

HomeTrust Bancshares, Inc.
Form 10-Q
February 08, 2019

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2018

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

For the transition period from _____ to _____

Commission file number: 001-35593

HOMETRUST BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation of organization) (IRS Employer Identification No.)

45-5055422

10 Woodfin Street, Asheville, North Carolina 28801

(Address of principal executive offices; Zip Code)

(828) 259-3939

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically 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, a 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

Edgar Filing: HomeTrust Bancshares, Inc. - Form 10-Q

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 Exchange Act). Yes No

There were 18,394,436 shares of common stock, par value of \$.01 per share, issued and outstanding as of February 7, 2018.

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

	Page Number
<u>PART I FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Balance Sheets (Unaudited) at December 31, 2018 and June 30, 2018</u>	<u>2</u>
<u>Consolidated Statements of Income (Loss) (Unaudited) for the Three and Six Months Ended December 31, 2018 and 2017</u>	<u>3</u>
<u>Consolidated Statements of Comprehensive Income (Loss) (Unaudited) for the Three and Six Months Ended December 31, 2018 and 2017</u>	<u>4</u>
<u>Consolidated Statements of Changes in Stockholders' Equity (Unaudited) for the Six Months Ended December 31, 2018 and 2017</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended December 31, 2018 and 2017</u>	<u>6</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>32</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>48</u>
Item 4. <u>Controls and Procedures</u>	<u>48</u>
<u>PART II OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>48</u>
Item 1A. <u>Risk Factors</u>	<u>48</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>48</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>49</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>49</u>
Item 5. <u>Other Information</u>	<u>49</u>
Item 6. <u>Exhibits</u>	<u>49</u>
<u>SIGNATURES</u>	<u>52</u>

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Balance Sheets

(Dollars in thousands, except per share data)

	(Unaudited)	
	December 31, 2018	June 30, 2018 ⁽¹⁾
Assets		
Cash	\$ 44,425	\$ 45,222
Interest-bearing deposits	26,881	25,524
Cash and cash equivalents	71,306	70,746
Commercial paper	239,286	229,070
Certificates of deposit in other banks	51,936	66,937
Debt securities available for sale, at fair value	149,752	154,993
Other investments, at cost	44,858	41,931
Loans held for sale	13,095	5,873
Total loans, net of deferred loan fees	2,632,231	2,525,852
Allowance for loan losses	(21,419)	(21,060)
Net loans	2,610,812	2,504,792
Premises and equipment, net	66,610	62,537
Accrued interest receivable	10,372	9,344
Real estate owned ("REO")	2,955	3,684
Deferred income taxes	28,533	32,565
Bank owned life insurance ("BOLI")	89,156	88,028
Goodwill	25,638	25,638
Core deposit intangibles	3,436	4,528
Other assets	5,354	3,503
Total Assets	\$ 3,413,099	\$ 3,304,169
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	\$ 2,258,069	\$ 2,196,253
Borrowings	688,000	635,000
Capital lease obligations	1,897	1,914
Other liabilities	54,163	61,760
Total liabilities	3,002,129	2,894,927
Stockholders' Equity		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, none issued or outstanding	—	—
Common stock, \$0.01 par value, 60,000,000 shares authorized, 18,520,825 shares issued and outstanding at December 31, 2018; 19,041,668 at June 30, 2018	185	191
Additional paid in capital	203,660	217,480
Retained earnings	215,289	200,575
Unearned Employee Stock Ownership Plan ("ESOP") shares	(7,142)	(7,406)
Accumulated other comprehensive loss	(1,022)	(1,598)
Total stockholders' equity	410,970	409,242
Total Liabilities and Stockholders' Equity	\$ 3,413,099	\$ 3,304,169

(1) Derived from audited financial statements.

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

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Income (Loss)

(Dollars in thousands, except per share data)

	(Unaudited)			
	Three Months		Six Months Ended	
	Ended		December 31,	
	December 31,	December 31,	December 31,	December 31,
	2018	2017	2018	2017
Interest and Dividend Income				
Loans	\$30,544	\$26,140	\$59,272	\$51,390
Securities available for sale	876	904	1,732	1,875
Commercial paper and interest-bearing deposits in other banks	1,966	1,303	3,823	2,472
Other investments	1,014	631	1,853	1,257
Total interest and dividend income	34,400	28,978	66,680	56,994
Interest Expense				
Deposits	3,607	1,541	6,357	2,887
Borrowings	3,692	2,077	6,950	4,046
Total interest expense	7,299	3,618	13,307	6,933
Net Interest Income	27,101	25,360	53,373	50,061
Provision for Loan Losses	—	—	—	—
Net Interest Income after Provision for Loan Losses	27,101	25,360	53,373	50,061
Noninterest Income				
Service charges and fees on deposit accounts	2,577	1,987	4,978	3,831
Loan income and fees	295	197	623	580
Gain on sale of loans held for sale	944	1,164	2,614	1,883
BOLI income	520	518	1,056	1,080
Gain from sale of premises and equipment	—	—	—	164
Other, net	749	593	1,427	1,183
Total noninterest income	5,085	4,459	10,698	8,721
Noninterest Expense				
Salaries and employee benefits	12,857	11,973	25,542	24,325
Net occupancy expense	2,551	2,473	4,898	4,822
Marketing and advertising	402	319	819	772
Telephone, postage, and supplies	743	748	1,512	1,433
Deposit insurance premiums	335	419	639	833
Computer services	1,895	1,595	3,744	3,140
Loss (gain) on sale and impairment of REO	75	104	254	(42)
REO expense	173	205	348	446
Core deposit intangible amortization	526	681	1,092	1,400
Other	2,301	2,460	4,893	4,734
Total noninterest expense	21,858	20,977	43,741	41,863
Income Before Income Taxes	10,328	8,842	20,330	16,919
Income Tax Expense	2,287	19,508	4,499	22,018
Net Income (Loss)	\$8,041	\$(10,666)	\$15,831	\$(5,099)
Per Share Data:				
Net income (loss) per common share:				
Basic	\$0.45	\$(0.59)	\$0.88	\$(0.28)
Diluted	\$0.43	\$(0.59)	\$0.84	\$(0.28)
Cash dividends declared per common share	\$0.06	\$—	\$0.06	\$—

Edgar Filing: HomeTrust Bancshares, Inc. - Form 10-Q

Average shares outstanding:

Basic	17,797,553	17,975,883	17,961,465	17,971,439
Diluted	18,497,334	17,975,883	18,689,584	17,971,439

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

3

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

	(Unaudited)			
	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Net Income (Loss)	\$8,041	\$(10,666)	\$15,831	\$(5,099)
Other Comprehensive Income (Loss)				
Unrealized holding gains (losses) on securities available for sale				
Gains (losses) arising during the period	1,126	(1,009)	748	(859)
Deferred income tax benefit (expense)	(259)	303	(172)	258
Total other comprehensive income (loss)	\$867	\$(706)	\$576	\$(601)
Comprehensive Income (Loss)	\$8,908	\$(11,372)	\$16,407	\$(5,700)

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

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

	Common Stock		Additional Paid In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (loss)	Total Stockholders' Equity
	Shares	Amount					
Balance at June 30, 2017	18,967,875	\$ 190	\$213,459	\$191,660	\$(7,935)	\$ 273	\$ 397,647
Net loss	—	—	—	(5,099)	—	—	(5,099)
Cumulative-effect adjustment on the change in accounting for share-based payments	—	—	—	680	—	—	680
Forfeited restricted stock	(6,600)	—	—	—	—	—	—
Granted restricted stock	2,000	—	—	—	—	—	—
Exercised stock options	3,900	—	57	—	—	—	57
Stock option expense	—	—	1,209	—	—	—	1,209
Restricted stock expense	—	—	805	—	—	—	805
ESOP shares allocated	—	—	398	—	265	—	663
Other comprehensive loss	—	—	—	—	—	(601)	(601)
Balance at December 31, 2017	18,967,175	\$ 190	\$215,928	\$187,241	\$(7,670)	\$(328)	\$ 395,361
Balance at June 30, 2018	19,041,668	\$ 191	\$217,480	\$200,575	\$(7,406)	\$(1,598)	\$ 409,242
Net income	—	—	—	15,831	—	—	15,831
Cash dividends declared on common stock	—	—	—	(1,117)	—	—	(1,117)
Stock repurchased	(559,755)	(6)	(15,640)	—	—	—	(15,646)
Forfeited restricted stock	(2,700)	—	—	—	—	—	—
Retired stock	(588)	—	(17)	—	—	—	(17)
Exercised stock options	42,200	—	608	—	—	—	608
Stock option expense	—	—	359	—	—	—	359
Restricted stock expense	—	—	397	—	—	—	397
ESOP shares allocated	—	—	473	—	264	—	737
Other comprehensive income	—	—	—	—	—	576	576
Balance at December 31, 2018	18,520,825	\$ 185	\$203,660	\$215,289	\$(7,142)	\$(1,022)	\$ 410,970

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

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

(Dollars in thousands)

	(Unaudited)	
	Six Months Ended	
	December 31,	
	2018	2017
Operating Activities:		
Net income (loss)	\$15,831	\$(5,099)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	2,144	1,950
Deferred income tax expense	3,860	21,780
Net amortization and accretion	(3,611)	(2,567)
Gain from sale of premises and equipment	—	(164)
Loss (gain) on sale and impairment of REO	254	(42)
Gain on sale of loans held for sale	(2,614)	(1,883)
Origination of loans held for sale	(79,420)	(68,114)
Proceeds from sales of loans held for sale	78,998	66,999
Increase (decrease) in deferred loan fees, net	(265)	297
Increase in accrued interest receivable and other assets	(2,816)	(2,818)
Amortization of core deposit intangibles	1,092	1,400
BOLI income	(1,056)	(1,080)
ESOP compensation expense	737	663
Restricted stock and stock option expense	756	2,014
Decrease in other liabilities	(7,597)	(1,904)
Net cash provided by operating activities	6,293	11,432
Investing Activities:		
Purchase of securities available for sale	(15,750)	—
Proceeds from maturities of securities available for sale	11,565	19,680
Net purchases of commercial paper	(7,204)	(48,440)
Purchase of certificates of deposit in other banks	(6,709)	(12,619)
Maturities of certificates of deposit in other banks	21,710	44,544
Principal repayments of mortgage-backed securities	9,668	10,941
Net redemptions (purchases) of other investments	(2,927)	478
Net increase in loans	(108,995)	(64,275)
Purchase of BOLI	(79)	(69)
Proceeds from redemption of BOLI	7	146
Purchase of premises and equipment	(692)	(1,496)
Purchase of operating lease equipment	(5,525)	—
Capital improvements to REO	—	(18)
Proceeds from sale of premises and equipment	—	923
Proceeds from sale of REO	571	2,151
Net cash used in investing activities	(104,360)	(48,054)
Financing Activities:		
Net increase in deposits	61,816	59,757
Net increase (decrease) in other borrowings	53,000	(11,500)
Common stock repurchased	(15,646)	—
Cash dividend declared	(1,117)	—
Retired stock	(17)	—

Edgar Filing: HomeTrust Bancshares, Inc. - Form 10-Q

Exercised stock options	608	57
Decrease in capital lease obligations	(17) (12
Net cash provided by financing activities	98,627	48,302
Net Increase in Cash and Cash Equivalents	560	11,680
Cash and Cash Equivalents at Beginning of Period	70,746	86,985
Cash and Cash Equivalents at End of Period	\$71,306	\$98,665

6

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows (continued)

(Dollars in thousands)

	(Unaudited)	
	Six Months	
	Ended December	
	31,	
	2018	2017
Supplemental Disclosures:		
Cash paid during the period for:		
Interest	\$12,534	\$6,788
Income taxes	277	266
Noncash transactions:		
Unrealized gain (loss) in value of securities available for sale, net of income taxes	576	(601)
Transfers of loans to REO	96	591
Transfers of loans held for sale from loans held for investment	5,794	—
Cumulative-effect adjustment on the change in accounting for share-based payments	—	680
Transfers of loans to held for sale to loans held for investment	1,608	1,533

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

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

1. Summary of Significant Accounting Policies

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position and results of operations for the periods presented have been included. It is recommended that these unaudited interim consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2018 ("2018 Form 10-K") filed with the SEC on September 13, 2018. The results of operations for the three and six months ended December 31, 2018 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2019.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Various elements of the Company's accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions, and other subjective assessments. In particular, management has identified several accounting policies that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of the Company's financial statements. These policies relate to (i) the determination of the provision and the allowance for loan losses, (ii) business combinations and acquired loans, (iii) the valuation of REO, (iv) the valuation of goodwill and other intangible assets, and (v) the valuation of or recognition of deferred tax assets and liabilities. These policies and judgments, estimates and assumptions are described in greater detail in subsequent notes to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations (Critical Accounting Policies) in our 2018 Form 10-K. Management believes that the judgments, estimates and assumptions used in the preparation of the financial statements are appropriate based on the factual circumstances at the time. However, given the sensitivity of the financial statements to these critical accounting policies, the use of other judgments, estimates and assumptions could result in material differences in the Company's results of operations or financial condition. Further, subsequent changes in economic or market conditions could have a material impact on these estimates and the Company's financial condition and operating results in future periods.

Certain amounts reported in prior periods' consolidated financial statements have been reclassified to conform to the current presentation. Such reclassifications had no effect on previously reported cash flows, stockholders' equity or net income.

2. Recent Accounting Pronouncements

In August 2015, the Financial Accounting Standards Board ("FASB") issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606)", which defers the effective date of Accounting Standard Update ("ASU") No. 2014-09 one year. ASU No. 2014-09 created Topic 606 and supersedes Topic 605, Revenue Recognition. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In general, the new guidance requires companies to use more judgment and make more estimates than under current guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In May 2016, the FASB issued ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients," which provides clarifying guidance in certain narrow areas and adds some practical expedients, but does not change the core revenue recognition principle in Topic

606. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. A significant amount of the Company's revenues are derived from net interest income on financial assets and liabilities, which are excluded from the scope of the amended guidance. The Company adopted this ASU on July 1, 2018. The adoption did not have a material effect on the Company's Consolidated Financial Statements. However, additional disclosures required by this ASU have been included in "Note 12 - Revenue" to the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities." The ASU amends the guidance in GAAP on the classification and measurement of financial instruments. The ASU includes the following changes: i) equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (ii) requires the use of exit price notion when measuring the fair value of financial instruments for disclosure purposes; (iii) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; (iv) allows an equity investment that does not have readily determinable fair values, to be measured at cost minus impairment (if any), plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (v) eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, and requires a reporting

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities or loans and receivables) on the balance sheet or in the accompanying notes to the financial statements; and (vii) clarifies that a valuation allowance on a deferred tax asset related to available-for-sale securities should be evaluated in combination with the organization's other deferred tax assets. Exit price is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company adopted this ASU on July 1, 2018. The adoption did not have a material effect on the Company's Consolidated Financial Statements. The disclosures to the Company's consolidated financial statements have been updated appropriately using the exit price notion in "Note 11 - Fair Value of Financial Instruments."

In February 2016, the FASB issued ASU 2016-02, "Leases (Accounting Standards Codification ("ASC") 842)." The guidance in this ASU requires most leases to be recognized on the balance sheet as a right-of-use asset and a lease liability. It will be critical to identify leases embedded in a contract to avoid misstating the lessee's balance sheet. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. In July 2018, the FASB issued ASU 2018-10, "Codification Improvements to Topic 842, Leases" and ASU 2018-11 "Leases (Topic 842): Targeted Improvements." ASU 2018-10 made 16 narrow-scope amendments to ASC 842. The amendments in this ASU 2018-11 are intended to provide entities with relief from the costs of implementing certain aspects of the the new lease accounting standard. Specifically, an entity can elect not to recast the comparative periods presented when transitioning to ASC 842 and provides a lessor with the option to not separate lease and nonlease components when certain conditions are met. This ASU also provides a new transition method in addition to the existing transition method contained in ASU No. 2016-02 to allow entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. These amendments have the same effective date as ASU 2016-02. We are currently evaluating the impact of this guidance on our Consolidated Financial Statements and the timing of adoption. The Company will compile an inventory of all leased assets to determine the impact of ASU 2016-02 on its financial condition and results of operations. The effect of the adoption of these ASUs will depend on leases at time of adoption. Once adopted, we expect to report higher assets and liabilities on our Consolidated Balance Sheets as a result of including right-of-use assets and lease liabilities related to certain banking offices and certain equipment under noncancelable operating lease agreements, which currently are not reflected in our Consolidated Balance Sheets. We do not expect the guidance to have a material impact on the Consolidated Statements of Income or the Consolidated Statements of Changes in Stockholders' Equity.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The ASU significantly changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model. This ASU is effective for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted for all entities beginning after December 15, 2018, including interim periods within those fiscal years. The Company is evaluating our current expected loss methodology of our loan and investment portfolios to identify the necessary modifications in accordance with this standard and expects a change in the processes and procedures to calculate the allowance for loan losses, including changes in assumptions and estimates to consider expected credit losses over the life of the loan versus the current accounting practice that utilizes the incurred loss model. A valuation adjustment to our allowance for loan losses or investment portfolio that is identified in this process will be reflected as a one-time adjustment in equity rather than earnings. The Company is in the process of compiling historical data that will be used to calculate expected credit losses on its loan portfolio to ensure it is fully compliant

with the ASU at the adoption date and is evaluating the potential impact adoption of this ASU will have on its consolidated financial statements. Once adopted, the Company expects its allowance for loan losses to increase, however, until its evaluation is complete the magnitude of the increase will be unknown.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." The ASU amends the guidance on the classification of certain cash receipts and payments in the statement of cash flows and is intended to reduce the diversity in practice. The Company adopted this ASU on July 1, 2018. The adoption did not have a material effect on the Company's Consolidated Financial Statements.

In March 2017, FASB issued ASU 2017-08, "Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities." The ASU requires entities to amortize the premium on certain purchased callable debt securities to the earliest call date, which more closely aligns the amortization period of premiums and discounts to expectations incorporated in the market prices. Entities will no longer recognize a loss in earnings upon the debtor's exercise of a call on a purchased debt security held at a premium. The ASU does not require any accounting change for debt securities held at a discount, therefore the discount will continue to be amortized as an adjustment of yield over the contractual life of the investment. This ASU is effective for interim and annual reporting periods, beginning after December 15, 2018. Early adoption is permitted for all entities. The adoption of ASU No. 2017-08 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting." This ASU provides clarity on the guidance related to stock compensation when there have been changes to the terms or conditions of a share-based payment award to which an entity would be required to apply modification accounting under ASC 718. The ASU provides the three following criteria must be met in order to not account for the effect of the modification of terms or conditions: the fair value, the vesting conditions and the classification as an equity or liability instrument of the modified award is the same as the original award immediately before the original award is modified. The Company adopted this ASU on July 1, 2018. The adoption did not have a material effect on the Company's Consolidated Financial Statements.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

In August 2017, FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." This ASU improves the transparency and understandability of disclosures in the financial statements regarding the entities risk management activities and reduces the complexity of hedge accounting. The amendments in this ASU permit hedge accounting for hedging relationships involving nonfinancial risk and interest rate risk by removing certain limitations in cash flow and fair value hedging relationships. In addition, the ASU requires an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018 and early adoption is permitted. The adoption of ASU No. 2017-12 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In February 2018, FASB issued ASU 2018-02, "Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." The ASU allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the revaluation of the Company's net deferred tax assets ("DTA") to the new corporate federal income tax rate of 21% as a result of the Tax Cuts and Jobs Act ("Tax Act"). The Company elected to early adopt this ASU during the year ended June 30, 2018. The affected amount for the Company was immaterial and did not have an effect on the Company's Consolidated Financial Statements.

In March 2018, FASB issued ASU No. 2018-05, "Income Taxes (Topic 740)." This ASU was issued to provide guidance on the income tax accounting implications of the Tax Act and allows for entities to report provisional amounts for specific income tax effects of the Act for which the accounting under Topic 740 was not yet complete, but a reasonable estimate could be determined. A measurement period of one-year is allowed to complete the accounting effects under Topic 740 and revise any previous estimates reported. Any provisional amounts or subsequent adjustments included in an entity's financial statements during the measurement period should be included in income from continuing operations as an adjustment to tax expense in the reporting period the amounts are determined. The Company adopted this ASU with the provisional adjustments as reported in the Consolidated Financial Statements on Form 10-Q as of December 31, 2017. As of June 30, 2018, the Company did not incur any adjustments to the provisional recognition.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement." The amendments in this ASU removes, modifies, and adds certain disclosure requirements related to fair value measurements in ASC 820. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019 and early adoption is permitted. The adoption of ASU No. 2018-13 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In November 2018, the FASB issued ASU 2018-19, "Codification Improvements to Topic 326, Financial Instruments—Credit Losses." This update clarifies that receivables arising from operating leases are not within the scope of Subtopic 326-20. Instead, impairment of receivables arising from operating leases should be accounted for in accordance with Topic 842, Leases. The effective date and transition requirements for this ASU are the same as ASU 2016-13. The adoption of ASU No. 2018-19 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In December 2018, the FASB issued ASU 2018-20, "Leases (Topic 842): Narrow-Scope Improvements for Lessors." The amendments in this update permit lessors, as an accounting policy election, to not evaluate whether certain sales taxes and other similar taxes are lessor costs or lessee costs. Instead, those lessors will account for those costs as if they are lessee costs. A lessor making this election will exclude from the consideration in the contract and from variable payments not included in the consideration in the contract all collections from lessees of taxes within the scope of the election and will provide certain disclosures. For certain lessor costs, the lessor must exclude from variable payments, and therefore revenue, lessor costs paid by lessees directly to third parties from variable payments. In addition, the lessor must account for costs excluded from the consideration of a contract that are paid by the lessor

and reimbursed by the lessee as variable payments. A lessor will record those reimbursed costs as revenue. The amendments in this ASU related to recognizing variable payments for contracts with lease and nonlease components require lessors to allocate (rather than recognize as currently required) certain variable payments to the lease and nonlease components when the changes in facts and circumstances on which the variable payment is based occur. After the allocation, the amount of variable payments allocated to the lease components will be recognized as income in profit or loss in accordance with Topic 842, while the amount of variable payments allocated to nonlease components will be recognized in accordance with other Topics, such as Topic 606. The effective date and transition requirements for this ASU are the same as ASU 2016-02. The adoption of ASU No. 2018-20 is not expected to have a material impact on the Company's Consolidated Financial Statements.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

3. Debt Securities

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

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government Agencies	\$38,064	\$ 7	\$ (208)	\$37,863
Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises	77,888	106	(1,068)	76,926
Municipal Bonds	29,014	196	(130)	29,080
Corporate Bonds	6,114	8	(239)	5,883
Total	\$151,080	\$ 317	\$ (1,645)	\$149,752
	June 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government Agencies	\$48,025	\$ 1	\$ (484)	\$47,542
Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises	71,949	88	(1,438)	70,599
Municipal Bonds	30,865	127	(226)	30,766
Corporate Bonds	6,166	25	(168)	6,023
Equity Securities	63	—	—	63
Total	\$157,068	\$ 241	\$ (2,316)	\$154,993

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

	Available-For-Sale December 31, 2018	
	Amortized Cost	Estimated Fair Value
Due within one year	\$18,233	\$18,191
Due after one year through five years	41,534	41,102
Due after five years through ten years	5,352	5,480
Due after ten years	8,073	8,053
Mortgage-backed securities	77,888	76,926
Total	\$151,080	\$149,752

The Company had no sales of securities available for sale during the three and six months ended December 31, 2018 and 2017. There were no gross realized gains or losses for the three and six months ended December 31, 2018 and 2017.

Securities available for sale with costs totaling \$126,758 and \$136,914 and market values of \$125,765 and \$135,313 at December 31, 2018 and June 30, 2018, respectively, were pledged as collateral to secure various public deposits and other borrowings.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

The gross unrealized losses and the fair value for securities available for sale aggregated by the length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2018 and June 30, 2018 were as follows:

	December 31, 2018					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government Agencies	\$7,127	\$ (29)	\$29,804	\$ (179)	\$36,931	\$ (208)
Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises	26,536	(192)	38,370	(876)	64,906	(1,068)
Municipal Bonds	5,555	(20)	10,719	(110)	16,274	(130)
Corporate Bonds	1,364	(64)	3,514	(175)	4,878	(239)
Total	\$40,582	\$ (305)	\$82,407	\$ (1,340)	\$122,989	\$ (1,645)
	June 30, 2018					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government Agencies	\$10,962	\$ (93)	\$35,605	\$ (391)	\$46,567	\$ (484)
Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises	39,238	(827)	21,297	(611)	60,535	(1,438)
Municipal Bonds	19,795	(208)	1,446	(18)	21,241	(226)
Corporate Bonds	—	—	3,566	(168)	3,566	(168)
Total	\$69,995	\$ (1,128)	\$61,914	\$ (1,188)	\$131,909	\$ (2,316)

The total number of securities with unrealized losses at December 31, 2018, and June 30, 2018 were 201 and 218, respectively. Unrealized losses on securities have not been recognized in income because management has the intent and ability to hold the securities for the foreseeable future, and has determined that it is not more likely than not that the Company will be required to sell the securities prior to a recovery in value. The decline in fair value was largely due to increases in market interest rates. The Company had no other-than-temporary impairment losses during the six months ended December 31, 2018 or the year ended June 30, 2018.

4. Other Investments

Other investments, at cost consist of the following at the dates indicated:

	December 31, 2018	June 30, 2018
FHLB of Atlanta ⁽¹⁾	\$ 32,159	\$29,907
Federal Reserve Bank of Richmond ("FRB") ⁽¹⁾	7,315	7,307
Small Business Investment Companies ("SBIC") ⁽²⁾⁽³⁾	5,384	4,717
Total	\$ 44,858	\$41,931

As a requirement for membership, the Bank invests in the stock of both the FHLB of Atlanta and the Federal Reserve Bank of Richmond ("FRB"). No ready market exists for these securities so carrying value approximates their fair value based on the redemption provisions of the FHLB of Atlanta and the FRB, respectively.

(2) SBIC investment funds are considered nonmarketable investment securities and are qualified investments under the Community Reinvestment Act.

(3) Prior to the adoption of ASU 2016-01, SBIC Investments were maintained in other assets.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

5. Loans

Loans consist of the following at the dates indicated:

	December 31, 2018	June 30, 2018
Retail consumer loans:		
One-to-four family	\$661,374	\$664,289
HELOCs - originated	135,430	137,564
HELOCs - purchased	138,571	166,276
Construction and land/lots	74,507	65,601
Indirect auto finance	170,516	173,095
Consumer	13,520	12,379
Total retail consumer loans	1,193,918	1,219,204
Commercial loans:		
Commercial real estate	904,357	857,315
Construction and development	198,738	192,102
Commercial and industrial	224,582	148,823
Municipal leases	111,135	109,172
Total commercial loans	1,438,812	1,307,412
Total loans	2,632,730	2,526,616
Deferred loan fees, net	(499)	(764)
Total loans, net of deferred loan fees	2,632,231	2,525,852
Allowance for loan losses	(21,419)	(21,060)
Loans, net	\$2,610,812	\$2,504,792

All qualifying one-to-four family first mortgage loans, HELOCs, commercial real estate loans, and FHLB Stock are pledged as collateral by a blanket pledge to secure any outstanding FHLB advances.

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

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2018						
Retail consumer loans:						
One-to-four family	\$640,265	\$2,425	\$ 11,423	\$ 249	\$ 12	\$655,084
HELOCs - originated	133,741	111	1,149	—	6	135,205
HELOCs - purchased	138,385	—	185	—	—	138,571
Construction and land/lots	74,081	16	485	—	—	74,116
Indirect auto finance	169,932	—	550	—	2	170,516
Consumer	12,773	16	801	3	9	13,520
Commercial loans:						
Commercial real estate	882,901	8,513	12,476	—	—	896,381
Construction and development	194,423	888	2,649	120	—	197,367
Commercial and industrial	220,974	1,706	167	—	3	222,788
Municipal leases	110,839	296	—	—	—	111,135
Total loans	\$2,578,314	\$13,971	\$ 29,885	\$ 372	\$ 32	\$2,614,683

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
June 30, 2018						
Retail consumer loans:						
One-to-four family	\$643,077	\$3,576	\$ 10,059	\$ 746	\$ 14	\$657,472
HELOCs - originated	135,336	113	1,735	150	6	137,340
HELOCs - purchased	166,089	—	187	—	—	166,276
Construction and land/lots	64,823	23	257	54	—	65,157
Indirect auto finance	172,675	—	420	—	—	173,095
Consumer	11,723	85	558	2	11	12,379
Commercial loans:						
Commercial real estate	835,485	5,804	6,787	—	—	848,076
Construction and development	187,187	621	2,067	—	—	189,875
Commercial and industrial	145,177	1,279	414	—	—	146,870
Municipal leases	108,864	308	—	—	—	109,172
Total loans	\$2,470,436	\$11,809	\$ 22,484	\$ 952	\$ 31	\$2,505,712

The Company's total purchased credit impaired ("PCI") loans by segment, class, and risk grade at the dates indicated follow:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2018						
Retail consumer loans:						
One-to-four family	\$4,404	\$ 259	\$ 1,627	\$ —	—	\$6,290
HELOCs - originated	225	—	—	—	—	225
Construction and land/lots	155	—	236	—	—	391
Commercial loans:						
Commercial real estate	4,593	1,954	1,429	—	—	7,976
Construction and development	501	—	870	—	—	1,371
Commercial and industrial	1,791	—	—	—	3	1,794
Total loans	\$11,669	\$2,213	\$ 4,162	\$ —	\$ 3	\$18,047
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
June 30, 2018						
Retail consumer loans:						
One-to-four family	\$4,620	\$ 388	\$ 1,809	\$ —	—	—\$6,817
HELOCs - originated	224	—	—	—	—	224
Construction and land/lots	444	—	—	—	—	444
Commercial loans:						
Commercial real estate	4,718	2,162	2,359	—	—	9,239
Construction and development	547	—	1,680	—	—	2,227
Commercial and industrial	1,894	—	59	—	—	1,953
Total loans	\$12,447	\$2,550	\$ 5,907	\$ —	—	—\$20,904

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

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

	Past Due		Total	Current	Total Loans
	30-89 Days	90 Days+			
December 31, 2018					
Retail consumer loans:					
One-to-four family	\$2,328	\$1,747	\$4,075	\$657,299	\$661,374
HELOCs - originated	203	333	536	134,894	135,430
HELOCs - purchased	564	—	564	138,007	138,571
Construction and land/lots	37	—	37	74,470	74,507
Indirect auto finance	392	130	522	169,994	170,516
Consumer	185	40	225	13,295	13,520
Commercial loans:					
Commercial real estate	5,165	559	5,724	898,633	904,357
Construction and development	1	1,396	1,397	197,341	198,738
Commercial and industrial	8	53	61	224,521	224,582
Municipal leases	24	—	24	111,111	111,135
Total loans	\$8,907	\$4,258	\$13,165	\$2,619,565	\$2,632,730
June 30, 2018					
Retail consumer loans:					
One-to-four family	\$3,001	\$1,756	\$4,757	\$659,532	\$664,289
HELOCs - originated	98	268	366	137,198	137,564
HELOCs - purchased	—	—	—	166,276	166,276
Construction and land/lots	44	54	98	65,503	65,601
Indirect auto finance	335	127	462	172,633	173,095
Consumer	238	39	277	12,102	12,379
Commercial loans:					
Commercial real estate	169	1,412	1,581	855,734	857,315
Construction and development	260	1,928	2,188	189,914	192,102
Commercial and industrial	15	69	84	148,739	148,823
Municipal leases	—	—	—	109,172	109,172
Total loans	\$4,160	\$5,653	\$9,813	\$2,516,803	\$2,526,616

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

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

	December 31, 2018		June 30, 2018	
	90 Days + & Nonaccruing Still accruing		90 Days + & Nonaccruing Still accruing	
Retail consumer loans:				
One-to-four family	\$ 4,151	\$ —	—\$ 4,308	\$ —
HELOCs - originated	590	—	656	—
HELOCs - purchased	185	—	187	—
Construction and land/lots	98	—	165	—
Indirect auto finance	243	—	255	—
Consumer	515	—	321	—
Commercial loans:				
Commercial real estate	2,104	—	2,863	—
Construction and development	1,696	—	2,045	—
Commercial and industrial	90	—	114	—
Municipal leases	—	—	—	—
Total loans	\$ 9,672	\$ —	—\$ 10,914	\$ —

PCI loans totaling \$2,071 at December 31, 2018 and \$3,353 at June 30, 2018 are excluded from nonaccruing loans due to the accretion of discounts established in accordance with the acquisition method of accounting for business combinations.

Troubled debt restructurings ("TDRs") are loans which have renegotiated loan terms to assist borrowers who are unable to meet the original terms of their loans. Such modifications to loan terms may include a lower interest rate, a reduction in principal, or a longer term to maturity. Additionally, all TDRs are considered impaired. The Company had no commitments to lend additional funds on these TDR loans at December 31, 2018.

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

	December 31, 2018	June 30, 2018
Performing TDRs included in impaired loans	\$ 19,276	\$ 21,251

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

	Three Months Ended December 31, 2018				Three Months Ended December 31, 2017			
	PCI	Retail Consumer	Commercial	Total	PCI	Retail Consumer	Commercial	Total
Balance at beginning of period	\$ 295	\$ 7,252	\$ 13,385	\$ 20,932	\$ 1,197	\$ 8,310	\$ 12,490	\$ 21,997
Provision for (recovery of) loan losses	(96)	(341)	437	—	(286)	162	124	—
Charge-offs	—	(177)	(78)	(255)	(345)	(378)	(349)	(1,072)
Recoveries	—	502	240	742	—	97	68	165
Balance at end of period	\$ 199	\$ 7,236	\$ 13,984	\$ 21,419	\$ 566	\$ 8,191	\$ 12,333	\$ 21,090
	Six Months Ended December 31, 2018				Six Months Ended December 31, 2017			
	PCI	Retail Consumer	Commercial	Total	PCI	Retail Consumer	Commercial	Total
Balance at beginning of period	\$ 483	\$ 7,527	\$ 13,050	\$ 21,060	\$ 727	\$ 8,585	\$ 11,839	\$ 21,151

Edgar Filing: HomeTrust Bancshares, Inc. - Form 10-Q

Provision for (recovery of) loan losses	(284)	(406)	690	—	184	(250)	66	—
Charge-offs	—	(592)	(81)	(673)	(345)	(528)	(363)	(1,236)
Recoveries	—	707	325	1,032	—	384	791	1,175
Balance at end of period	\$199	\$7,236	\$13,984	\$21,419	\$566	\$8,191	\$12,333	\$21,090

16

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

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

	Allowance for Loan Losses				Total Loans Receivable			
	PCI	Loans individually evaluated for impairment	Loans collectively evaluated	Total	PCI	Loans individually evaluated for impairment	Loans collectively evaluated	Total
December 31, 2018								
Retail consumer loans:								
One-to-four family	\$61	\$ 104	\$ 2,926	\$3,091	\$6,290	\$ 6,126	\$648,958	\$661,374
HELOCs - originated	—	6	1,129	1,135	225	6	135,199	135,430
HELOCs - purchased	—	—	655	655	—	—	138,571	138,571
Construction and land/lots	—	—	1,178	1,178	391	333	73,783	74,507
Indirect auto finance	—	—	1,073	1,073	—	1	170,515	170,516
Consumer	—	8	157	165	—	8	13,512	13,520
Commercial loans:								
Commercial real estate	118	12	8,157	8,287	7,976	2,860	893,521	904,357
Construction and development	4	6	3,107	3,117	1,371	1,529	195,838	198,738
Commercial and industrial	16	2	2,254	2,272	1,794	2	222,786	224,582
Municipal leases	—	—	446	446	—	—	111,135	111,135
Total	\$199	\$ 138	\$ 21,082	\$21,419	\$18,047	\$ 10,865	\$2,603,818	\$2,632,730
June 30, 2018								
Retail consumer loans:								
One-to-four family	\$98	\$ 125	\$ 3,137	\$3,360	\$6,817	\$ 7,104	\$650,368	\$664,289
HELOCs - originated	—	6	1,117	1,123	224	452	136,888	137,564
HELOCs - purchased	—	—	795	795	—	—	166,276	166,276
Construction and land/lots	—	19	1,134	1,153	444	583	64,574	65,601
Indirect auto finance	—	—	1,126	1,126	—	—	173,095	173,095
Consumer	—	11	57	68	—	11	12,368	12,379
Commercial loans:								
Commercial real estate	138	28	8,029	8,195	9,239	3,511	844,565	857,315
Construction and development	229	8	3,109	3,346	2,227	2,223	187,652	192,102
Commercial and industrial	18	—	1,458	1,476	1,953	—	146,870	148,823
Municipal leases	—	—	418	418	—	—	109,172	109,172
Total	\$483	\$ 197	\$ 20,380	\$21,060	\$20,904	\$ 13,884	\$2,491,828	\$2,526,616

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

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

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

	Total Impaired Loans				Related Recorded Allowance
	Unpaid Principal Balance	Recorded Investment With a Recorded Allowance	Recorded Investment With No Recorded Allowance	Total	
December 31, 2018					
Retail consumer loans:					
One-to-four family	\$20,221	\$ 14,855	\$ 2,472	\$17,327	\$ 565
HELOCs - originated	1,614	845	120	965	9
HELOCs - purchased	185	—	185	185	—
Construction and land/lots	2,200	976	432	1,408	27
Indirect auto finance	407	173	100	273	3
Consumer	2,185	441	1,241	1,682	57
Commercial loans:					
Commercial real estate	4,418	1,375	2,741	4,116	22
Construction and development	2,869	788	908	1,696	8
Commercial and industrial	3,351	187	1	188	3
Municipal leases	—	—	—	—	—
Total impaired loans	\$37,450	\$ 19,640	\$ 8,200	\$27,840	\$ 694
June 30, 2018					
Retail consumer loans:					
One-to-four family	\$23,295	\$ 16,035	\$ 4,140	\$20,175	\$ 554
HELOCs - originated	2,544	1,017	737	1,754	9
HELOCs - purchased	187	—	187	187	—
Construction and land/lots	2,348	1,098	446	1,544	53
Indirect auto finance	395	122	133	255	1
Consumer	501	12	46	58	11
Commercial loans:					
Commercial real estate	5,343	2,862	2,246	5,108	42
Construction and development	3,166	828	1,217	2,045	14
Commercial and industrial	4,898	235	—	235	3
Municipal leases	—	—	—	—	—
Total impaired loans	\$42,677	\$ 22,209	\$ 9,152	\$31,361	\$ 687

The table above includes \$16,975 and \$19,926, of impaired loans that were not individually evaluated at December 31, 2018 and June 30, 2018, respectively, because these loans did not meet the Company's threshold for individual impairment evaluation. The recorded allowance above includes \$556 and \$490 related to these loans that were not individually evaluated at December 31, 2018 and June 30, 2018, respectively.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

The Company's average recorded investment in impaired loans and interest income recognized on impaired loans for the three and six months ended December 31, 2018 and 2017 follows:

	Three Months Ended		December 31, 2017	
	December 31, 2018	December 31, 2017	December 31, 2017	December 31, 2017
	Average Interest	Average Interest	Average Interest	Average Interest
	RecordedIncome	RecordedIncome	RecordedIncome	RecordedIncome
	InvestmentRecognized	InvestmentRecognized	InvestmentRecognized	InvestmentRecognized
Retail consumer loans:				
One-to-four family	\$17,856	\$ 175	\$24,519	\$ 287
HELOCs - originated	924	13	2,750	31
HELOC - purchased	186	3	191	3
Construction and land/lots	1,525	21	1,588	27
Indirect auto finance	335	2	232	3
Consumer	1,618	16	33	4
Commercial loans:				
Commercial real estate	4,257	34	7,184	77
Construction and development	1,766	15	2,973	31
Commercial and industrial	196	8	1,723	23
Municipal leases	—	—	102	6
Total loans	\$28,663	\$ 287	\$41,295	\$ 492

	Six Months Ended		December 31, 2017	
	December 31, 2018	December 31, 2017	December 31, 2017	December 31, 2017
	Average Interest	Average Interest	Average Interest	Average Interest
	RecordedIncome	RecordedIncome	RecordedIncome	RecordedIncome
	InvestmentRecognized	InvestmentRecognized	InvestmentRecognized	InvestmentRecognized
Retail consumer loans:				
One-to-four family	\$18,568	\$ 467	\$24,721	\$ 585
HELOCs - originated	1,121	35	2,767	61
HELOCs - purchased	186	7	191	7
Construction and land/lots	1,559	55	1,651	56
Indirect auto finance	331	6	155	9
Consumer	1,212	45	36	8
Commercial loans:				
Commercial real estate	4,506	121	7,425	152
Construction and development	1,853	31	2,862	52
Commercial and industrial	208	25	1,841	42
Municipal leases	—	—	201	6
Total loans	\$29,544	\$ 792	\$41,850	\$ 978

A summary of changes in the accretable yield for PCI loans for the three and six months ended December 31, 2018 and 2017 follows:

	Three Months	
	Ended	December
	December	December
	31,	31, 2017
	2018	
Accretable yield, beginning of period	\$5,452	\$ 6,698
Reclass from nonaccretable yield ⁽¹⁾	414	77

Other changes, net ⁽²⁾	198	80
Interest income	(832)	(634)
Accretable yield, end of period	\$5,232	\$ 6,221

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

	Six Months Ended	
	December 31, 2018	December 31, 2017
Accretable yield, beginning of period	\$5,734	\$ 7,080
Reclass from nonaccretable yield ⁽¹⁾	424	278
Other changes, net ⁽²⁾	335	107
Interest income	(1,261)	(1,244)
Accretable yield, end of period	\$5,232	\$ 6,221

(1) Represents changes attributable to expected losses assumptions.

(2) Represents changes in cash flows expected to be collected due to the impact of modifications, changes in prepayment assumptions, and changes in interest rates.

For the three and six months ended December 31, 2018 and 2017, the following table presents a breakdown of the types of concessions made on TDRs by loan class:

	Three Months Ended December 31, 2018		Three Months Ended December 31, 2017	
	Pre Modification of Outstanding Loans Recorded Investment	Post Modification Outstanding Recorded Investment	Pre Modification of Outstanding Loans Recorded Investment	Post Modification Outstanding Recorded Investment
Below market interest rate:				
Retail consumer:				
One-to-four family	1 \$ 85	\$ 85	3 \$ 398	\$ 395
Home equity lines of credit	—	—	1 64	59
Construction and land/lots	—	—	1 36	36
Total	1 \$ 85	\$ 85	5 \$ 498	\$ 490
Other TDRs:				
Retail consumer:				
One-to-four family	5 \$ 354	\$ 353	6 \$ 177	\$ 176
Indirect auto finance	—	—	1 19	6
Consumer	1 \$ 85	\$ 85	— \$ —	\$ —
Total	6 \$ 439	\$ 438	7 \$ 196	\$ 182
Total	7 \$ 524	\$ 523	12 \$ 694	\$ 672

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

	Six Months Ended December 31, 2018		Six Months Ended December 31, 2017	
	Pre Modification of Outstanding Loans Recorded Investment	Post Modification of Outstanding Loans Recorded Investment	Pre Modification of Outstanding Loans Recorded Investment	Post Modification of Outstanding Loans Recorded Investment
Below market interest rate:				
Retail consumer:				
One-to-four family	1 \$ 85	\$ 85	3 \$ 398	\$ 395
HELOCs - originated	— —	—	1 64	59
Construction and land/lots	— —	—	1 36	36
Total	1 \$ 85	\$ 85	5 \$ 498	\$ 490
Other TDRs:				
Retail consumer:				
One-to-four family	9 \$ 598	\$ 593	15 \$ 1,493	\$ 1,481
Indirect auto finance	1 33	30	1 19	6
Consumer	2 87	87	— —	—
Total	12 \$ 718	\$ 710	16 \$ 1,512	\$ 1,487
Total	13 \$ 803	\$ 795	21 \$ 2,010	\$ 1,977

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

The following table presents loans that were modified as TDRs within the previous 12 months and for which there was a payment default during the three and six months ended December 31, 2018 and 2017:

	Three Months Ended December 31, 2018	Three Months Ended December 31, 2017
	Number of Recorded Investment Loans	Number of Recorded Investment Loans
Below market interest rate:		
Retail consumer:		
One-to-four family	—	1 \$ 37
Total	— \$ —	1 \$ 37
Other TDRs:		
Retail consumer:		
One-to-four family	2 \$ 165	3 \$ 493
Indirect auto finance	—	1 6
Consumer	1 2	—
Total	3 \$ 167	4 \$ 499
Total	3 \$ 167	5 \$ 536
	Six Months Ended December 31, 2018	Six Months Ended December 31, 2017
	Number of Recorded Investment Loans	Number of Recorded Investment Loans

Below market interest rate:

Retail consumer:

One-to-four family — \$ — 1 \$ 37

Total — \$ — 1 \$ 37

Other TDRs:

Retail consumer:

One-to-four family 2 \$ 165 3 \$ 493

Indirect auto finance — — 1 6

Consumer 1 2 —

Total 3 \$ 167 4 \$ 499

Total 3 \$ 167 5 \$ 536

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

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

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

6. Real Estate Owned

The activity within REO for the periods shown is as follows:

	Three Months Ended December 31, 2018		Six Months Ended December 31, 2017	
Balance at beginning of period	\$3,286	\$5,941	\$3,684	\$6,318
Transfers from loans	22	339	96	591
Sales, net of gain or loss	(230)	(1,111)	(574)	(1,758)
Writedowns	(123)	(351)	(251)	(351)
Capital improvements	—	—	—	18
Balance at end of period	\$2,955	\$4,818	\$2,955	\$4,818

At December 31, 2018 and June 30, 2018, the Bank had \$557 and \$998 respectively, of foreclosed residential real estate property in REO. The recorded investment in consumer mortgage loans collateralized by residential real estate in the process of foreclosure totaled \$980 and \$395 at December 31, 2018 and June 30, 2018, respectively.

7. Income Taxes

Income tax expense consists of:

	Three Months Ended December 31, 2018		Six Months Ended December 31, 2017	
Current:				
Federal	\$(167)	\$92	\$210	\$230
State	304	(3)	429	8
Total current expense	137	89	639	238
Deferred:				
Federal	2,129	1,611	3,700	3,681
State	21	115	160	406
Adjustment due to the Tax Cuts and Jobs Act	—	17,693	—	17,693
Total deferred expense	2,150	19,419	3,860	21,780
Total income tax expense	\$2,287	\$19,508	\$4,499	\$22,018

The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax

rate to income before income taxes as a result of the following differences for the periods indicated:

	Three Months Ended December 31, 2018				Six Months Ended December 31, 2017			
	\$	Rate	\$	Rate	\$	Rate	\$	Rate
Tax at federal income tax rate	\$2,169	21 %	\$2,432	28 %	\$4,269	21 %	\$4,653	28 %
Increase (decrease) resulting from:								
Tax exempt income	(210)	(2)%	(264)	(3)%	(437)	(2)%	(541)	(3)%
Nondeductible merger expenses	—	— %	1	— %	—	— %	1	— %
Change in valuation allowance for deferred tax assets, allocated to income tax expense	—	— %	(49)	(1)%	—	— %	(184)	(1)%
State tax, net of federal benefit	256	2 %	81	1 %	465	2 %	204	1 %
Change in deferred tax assets due to North Carolina corporate tax rate decrease	—	— %	—	— %	—	— %	133	1 %

Edgar Filing: HomeTrust Bancshares, Inc. - Form 10-Q

Change in deferred tax assets due to the Tax Cuts and Jobs Act	—	— %	17,693	200 %	—	— %	17,693	105 %
Adjustment for prior quarter expense due to accrual at higher rate	—	— %	(418)	(5)%	—	— %	—	— %
Other	72	1 %	32	— %	202	1 %	59	— %
Total	\$2,287	22 %	\$19,508	220 %	\$4,499	22 %	\$22,018	131 %

23

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

The decrease in the federal corporate income tax rate was the result of enactment of the Tax Act, which lowered the Company's statutory federal corporate income tax rate to 21% effective July 1, 2018 from a blended federal corporate income tax rate of 27.5% in the previous fiscal year. Our June 30 fiscal year end required the use of a blended rate as prescribed by the Internal Revenue Code. The blended federal rate of 27.5% was retroactively effective July 1, 2017 and was used for the entire fiscal year ending June 30, 2018. As a result of this blended rate, income tax expense for the quarter ended December 31, 2017 included approximately \$418,000 in tax benefit from adjusting the federal income tax rate to 27.5% from 34% for the first quarter of the fiscal year. In addition, for the quarter ended December 31, 2017, following a revaluation of net deferred tax assets due to the Tax Act, the Company recorded additional income tax expense of \$17.7 million.

The sources and tax effects of temporary differences that give rise to significant portions of the deferred tax assets (liabilities) at December 31, 2018 and June 30, 2018 are presented below:

	December 31, 2018	June 30, 2018
Deferred tax assets:		
Alternative minimum tax credit	\$ 4,920	\$4,920
Allowance for loan losses	4,720	4,637
Deferred compensation and post-retirement benefits	9,186	9,400
Accrued vacation and sick leave	18	18
Impairments on real estate owned	498	495
Other than temporary impairment on investments	2,253	2,254
Net operating loss carryforward	5,538	8,635
Discount from business combination	2,500	2,605
Unrealized loss on securities held for sale	306	477
Stock compensation plans	2,014	2,271
Other	1,195	1,562
Total gross deferred tax assets	33,148	37,274
Less valuation allowance	(325) (325)
Deferred tax assets	32,823	36,949
Deferred tax (liabilities):		
Depreciable basis of fixed assets	(532) (566)
Deferred loan fees	(486) (453)
FHLB stock, book basis in excess of tax	(89) (89)
Other	(3,183) (3,276)
Total gross deferred tax liabilities	(4,290) (4,384)
Net deferred tax assets	\$ 28,533	\$32,565

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

The Company had federal net operating loss ("NOL") carry forwards of \$26,805 and \$40,780 as of December 31, 2018 and June 30, 2018, respectively, with a recorded tax benefit of \$5,538 and \$8,635 included in deferred tax assets. The majority of these NOLs will expire for federal tax purposes from 2024 through 2036. The valuation allowance of \$325 at December 31, 2018 and June 30, 2018 relates to the potential future sequestration of the Company's alternative minimum tax credit included in deferred tax assets.

Retained earnings at December 31, 2018 and June 30, 2018 include \$19,570 representing pre-1988 tax bad debt reserve base year amounts for which no deferred tax liability has been provided since these reserves are not expected to reverse and may never reverse. Circumstances that would require an accrual of a portion or all of this unrecorded tax liability are a failure to meet the definition of a bank, dividend payments in excess of current year or accumulated earnings and profits, or other distributions in dissolution or liquidation of the Bank. The Company is no longer subject to examination for federal and state purposes for tax years prior to 2014.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

8. Net Income per Share

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

	Three Months Ended December 31, 2018		Six Months Ended December 31, 2017	
Numerator:				
Net income (loss)	\$8,041	\$(10,666)	\$15,831	\$(5,099)
Allocation of earnings to participating securities	(57)	—	(112)	—
Numerator for basic EPS - Net income available (loss attributable) to common stockholders	\$7,984	\$(10,666)	\$15,719	\$(5,099)
Effect of dilutive securities:				
Dilutive effect to participating securities	2	—	4	—
Numerator for diluted EPS	\$7,986	\$(10,666)	\$15,723	\$(5,099)
Denominator:				
Weighted-average common shares outstanding - basic	17,797,553	17,975,883	17,961,465	17,971,439
Effect of dilutive shares	699,781	—	728,119	—
Weighted-average common shares outstanding - diluted	18,497,334	17,975,883	18,689,584	17,971,439
Net income (loss) per share - basic	\$0.45	\$(0.59)	\$0.88	\$(0.28)
Net income (loss) per share - diluted	\$0.43	\$(0.59)	\$0.84	\$(0.28)

Potential dilutive shares are excluded from the computation of earnings per share if their effect is anti-dilutive. There were 420,300 stock options that were anti-dilutive for the three and six months ended December 31, 2018.

9. Equity Incentive Plan

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

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

The table below presents share based compensation expense and the estimated related tax benefit for stock options and restricted stock for the three and six months ended December 31, 2018 and 2017:

	Three Months Ended December 31, 2018		Six Months Ended December 31, 2017	
Share based compensation expense	\$372	\$841	\$756	\$2,014
Tax benefit	\$78	\$235	\$192	\$564

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

The table below presents stock option activity for the six months ended December 31, 2018 and 2017:

	Options	Weighted- average exercise price	Remaining contractual life (years)	Aggregate Intrinsic Value
Options outstanding at June 30, 2017	1,470,043	\$ 15.22	5.8	\$ 13,533
Exercised	3,900	14.37	—	—
Forfeited	24,700	14.43	—	—
Expired	43,273	23.82	—	—
Options outstanding at December 31, 2017	1,398,170	\$ 14.97	5.4	\$ 15,077
Exercisable at December 31, 2017	986,670	\$ 14.43	5.2	\$ 11,169
Non-vested at December 31, 2017	411,500	\$ 16.25	6.0	\$ 3,908
Options outstanding at June 30, 2018	1,718,270	\$ 17.29	5.9	\$ 18,664
Exercised	42,200	14.42	—	—
Forfeited	4,700	17.11	—	—
Options outstanding at December 31, 2018	1,671,370	\$ 17.37	5.4	\$ 14,732
Exercisable at December 31, 2018	1,185,270	\$ 14.51	4.2	\$ 13,832
Non-vested at December 31, 2018	486,100	\$ 24.33	8.5	\$ 900

At December 31, 2018, the Company had \$2,385 of unrecognized compensation expense related to 486,100 stock options originally scheduled to vest over five- and seven-year vesting periods. The weighted average period over which compensation cost related to non-vested awards expected to be recognized was 1.8 years at December 31, 2018. At December 31, 2017, the Company had \$835 of unrecognized compensation expense related to 411,500 stock options originally scheduled to vest over five- and seven-year vesting periods. The weighted average period over which compensation cost related to non-vested awards expected to be recognized was 0.7 years at December 31, 2017. The table below presents restricted stock award activity for the six months ended December 31, 2018 and 2017:

	Restricted stock awards	Weighted- average grant date fair value	Aggregate Intrinsic Value
Non-vested at June 30, 2017	185,630	\$ 17.46	\$ 4,780
Granted	2,000	23.05	—
Vested	400	19.02	—
Forfeited	6,600	14.37	—
Non-vested at December 31, 2017	180,630	\$ 17.57	\$ 4,651
Non-vested at June 30, 2018	133,410	\$ 22.85	\$ 3,755
Vested	2,800	16.27	—
Forfeited	2,700	16.13	—
Non-vested at December 31, 2018	127,910	\$ 23.14	\$ 3,349

At December 31, 2018, unrecognized compensation expense was \$2,129 related to 127,910 shares of restricted stock originally scheduled to vest over five- and seven-year vesting periods. The weighted average period over which compensation cost related to non-vested awards is expected to be recognized was 1.6 years at December 31, 2018. At December 31, 2017, unrecognized compensation expense was \$1,671 related to 180,630 shares of restricted stock originally scheduled to vest over five- and seven-year vesting periods. The weighted average period over which

compensation cost related to non-vested awards is expected to be recognized was 1.1 years at December 31, 2017.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

10. Commitments and Contingencies

Loan Commitments – Legally binding commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. In the normal course of business, there are various outstanding commitments to extend credit that are not reflected in the consolidated financial statements. At December 31, 2018 and June 30, 2018, respectively, loan commitments (excluding \$197,728 and \$209,726 of undisbursed portions of construction loans) totaled \$60,248 and \$49,949 of which \$17,989 and \$19,812 were variable rate commitments and \$42,258 and \$30,137 were fixed rate commitments. The fixed rate loans had interest rates ranging from 2.39% to 7.55% at December 31, 2018 and 2.10% to 6.15% at June 30, 2018, and terms ranging from three to 30 years. Pre-approved but unused lines of credit (principally second mortgage home equity loans and overdraft protection loans) totaled \$488,071 and \$491,649 at December 31, 2018 and June 30, 2018, respectively. These amounts represent the Company's exposure to credit risk, and in the opinion of management have no more than the normal lending risk that the Company commits to its borrowers. The Company has two types of commitments related to loans held for sale: rate lock commitments and forward loan commitments. Rate lock commitments are commitments to extend credit to a customer that has an interest rate lock and are considered derivative instruments. The rate lock commitments do not qualify for hedge accounting. In order to mitigate the risk from interest rate fluctuations, we enter into forward loan sale commitments on a “best efforts” basis, which do not meet the definition of a derivative instrument. The fair value of these commitments was not material at December 31, 2018 or June 30, 2018.

The Company grants construction and permanent loans collateralized primarily by residential and commercial real estate to customers throughout its primary market area. In addition, the Company grants municipal leases to customers throughout North and South Carolina. The Company's loan portfolio can be affected by the general economic conditions within these market areas.

Restrictions on Cash – The Bank is required by regulation to maintain a varying cash reserve balance with the FRB. The daily average calculated cash reserve required as of December 31, 2018 and June 30, 2018 was \$1,786, and \$2,304, respectively, which was satisfied by vault cash and balances held at the FRB.

Guarantees – Standby letters of credit obligate the Company to meet certain financial obligations of its customers, if, under the contractual terms of the agreement, the customers are unable to do so. The financial standby letters of credit issued by the Company are irrevocable and payment is only guaranteed upon the borrower's failure to perform its obligations to the beneficiary. Total commitments under standby letters of credit as of December 31, 2018 and June 30, 2018 were \$8,826 and \$8,227, respectively. There was no liability recorded for these letters of credit at December 31, 2018 or June 30, 2018, respectively.

Litigation – From time to time, the Company is involved in litigation matters in the ordinary course of business. These proceedings and the associated legal claims are often contested and the outcome of individual matters is not always predictable. These claims and counter claims typically arise during the course of collection efforts on problem loans or with respect to actions to enforce liens on properties in which the Company holds a security interest. The Company is not a party to any pending legal proceedings that management believes would have a material adverse effect on the Company's financial condition or results of operations.

11. Fair Value of Financial Instruments

The Company utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets. The fair value of financial instruments presented in this note, with the exception of loans receivable, are based on the same methodology as presented in Note 20 of the Notes to Consolidated Financial Statements contained in the Company's 2018 10-K. The Company has adopted ASU 2016-01, and therefore

is measuring the fair value of loans receivable under the exit price notion rather than the previous method of entry price notion. Under the previous method, the fair value estimate of loans receivable was based on discounted cash flow. At September 30, 2018, the exit price notion used to estimate the fair value of loans receivable was based on similar techniques, with the addition of liquidity premiums. The fair value of nonperforming loans is based on the underlying value of the collateral for periods prior to and after adoption of ASU 2016-01.

Fair Value Hierarchy

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

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

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

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

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

Following is a description of valuation methodologies used for assets recorded at fair value on both a recurring and non-recurring basis. The Company does not have any liabilities recorded at fair value on both a recurring and non-recurring basis.

Investment Securities Available for Sale

Securities available for sale are valued on a recurring basis at quoted market prices where available. If quoted market prices are not available, fair values are based on quoted prices of comparable securities. Level 2 securities include equity securities, mortgage-backed securities and debentures issued by government sponsored enterprises, municipal bonds, and corporate debt securities. The Company has no Level 3 securities.

Impaired Loans

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

The fair value of impaired loans is estimated in one of two ways, which include collateral value and discounted cash flows. Loans are considered collateral dependent if repayment is expected solely from the collateral. For these collateral dependent impaired loans, the Company obtains updated appraisals at least annually. These appraisals are reviewed for appropriateness and then discounted for estimated closing costs to determine if an allowance is necessary. As part of the quarterly review of impaired loans, the Company reviews these appraisals to determine if any additional discounts to the fair value are necessary. If a current appraisal is not obtained, the Company determines whether a discount is needed to the value from the original appraisal based on the decline in value of similar properties with recent appraisals. For loans that are not collateral dependent, estimated fair value is based on the present value of expected future cash flows using the interest rate implicit in the original agreement. Impaired loans where a charge-off has occurred or an allowance is established during the period being reported require classification in the fair value hierarchy. The Company records such impaired loans as a nonrecurring Level 3 in the fair value hierarchy.

Loans Held for Sale

Loans held for sale are adjusted to lower of cost or fair value. Fair value is based on commitments on hand from investors or, if commitments have not yet been obtained, what investors are currently offering for loans with similar characteristics. The Company considers all loans held for sale carried at fair value as nonrecurring Level 3.

Real Estate Owned

REO is considered held for sale and is adjusted to fair value less estimated selling costs upon transfer of the loan to foreclosed assets. Fair value is based upon independent market prices, appraised value of the collateral or management's estimation of the value of the collateral. The Company considers all REO that has been charged off or received an allowance during the period as nonrecurring Level 3.

Small Business Investment Company

SBICs are carried at the lower of cost or cost less a valuation allowance, which is based a financial review of the investment. The Company considers SBICs that have been adjusted through an allowance during the period as nonrecurring Level 3.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

Financial Assets Recorded at Fair Value on a Recurring Basis

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

Description	December 31, 2018			
	Total	Level 1	Level 2	Level 3
U.S Government Agencies	\$37,863	\$ —	—	\$ —
Residential Mortgage-backed Securities of U.S. Government Agencies and Government Sponsored Enterprises	76,926	—	76,926	—
Municipal Bonds	29,080	—	29,080	—
Corporate Bonds	5,883	—	5,883	—
Total	\$149,752	\$ —	—	\$ —
Description	June 30, 2018			
	Total	Level 1	Level 2	Level 3
U.S Government Agencies	\$47,542	\$ —	—	\$ —
Residential Mortgage-backed Securities of U.S. Government Agencies and Government Sponsored Enterprises	70,599	—	70,599	—
Municipal Bonds	30,766	—	30,766	—
Corporate Bonds	6,023	—	6,023	—
Equity Securities	63	—	63	—
Total	\$154,993	\$ —	—	\$ —

There were no transfers between levels during the three months ended December 31, 2018.

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

Description	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Impaired loans	\$4,155	\$ —	—	—\$4,155
REO	1,086	—	—	1,086
Total	\$5,241	\$ —	—	—\$5,241
Description	June 30, 2018			
	Total	Level 1	Level 2	Level 3
Impaired loans	\$8,423	\$ —	—	—\$8,423
REO	2,104	—	—	2,104
Total	\$10,527	\$ —	—	—\$10,527

Quantitative information about Level 3 fair value measurements during the period ended December 31, 2018 is shown in the table below:

	Fair Value at December 31, 2018	Valuation Techniques	Unobservable Input	Range	Weighted Average
Nonrecurring measurements:					
Impaired loans, net	\$ 4,155	Discounted appraisals and discounted cash flows	Collateral discounts and discount spread	6% - 25% - 3%	1% 2%
REO	\$ 1,086	Discounted appraisals		8% - 15%	10%

Collateral
discounts

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

The stated carrying value and estimated fair value amounts of financial instruments as of December 31, 2018 and June 30, 2018, are summarized below:

	December 31, 2018				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and interest-bearing deposits	\$71,306	\$71,306	\$71,306	\$—	—
Commercial paper	239,286	239,286	239,286	—	—
Certificates of deposit in other banks	51,936	51,936	—	51,936	—
Securities available for sale	149,752	149,752	—	149,752	\$—
Loans, net	2,610,812	2,524,963	—	—	2,524,963
Loans held for sale	13,095	13,604	—	—	13,604
FHLB stock	32,159	32,159	32,159	—	—
FRB stock	7,315	7,315	7,315	—	—
SBIC	5,384	5,384	—	—	5,384
Accrued interest receivable	10,372	10,372	—	1,172	9,200
Liabilities:					
Noninterest-bearing and NOW deposits	774,111	774,111	—	774,111	—
Money market accounts	703,445	703,445	—	703,445	—
Savings accounts	192,954	192,954	—	192,954	—
Certificates of deposit	587,559	582,656	—	582,656	—
Borrowings	688,000	686,307	—	686,307	—
Accrued interest payable	1,639	1,639	—	1,639	—
June 30, 2018					
	Carrying Fair				
	Value	Value	Level 1	Level 2	Level 3
Assets:					
Cash and interest-bearing deposits	\$70,746	\$70,746	\$70,746	\$—	—
Commercial paper	229,070	229,070	229,070	—	—
Certificates of deposit in other banks	66,937	66,937	—	66,937	—
Securities available for sale	154,993	154,993	—	154,993	—
Loans, net	2,504,792	2,414,647	—	—	2,414,647
Loans held for sale	5,873	5,990	—	—	5,990
FHLB stock	29,907	29,907	29,907	—	—
FRB stock	7,307	7,307	7,307	—	—
SBIC	4,717	4,717	—	—	4,717
Accrued interest receivable	9,344	9,344	297	883	8,164
Liabilities:					
Noninterest-bearing and NOW deposits	789,186	789,186	—	789,186	—
Money market accounts	677,665	677,665	—	677,665	—
Savings accounts	213,250	213,250	—	213,250	—
Certificates of deposit	516,152	509,924	—	509,924	—
Borrowings	635,000	635,187	—	635,187	—
Accrued interest payable	805	805	—	805	—

The Company had off-balance sheet financial commitments, which included approximately \$746,047 and \$751,324 of commitments to originate loans, undisbursed portions of interim construction loans, and unused lines of credit at December 31, 2018 and June 30, 2018, respectively (see Note 10). Since these commitments are based on current

rates, the carrying amount approximates the fair value.

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

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

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

Commercial paper - The stated amounts approximate fair value due to the short-term nature of these investments.

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

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

Loans held for sale – The fair value of mortgage loans held for sale is determined by outstanding commitments from investors on a "best efforts" basis or current investor yield requirements, calculated on the aggregate loan basis. The fair value of SBA loans held for sale is based on what investors are currently offering for loans with similar characteristics.

Loans, net – Fair values for loans are estimated by segregating the portfolio by type of loan and discounting scheduled cash flows using current market interest rates for loans with similar terms and credit quality. A prepayment assumption is used as an estimate of the portion of loans that will be repaid prior to their scheduled maturity. For the December 31, 2018 fair value, a liquidity premium assumption is used as an estimate for the additional return required by an investor of assets that are potentially considered illiquid.

FHLB and FRB stock– No ready market exists for these stocks and they have no quoted market value. However, redemptions of these securities have historically been at par value. Accordingly, cost is deemed to be a reasonable estimate of fair value.

SBIC– No ready market exists for these investments and they have no quoted market value. SBIC are valued at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions of identical or similar investments. Accordingly, cost is deemed to be a reasonable estimate of fair value.

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

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

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

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

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

12. Revenue

On July 1, 2018, the Company adopted ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" and all subsequent ASUs that modified ASC 606. The adoption of the new standard did not have a material impact on the measurement or recognition of revenue. Results for reporting periods beginning after July 1, 2018 are presented under Topic 606, while prior period amounts reflect an offset of \$198 and \$393 of interchange costs against interchange income for the three and six months ended December 31, 2018.

ASC 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, financial

guarantees, and certain credit card fees are also not in scope of the new guidance. ASC 606 is applicable to noninterest revenue streams such as deposit related fees, interchange fees, merchant income, and various other service fees. However, the recognition of these revenue streams did not change significantly upon adoption of ASC 606. Substantially all of the Company's revenue is generated from contracts with customers. The Company has made no significant judgments in applying the revenue guidance prescribed in ASC 606 that affect the determination of the amount and timing of revenue streams with customers.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

The table below presents the Company's sources of noninterest income, segregated by in-scope and out-of-scope revenue streams of ASC 606 at the dates indicated:

	Three Months Ended December 31, 2018		Six Months Ended December 31, 2017	
In-scope of ASC 606:				
Service charges on deposit accounts	\$1,042	\$942	\$2,026	\$1,831
Fees, interchange, and other service charges	1,697	1,144	3,300	2,213
Other	154	267	366	452
Noninterest income (in-scope of ASC 606)	2,893	2,353	5,692	4,496
Noninterest income (out-of-scope of ASC 606)	2,192	2,106	5,006	4,225
Total noninterest income	\$5,085	\$4,459	\$10,698	\$8,721

The following is a description of revenue streams accounted for under ASC 606:

Service charges on deposit accounts

Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts), monthly service fees, nonsufficient fund fees, check orders, and other deposit account related fees. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Nonsufficient fund fees, check orders and other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Fees, interchange, and other service charges

Fees, interchange, and other service charges are primarily comprised of debit and credit card income, ATM fees, merchant services income, and other service charges. Debit and credit card income is primarily comprised of interchange fees earned whenever the Company's debit and credit cards are processed through card payment networks such as Visa. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, cashier's checks, and other services. The Company's performance obligation for fees, interchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Other

Other noninterest income consists of safety deposit box rental fees and other miscellaneous revenue streams. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Company determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation.

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

Forward-Looking Statements

Certain matters in this Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to our financial condition, results of operations, plans, objectives, future performance or business. Forward-looking statements are not statements of historical fact, are based on certain assumptions and are generally identified by use of the words "believes," "expects," "anticipates," "estimates," "forecasts," "intends," "plans," "targets," "potentially," "probably," "projects," "outlook" or similar expressions or future or conditional verbs such as "may," "will," "should," "would," and "could." Forward-looking

statements include statements with respect to our beliefs, plans, objectives, goals, expectations, assumptions, and statements about future economic performance and projections of financial items. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated or implied by our forward-looking statements, including, but not limited to: the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the housing and commercial real estate markets; changes in general economic conditions, either nationally or in our market areas; changes in the levels of general interest rates, and the relative differences between short and long term interest rates, deposit interest rates, our net interest margin and funding sources; fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in our market areas; decreases in the secondary market for the sale of loans that we originate; results of examinations of us by the Board of Governors of the Federal Reserve System (“Federal Reserve”), the North Carolina Office of the Commissioner of Banks (“NCCOB”), or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to increase our allowance for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings; legislative or regulatory changes that adversely affect our business including the effect of Dodd-Frank Wall Street Reform and Consumer

Protection Act, changes in laws or regulations, changes in regulatory policies and principles or the application or interpretation of laws and regulations by regulatory agencies and tax authorities, including changes in deferred tax asset and liability activity, or the interpretation of regulatory capital or other rules, including as a result of Basel III; our ability to attract and retain deposits; management's assumptions in determining the adequacy of the allowance for loan losses; our ability to control operating costs and expenses, especially costs associated with our operation as a public company; the use of estimates in determining fair value of certain assets, which estimates may prove to be incorrect and result in significant declines in valuation; difficulties in reducing risks associated with the loans on our balance sheet; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce and potential associated charges; disruptions, security breaches, or other adverse events, failures or interruptions in, or attacks on, our information technology systems or on the third-party vendors who perform several of our critical processing functions; our ability to retain key members of our senior management team; costs and effects of litigation, including settlements and judgments; our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we may in the future acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; adverse changes in the securities markets; inability of key third-party providers to perform their obligations to us; changes in accounting principles, policies or guidelines and practices, as may be adopted by the financial institution regulatory agencies, the Public Company Accounting Oversight Board or the Financial Accounting Standards Board; and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services; and the other risks detailed from time to time in our filings with the Securities and Exchange Commission ("SEC"), including our 2018 Form 10-K.

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

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

Overview

HomeTrust Bancshares, Inc., a Maryland corporation, was formed for the purpose of becoming the holding company for HomeTrust Bank in connection with HomeTrust Bank's conversion from mutual to stock form, which was completed on July 10, 2012 (the "Conversion"). As a bank holding company and financial holding company, HomeTrust Bancshares, Inc. is regulated by the Federal Reserve. As a North Carolina state-chartered bank, and member of the Federal Reserve System, the Bank's primary regulators are the NCCOB and the Federal Reserve. The Bank's deposits are federally insured up to applicable limits by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is a member of the Federal Home Loan Bank of Atlanta ("FHLB" or "FHLB of Atlanta"), which is one of the 12 regional banks in the Federal Home Loan Bank System. Our headquarters is located in Asheville, North Carolina.

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

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

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

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

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

Our noninterest expenses consist primarily of salaries and employee benefits, expenses for occupancy, marketing and computer services, and FDIC deposit insurance premiums. Salaries and benefits consist primarily of the salaries and wages paid to our employees, payroll taxes, expenses

for retirement and other employee benefits. Occupancy expenses, which are the fixed and variable costs of buildings and equipment, consist primarily of lease payments, property taxes, depreciation charges, maintenance and costs of utilities.

In recent years, we have expanded our geographic footprint into seven additional markets through strategic acquisitions as well as three de novo commercial loan offices and one de novo branch office. Looking forward, we believe opportunities currently exist within our market areas to grow our franchise. We anticipate organic growth as the local economy and loan demand strengthens, through our marketing efforts and as a result of the opportunities being created as a result of the consolidation of financial institutions occurring in our market areas. We may also seek to expand our franchise through the selective acquisition of individual branches, loan purchases and, to a lesser degree, whole bank transactions that meet our investment and market objectives. We will continue to be disciplined as it pertains to future expansion focusing primarily on organic growth in our current market areas.

At December 31, 2018, we had 43 locations in North Carolina (including the Asheville metropolitan area, Greensboro/"Piedmont" region, Charlotte, and Raleigh/Cary), Upstate South Carolina (Greenville), East Tennessee (including Kingsport/Johnson City/Bristol, Knoxville, and Morristown) and Southwest Virginia (including the Roanoke Valley).

Critical Accounting Policies and Estimates

Certain of our accounting policies are important to the portrayal of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Facts and circumstances which could affect these judgments include, but are not limited to, changes in interest rates, changes in the performance of the economy, and changes in the financial condition of borrowers. These policies relate to (i) the determination of the provision and the allowance for loan losses, (ii) business combinations and acquired loans, (iii) the valuation of REO, (iv) the valuation of goodwill and other intangible assets, and (v) the valuation of or recognition of deferred tax assets and liabilities. These policies and estimates are described in further detail in Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 1, Summary of Significant Accounting Policies with the 2018 Form 10-K. There have not been any material changes in the Company's critical accounting policies and estimates during the six months ended December 31, 2018 as compared to the disclosure contained in the Company's 2018 Form 10-K. Reclassifications and corrections. To maintain consistency and comparability, certain amounts from prior periods have been reclassified to conform to current period presentation with no effect on net income, shareholders' equity, or cash flows as previously reported.

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

Non-GAAP Financial Measures

In addition to results presented in accordance with GAAP, this report contains certain non-GAAP financial measures, which include: tangible book value; tangible book value per share, tangible equity to tangible assets ratio; net income, earnings per share ("EPS"), return on assets ("ROA"), and return on equity ("ROE") excluding certain state income tax expense, adjustments for the change in federal tax law, and gain from the sale of premises and equipment; and the ratio of the allowance for loan losses to total loans excluding acquired loans. Management has presented the non-GAAP financial measures in this discussion and analysis because it believes including these items is more indicative of and provides useful and comparative information to assess trends in our core operations while facilitating comparison of the quality and composition of the Company's earnings over time and in comparison to its competitors. However, these non-GAAP financial measures are supplemental, are not audited and are not a substitute for operating results or any analysis determined in accordance with GAAP. Where applicable, we have also presented comparable earnings information using GAAP financial measures. Because not all companies use the same calculations, our presentation may not be comparable to other similarly titled measures as calculated by other companies. See "Comparison of Results of Operations for the Three and Six Months Ended December 31, 2018 and 2017" for more

detailed information about our financial performance.

Set forth below is a reconciliation to GAAP of tangible book value and tangible book value per share:

	As of		
	December	June 30,	December
(Dollars in thousands, except per share data)	31,	2018	31,
	2018	2018	2017
Total stockholders' equity	\$410,970	\$ 409,242	\$ 395,361
Less: goodwill, core deposit intangibles, net of taxes	28,284	29,125	30,083
Tangible book value ⁽¹⁾	\$382,686	\$ 380,117	\$ 365,278
Common shares outstanding	18,520,825	19,041,668	18,967,175
Tangible book value per share	\$20.66	\$ 19.96	\$ 19.26
Book value per share	\$22.19	\$ 21.49	\$ 20.84

(1) Tangible book value is equal to total stockholders' equity less goodwill and core deposit intangibles, net of related deferred tax liabilities.

Set forth below is a reconciliation to GAAP of tangible equity to tangible assets:

	As of			
	December	June 30,	December	
(Dollars in thousands)	31,	2018	31,	
	2018	2018	2017	
Tangible equity ⁽¹⁾	\$382,686	\$380,117	\$365,278	
Total assets	3,413,099	3,304,169	3,250,588	
Less: goodwill, core deposit intangibles, net of taxes	28,284	29,125	30,083	
Total tangible assets ⁽²⁾	\$3,384,815	\$3,275,044	\$3,220,505	
Tangible equity to tangible assets	11.31	% 11.61	% 11.34	%

(1) Tangible equity (or tangible book value) is equal to total stockholders' equity less goodwill and core deposit intangibles, net of related deferred tax liabilities.

(2) Total tangible assets is equal to total assets less goodwill and core deposit intangibles, net of related deferred tax liabilities.

Edgar Filing: HomeTrust Bancshares, Inc. - Form 10-Q

Set forth below is a reconciliation to GAAP net income, EPS, ROA, and ROE as adjusted to exclude state tax expense rate changes, adjustments for the change in federal tax law rate, and gain from the sale of premises and equipment:

(Dollars in thousands, except per share data)	Three Months Ended		Six months ended	
	December 31,		December 31,	
	2018	2017	2018	2017
State tax expense adjustment ⁽¹⁾	—	—	—	133
Change in federal tax law adjustment ⁽²⁾	—	17,693	—	17,693
Gain from sale of premises and equipment	—	—	—	(164)
Total adjustments	—	17,693	—	17,662
Tax effect	—	—	—	49
Total adjustments, net of tax	—	17,693	—	17,711
Net income (loss) (GAAP)	8,041	(10,666)	15,831	(5,099)
Net income (non-GAAP)	\$8,041	\$7,027	\$15,831	\$12,612
Per Share Data				
Average shares outstanding - basic	17,797,553	17,975,883	17,961,465	17,971,439
Average shares outstanding - diluted	18,497,334	17,975,883	18,689,584	17,971,439
Average shares outstanding - diluted (adjusted) ⁽³⁾	18,497,334	18,689,894	18,689,584	18,655,048
Basic EPS				
EPS (GAAP)	\$0.45	\$(0.59)	\$0.88	\$(0.28)
Non-GAAP adjustment	—	0.98	—	0.98
EPS (non-GAAP)	\$0.45	\$0.39	\$0.88	\$0.70
Diluted EPS				
EPS (GAAP)	\$0.43	\$(0.59)	\$0.84	\$(0.28)
Non-GAAP adjustment	—	0.97	—	0.96
EPS (non-GAAP)	\$0.43	\$0.38	\$0.84	\$0.68
Average Balances				
Average assets	\$3,369,726	\$3,249,632	\$3,345,769	\$3,223,758
Average equity	410,943	405,993	411,905	403,708
ROA				
ROA (GAAP)	0.95	% (1.31)	% 0.95	% (0.32)
Non-GAAP adjustment	—	% 2.17	% —	% 1.10
ROA (non-GAAP)	0.95	% 0.86	% 0.95	% 0.78
ROE				
ROE (GAAP)	7.83	% (10.51)	% 7.69	% (2.53)
Non-GAAP adjustment	—	% 17.43	% —	% 8.78
ROE (non-GAAP)	7.83	% 6.92	% 7.69	% 6.25

(1) State tax adjustment is a result of various revaluations of state deferred tax assets.

(2) Revaluation and related adjustments of net deferred tax assets due to the Tax Cuts and Jobs Act.

(3) Average shares outstanding - diluted were adjusted for the three and six months ended December 31, 2017 to include potentially dilutive shares not considered due to the corresponding net losses under GAAP.

Set forth below is a reconciliation to GAAP of the allowance for loan losses to total loans and the allowance for loan losses as adjusted to exclude acquired loans:

(Dollars in thousands)	As of December 31, 2018	June 30, 2018	December 31, 2017	
Total gross loans receivable (GAAP)	\$2,632,819	\$2,526,616	\$2,419,256	
Less: acquired loans	236,389	271,801	311,508	
Adjusted gross loans (non-GAAP)	\$2,396,430	\$2,254,815	\$2,107,748	
Allowance for loan losses (GAAP)	\$21,419	\$21,060	\$21,090	
Less: allowance for loan losses on acquired loans	199	483	566	
Adjusted allowance for loan losses (non-GAAP)	\$21,220	\$20,577	\$20,524	
Adjusted allowance for loan losses / Adjusted gross loans (non-GAAP)	0.89	% 0.91	% 0.97	%

Comparison of Financial Condition at December 31, 2018 and June 30, 2018

General. Total assets increased \$108.9 million, or 3.3% to \$3.4 billion at December 31, 2018 from \$3.3 billion at June 30, 2018. Total liabilities increased \$107.2 million, or 3.7% to \$3.0 billion at December 31, 2018 from \$2.9 billion at June 30, 2018. Deposit growth of \$61.8 million, or 2.8%; a \$53.0 million, or 8.3% increase in borrowings; and the cumulative decrease of \$20.2 million, or 9.1% in certificates of deposit in other banks and investment securities were used to fund the \$106.4 million, or 4.2% increase in total loans receivable, net of deferred loan fees, the \$10.2 million, or 4.5% increase in commercial paper, the \$7.2 million, or 123.0% increase in loans held for sale, and the \$2.9 million, or 7.0% increase in other investments during the first six months of fiscal 2019.

Cash, cash equivalents, and commercial paper. Total cash and cash equivalents increased \$560,000, or 0.8%, to \$71.3 million at December 31, 2018 from \$70.7 million at June 30, 2018. Commercial paper increased \$10.2 million, or 4.5% to \$239.3 million at December 31, 2018 from \$229.0 million at June 30, 2018.

Investments. Securities available for sale decreased \$5.2 million, or 3.4%, to \$149.8 million at December 31, 2018 from \$155.0 million at June 30, 2018. During the six months ended December 31, 2018, \$11.6 million of securities matured and \$9.7 million of principal payments were received partially offset by \$15.8 million in purchases. At December 31, 2018, certificates of deposit in other financial institutions decreased \$15.0 million, or 22.4% to \$51.9 million compared to \$66.9 million at June 30, 2018. The decrease in certificates of deposit in other financial institutions was due to \$21.7 million in maturities partially offset by \$6.7 million in purchases. All certificates of deposit in other financial institutions are fully insured by the FDIC. We evaluate individual investment securities quarterly for other-than-temporary declines in market value. We did not believe that there were any other-than-temporary impairments at December 31, 2018; therefore, no impairment losses were recorded during the first six months of fiscal 2019. Other investments at cost at December 31, 2018 included SBIC Investments, FRB stock, and FHLB stock totaling \$5.4 million, \$7.3 million and \$32.2 million, respectively. In total, other investments increased \$2.9 million, or 7.0% from June 30, 2018 primarily as a result of required purchases of FHLB stock due to an increase in our FHLB borrowings.

Loans held for sale. Loans held for sale increased \$7.2 million, or 123.0% at December 31, 2018 to \$13.1 million from \$5.9 million at June 30, 2018. The increase was driven by SBA loans originated for sale during the quarter.

Loans. Net loans receivable increased \$106.0 million, or 4.2%, at December 31, 2018 to \$2.6 billion from June 30, 2018 primarily due to \$134.1 million, or 11.4% annualized rate of organic loan growth partially offset by decreases in the outstanding balances of home equity lines of credit purchased. The \$75.8 million, or 51.0% increase in commercial and industrial loans was driven by our new equipment finance line of business.

Retail consumer and commercial loans consist of the following at the dates indicated:

(Dollars in thousands)	As of		Change		Percent of total	
	December 31, 2018	June 30, 2018	\$	%	December 31, 2018	June 30, 2018
Retail consumer loans:						
One-to-four family	\$661,374	\$664,289	\$(2,915)	(0.4)%	25.1%	26.3%
HELOCs - originated	135,430	137,564	(2,134)	(1.6)	5.1	5.4
HELOCs - purchased	138,571	166,276	(27,705)	(16.7)	5.3	6.6
Construction and land/lots	74,507	65,601	8,906	13.6	2.8	2.6
Indirect auto finance	170,516	173,095	(2,579)	(1.5)	6.5	6.9
Consumer	13,520	12,379	1,141	9.2	0.5	0.5
Total retail consumer loans	1,193,918	1,219,204	(25,286)	(2.1)	45.3	48.3
Commercial loans:						
Commercial real estate	904,357	857,315	47,042	5.5	34.4	33.9
Construction and development	198,738	192,102	6,636	3.5	7.5	7.6
Commercial and industrial	224,582	148,823	75,759	50.9	8.5	5.9
Municipal leases	111,135	109,172	1,963	1.8	4.2	4.3
Total commercial loans	1,438,812	1,307,412	131,400	10.1	54.7	51.7
Total loans	\$2,632,730	\$2,526,616	\$106,114	4.2%	100.0%	100.0%

Our expansion into larger metro markets as well as in-market acquisitions combined with improvements in the economy, employment rates, stronger real estate prices, and a general lack of new housing inventory in certain markets have led to us significantly increasing originations of construction loans for properties located in our market areas. We have hired experienced commercial real estate relationship managers, credit officers, and developed a construction risk management group to better manage construction risk, as part of our efforts to grow the construction portfolio. We will continue to take a disciplined approach in our construction and land development lending by concentrating our efforts on smaller one-to-four residential loans to builders known to us and developers of commercial real estate and multifamily properties with proven success in this type of construction. At December 31, 2018, construction and land/lots totaled \$74.5 million including \$62.7 million of one-to-four family construction loans that will roll over to permanent loans upon completion of the construction period. Undisbursed construction and land/lots loan commitments at December 31, 2018 totaled \$59.2 million. Total construction and development loans at December 31, 2018, were \$198.8 million, excluding unfunded loan commitments of \$152.7 million, of which \$80.8 million was for non-residential commercial real estate construction, \$67.3 million was for land development, \$46.3 million was for speculative construction of single family properties, and \$4.4 million was for multi-family construction. Undisbursed construction and development loan commitments at December 31, 2018 included \$87.9 million of commercial real estate projects, multi-family residential projects of \$38.3 million and \$26.5 million for the speculative construction of one- to four-family residential properties. The increase in commercial and industrial loans was driven by growth from our new equipment finance line of business. At December 31, 2018, commercial and industrial loans totaled \$224.6 million, which included \$81.0 million in equipment finance loans and capital leases.

Asset Quality. Our overall asset quality metrics continue to demonstrate our commitment to growing and maintaining a loan portfolio with a moderate risk profile. Nonperforming assets decreased \$2.0 million or 13.5% to \$12.6 million, or 0.37% of total assets, at December 31, 2018 from \$14.6 million, or 0.44% of total assets at June 30, 2018. Nonperforming assets included \$9.6 million in nonaccruing loans and \$3.0 million in REO at December 31, 2018, compared to \$10.9 million and \$3.7 million, in nonaccruing loans and REO respectively, at June 30, 2018. Included in nonperforming loans are \$3.9 million of TDR loans of which \$2.2 million were current with respect to their modified payment terms. The decrease in nonaccruing loans was primarily due to loans returning to performing status as payment history and the borrower's financial status improved. At December 31, 2018, \$5.8 million, or 60.0%, of nonaccruing loans were current on their loan payments. PCI loans aggregating \$2.1 million obtained through prior acquisitions were excluded from nonaccruing loans due to the accretion of discounts established in accordance with

the acquisition method of accounting for business combinations. Nonperforming loans to total loans was 0.37% at December 31, 2018 compared to 0.43% at June 30, 2018.

The ratio of classified assets to total assets decreased to 0.97% at December 31, 2018 from 1.00% at June 30, 2018. Classified assets remained consistent at \$33.2 million at December 31, 2018 compared to \$33.1 million at June 30, 2018. Delinquent loans (loans delinquent 30 days or more) increased to \$13.2 million at December 31, 2018, from \$9.8 million at June 30, 2018 primarily due to one commercial real estate loan relationship.

As of December 31, 2018, we had identified \$27.8 million of impaired loans compared to \$31.4 million at June 30, 2018. Our impaired loans are comprised of loans on non-accrual status and all TDRs, whether performing or on non-accrual status under their restructured terms. Impaired loans may be evaluated for reserve purposes using either a specific impairment analysis or on a collective basis as part of homogeneous pools. As of December 31, 2018, there were \$10.9 million loans individually evaluated for impairment and \$16.9 million were collectively evaluated. For more information on these impaired loans, see Note 5 of the Notes to Consolidated Financial Statements under Item 1 of this report.

Allowance for loan losses. We establish an allowance for loan losses by charging amounts to the loan loss provision at a level required to reflect estimated credit losses in the loan portfolio. In evaluating the level of the allowance for loan losses, management considers, among other factors, historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect borrowers' ability to repay, estimated value of any underlying collateral, prevailing economic conditions and current risk factors specifically related to each loan type. The allowance for loan losses was \$21.4 million, or 0.81% of total loans, at December 31, 2018 compared to \$21.1 million, or 0.83% of total loans, at June 30, 2018. The allowance for loan losses to gross loans excluding acquired loans was 0.89% at December 31, 2018, compared to 0.91% at June 30, 2018. Loans acquired from acquisitions are recorded at fair value, which includes a credit discount, therefore, no allowance for loan losses is established for these acquired loans unless the credit quality deteriorates further subsequent to the acquisition. The allowance for our acquired loans at December 31, 2018 was \$199,000 compared to \$483,000 at June 30, 2018.

There was no provision for loan loss during the six months ended December 31, 2018 and 2017 as the allowance for loan losses required by our loan growth was offset by continued improvements in our asset quality. Net loan recoveries totaled \$359,000 for the six months ended December 31, 2018 compared to net loan charge-offs of \$61,000 for the same period during the prior fiscal year. Net recoveries as a percentage of average loans increased to (0.03)% for the six months ended December 31, 2018 from charge-offs of 0.01% for the same period last fiscal year.

The allowance as a percentage of nonaccruing loans increased to 221.45% at December 31, 2018 from 192.96% at June 30, 2018.

We believe that the allowance for loan losses as of December 31, 2018 was adequate to absorb the known and inherent risks of loss in the loan portfolio at that date. While we believe the estimates and assumptions used in our determination of the adequacy of the allowance are reasonable, there can be no assurance that such estimates and assumptions will not be proven incorrect in the future, or that the actual amount of future provisions will not exceed the amount of past provisions or that any increased provisions that may be required will not adversely impact our financial condition and results of operations. In addition, the determination of the amount of the allowance for loan losses is subject to review by bank regulators as part of the routine examination process, which may result in the establishment of additional reserves based upon their judgment of information available to them at the time of their examination.

Real estate owned. REO decreased \$729,000, or 19.8% to \$3.0 million at December 31, 2018 primarily due to \$571,000 in REO sales during the six months ended December 31, 2018. The total balance of REO at December 31, 2018 included \$943,000 in land, \$1.5 million in commercial real estate, and \$557,000 in single-family homes.

Deferred income taxes. Deferred income taxes decreased \$4.0 million, or 12.4%, to \$28.5 million at December 31, 2018 from \$32.6 million at June 30, 2018. The decrease was primarily driven by the realization of net operating losses through increases in taxable income.

Goodwill. Goodwill remained unchanged at \$25.6 million at both December 31, 2018 and June 30, 2018.

Deposits. Deposits increased \$61.8 million during the six months ended December 31, 2018 to \$2.3 billion from \$2.2 billion at June 30, 2018. Increases in NOW accounts, money market accounts and certificates of deposit were partially offset by decreases in other types of deposit accounts.

The following table sets forth our deposits by type of deposit account as of the dates indicated:

(Dollars in thousands)	As of		Change	Percent of total			
	December 31, 2018	June 30, 2018		\$	%	December 31, 2018	June 30, 2018
Core deposits:							
Noninterest-bearing accounts	\$300,031	\$317,822	\$(17,791)	(5.6)%	13.3%	14.5%	%
NOW accounts	474,080	471,364	2,716	0.6%	21.0%	21.5%	%
Money market accounts	703,445	677,665	25,780	3.8%	31.2%	30.9%	%
Savings accounts	192,954	213,250	(20,296)	(9.5)%	8.5%	9.7%	%
Core deposits	1,670,510	1,680,101	(9,591)	(0.6)%	74.0%	76.5%	%
Certificates of deposit	587,559	516,152	71,407	13.8%	26.0%	23.5%	%

Edgar Filing: HomeTrust Bancshares, Inc. - Form 10-Q

Total \$2,258,069 \$2,196,253 \$61,816 2.8 % 100.0% 100.0%

Borrowings. Borrowings increased to \$688.0 million at December 31, 2018 from \$635.0 million at June 30, 2018. A total of \$413.0 million of these FHLB advances have maturities of less than 90 days and \$275.0 million consist of convertible FHLB advances with maturities less than one year; together with a weighted average interest rate of 2.23% at December 31, 2018.

Equity. Stockholders' equity at December 31, 2018 increased \$1.7 million to \$411.0 million from \$409.2 million at June 30, 2018. The increase was due to \$15.8 million in net income, \$1.5 million in stock-based compensation, and a \$576,000 increase in other comprehensive income representing a reduction in unrealized losses on investment securities, net of tax, partially offset by 559,755 shares of common stock repurchased at an average cost of \$27.95, or approximately \$15.6 million in total, and \$1.1 million related to our first cash dividend.

Average Balances, Interest and Average Yields/Cost

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

	For the Three Months Ended December 31,					
	2018			2017		
	Average Balance Outstanding	Interest Earned/ Paid ⁽²⁾	Yield/ Rate ⁽²⁾	Average Balance Outstanding	Interest Earned/ Paid ⁽²⁾	Yield/ Rate ⁽²⁾
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Loans receivable ⁽¹⁾	\$2,610,117	\$30,826	4.72 %	\$2,406,014	\$26,518	4.41 %
Deposits in other financial institutions	82,700	395	1.91 %	151,197	517	1.37 %
Investment securities	151,788	876	2.31 %	175,039	903	2.06 %
Other interest-earning assets ⁽³⁾	274,605	2,585	3.77 %	241,948	1,418	2.34 %
Total interest-earning assets	3,119,210	34,682	4.45 %	2,974,198	29,356	3.95 %
Other assets	250,516			275,434		
Total assets	3,369,726			3,249,632		
Liabilities and equity:						
Interest-bearing deposits:						
Interest-bearing checking accounts	465,418	302	0.26 %	471,474	236	0.20 %
Money market accounts	689,335	1,265	0.73 %	644,928	585	0.36 %
Savings accounts	196,434	63	0.13 %	227,933	76	0.13 %
Certificate accounts	564,112	1,977	1.40 %	448,507	644	0.57 %
Total interest-bearing deposits	1,915,299	3,607	0.75 %	1,792,842	1,541	0.33 %
Borrowings	673,783	3,692	2.19 %	677,013	2,077	1.22 %
Total interest-bearing liabilities	2,589,082	7,299	1.13 %	2,469,855	3,618	0.58 %
Noninterest-bearing deposits	309,012			307,934		
Other liabilities	60,689			65,850		
Total liabilities	2,958,783			2,843,639		
Stockholders' equity	410,943			405,993		
Total liabilities and stockholders' equity	\$3,369,726			\$3,249,632		
Net earning assets	\$530,128			\$504,343		
Average interest-earning assets to average interest-bearing liabilities	120.48	%		120.42	%	
Tax-equivalent:						
Net interest income		\$27,383			\$25,738	
Interest rate spread			3.32 %			3.37 %
Net interest margin ⁽⁴⁾			3.51 %			3.46 %
Non-tax-equivalent:						
Net interest income		\$27,101			\$25,360	
Interest rate spread			3.28 %			3.32 %
Net interest margin ⁽⁴⁾			3.48 %			3.41 %

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

(2) Interest income used in the average interest/earned and yield calculation includes the tax equivalent adjustment of \$282,000 and \$378,000 for the three months ended December 31, 2018 and 2017, respectively, calculated based on a combined federal and state income tax rate of 24% and 30%, respectively.

(3) The average other interest-earning assets consists of FRB stock, FHLB stock, SBIC investments, and commercial paper.

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

Edgar Filing: HomeTrust Bancshares, Inc. - Form 10-Q

	For the Six Months Ended December 31,			2017		
	2018			2017		
	Average Balance Outstanding	Interest Earned/ Paid ⁽²⁾	Yield/ Rate ⁽²⁾	Average Balance Outstanding	Interest Earned/ Paid ⁽²⁾	Yield/ Rate ⁽²⁾
(Dollars in thousands)						
Assets:						
Interest-earning assets:						
Loans receivable ⁽¹⁾	\$2,584,145	\$59,837	4.63 %	\$2,383,768	\$52,154	4.38 %
Deposits in other financial institutions	87,607	811	1.85 %	155,175	1,053	1.36 %
Investment securities	153,019	1,732	2.26 %	182,479	1,875	2.06 %
Other interest-earning assets ⁽³⁾	272,914	4,865	3.57 %	225,185	2,676	2.38 %
Total interest-earning assets	3,097,685	67,245	4.34 %	2,946,607	57,758	3.92 %
Other assets	248,084			277,151		
Total assets	\$3,345,769			\$3,223,758		
Liabilities and equity:						
Interest-bearing liabilities:						
Interest-bearing checking accounts	462,657	571	0.25 %	467,201	452	0.19 %
Money market accounts	683,332	2,222	0.65 %	625,095	1,062	0.34 %
Savings accounts	202,362	131	0.13 %	230,436	153	0.13 %
Certificate accounts	547,310	3,433	1.25 %	449,173	1,220	0.54 %
Total interest-bearing deposits	1,895,661	6,357	0.75 %	1,771,905	2,887	0.33 %
Borrowings	659,821	6,950	2.11 %	672,552	4,046	1.20 %
Total interest-bearing liabilities	2,555,482	13,307	1.04 %	2,444,457	6,933	0.56 %
Noninterest-bearing deposits	316,397			309,265		
Other liabilities	61,985			66,328		
Total liabilities	2,933,864			2,820,050		
Stockholders' equity	411,905			403,708		
Total liabilities and stockholders' equity	\$3,345,769			\$3,223,758		
Net earning assets	\$542,203			\$502,150		
Average interest-earning assets to average interest-bearing liabilities	121.22	%		120.54	%	
Tax-equivalent:						
Net interest income		\$53,938			\$50,825	
Interest rate spread			3.30 %			3.36 %
Net interest margin ⁽⁴⁾			3.48 %			3.45 %
Non-tax-equivalent:						
Net interest income		\$53,373			\$50,061	
Interest rate spread			3.26 %			3.30 %
Net interest margin ⁽⁴⁾			3.45 %			3.40 %

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

(2) Interest income used in the average interest earned and yield calculation includes the tax equivalent adjustment of \$565,000 and \$764,000 for the six months ended December 31, 2018 and 2017, respectively, calculated based on a combined federal and state tax rate of 24% and 30%, respectively.

(3) The average other interest-earning assets consists of FRB stock, FHLB stock, SBIC investments, and commercial paper.

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

Rate/Volume Analysis

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

	Three Months Ended December 31, 2018		Compared to Three Months Ended December 31, 2017	
	Increase/ (decrease) due to		Total increase/(decrease)	
(Dollars in thousands)	Volume	Rate		
Interest-earning assets:				
Loans receivable ⁽¹⁾	\$2,248	\$2,060	\$ 4,308	
Deposits in other financial institutions	(235)	113	(122)	
Investment securities	(119)	92	(27)	
Other interest-earning assets	191	976	1,167	
Total interest-earning assets	\$2,085	\$3,241	\$ 5,326	
Interest-bearing liabilities:				
Interest-bearing checking accounts	\$(3)	\$69	\$ 66	
Money market accounts	41	639	680	
Savings accounts	(11)	(2)	(13)	
Certificate accounts	167	1,166	1,333	
Borrowings	(10)	1,625	1,615	
Total interest-bearing liabilities	184	3,497	3,681	
Net increase (decrease) in tax equivalent interest income	\$1,901	\$(256)	\$ 1,645	
	Six Months Ended December 31, 2018		Compared to Six Months Ended December 31, 2017	
	Increase/ (decrease) due to		Total increase/(decrease)	
(Dollars in thousands)	Volume	Rate		
Interest-earning assets:				
Loans receivable ⁽¹⁾	\$4,384	\$3,299	\$ 7,683	
Deposits in other financial institutions	(458)	216	(242)	
Investment securities	(302)	159	(143)	
Other interest-earning assets	567	1,622	2,189	
Total interest-earning assets	4,191	5,296	9,487	
Interest-bearing liabilities:				
Interest-bearing checking accounts	\$(5)	\$124	\$ 119	
Money market accounts	99	1,061	1,160	

Edgar Filing: HomeTrust Bancshares, Inc. - Form 10-Q

Savings accounts	(18)	(4)	(22)
Certificate accounts	266	1,947	2,213
Borrowings	(77)	2,981	2,904
Total interest-bearing liabilities	265	6,109	6,374
Net increase (decrease) in tax equivalent interest income	\$3,926	\$(813)	\$ 3,113

(1) Interest income used in the average interest/earned and yield calculation includes the tax equivalent adjustment of \$282,000 and \$378,000 for the three months ended December 31, 2018 and 2017, respectively, calculated based on a combined federal and state income tax rate of 24% and 30%. Interest income used in the average interest/earned and yield calculation includes the tax equivalent adjustment of \$565,000 and \$764,000 for the six months ended December 31, 2018 and 2017, respectively, calculated based on a combined federal and state tax rate of 24% and 30%.

Comparison of Results of Operation for the Three Months Ended December 31, 2018 and 2017

General. During the three months ended December 31, 2018, we had net income of \$8.0 million compared to a net loss of \$10.7 million for the three months ended December 31, 2017. The Company's diluted earnings per share was \$0.43 for the three months ended December 31, 2018 compared to a diluted loss per share of \$0.59 for the same period in fiscal 2018. Earnings for the three months ended December 31, 2017 included an approximately \$17.7 million write-down of deferred tax assets ("DTA") as a result of the enactment of the Tax Act with no comparable charge in the same 2018 period. Net income and diluted earnings per share excluding state tax expense rate changes, adjustments for the change in federal tax law rate, and gain from the sale of premises and equipment for the quarter ended December 31, 2018 and 2017 was \$8.0 million and \$0.43, compared to \$7.0 million and \$0.38, respectively. Net Interest Income. Net interest income increased \$1.7 million, or 6.9% to \$27.1 million for the quarter ended December 31, 2018 compared to \$25.4 million for the corresponding period in 2017. The increase in net interest income for the quarter ended December 31, 2018 was primarily due to a \$5.4 million increase in interest and dividend income driven by an increase in average interest-earning assets, which was partially offset by a \$3.7 million increase in interest expense.

Average interest-earning assets increased \$145.0 million, or 4.9% to \$3.1 billion for the quarter ended December 31, 2018 compared to \$3.0 billion for the corresponding quarter in fiscal 2018. For the quarter ended December 31, 2018, the average balance of total loans receivable increased \$204.1 million, or 8.5% primarily due to organic loan growth. The average balance of other interest-earning assets increased \$32.7 million, or 13.5% primarily due to increases in commercial paper investments. These increases were mainly funded by the cumulative decrease of \$91.8 million, or 28.1% in average interest-earning deposits in other banks and securities available for sale, and an increase in average interest-bearing deposits of \$122.5 million, or 6.8% as compared to the same quarter last year. Net interest margin (on a fully taxable-equivalent basis) for the three months ended December 31, 2018 increased to 3.51% from 3.46% for the same period a year ago.

Total interest and dividend income increased \$5.4 million, or 18.7% for the three months ended December 31, 2018 as compared to the same period last year, which was primarily driven by a \$4.4 million, or 16.8% increase in loan interest income and a \$663,000, or 50.9% increase in interest income from commercial paper and interest-bearing deposits in other banks. The additional loan interest income was driven by the increase in both the average balance of loans receivable and loan yields compared to the prior year quarter. Average loan yields increased 31 basis points to 4.72% for the quarter ended December 31, 2018 from 4.41% in the corresponding quarter from last year primarily due to the impact of the increases in the targeted federal funds rate over the past year. Partially offsetting the increase in loan interest income was a \$96,000, or 10.4% decrease in the accretion of purchase discounts on acquired loans as a result of reduced prepayments as compared to the same quarter last year. Accretable income on acquired loans stems from the discount established at the time these loan portfolios were acquired and the related impact of prepayments on purchased loans. Each quarter, the Company analyzes the cash flow assumptions on the PCI loan pools and, at least semi-annually, the Company updates loss estimates, prepayment speeds and other variables when analyzing cash flows. In addition to this accretion income, which is recognized over the estimated life of the loan pools, if a loan is removed from a pool due to payoff or foreclosure, the unaccreted discount in excess of losses is recognized as an accretion gain in interest income. As a result, income from loan pools can be volatile from quarter to quarter. For the quarters ended December 31, 2018 and 2017, the average loan yield included 13 and 15 basis points, respectively, from the accretion of purchase discounts on acquired loans.

Total interest expense increased \$3.7 million, or 101.7% for the quarter ended December 31, 2018 compared to the same period last year. The increase was primarily driven by a \$2.1 million, or 134.1% increase in deposit interest expense and a \$1.6 million, or 77.8% increase in interest expense on borrowings. The additional deposit interest expense was a result of our focus on increasing deposits as the average balance of interest-bearing deposits increased \$122.5 million along with a 42 basis point increase in the average cost of interest-bearing deposits for the quarter ended December 31, 2018 compared to the same quarter last year. Average borrowings decreased \$3.2 million or 0.5% for the quarter ended December 31, 2018 compared to the same period last year, however, interest expense from borrowings increased \$1.6 million due to the 97 basis point increase in the average cost of borrowings between the

periods. The overall average cost of funds increased 55 basis points to 1.13% for the current quarter compared to 0.58% in the same quarter last year due primarily to the impact of higher interest rates on our interest-bearing liabilities.

Provision for Loan Losses. During the three months ended December 31, 2018 and 2017, there was no provision for loan losses as the provision required by our loan growth was offset by continued improvements in our asset quality. Net loan recoveries totaled \$487,000 for the three months ended December 31, 2018 compared to net loan charge-offs of \$907,000 for the same period last year. Net recoveries as a percentage of average loans increased to (0.07)% for the three months ended December 31, 2018 from net charge-offs of 0.15% for the same period last fiscal year.

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

Noninterest Income. Noninterest income increased \$626,000, or 14.0% to \$5.1 million for the three months ended December 31, 2018 from \$4.5 million for the same period in the previous year. The leading factors of the increase included a \$590,000, or 29.7% increase in service charges on deposit accounts as a result of an increase in deposit accounts and related fees; and an \$156,000, or 26.3% increase in other noninterest income primarily related to operating lease income from the new equipment finance line of business. Partially offsetting these increases was a \$220,000, decline in gain from the sale of loans for the three months ended December 31, 2018 compared to the same period last year primarily related to decreasing residential mortgage banking activity.

Noninterest Expense. Noninterest expense for the three months ended December 31, 2018 increased \$881,000, or 4.2% to \$21.9 million compared to \$21.0 million for the three months ended December 31, 2017. The increase was primarily due to a \$884,000, or 7.4% increase in salaries and employee benefits; a \$300,000, or 18.8% increase in computer services; a \$83,000, or 26.0% increase in marketing and advertising, and a \$78,000, or 3.2% increase in net occupancy expense, mainly driven by the expansion of our SBA and equipment finance lines of business. Partially offsetting these increases was the cumulative decrease of \$464,000 or 10.1% in telephone, postage, and supplies expense; deposit insurance

premiums, REO related expenses; core deposit intangibles amortization; and other expenses for the three months ended December 31, 2018 compared to the same period last year.

Income Taxes. The Company's income tax expense for the three months ended December 31, 2018 was \$2.3 million compared to \$19.5 million for the three months ended December 31, 2017. The Company's federal income tax provision for the three months ended December 31, 2018 benefited from the impact of the Tax Act that lowered the corporate federal income tax rate from 34% to 21%. In the fourth quarter of 2017, following a revaluation of net deferred tax assets due to the Tax Act, the Company recorded additional income tax expense of \$17.7 million. The Company's effective tax rate for the quarter ended December 31, 2018 was 22.1%.

Comparison of Results of Operation for the Six Months Ended December 31, 2018 and 2017

General. During the six months ended December 31, 2018, we had net income of \$15.8 million compared to a net loss of \$5.1 million for the six months ended December 31, 2017. Diluted earnings per share was \$0.84 for the first six months of fiscal year 2019, compared to a diluted loss per share of \$0.28 in the same period in fiscal 2018. Earnings for the six months ended December 31, 2017 included an approximately \$17.7 million write-down of deferred tax assets following a deferred tax revaluation of our DTA resulting from the Tax Act with no comparable charge in the same 2018 period. Net income and diluted earnings per share excluding state tax expense rate changes, adjustments for the change in federal tax law rate, and gain from the sale of premises and equipment for the six months ended December 31, 2018 was \$15.8 million and \$0.84, compared to \$12.6 million and \$0.68, respectively.

Net Interest Income. Net interest income increased \$3.3 million, or 6.6% to \$53.4 million for the six months ended December 31, 2018 compared to \$50.1 million for the six months ended December 31, 2017. This increase in net interest income was driven by a \$9.7 million, or 17.0% increase in interest and dividend income partially offset by a \$6.4 million, or 91.9% increase in interest expense.

Average interest-earning assets increased \$151.1 million, or 5.1% to \$3.1 billion for the six months ended December 31, 2018 compared to \$2.9 billion in the same period in fiscal 2018. The \$200.4 million, or 8.4% increase in average balance of total loans receivable for the six months ended December 31, 2018 was primarily due to organic loan growth, which was mainly funded by the cumulative decrease of \$97.0 million, or 28.7% in average interest-earning deposits in other financial institutions, securities available for sale and an increase in average interest-bearing deposits of \$123.8 million, or 7.0%. Net interest margin (on a fully taxable-equivalent basis) for the six months ended December 31, 2018 increased three basis points to 3.48% from 3.45% for the period last year.

Total interest and dividend income increased \$9.7 million, or 17.0% for the six months ended December 31, 2018 as compared to the same period last year. The increase was primarily driven by a \$7.9 million, or 15.3% increase in loan interest income, a \$1.4 million, or 54.7% increase in interest income from commercial paper and interest-bearing deposits in other banks, and a \$596,000, or 47.4% increase in other investment income. The additional loan interest income was primarily due to the increase in the average balance of loans receivable, which was partially offset by a \$500,000, or 29.5% decrease in the accretion of purchase discounts on acquired loans to \$1.2 million for the six months ended December 31, 2018 from \$1.7 million for the same period in fiscal 2018, as a result of reduced repayments as compared to the same period in the previous year. Overall, average loan yields increased 25 basis points to 4.63% for the six months ended December 31, 2018 from 4.38% in the fiscal 2018 period. For the six months ended December 31, 2018 and 2017, the average loan yield included nine and 15 basis points, respectively, from the accretion of purchase discounts on acquired loans.

Total interest expense increased \$6.4 million, or 91.9% to \$13.3 million for the six months ended December 31, 2018 from \$6.9 million for the same period last year. This increase was primarily related to the increase in average interest-bearing deposits and the corresponding 34 basis point increase in the average cost of those deposits, resulting in additional deposit interest expense of \$3.5 million for the six months ended December 31, 2018 as compared to the same period in the prior year. The average cost of borrowings increased 91 basis points, more than offsetting a \$12.7 million decline in average borrowings resulting in an additional \$2.9 million in interest expense from borrowings for the six months ended December 31, 2018 as compared to the same period in the prior year. The overall cost of funds increased 48 basis points to 1.04% for the six months ended December 31, 2018 compared to 0.56% in the corresponding period last year.

Provision for Loan Losses. There was no provision for loan losses during the six months ended December 31, 2018 or 2017. Net recoveries for the six months ended December 31, 2018 were \$359,000 compared to net charge-offs of \$61,000 for the same period in fiscal 2017. Net recoveries as a percentage of average loans was (0.03)% for the six months ended December 31, 2018 compared to net charge-offs of 0.01% for the same period last fiscal year. See "Comparison of Financial Condition - Asset Quality" for additional details.

Noninterest Income. Noninterest income increased \$2.0 million, or 22.7%, to \$10.7 million for the six months ended December 31, 2018 from \$8.7 million for the six months ended December 31, 2017. The increase was primarily the result of a \$1.1 million, or 29.9% increase in service charges on deposit accounts; a \$731,000, or 38.8% increase on the gain on sale of loans primarily due to originations and sales of the guaranteed portion of SBA commercial loans; and \$244,000, or 20.6% increase in other noninterest income. Partially offsetting these increases was a \$164,000 decrease in gain from the sale of premises and equipment for the six months ended December 31, 2018 compared to the same period last year as there were no sales occurring during the current period.

Noninterest Expense. Noninterest expense for the six months ended December 31, 2018 increased \$1.9 million, or 4.5%, to \$43.7 million compared to \$41.9 million for the six months ended December 31, 2017. The increase was primarily due to a \$1.2 million, or 5.0% increase in salaries and employee benefits; a \$604,000, or 19.2% increase in computer services; a \$198,000, or 49.0% increase in REO related expenses; and a cumulative increase of \$202,000, or 2.9% in net occupancy, marketing and advertising, and telephone, postage, and supplies expense. Partially offsetting these increases was a \$309,000, or 22.1% decrease in core deposit intangible amortization and a \$194,000, or 23.3% decrease

in deposit insurance premiums for the six months ended December 31, 2018 compared to the same period last year. Deposit insurance premiums decreased due to reduced premiums as a result of higher levels of capital and lower nonperforming loans.

Income Taxes. For the six months ended December 31, 2018, the Company's income tax expense was \$4.5 million compared to \$22.0 million for the six months ended December 31, 2017. The decrease was primarily driven by the absence of the deferred tax revaluation that occurred during the six months ended December 31, 2017 compared to the same period in fiscal 2019. The Company's corporate federal income tax rate for the six months ended December 31, 2018 and 2017 was 21% and 27.5%, respectively. The Company's effective tax rate for the six months ended December 31, 2018 was 22.1%.

Liquidity

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

In addition to these primary sources of funds, management has several secondary sources available to meet potential funding requirements. As of December 31, 2018, the Bank had an available borrowing capacity of \$63.4 million with the FHLB of Atlanta, a \$137.4 million line of credit with the FRB and three lines of credit with three unaffiliated banks totaling \$70.0 million. At December 31, 2018, we had \$688.0 million in FHLB advances outstanding and nothing outstanding under our other lines of credit. Additionally, the Company classifies its securities portfolio as available for sale, providing an additional source of liquidity. Management believes that our security portfolio is of high quality and the securities would therefore be marketable. In addition, we have historically sold longer term fixed-rate mortgage loans in the secondary market to reduce interest rate risk and to create still another source of liquidity. From time to time we also utilize brokered time deposits to supplement our other sources of funds. Brokered time deposits are obtained by utilizing an outside broker that is paid a fee. This funding requires advance notification to structure the type of deposit desired by us. Brokered deposits can vary in term from one month to several years and have the benefit of being a source of longer-term funding. We also utilize brokered deposits to help manage interest rate risk by extending the term to repricing of our liabilities, enhance our liquidity and fund asset growth. Brokered deposits are typically from outside our primary market areas, and our brokered deposit levels may vary from time to time depending on competitive interest rate conditions and other factors. At December 31, 2018 brokered deposits totaled \$139.7 million, or 6.2% of total deposits compared to \$108.9 million, or 4.9% of total deposits at June 30, 2018.

Liquidity management is both a daily and long-term function of business management. Excess liquidity is generally invested in short-term investments, such as overnight deposits, federal funds, and commercial paper. On a longer term basis, we maintain a strategy of investing in various lending products and investment securities, including mortgage-backed securities. HomeTrust Bancshares on a stand-alone level is a separate legal entity from the Bank and must provide for its own liquidity and pay its own operating expenses. The Company's primary source of funds consists of the net proceeds retained from the Conversion. The Company also has the ability to receive dividends or capital distributions from the Bank, although there are regulatory restrictions on the ability of the Bank to pay dividends. At December 31, 2018, the Company (on an unconsolidated basis) had liquid assets of \$8.7 million. We use our sources of funds primarily to meet our ongoing commitments, pay maturing deposits and fund withdrawals, and to fund loan commitments. At December 31, 2018, the total approved loan commitments and unused lines of credit outstanding amounted to \$258.0 million and \$488.1 million, respectively, as compared to \$259.7 million and \$491.6 million, respectively, as of June 30, 2018. Certificates of deposit scheduled to mature in one year or less at December 31, 2018, totaled \$289.5 million. It is management's policy to manage deposit rates that are competitive with other local financial institutions. Based on this management strategy, we believe that a majority of maturing deposits will remain with us.

During the first six months of fiscal 2019, cash and cash equivalents increased \$560,000, or 0.8%, to \$71.3 million as of December 31, 2018 from \$70.7 million as of June 30, 2018. Cash provided by operating and financing activities was \$6.3 million and \$98.6 million, respectively; while cash used in investing activities was \$104.4 million. Primary

sources of cash for the six months ended December 31, 2018 included \$15.0 million in maturing certificates of deposit in other financial institutions, net of purchases, \$11.6 million in maturing securities available for sale, \$9.7 million in principal repayments from mortgage-backed securities, a \$61.8 million increase in deposits, and a \$53.0 million net increase in borrowings. Primary uses of cash during the period included a net increase in commercial paper of \$7.2 million, an increase in loans of \$109.0 million, \$15.8 million of purchases of securities available for sale, \$5.5 million in purchases of operating lease equipment and \$15.6 million in common stock repurchases. All sources and uses of cash reflect our cash management strategy to increase our higher yielding investments and loans by increasing lower costing borrowings and reducing our holdings of lower yielding investments.

Off-Balance Sheet Activities

In the normal course of operations, we engage in a variety of financial transactions that are not recorded in our financial statements. These transactions involve varying degrees of off-balance sheet credit, interest rate and liquidity risks. These transactions are used primarily to manage customers' requests for funding and take the form of loan commitments and lines of credit. For the six months ended December 31, 2018, we engaged in no off-balance sheet transactions likely to have a material effect on our financial condition, results of operations or cash flows.

A summary of our off-balance sheet commitments to extend credit at December 31, 2018, is as follows (in thousands):

Undisbursed portion of construction loans	\$197,728
Commitments to make loans	60,248
Unused lines of credit	488,071
Unused letters of credit	8,826
Total loan commitments	\$754,873

Capital Resources

At December 31, 2018, stockholder's equity totaled \$411.0 million. HomeTrust Bancshares, Inc. is a bank holding company and a financial holding company subject to regulation by the Federal Reserve. As a bank holding company, we are subject to capital adequacy requirements of the Federal Reserve under the Bank Holding Company Act of 1956, as amended and the regulations of the Federal Reserve. Our subsidiary, the Bank, an FDIC-insured, North Carolina state-chartered bank and a member of the Federal Reserve System, is supervised and regulated by the Federal Reserve and the NCCOB and is subject to minimum capital requirements applicable to state member banks established by the Federal Reserve that are calculated in a manner similar to those applicable to bank holding companies.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

At December 31, 2018, HomeTrust Bancshares, Inc. and the Bank each exceeded all regulatory capital requirements as of that date. Consistent with our goals to operate a sound and profitable organization, our policy is for the Bank to maintain a "well-capitalized" status under the regulatory capital categories of the Federal Reserve. The Bank was categorized as "well-capitalized" at December 31, 2018 under applicable regulatory requirements.

Edgar Filing: HomeTrust Bancshares, Inc. - Form 10-Q

HomeTrust Bancshares, Inc. and the Bank's actual and required minimum capital amounts and ratios are as follows (dollars in thousands):

	Actual		Regulatory Requirements			
			Minimum for Capital Adequacy Purposes		Minimum to Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
HomeTrust Bancshares, Inc.						
As of December 31, 2018						
Common Equity Tier I Capital to Risk-Weighted Assets	\$377,144	12.55%	\$135,186	4.50%	\$195,269	6.50%
Tier I Capital (to Total Adjusted Assets)	\$377,144	11.31%	\$133,395	4.00%	\$166,744	5.00%
Tier I Capital (to Risk-weighted Assets)	\$377,144	12.55%	\$180,248	6.00%	\$240,331	8.00%
Total Risk-based Capital (to Risk-weighted Assets)	\$399,018	13.28%	\$240,331	8.00%	\$300,414	10.00%

As of June 30, 2018

Common Equity Tier I Capital to Risk-Weighted Assets	\$372,188	12.97%	\$129,109	4.50%	\$186,491	6.50%
Tier I Capital (to Total Adjusted Assets)	\$372,188	11.45%	\$130,032	4.00%	\$162,539	5.00%
Tier I Capital (to Risk-weighted Assets)	\$372,188	12.97%	\$172,145	6.00%	\$229,527	8.00%
Total Risk-based Capital (to Risk-weighted Assets)	\$393,703	13.72%	\$229,527	8.00%	\$286,909	10.00%

HomeTrust Bank:

As of December 31, 2018

Common Equity Tier I Capital to Risk-Weighted Assets	\$355,765	11.86%	\$135,038	4.50%	\$195,054	6.50%
Tier I Capital (to Total Adjusted Assets)	\$355,765	10.68%	\$133,294	4.00%	\$166,618	5.00%
Tier I Capital (to Risk-weighted Assets)	\$355,765	11.86%	\$180,050	6.00%	\$240,067	8.00%
Total Risk-based Capital (to Risk-weighted Assets)	\$377,574	12.58%	\$240,067	8.00%	\$300,084	10.00%

As of June 30, 2018

Common Equity Tier I Capital to Risk-Weighted Assets	\$335,152	11.70%	\$128,889	4.50%	\$186,173	6.50%
Tier I Capital (to Total Adjusted Assets)	\$335,152	10.33%	\$129,769	4.00%	\$162,211	5.00%
Tier I Capital (to Risk-weighted Assets)	\$335,152	11.70%	\$171,852	6.00%	\$229,136	8.00%
Total Risk-based Capital (to Risk-weighted Assets)	\$356,603	12.45%	\$229,136	8.00%	\$286,421	10.00%

In addition to the minimum common equity Tier 1 ("CET1"), Tier 1 and total risk-based capital ratios, HomeTrust Bancshares, Inc. and the Bank now have to maintain a capital conservation buffer consisting of additional CET1 capital above the required minimum levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. The new capital conservation buffer requirement was phased in beginning in January 2016 when a buffer more than 0.625% of risk-weighted assets was required, which amount increased each year by 0.625% to an amount more than 2.5% of risk weighted assets on January 1, 2019. At December 31, 2018, the conservation buffer was an amount more than 1.875%

Impact of Inflation

The effects of price changes and inflation can vary substantially for most financial institutions. While management believes that inflation affects the growth of total assets, it believes that it is difficult to assess the overall impact. Management believes this to be the case due to the fact that generally neither the timing nor the magnitude of the inflationary changes in the consumer price index ("CPI") coincides with changes in interest rates. The price of one or more of the components of the CPI may fluctuate considerably and thereby influence the overall CPI without having a

corresponding effect on interest rates or upon the cost of those goods and services normally purchased by the Company. In years of high inflation and high interest rates, intermediate and long-term interest rates tend to increase, thereby adversely impacting the market values of investment securities, mortgage loans and other long-term fixed rate loans. In addition, higher short-term interest rates caused by inflation tend to increase the cost of funds. In other years, the opposite may occur.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

There has not been any material change in the market risk disclosures contained in our 2018 Form 10-K.

Item 4. Controls and Procedures

An evaluation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Act")) as of December 31, 2018, was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and several other members of the Company's senior management. The Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures in effect as of December 31, 2018, were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is: (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. In addition, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Act) that occurred during the quarter ended December 31, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The "Litigation" section of Note 10 to the Consolidated Financial Statements included in Part I, Item 1 is incorporated herein by reference.

Item 1A. Risk Factors

There have been no material changes in the Risk Factors previously disclosed in Item 1A of the Company's 2018 Form 10-K.

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

(a) Not applicable

(b) Not applicable

(c) The following table provides information about repurchases of common stock by the Company during the quarter ended December 31, 2018:

Period	Total Number Of Shares Purchased	Average Price Paid per Share	Total	Maximum
			Number Of Shares Purchased as Part of Publicly Announced Plans	Number of Shares that May Purchased Under Publicly Announced Plans

Edgar Filing: HomeTrust Bancshares, Inc. - Form 10-Q

October 1 - October 31, 2018	227,000	\$ 27.93	227,000	298,855
November 1 - November 30, 2018	87,855	27.48	87,855	—
December 1 - December 31, 2018	116,600	25.17	116,600	815,001
Total	431,455	\$ 27.61	431,455	815,001

On December 6, 2018, the Company announced that its Board of Directors had authorized the repurchase of up to 931,601 shares of the Company's common stock, representing 5% of the Company's outstanding shares at the time of the announcement. The shares may be purchased in the open market or in privately negotiated transactions, from time to time depending upon market conditions and other factors. As of December 31, 2018, 116,600 of the shares approved on December 6, 2018 had been purchased at an average price of \$25.17.

Item 3. Defaults Upon Senior Securities

Nothing to report.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Nothing to report.

Item 6. Exhibits

Regulation S-K Exhibit Number	Document	Reference to Prior Filing or Exhibit Number Attached Hereto
3.1	<u>Charter of HomeTrust Bancshares, Inc.</u>	(b)
3.2	<u>Articles Supplementary to the Charter of HomeTrust Bancshares, Inc. for HomeTrust Bancshares, Inc.'s Junior Participating Preferred Stock, Series A</u>	(c)
3.3	<u>Amended and Restated Bylaws of HomeTrust Bancshares, Inc. Tax Benefits Preservation Plan, dated as of September 25, 2012, between</u>	(p)
4.1	<u>HomeTrust Bancshares, Inc. and Registrar and Transfer Company, as Rights Agent</u>	(c)
4.2	<u>Amendment No. 1, dated as of August 31, 2015, to Tax Benefit Preservation Plan, dated as of September 25, 2012, between HomeTrust Bancshares, Inc. and Computershare Trust Company, N.A., as successor rights agent to Registrar and Transfer Company</u>	(l)
4.3	<u>Amendment No. 2, dated as of August 21, 2018, to Tax Benefits Preservation Plan, dated as of September 25, 2012, between HomeTrust Bancshares, Inc. and Computershare Trust Company, N.A., as successor rights agent to Registrar and Transfer Company</u>	(o)
10.1	<u>HomeTrust Bancshares, Inc. Strategic Operating Committee Incentive Plan</u>	(t)
10.2	<u>Amended and Restated Employment Agreement entered into between HomeTrust Bancshares, Inc. and Dana L. Stonestreet</u>	(q)
10.3	<u>Amended and Restated Employment Agreement entered into between HomeTrust Bancshares, Inc. and C. Hunter Westbrook</u>	(q)
10.3A	<u>Amendment No. 1 to Amended and Restated Employment Agreement entered into between HomeTrust Bancshares, Inc. and C. Hunter Westbrook</u>	(s)
10.4	<u>Amended and Restated Employment Agreement entered into between HomeTrust Bancshares, Inc. and Tony J. VunCannon</u>	(q)
10.5	<u>Employment Agreement between HomeTrust Bancshares, Inc. and Howard L. Sellinger</u>	(q)
10.6	<u>Employment Agreement between HomeTrust Bank and Sidney A. Biesecker</u>	(b)
10.7	<u>HomeTrust Bank Executive Supplemental Retirement Income Master Agreement ("SERP")</u>	(b)
10.7A	<u>SERP Joinder Agreement for F. Edward Broadwell, Jr.</u>	(b)
10.7B	<u>SERP Joinder Agreement for Dana L. Stonestreet</u>	(b)
10.7C	<u>SERP Joinder Agreement for Tony J. VunCannon</u>	(b)
10.7D	<u>SERP Joinder Agreement for Howard L. Sellinger</u>	(b)
10.7E	<u>SERP Joinder Agreement for Stan Allen</u>	(b)

10.7F	<u>SERP Joinder Agreement for Sidney A. Biesecker</u>	(b)
10.7G	<u>SERP Joinder Agreement for Peggy C. Melville</u>	(b)
10.7H	<u>SERP Joinder Agreement for William T. Flynt</u>	(b)
10.7I	<u>Amended and Restated Supplemental Income Agreement between HomeTrust Bank, as successor to Industrial Federal Savings Bank, and Sidney Biesecker</u>	(f)
10.8	<u>HomeTrust Bank Director Emeritus Plan ("Director Emeritus Plan")</u>	(b)
10.8A	<u>Director Emeritus Plan Joinder Agreement for William T. Flynt</u>	(b)
10.8B	<u>Director Emeritus Plan Joinder Agreement for J. Steven Goforth</u>	(b)
10.8C	<u>Director Emeritus Plan Joinder Agreement for Craig C. Koontz</u>	(b)

49

10.8D	<u>Director Emeritus Plan Joinder Agreement for Larry S. McDevitt</u>	(b)
10.8E	<u>Director Emeritus Plan Joinder Agreement for F.K. McFarland, III</u>	(b)
10.8F	<u>Director Emeritus Plan Joinder Agreement for Peggy C. Melville</u>	(b)
10.8G	<u>Director Emeritus Plan Joinder Agreement for Robert E. Shepherd, Sr.</u>	(b)
10.9	<u>HomeTrust Bank Defined Contribution Executive Medical Care Plan</u>	(b)
10.10	<u>HomeTrust Bank 2005 Deferred Compensation Plan</u>	(b)
10.11	<u>HomeTrust Bank Pre-2005 Deferred Compensation Plan</u>	(b)
10.12	<u>HomeTrust Bancshares, Inc. 2013 Omnibus Incentive Plan ("Omnibus Incentive Plan")</u>	(g)
10.13	<u>Form of Incentive Stock Option Award Agreement under Omnibus Incentive Plan</u>	(h)
10.14	<u>Form of Non-Qualified Stock Option Award Agreement under Omnibus Incentive Plan</u>	(h)
10.15	<u>Form of Stock Appreciation Right Award Agreement under Omnibus Incentive Plan</u>	(h)
10.16	<u>Form of Restricted Stock Award Agreement under Omnibus Incentive Plan</u>	(h)
10.17	<u>Form of Restricted Stock Unit Award Agreement under Omnibus Incentive Plan</u>	(h)
10.18	Reserved	
10.19	Reserved	
10.20	<u>Money Purchase Deferred Compensation Agreement, dated as of September 1, 1987, between HomeTrust Bank and F. Edward Broadwell, Jr.</u>	(k)
10.21	<u>Retirement Payment Agreement, dated as of September 1, 1987, between HomeTrust Bank and F. Edward Broadwell, Jr., as amended</u>	(k)
10.22	<u>Retirement Payment Agreement, dated as of September 1, 1987, between HomeTrust Bank and Larry S. McDevitt, as amended</u>	(k)
10.23	<u>Retirement Payment Agreement, dated as of September 1, 1987, between HomeTrust Bank and Peggy C. Melville, as amended</u>	(k)
10.24	<u>Retirement Payment Agreement, dated as of August 1, 1988, between HomeTrust Bank and Robert E. Shepherd, Sr., as amended</u>	(k)
10.25	<u>Retirement Payment Agreement, dated as of May 1, 1991, between HomeTrust Bank and William T. Flynt, as amended</u>	(k)
10.26	<u>Offer Letter between HomeTrust Bank and Keith J. Houghton</u>	(m)
10.27	Reserved	
10.28	<u>Amended and Restated Change in Control Severance Agreement between HomeTrust Bancshares, Inc. and Keith J. Houghton</u>	(q)
10.29	<u>Amended and Restated Change in Control Severance Agreement between HomeTrust Bancshares, Inc. and R. Parrish Little</u>	(r)
10.30	<u>Change in Control Severance Agreement between HomeTrust Bancshares, Inc. and Paula C. Labian</u>	10.30
31.1	<u>Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	31.1
31.2	<u>Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	31.2
32	<u>Certificate of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	32.0
	The following materials from HomeTrust Bancshares' Quarterly Report on Form 10-Q for the quarter ended December 31, 2018, formatted in Extensible Business Reporting Language (XBRL): (a)	
101	Consolidated Balance Sheets; (b) Consolidated Statements of Income; (c) Consolidated Statements of Comprehensive Income; (d) Consolidated Statements of Changes in Stockholders' Equity; (e) Consolidated Statements of Cash Flows; and (f) Notes to Consolidated Financial Statements.	101

(a)Reserved

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

Edgar Filing: HomeTrust Bancshares, Inc. - Form 10-Q

- (c) Filed as an exhibit to HomeTrust Bancshares's Current Report on Form 8-K filed on September 25, 2012 (File No. 001-35593).
- (d) Filed as an exhibit to HomeTrust Bancshares's Current Report on Form 8-K filed on November 27, 2013 (File No. 001-35593).
- (e) Filed as an exhibit to HomeTrust Bancshares's Annual Report on Form 10-K for the fiscal year ended June 30, 2012 (File No. 001-35593).
- (f) Filed as an exhibit to Amendment No. One to HomeTrust Bancshares's Registration Statement on Form S-1 (File No. 333-178817) filed on March 9, 2012.
- (g) Attached as Appendix A to HomeTrust Bancshares's definitive proxy statement filed on December 5, 2012 (File No. 001-35593).
- (h) Filed as an exhibit to HomeTrust Bancshares's Registration Statement on Form S-8 (File No. 333-186666) filed on February 13, 2013.
- (i) Reserved.

- (j) Filed as an exhibit to Jefferson Bancshares, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2008 (File No. 000-50347).
- (k) Filed as an exhibit to HomeTrust Bancshares's Annual Report on Form 10-K for the fiscal year ended June 30, 2014 (File No. 001-35593).
- (l) Reserved.
- (m) Filed as an exhibit to HomeTrust Bancshares's Annual Report on Form 10-K for the fiscal year ended June 30, 2015 (File No. 001-35593).
- (n) Filed as an exhibit to HomeTrust Bancshares's Current Report on Form 8-K filed on January 29, 2016 (File No. 001-35593).
- (o) Filed as an exhibit to HomeTrust Bancshares's Current Report on Form 8-K filed on August 21, 2018 (File No. 001-35593).
- (p) Filed as an exhibit to HomeTrust Bancshares's Current Report on Form 8-K filed on May 1, 2018 (File No. 001-35593).
- (q) Filed as an exhibit to HomeTrust Bancshares's Current Report on Form 8-K filed on September 11, 2018 (File No. 001-35593).
- (r) Filed as an exhibit to HomeTrust Bancshares's Annual Report on Form 10-K for the fiscal year ended June 30, 2018 (File No. 001-35593).
- (s) Filed as an exhibit to HomeTrust Bancshares's Current Report on Form 8-K filed on September 25, 2018 (File No. 001-35593).
- (t) Filed as an exhibit to HomeTrust Bancshares's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 (File No. 001-35593).

SIGNATURES

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

HomeTrust Bancshares, Inc.

Date: February 8, 2018 By: /s/ Dana L. Stonestreet
Dana L. Stonestreet
Chairman, President and CEO
(Duly Authorized Officer)

Date: February 8, 2018 By: /s/ Tony J. VunCannon
Tony J. VunCannon
Executive Vice President, CFO, Corporate Secretary and
Treasurer
(Principal Financial and Accounting Officer)