfolio. The evaluation process includes, among other things, an analysis of delinquency trends, nonperforming loan trends, the level of charge-offs and recoveries, prior loss experience, total loans outstanding, the volume of loan originations, the type, size and geographic concentration of loans, the value of collateral securing loans, the borrower s ability to repay and repayment performance, the number of loans requiring heightened management oversight, economic conditions and industry experience. Based on this evaluation, management assigns risk ratings to segments of the loan portfolio. Such risk ratings are periodically reviewed by management and revised as deemed appropriate. These efforts are supplemented by reviews and validations performed by independent loan reviewers. The results of the reviews are reported to the Audit Committee of the Board of Directors. The establishment of the allowance for loan losses is significantly affected by management judgment. There is likelihood that different amounts would be reported under different conditions or assumptions. Federal regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require management to make additional provisions for estimated loan losses based upon judgments different from those of management.

With respect to Acquired Loans, the Company follows the reserve standard set forth in ASC 310, *Receivables*. At acquisition, the Company reviews each loan to determine whether there is evidence of deterioration in credit quality since origination and if it is probable that the Company will be unable to collect all amounts due according to the loan s contractual terms. The Company considers expected prepayments and estimates the amount and timing of undiscounted expected principal, interest and other cash flows for each loan pool meeting the criteria above, and determines the excess of the loan pool s scheduled contractual principal and interest payments in excess of cash flows expected at acquisition as an amount that should not be accreted (nonaccretable difference). The remaining amount, representing the excess of the pool s cash flows expected to be collected over the fair value, is accreted into interest income over the remaining life of the pool (accretable yield). The Company records a discount on these loans at acquisition to record them at their estimated fair values. As a result, Acquired Loans subject to ASC 310 are excluded from the calculation of the allowance for loan losses as of the acquisition date. See Note 5 to the Unaudited Consolidated Financial Statements for additional information concerning our allowance for Acquired Loans.

Acquired Loans were recorded at their acquisition date fair value, which was based on expected cash flows and included an estimation of expected future loan losses. If the present value of expected cash flows for a pool is less than its carrying value, an impairment is recognized by an increase in the allowance for loan losses and a charge to the provision for loan losses. As of September 30, 2018 and December 31, 2017, $1.4 million and $504,000, respectively, of our allowance for loan losses was allocated to Acquired Loans.

We will continue to monitor and modify our allowance for loan losses as conditions warrant. No assurance can be given that our level of allowance for loan losses will cover all of the inherent losses on our loans or that future adjustments to the allowance for loan losses will not be necessary if economic and other conditions differ substantially from the conditions used by management to determine the current level of the allowance for loan losses.

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The following table presents the activity in the allowance for loan losses during the first nine months of 2018.

(dollars in thousands)	**Originated**	**Acquired**	**Total**
Balance, December 31, 2017	$ 14,303	$ 504	$ 14,807
Provision charged to operations	1,484	847	2,331
Loans charged off	(1,564)		(1,564)
Recoveries on charged off loans	169		169
Balance, September 30, 2018	$ 14,392	$ 1,351	$ 15,743

At September 30, 2018, the Company s ratio of the allowance for loan losses to total loans was 0.96%, compared to 0.89% and 1.09% at December 31, 2017 and September 30, 2017, respectively. Excluding Acquired Loans, the ratio of the allowance for loan losses to total loans was 1.38% at September 30, 2018, compared to 1.52% and 1.40% at December 31, 2017 and September 30, 2017, respectively.

The allowance for loan losses attributable to originated direct energy-related loans totaled 2.50% of the outstanding balance of originated energy-related loans at September 30, 2018, compared to 2.49% and 3.13% at December 31, 2017 and September 30, 2017, respectively.

Investment Securities

The Company s investment securities portfolio totaled $269.9 million as of September 30, 2018, an increase of $21.9 million, or 8.8%, from December 31, 2017. As of September 30, 2018, the Company had a net unrealized loss on its available for sale investment securities portfolio of $5.8 million, compared to a net unrealized loss of $1.5 million as of December 31, 2017.

The following table summarizes activity in the Company s investment securities portfolio during the first nine months of 2018.

(dollars in thousands)	**Available for Sale**	**Held to Maturity**
Balance, December 31, 2017	$ 234,993	$ 13,034
Purchases	67,539	
Sales		
Principal maturities, prepayments and calls	(38,016)	(1,855)
Amortization of premiums and accretion of discounts	(1,279)	(237)
Decrease in market value	(4,289)	
Balance, September 30, 2018	$ 258,948	$ 10,942

Funding Sources

Deposits Deposits totaled $1.8 billion as of September 30, 2018, a decrease of $94.9 million, or 5.1%, compared to December 31, 2017. Core deposits (i.e. checking, savings and money market accounts) totaled $1.4 billion as of

September 30, 2018, a decrease of $54.7 million, or 3.7%, compared to December 31, 2017. Certificates of deposit totaled $348.9 million as of September 30, 2018, a decrease of $40.2 million, or 10.3%, compared to December 31, 2017. To reverse the trend in deposit outflows, management has begun to raise interest rates on deposit accounts and is currently offering several special rates to attract new deposits.

The following table sets forth the composition of the Company s deposits at the dates indicated.

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(dollars in thousands)	September 30, 2018	December 31, 2017	Increase/(Decrease) Amount	Percent
Demand deposit	$ 447,422	$ 461,999	$ (14,577)	(3.2)%
Savings	207,379	217,639	(10,260)	(4.7)
Money market	293,313	306,509	(13,196)	(4.3)
NOW	474,250	490,924	(16,674)	(3.4)
Certificates of deposit	348,948	389,156	(40,208)	(10.3)
Total deposits	$ 1,771,312	$ 1,866,227	$ (94,915)	(5.1)%

Federal Home Loan Bank Advances Short-term FHLB advances totaled $41,000 as of September 30, 2018, a decrease of $3.6 million, or 98.9%, compared to $3.6 million as of December 31, 2017. Long-term FHLB advances totaled $59.5 million as of September 30, 2018, a decrease of $8.6 million, or 12.7%, compared to $68.2 million as of December 31, 2017. The decreases in FHLB advances are primarily due to pay-downs on maturing obligations.

Shareholders Equity Shareholders equity increased $17.8 million, or 6.4%, from $277.9 million as of December 31, 2017 to $295.7 million as of September 30, 2018, primarily due to earnings during the period.

As of September 30, 2018, the Bank had regulatory capital amounts that were well in excess of regulatory requirements. The following table presents actual and required capital ratios for the Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of September 30, 2018 based on the phase-in provisions of the Basel III Capital Rules and the minimum required capital levels as of January 1, 2019 when the Basel III Capital Rules have been fully phased-in. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

	Actual		Minimum Capital Required Basel III Phase-In Schedule		Minimum Capital Required Basel III Fully Phased-In		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Bank:								
Common equity Tier 1 capital (to risk-weighted assets)	$ 221,952	13.91%	$ 101,713	6.375%	$ 111,685	7.00%	$ 103,707	6.50%
Tier 1 risk-based capital	221,952	13.91	125,645	7.875	135,617	8.50	127,640	8.00
Total risk-based capital	237,695	14.90	157,555	9.875	167,527	10.50	159,550	10.00
Tier 1 leverage capital	221,952	10.73	82,725	4.00	82,725	4.00	103,406	5.00

LIQUIDITY AND ASSET/LIABILITY MANAGEMENT

Liquidity Management

Liquidity management encompasses our ability to ensure that funds are available to meet the cash flow requirements of depositors and borrowers, while also ensuring adequate cash flow exists to meet the Company s needs, including operating, strategic and capital. The Company develops its liquidity management strategies as part of its overall asset/liability management process. Our primary sources of funds are from deposits, amortization of loans, loan prepayments and the maturity of loans, investment securities and other investments, and other funds provided from operations. While scheduled payments from the amortization of loans and investment securities and maturing investment securities are relatively predictable sources of funds, deposit flows and loan prepayments can be greatly influenced by general interest rates, economic conditions and competition. The Company also maintains excess funds in short-term, interest-bearing assets that provide additional liquidity. As of September 30, 2018, cash and cash equivalents totaled $61.7 million. At such date, investment securities available for sale totaled $258.9 million.

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The Company uses its liquidity to fund existing and future loan commitments, to fund maturing certificates of deposit and demand deposit withdrawals, to invest in other interest-earning assets, and to meet operating expenses. As of September 30, 2018, certificates of deposit maturing within the next 12 months totaled $207.5 million. Based upon historical experience, the Company anticipates that a significant portion of the maturing certificates of deposit will be redeposited with us. For the three months ended September 30, 2018, the average balance of outstanding FHLB advances was $64.2 million. As of September 30, 2018, the Company had $59.6 million in total outstanding FHLB advances and had $730.9 million in additional FHLB advances available.

In addition to cash flow from loan and securities payments and prepayments as well as from sales of securities available for sale, the Company has significant borrowing capacity available to fund liquidity needs. In recent years, the Company has utilized borrowings as a cost efficient addition to deposits as a source of funds. Borrowings consist of advances from the FHLB of Dallas, of which the Company is a member. Under terms of the collateral agreement with the FHLB, the Company pledges residential mortgage loans and investment securities as well as the Company s stock in the FHLB as collateral for such advances.

Asset/Liability Management

The objective of asset/liability management is to implement strategies for the funding and deployment of the Company s financial resources that are expected to maximize soundness and profitability over time at acceptable levels of risk. Interest rate sensitivity is the potential impact of changing rate environments on both net interest income and cash flows. The Company measures its interest rate sensitivity over the near term primarily by running net interest income simulations. Our interest rate sensitivity also is monitored by management through the use of a model which generates estimates of the change in its net interest income over a range of interest rate scenarios. Based on the Company s interest rate risk model, the table below sets forth the results of immediate and sustained changes in interest rates as of September 30, 2018.

Shift in Interest Rates (in bps)	% Change in Projected Net Interest Income
+300	0.0%
+200	0.1
+100	0.2

The actual impact of changes in interest rates will depend on many factors. These factors include the Company s ability to achieve expected growth in earning assets and maintain a desired mix of earning assets and interest-bearing liabilities, the actual timing of asset and liability repricing, the magnitude of interest rate changes and corresponding movement in interest rate spreads, and the level of success of asset/liability management strategies.

Off-Balance Sheet Activities

To meet the financing needs of its customers, the Bank issues financial instruments which represent conditional obligations that are not recognized, wholly or in part, in the statements of financial condition. These financial instruments include commitments to extend credit and standby letters of credit. Such instruments expose the Company to varying degrees of credit and interest rate risk in much the same way as funded loans. The same credit

policies are used in these commitments as for on-balance sheet instruments. The Company s exposure to credit losses from these financial instruments is represented by their contractual amounts.

The following table summarizes our outstanding commitments to originate loans and to advance additional amounts pursuant to outstanding letters of credit, lines of credit and undisbursed construction loans as of September 30, 2018 and December 31, 2017.

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	Contract Amount	
(dollars in thousands)	September 30, 2018	December 31, 2017
Standby letters of credit	$ 3,582	$ 6,620
Available portion of lines of credit	168,223	203,367
Undisbursed portion of loans in process	109,338	78,578
Commitments to originate loans	137,510	96,183

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 of the commitments are expected to be drawn upon, the total commitment amounts generally represent future cash requirements.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

The Company is subject to certain claims and litigation arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material effect on the financial condition or results of operations of the Company.

RESULTS OF OPERATIONS

During the third quarter of 2018, the Company earned $8.3 million, an increase of $4.2 million, or 102.0%, compared to the third quarter of 2017. Diluted earnings per share for the third quarter of 2018 were $0.89, an increase of $0.33, or 58.9%, compared to the third quarter of 2017. The increase in earnings is primarily due to the acquisition of SMB. In addition, net income for the third quarter of 2017 included merger expenses related to the acquisition of SMB totaling $225,000, net of taxes. No merger-related expenses were recorded during the third quarter of 2018.

During the nine months ended September 30, 2018, the Company earned $23.5 million, an increase of $9.9 million, or 73.0%, compared to the nine months ended September 30, 2017. Diluted earnings per share for the nine months ended September 30, 2018 were $2.53, an increase of $0.65, or 34.6%, compared to the nine months ended September 30, 2017. The nine months ended September 30, 2018 and September 30, 2017 include merger expenses related to the acquisition of SMB totaling $1.6 million, net of taxes, and $225,000, net of taxes, respectively. The nine months ended September 30, 2017 also includes a net loss totaling $45,000, net of taxes, resulting from a write down on a banking center in the second quarter of 2017 and a gain on the sale of a banking center in the first quarter of 2017.

Net Interest Income   Net interest income is the difference between the interest income earned on interest-earning assets, such as loans and investment securities, and the interest expense paid on interest-bearing liabilities, such as deposits and borrowings. The Company s net interest income is largely determined by our net interest spread, which is the difference between the average yield earned on interest-earning assets and the average rate paid on interest-bearing liabilities, and the relative amounts of interest-earning assets and interest-bearing liabilities. The Company s tax-equivalent net interest spread was 4.53% and 4.13% for the three months ended September 30, 2018 and September 30, 2017, respectively, and 4.46% and 4.20% for the nine months ended September 30, 2018 and September 30, 2017, respectively. The Company s tax-equivalent net interest margin, which is net interest income as a percentage of average interest-earning assets, was 4.74% and 4.29% for the three months ended September 30, 2018 and September 30, 2017, respectively, and was 4.64% and 4.35% for the nine months ended September 30, 2018 and September 30, 2017, respectively.

Net interest income totaled $23.5 million for the three months ended September 30, 2018, an increase of $7.6 million, or 47.3%, compared to the three months ended September 30, 2017. For the nine months ended September 30, 2018, net interest income totaled $69.4 million, an increase of $21.5 million, or 45.0%, compared to the nine months ended September 30, 2017. The addition of SMB s interest-earning assets accounted for the vast majority of the increase in both the three and nine-month periods ended September 30, 2018 over the prior comparable periods.

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The following tables set forth, for the periods indicated, information regarding (i) the total dollar amount of interest income of the Company from interest-earning assets and the resultant average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average rate; (iii) net interest income; (iv) net interest spread; and (v) net interest margin. Information is based on average monthly balances during the indicated periods. Taxable equivalent (TE) yields are calculated using a marginal tax rate of 21% for 2018 and 35% for 2017.

	Three Months Ended September 30,					
	2018			2017		
(dollars in thousands)	**Average Balance**	**Interest**	**Average Yield/ Rate (1)**	**Average Balance**	**Interest**	**Average Yield/ Rate(1)**
Interest-earning assets:						
Loans receivable(1)						
Originated loans	$ 961,917	$ 14,365	5.87%	$ 917,056	$ 11,756	5.04%
Acquired loans	669,922	9,753	5.74	298,929	4,580	6.05
Total loans receivable(1)	1,631,839	24,118	5.82	1,215,985	16,336	5.29
Investment securities						
Taxable	245,156	1,516	2.47	182,411	983	2.16
Tax-exempt (TE)	33,197	178	2.71	30,406	152	3.07
Total investment securities	278,353	1,694	2.50	212,817	1,135	2.29
Other interest-earning assets	47,759	297	2.47	44,941	194	1.72
Total interest-earning assets (TE)	1,957,951	26,109	5.27	1,473,743	17,665	4.75
Noninterest-earning assets	179,471			99,925		
Total assets	$ 2,137,422			$ 1,573,668	$	
Interest-bearing liabilities:						
Deposits:						
Savings, checking and money market	$ 979,919	$ 1,379	0.56%	$ 726,995	$ 682	0.37%
Certificates of deposit	350,308	933	1.06	297,168	714	0.95
Total interest-bearing deposits	1,330,227	2,312	0.69	1,024,163	1,396	0.54
Short-term FHLB advances	1,423	6	1.78			
Long term FHLB advances	62,786	281	1.79	66,630	313	1.88
Total interest-bearing liabilities	1,394,436	2,599	0.74	1,090,793	1,709	0.62
Noninterest-bearing liabilities	449,619			291,267		

Total liabilities	1,844,055			1,382,060		
Shareholders equity	293,367			191,608		
Total liabilities and shareholders equity	$ 2,137,422			$ 1,573,668		
Net interest-earning assets	$ 563,515			$ 382,950		
Net interest spread (TE)		$ 23,510	4.53%		$ 15,956	4.13%
Net interest margin (TE)			4.74%			4.29%

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	Nine Months Ended September 30,					
	2018			2017		
(dollars in thousands)	**Average Balance**	**Interest**	**Average Yield/ Rate [1]**	**Average Balance**	**Interest**	**Average Yield/ Rate [1]**
Interest-earning assets:						
Loans receivable[1]						
Originated loans	$ 937,268	$ 39,707	5.61%	$ 909,068	$ 34,580	5.04%
Acquired loans	700,559	30,742	5.82	313,838	14,167	5.99
Total loans receivable[1]	1,637,827	70,449	5.70	1,222,906	48,747	5.28
Investment securities						
Taxable	238,694	4,355	2.43	174,936	2,807	2.14
Tax-exempt (TE)	34,766	543	2.64	31,347	471	3.08
Total investment securities	273,460	4,898	2.46	206,283	3,278	2.28
Other interest-earning assets	71,963	1,063	1.97	34,206	403	1.57
Total interest-earning assets (TE)	1,983,250	76,410	5.12	1,463,395	52,428	4.77
Noninterest-earning assets	185,501			102,392		
Total assets	$ 2,168,751			$ 1,565,787	$	
Interest-bearing liabilities:						
Deposits:						
Savings, checking and money market	$ 994,336	$ 3,421	0.46%	$ 702,565	$ 1,582	0.30%
Certificates of deposit	360,194	2,720	1.01	288,037	1,956	0.91
Total interest-bearing deposits	1,354,530	6,141	0.61	990,602	3,538	0.48
Short-term FHLB advances	2,868	39	1.81	18,166	95	0.69
Long term FHLB advances	65,666	877	1.78	71,754	972	1.81
Total interest-bearing liabilities	1,423,064	7,057	0.66	1,080,522	4,605	0.57
Noninterest-bearing liabilities	458,411			297,896		
Total liabilities	1,881,475			1,378,418		
Shareholders equity	287,276			187,369		
Total liabilities and shareholders equity	$ 2,168,751			$ 1,565,787		
Net interest-earning assets	$ 560,186			$ 382,873		

Net interest spread (TE)	$ 69,353	4.46%	$ 47,823	4.20%
Net interest margin (TE)		4.64%		4.35%

(1) Nonperforming loans are included in the respective average loan balances, net of deferred fees, discounts and loans in process. Acquired Loans were recorded at fair value upon acquisition and accrete interest income over the remaining lives of the respective loans.

The following table displays the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. The table distinguishes between (i) changes attributable to volume (changes in average volume between periods times prior year rate), (ii) changes attributable to rate (changes in average rate between periods times prior year volume) and (iii) total increase (decrease).

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(dollars in thousands)	For the Three Months Ended September 30, 2018 Compared to 2017 Change Attributable To			For the Nine Months Ended September 30, 2018 Compared to 2017 Change Attributable To		
	Rate	Volume	Total Increase (Decrease)	Rate	Volume	Total Increase (Decrease)
Interest income:						
Loans receivable	$ 1,877	$ 5,905	$ 7,782	$ 4,509	$ 17,193	$ 21,702
Investment securities	158	401	559	399	1,221	1,620
Other interest-earning assets	88	15	103	159	501	660
Total interest income	2,123	6,321	8,444	5,067	18,915	23,982
Interest expense:						
Savings, checking and money market accounts	440	257	697	1,073	766	1,839
Certificates of deposit	84	135	219	247	517	764
FHLB advances	(11)	(15)	(26)	76	(227)	(151)
Total interest expense	513	377	890	1,396	1,056	2,452
Increase (decrease) in net interest income	$ 1,610	$ 5,944	$ 7,554	$ 3,671	$ 17,859	$ 21,530

Provision for Loan Losses For the quarter ended September 30, 2018, the Company recorded a provision for loan losses of $786,000, which was 19.1% higher than the $660,000 recorded for the same period in 2017. For the nine months ended September 30, 2018, the provision for loan losses totaled $2.3 million, which was 108.7% higher than the $1.1 million recorded for the same period in 2017. The increase in provision for the nine-month period ended September 30, 2018 over the comparable period in the prior year resulted primarily due to growth in the organic loan portfolio and a $1.2 million increase in net loan charge-offs during the 2018 period, which was primarily driven by two commercial and industrial loan relationships.

The Company recorded net loan charge-offs of $15,000 during the third quarter of 2018, compared to $246,000 of net loan charge-offs in the third quarter of 2017. The Company recorded net loan charge-offs of $1.4 million during the nine months ended September 30, 2018 and net loan charge-offs of $204,000 for the nine months ended September 30, 2017. The increase in net loan charge-offs for the nine months ended September 30, 2018 resulted primarily from two loan relationships identified as problem credits in prior periods.

As of September 30, 2018, the Company s ratio of allowance for loan losses to total loans was 0.96%, compared to 0.89% and 1.09% at December 31, 2017 and September 30, 2017, respectively. Excluding Acquired Loans, the ratio of the allowance for loan losses to total loans was 1.38% at September 30, 2018, compared to 1.52% and 1.40% at December 31, 2017 and September 30, 2017, respectively. The ratio of nonperforming loans to total assets was 0.98% at September 30, 2018, compared to 1.12% at both December 31, 2017 and September 30, 2017.

Noninterest Income The Company s noninterest income was $3.3 million for the quarter ended September 30, 2018, $1.0 million, or 45.7%, higher than the $2.3 million earned for the same period in 2017. The increase for the comparative quarters resulted primarily from additional service fees and charges and bank card fees due to the SMB acquisition (up $582,000 and $392,000, respectively) and an increase of $151,000 in other income, driven primarily by recoveries on the Company s acquired loan portfolio.

Noninterest income was $10.2 million for the nine months ended September 30, 2018, $2.9 million, or 39.6%, higher than the $7.3 million earned for the same period of 2017. The nine months ended September 30, 2017

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included a net loss of $69,000 resulting from a $449,000 (pre-tax) write down on a closed banking center in Vicksburg, Mississippi and a $380,000 (pre-tax) gain on the sale of a banking center. The increase for the comparative nine-month periods resulted primarily from additional service fees and charges and bank card fees due primarily to the SMB acquisition (up $1.8 million and $1.2 million, respectively), which were partially offset by decreases in gains on the sale of mortgage loans (down $305,000).

Noninterest Expense The Company s noninterest expense was $15.7 million for the three months ended September 30, 2018, $4.4 million, or 38.4%, higher than the $11.3 million recorded for the same period in 2017. The increase in noninterest expense is related primarily to the growth of the Company s employee base, higher occupancy and data processing costs due to the SMB acquisition.

Noninterest expense was $47.6 million for the nine months ended September 30, 2018, $14.2 million, or 42.4%, higher than the $33.4 million for the same period of 2017. As described above, the increase is related primarily to the growth of the Company s employee base, higher occupancy and data processing costs due to the SMB acquisition. Noninterest expense includes merger-related expenses totaling $2.0 million (pre-tax) for the nine months ended September 30, 2018. In comparison, noninterest expense for the nine months ended September 30, 2017 includes $247,000 (pre-tax) in merger related expenses.

Income Taxes For the quarters ended September 30, 2018 and September 30, 2017, the Company incurred income tax expense of $2.1 million and $2.2 million, respectively. The Company s effective tax rate was 20.3% and 34.5% during the third quarters of 2018 and 2017, respectively. For the nine months ended September 30, 2018 and September 30, 2017, the Company incurred income tax expense of $6.1 million and $7.0 million, respectively. The lower effective tax rate recorded in 2018 was the result of the Tax Cuts and Jobs Act of 2017 (the Tax Act). The Tax Act reduced the federal corporate statutory tax rate from 35% to 21%. Differences between the effective tax rate and the statutory tax rate primarily relate to variances in items that are non-taxable or non-deductible (e.g., state tax, tax-exempt income, merger-related expenses, etc.).

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Quantitative and qualitative disclosures about market risk are presented in the Company s Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2017, under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations Asset/Liability Management and Market Risk . Additional information at September 30, 2018 is included herein under Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Asset/Liability Management .

Item 4. Controls and Procedures.

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and regulations and are operating in an effective manner.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Securities Exchange Act of 1934) occurred during the third quarter of 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Not applicable.

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Item 1A. Risk Factors.

There have been no material changes from the risk factors previously disclosed in the Company s Annual Report on Form 10-K for December 31, 2017 filed with the Securities and Exchange Commission.

Item 2. Unregistered Sales of Equity Securities and the Use of Proceeds.

The Company s purchases of its common stock made during the quarter consisted of stock repurchases under the Company s approved plans and are set forth in the following table.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plan or Programs(1)
July 1 July 31, 2018		$		365,892
August 1 August 31, 2018	7,206	45.97	7,206	358,686
September 1 September 30, 2018				358,686
Total	7,206	$ 45.97	7,206	358,686

(1) On June 7, 2013, the Company announced the commencement of a stock repurchase program. Under the 2013 plan, the Company was able to repurchase 370,000 shares, or approximately 5% of its common stock outstanding, through open market or privately negotiated transactions. On April 26, 2016, the Company announced a new stock repurchase program. Under the 2016 plan, the Company can repurchase up to 365,000 shares, or approximately 5% of its common stock outstanding at the time of adoption, through open market or privately negotiated transactions.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Financial Statement Schedules.

No.	Description
31.1	Rule 13(a)-14(a) Certification of the Chief Executive Officer
31.2	Rule 13(a)-14(a) Certification of the Chief Financial Officer
32.0	Section 1350 Certification
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document

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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.

	HOME BANCORP, INC.
November 7, 2018	By: /s/ John W. Bordelon John W. Bordelon *President, Chief Executive Officer and Director*
November 7, 2018	By: /s/ Joseph B. Zanco Joseph B. Zanco *Executive Vice President and Chief Financial Officer*
November 7, 2018	By: /s/ Mary H. Hopkins Mary H. Hopkins *Home Bank, N.A. First Vice President and Director of Financial Management*