HomeTrust Bancshares, Inc.
Form 10-Q
February 09, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2016

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

For the transition period from _______ to ________

Commission file number: 001-35593

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

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

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

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

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

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

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

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

Large accelerated filer [ ] Accelerated filer [X]

(Do not check if a smaller reporting company)

Non-accelerated filer [ ] Smaller reporting company [ ]

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

APPLICABLE ONLY TO CORPORATE ISSUERS

There were 18,000,750 shares of common stock, par value of $.01 per share, issued and outstanding as of February 3, 2017.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARIES
10-Q
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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Consolidated Balance Sheets
(Dollars in thousands, except per share data)

	(Unaudited) December 31, 2016	June 30, 2016
Assets		
Cash	$ 40,105	$ 29,947
Interest-bearing deposits	5,044	22,649
Cash and cash equivalents	45,149	52,596
Commercial paper	179,939	229,859
Certificates of deposit in other banks	150,147	161,512
Securities available for sale, at fair value	181,049	200,652
Other investments, at cost	32,341	29,486
Loans held for sale	4,998	5,783
Total loans, net of deferred loan fees	1,955,604	1,832,831
Allowance for loan losses	(20,986)	(21,292)
Net loans	1,934,618	1,811,539
Premises and equipment, net	54,496	54,231
Accrued interest receivable	7,792	7,405
Real estate owned ("REO")	5,648	5,956
Deferred income taxes	52,259	54,153
Bank owned life insurance	81,033	79,858
Goodwill	13,098	12,673
Core deposit intangibles	5,868	7,136
Other assets	25,805	4,838
Total Assets	$ 2,774,240	$ 2,717,677
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$ 1,786,165	$ 1,802,696
Borrowings	560,000	491,000
Capital lease obligations	1,947	1,958
Other liabilities	58,352	62,047
Total liabilities	2,406,464	2,357,701
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, 18,000,750 shares issued and outstanding at December 31, 2016; 17,998,750 at June 30, 2016	180	180
Additional paid in capital	189,169	186,104
Retained earnings	186,620	179,813
Unearned Employee Stock Ownership Plan ("ESOP") shares	(8,199)	(8,464)
Accumulated other comprehensive income	6	2,343
Total stockholders' equity	367,776	359,976
Total Liabilities and Stockholders' Equity	$ 2,774,240	$ 2,717,677

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

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

	(Unaudited) Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
Interest and Dividend Income				
Loans	$19,871	$ 19,333	$40,352	$ 38,968
Securities available for sale	862	1,038	1,742	2,237
Certificates of deposit and other interest-bearing deposits	939	851	1,982	1,681
Other investments	391	344	778	689
Total interest and dividend income	22,063	21,566	44,854	43,575
Interest Expense				
Deposits	1,041	1,141	2,140	2,332
Other borrowings	607	275	1,162	522
Total interest expense	1,648	1,416	3,302	2,854
Net Interest Income	20,415	20,150	41,552	40,721
Provision for Loan Losses	—	—	—	—
Net Interest Income after Provision for Loan Losses	20,415	20,150	41,552	40,721
Noninterest Income				
Service charges on deposit accounts	1,712	1,618	3,461	3,317
Mortgage banking income and fees	937	590	1,914	1,318
Gain from sale of premises and equipment	—	—	385	—
Other, net	1,118	797	2,084	1,739
Total noninterest income	3,767	3,005	7,844	6,374
Noninterest Expense				
Salaries and employee benefits	11,839	10,875	22,530	21,732
Net occupancy expense	2,015	2,306	4,076	4,565
Marketing and advertising	459	499	889	984
Telephone, postage, and supplies	574	842	1,187	1,672
Deposit insurance premiums	203	523	481	1,048
Computer services	1,648	1,406	3,075	2,990
Loss on sale and impairment of REO	339	159	469	138
REO expense	378	327	522	682
Core deposit intangible amortization	618	743	1,268	1,517
Merger-related expenses	27	—	334	—
Other	2,206	2,162	4,441	4,349
Total noninterest expense	20,306	19,842	39,272	39,677
Income Before Income Taxes	3,876	3,313	10,124	7,418
Income Tax Expense	893	864	3,317	2,405
Net Income	$2,983	$ 2,449	$6,807	$ 5,013
Per Share Data:				
Net income per common share:				
Basic	$0.17	$ 0.14	$0.39	$ 0.28
Diluted	$0.17	$ 0.14	$0.39	$ 0.28
Average shares outstanding:				
Basic	16,900,381	17,479,150	16,893,775	17,778,568

Diluted	17,556,581	17,810,984	17,490,675	18,053,187

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

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

	(Unaudited)			
	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Net Income	$2,983	$2,449	$6,807	$5,013
Other Comprehensive Loss				
Unrealized holding losses on securities available for sale				
Losses arising during the period	(2,955)	(1,691)	(3,540)	(363)
Deferred income tax benefit	1,005	575	1,203	123
Total other comprehensive loss	$(1,950)	$(1,116)	$(2,337)	$(240)
Comprehensive Income	$1,033	$1,333	$4,470	$4,773

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

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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, 2015	19,488,449	$ 195	$210,621	$168,357	$(8,993)	$ 870	$ 371,050
Net income	—	—	—	5,013	—	—	5,013
Stock repurchased	(911,427)	(9)	(16,782)	—	—	—	(16,791)
Forfeited restricted stock	(2,250)	—	—	—	—	—	—
Exercised stock options	2,200	—	32	—	—	—	32
Stock option expense	—	—	953	—	—	—	953
Restricted stock expense	—	—	684	—	—	—	684
ESOP shares allocated	—	—	230	—	264	—	494
Other comprehensive loss	—	—	—	—	—	(240)	(240)
Balance at December 31, 2015	18,576,972	$ 186	$195,738	$173,370	$(8,729)	$ 630	$ 361,195
Balance at June 30, 2016	17,998,750	$ 180	$186,104	$179,813	$(8,464)	$ 2,343	$ 359,976
Net income	—	—	—	6,807	—	—	6,807
Granted restricted stock	2,000	—	—	—	—	—	—
Stock option expense	—	—	2,034	—	—	—	2,034
Restricted stock expense	—	—	758	—	—	—	758
ESOP shares allocated	—	—	273	—	265	—	538
Other comprehensive loss	—	—	—	—	—	(2,337)	(2,337)
Balance at December 31, 2016	18,000,750	$ 180	$189,169	$186,620	$(8,199)	$ 6	$ 367,776

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,	
	2016	2015
Operating Activities:		
Net income	$6,807	$5,013
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,745	2,090
Deferred income tax expense	3,097	2,349
Net amortization and accretion	(3,505)	(2,151)
Gain from sale of premises and equipment	(385)	—
Loss on sale and impairment of REO	469	138
Gain on sale of loans held for sale	(1,444)	(775)
Origination of loans held for sale	(77,526)	(41,995)
Proceeds from sales of loans held for sale	79,755	43,564
Increase in deferred loan fees, net	(397)	(184)
Decrease (increase) in accrued interest receivable and other assets	(5,280)	8,072
Amortization of core deposit intangibles	1,268	1,517
Earnings from bank owned life insurance	(1,175)	(964)
ESOP compensation expense	538	494
Restricted stock and stock option expense	2,792	1,637
Decrease in other liabilities	(3,920)	(6,557)
Net cash provided by (used in) operating activities	2,839	12,248
Investing Activities:		
Purchase of securities available for sale	(15,091)	(11,100)
Proceeds from maturities of securities available for sale	17,795	26,060
Net maturities of commercial paper	50,928	(15,704)
Purchase of certificates of deposit in other banks	(24,708)	(14,632)
Maturities of certificates of deposit in other banks	36,073	47,327
Principal repayments of mortgage-backed securities	13,080	12,844
Net purchases of other investments	(2,855)	(175)
Net increase in loans	(121,236)	(61,277)
Purchase of premises and equipment	(2,020)	(798)
Proceeds from sale of premises and equipment	395	—
Proceeds from sale of REO	1,169	1,540
Acquisition of United Financial of North Carolina Inc.	(200)	—
Acquisition costs related to TriSummit Bancorp, Inc.	(16,074)	—
Net cash used in investing activities	(62,744)	(15,915)
Financing Activities:		
Net decrease in deposits	(16,531)	(42,139)
Net increase in other borrowings	69,000	4,000
Common stock repurchased	—	(16,791)
Exercised stock options	—	32
Decrease in capital lease obligations	(11)	(11)
Net cash provided by (used in) financing activities	52,458	(54,909)
Net Decrease in Cash and Cash Equivalents	(7,447)	(58,576)

Cash and Cash Equivalents at Beginning of Period	52,596	116,160
Cash and Cash Equivalents at End of Period	$45,149	$57,584

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

Supplemental Disclosures:	(Unaudited) Six Months Ended December 31,	
	2016	2015
Cash paid during the period for:		
Interest	$3,754	$2,881
Income taxes	170	100
Noncash transactions:		
Unrealized loss in value of securities available for sale, net of income taxes	(2,337)	(240)
Transfers of loans to REO	1,330	1,367
Payable related to the acquisition of United Financial Inc. of North Carolina	225	—

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

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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. Effective December 31, 2015, the Bank converted from a national association to a North Carolina state bank. See Management's Discussion and Analysis of Financial Condition and Results of Operations "Overview" for discussion of charter change.

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, 2016 ("2016 Form 10-K") filed with the SEC on September 13, 2016. The results of operations for the three and six months ended December 31, 2016 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2017.

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 2016 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.

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. ASU No. 2015-14 is effective for interim and annual periods beginning after December 15, 2017; early adoption

is permitted for interim and annual periods beginning after December 15, 2016. 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. We are currently evaluating the impact of this guidance on our financial statements and the timing of adoption.
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 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

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)

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. This ASU is effective for interim and annual periods beginning after December 15, 2017. The adoption of ASU No. 2016-01 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (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. This ASU is effective for interim and annual periods beginning after December 15, 2018. We are currently evaluating the impact of this guidance on our Consolidated Financial Statements and the timing of adoption. Once adopted, we expect to report higher assets and liabilities as a result of including additional leases on the Consolidated Balance Sheet. 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 March 2016, the FASB issued ASU 2016-09, "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." The ASU changes the accounting for certain aspects of share-based payments to employees. The guidance requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid in capital pools. The guidance also allows for the employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. This ASU is effective for interim and annual periods beginning after December 15, 2016. We are currently evaluating the impact of this guidance on our Consolidated Financial Statements and the timing of adoption. Once adopted, we will elect to account for forfeitures of stock-based awards as they occur. We expect the adoption of this ASU will create some volatility in our reported income tax expense related to the excess tax benefits for employee stock-based transactions, however, the actual amounts recognized will be dependent on the amount of employee stock-based transactions and the stock price at the time of vesting.

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 currently evaluating the impact of the pending adoption of the ASU on its Consolidated Financial Statements. Once adopted, we expect our allowance for loan losses to increase, however, until our 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. This ASU is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted for all entities beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact of the pending adoption of the ASU on its Consolidated Financial Statements.

In December 2016, FASB issued ASU No. 2016-19, "Technical Corrections and Improvements" and ASU 2016-20, "Technical Corrections and Improvements to Topic 606: Revenue from Contracts with Customers." On November 10, 2010 FASB added a standing project that will facilitate the FASB Accounting Standards Codification ("Codification") updates for technical corrections, clarifications, and improvements. These amendments are referred to as Technical

Corrections and Improvements. Maintenance updates include non-substantive corrections to the Codification, such as editorial corrections, various link-related changes, and changes to source fragment information. These updates contain amendments that will affect a wide variety of Topics in the Codification. The amendments in these ASUs will apply to all reporting entities within the scope of the affected accounting guidance and generally fall into one of four categories: amendments related to differences between original guidance and the Codification, guidance clarification and reference corrections, simplification, and minor improvements. In summary, the amendments represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice. Transition guidance varies based on the amendments in the ASUs. The amendments that require transition guidance are effective for fiscal years and interim reporting periods after December 15, 2016. Early adoption is permitted including adoption in an interim period. All other amendments are effective upon the issuance of these ASUs. Neither ASU 2016-19 nor ASU 2016-20 had a material impact on the Company's Consolidated Financial Statements.
In January 2017, FASB issued ASU 2017-03, "Accounting Changes and Error Corrections (Topic 250) and Investments-Equity Method and Joint Ventures (Topic 323)." The ASU amends the Codification for SEC staff announcements made at recent Emerging Issues Task Force (EITF) meetings. The SEC guidance that specifically relates to our Consolidate Financial Statement was from the September 2016 meeting, where the SEC staff expressed their expectations about the extent of disclosures registrants should make about the effects of the new FASB guidance as well as any amendments issued prior to adoption, on revenue (ASU 2014-09), leases (ASU 2016-02) and credit losses on financial instruments (ASU 2016-13) in accordance with SAB Topic 11.M. Registrants are required to disclose the effect that recently issued accounting standards will have on their financial statements when adopted in a future period. In cases where a registrant cannot reasonably estimate the impact of the adoption, then additional qualitative disclosures should be considered. The ASU incorporates these SEC staff views into ASC 250 and adds references to that guidance in the transition paragraphs of each of the three new standards. The adoption of this ASU did not have a material effect on the Company's Consolidated Financial Statements.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)

3. Business Combinations

All business combinations are accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged are recorded at acquisition date fair values. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair values becomes available.

United Financial of North Carolina, Inc.

On December 31, 2016, the Bank acquired United Financial of North Carolina, Inc. ("United Financial"), a municipal lease company headquartered in Fletcher, North Carolina that specializes in providing financing for fire departments and municipalities for the purchase of fire trucks and related equipment as well as the construction of fire stations and other municipal buildings across the Carolinas and other southeastern states. United Financial underwrites and originates these municipal leases and then sells them to HomeTrust and other financial institutions. Beginning January 1, 2017, United Financial has conducted business under the name United Financial, a division of HomeTrust Bank.

The total consideration paid by the Bank in the United Financial acquisition approximates $425. Per the merger agreement, a cash payment of $200 was paid on the acquisition date with an additional $225 due in third quarter of fiscal 2018; all of which was allocated to goodwill.

TriSummit Bancorp. Inc.

On January 1, 2017, HomeTrust completed its acquisition of TriSummit Bancorp, Inc., (“TriSummit”) pursuant to an Agreement and Plan of Merger, dated as of September 20, 2016, under which TriSummit merged with and into HomeTrust (the “Merger”) with HomeTrust as the surviving corporation in the Merger. Immediately following the Merger, TriSummit's wholly owned subsidiary bank, TriSummit Bank, merged with and into the Bank (together with the Merger, the “TriSummit Merger”).

Pursuant to the Merger Agreement, each share of the common stock of TriSummit and each share of Series A Preferred Stock of TriSummit issued and outstanding immediately prior to the Merger (on an as converted basis to a share of TriSummit common stock) was converted into the right to receive $4.40 in cash and .2099 shares of HomeTrust common stock, with cash paid in lieu of fractional share interests. At the Merger date, 50% of outstanding options granted by TriSummit were canceled. The remaining options were assumed by HomeTrust and converted into options to purchase 86,185 shares of HomeTrust Common Stock. In addition, TriSummit’s $7,140 Series B, Series C and Series D TARP preferred stock (all held by private shareholders) was redeemed in connection with the closing of the merger.

The total consideration paid by HomeTrust in the TriSummit Merger approximates $36,127. The total number of HomeTrust shares issued was 765,277 shares. HomeTrust paid aggregate cash consideration of approximately $16,083. HomeTrust has paid $220, net of tax in merger expenses through December 31, 2016 and anticipates approximately $5,300, net of tax in additional merger expenses in the third quarter of fiscal 2017.

As of the filing of this report, HomeTrust has not completed the fair value measurements of the TriSummit assets and liabilities. The table below presents TriSummit's unaudited condensed balance sheet as of December 31, 2016.

	December 31, 2016
Assets:	
Cash and cash equivalents	$ 5,282
Investment securities	58,728
Loans, net	261,964
Other assets	34,064

Total assets	$ 360,038
Liabilities and Stockholders' Equity	
Deposits	$ 277,302
Borrowings	50,199
Other liabilities	447
Total liabilities	327,948
Stockholders' Equity	32,090
Total liabilities and stockholders' equity	$ 360,038

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HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share data)

4. Securities Available for Sale

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

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government Agencies	$72,885	$ 221	$ (419)	$72,687
Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises	82,420	283	(421)	82,282
Municipal Bonds	17,953	431	(59)	18,325
Corporate Bonds	7,719	100	(127)	7,692
Equity Securities	63	—	—	63
Total	$181,040	$ 1,035	$ (1,026)	$181,049

	June 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government Agencies	$77,356	$ 624	$ —	$77,980
Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises	95,668	1,824	(84)	97,408
Municipal Bonds	16,242	992	—	17,234
Corporate Bonds	7,773	194	—	7,967
Equity Securities	63	—	—	63
Total	$197,102	$ 3,634	$ (84)	$200,652

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

	December 31, 2016	
	Amortized Cost	Estimated Fair Value
Due within one year	$903	$904
Due after one year through five years	75,809	75,663
Due after five years through ten years	18,013	18,276
Due after ten years	3,832	3,861
Mortgage-backed securities	82,420	82,282
Total	$180,977	$180,986

The Company had no sales of securities available for sale during the three and six months ended December 31, 2016 and 2015.

Securities available for sale with costs totaling $135,556 and $151,359 with market values of $135,733 and $154,132 at December 31, 2016 and June 30, 2016, respectively, were pledged as collateral to secure various public deposits and other borrowings.

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The gross unrealized losses and the fair value for securities available for sale aggregated by the length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2016 and June 30, 2016 were as follows:

	December 31, 2016					
	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	$48,047	$ (419)	$—	$ —	$48,047	$ (419)
Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises	44,958	(358)	4,156	(63)	49,114	(421)
Municipal Bonds	5,042	(59)	—	—	5,042	(59)
Corporate Bonds	—	—	3,738	(127)	3,738	(127)
Total	$98,047	$ (836)	$7,894	$ (190)	$105,941	$ (1,026)

	June 30, 2016					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Residential Mortgage-backed Securities of U.S. Government Agencies and Government-Sponsored Enterprises	$1,970	$ (20)	$6,040	$ (64)	$8,010	$ (84)
Total	$1,970	$ (20)	$6,040	$ (64)	$8,010	$ (84)

The total number of securities with unrealized losses at December 31, 2016, and June 30, 2016 were 131 and 44, respectively. Unrealized losses on securities have not been recognized in income because management has the intent and ability to hold the securities for the foreseeable future, and has determined that it is not more likely than not that the Company will be required to sell the securities prior to a recovery in value. The decline in fair value was largely due to increases in market interest rates. The Company had no other than temporary impairment losses during the three and six months ended December 31, 2016 or the year ended June 30, 2016.
As a requirement for membership, the Bank invests in stock of the FHLB of Atlanta and the Federal Reserve Bank of Richmond ("FRB"). No ready market exists for this stock and the carrying value approximates its fair value based on the redemption provisions of the FHLB of Atlanta and the FRB.

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5. Loans

Loans consist of the following at the dates indicated:

	December 31, 2016	June 30, 2016
Retail consumer loans:		
One-to-four family	$608,118	$623,701
HELOCs - originated	156,615	163,293
HELOCs - purchased	173,511	144,377
Construction and land/lots	42,628	38,102
Indirect auto finance	129,132	108,478
Consumer	5,852	4,635
Total retail consumer loans	1,115,856	1,082,586
Commercial loans:		
Commercial real estate	531,321	486,561
Construction and development	129,370	86,840
Commercial and industrial	77,352	73,289
Municipal leases	101,730	103,183
Total commercial loans	839,773	749,873
Total loans	1,955,629	1,832,459
Deferred loan costs (fees), net	(25)	372
Total loans, net of deferred loan fees	1,955,604	1,832,831
Allowance for loan and lease losses	(20,986)	(21,292)
Loans, net	$1,934,618	$1,811,539

All the qualifying one-to-four family first mortgage loans, HELOCs, 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, 2016						
Retail consumer loans:						
One-to-four family	$575,429	$8,320	$ 17,898	$ 1,239	$ 48	$602,934
HELOCs - originated	152,810	944	2,514	55	9	156,332
HELOCs - purchased	173,511	—	—	—	—	173,511
Construction and land/lots	40,774	696	590	32	—	42,092
Indirect auto finance	128,903	25	203	—	1	129,132
Consumer	5,617	1	215	3	10	5,846
Commercial loans:						
Commercial real estate	498,507	6,445	9,847	1	—	514,800
Construction and development	121,946	819	3,824	—	—	126,589
Commercial and industrial	69,119	850	4,264	—	1	74,234
Municipal leases	100,129	963	638	—	—	101,730
Total loans	$1,866,745	$19,063	$ 39,993	$ 1,330	$ 69	$1,927,200

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	Pass	Special Mention	Substandard	Doubtful	Loss	Total
June 30, 2016						
Retail consumer loans:						
One-to-four family	$587,440	$7,800	$ 20,129	$ 1,283	$ 11	$616,663
HELOCs - originated	159,275	678	2,997	55	10	163,015
HELOCs - purchased	144,377	—	—	—	—	144,377
Construction and land/lots	36,298	542	679	9	—	37,528
Indirect auto finance	108,432	14	21	11	—	108,478
Consumer	4,390	1	224	2	9	4,626
Commercial loans:						
Commercial real estate	448,188	7,817	9,232	1	—	465,238
Construction and development	79,005	480	4,208	—	—	83,693
Commercial and industrial	63,299	1,032	5,361	—	2	69,694
Municipal leases	100,867	1,651	665	—	—	103,183
Total loans	$1,731,571	$20,015	$ 43,516	$ 1,361	$ 32	$1,796,495

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

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2016						
Retail consumer loans:						
One-to-four family	$3,175	$ 471	$ 1,358	$ 180	$ —	$5,184
HELOCs - originated	257	—	26	—	—	283
Construction and land/lots	494	—	42	—	—	536
Consumer	6	—	—	—	—	6
Commercial loans:						
Commercial real estate	8,800	3,612	4,109	—	—	16,521
Construction and development	812	—	1,969	—	—	2,781
Commercial and industrial	2,989	84	45	—	—	3,118
Total loans	$16,533	$ 4,167	$ 7,549	$ 180	$ —	$28,429

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
June 30, 2016						
Retail consumer loans:						
One-to-four family	$5,039	$ 377	$ 1,593	$ 14	$ 15	$7,038
HELOCs - originated	258	—	20	—	—	278
Construction and land/lots	522	—	52	—	—	574
Consumer	8	—	—	—	1	9
Commercial loans:						
Commercial real estate	12,594	4,266	4,463	—	—	21,323
Construction and development	1,136	292	1,719	—	—	3,147
Commercial and industrial	3,234	194	167	—	—	3,595
Total loans	$22,791	$ 5,129	$ 8,014	$ 14	$ 16	$35,964

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

	Past Due				Total
	30-89 Days	90 Days+	Total	Current	Loans
December 31, 2016					
Retail consumer loans:					
One-to-four family	$3,733	$3,728	$7,461	$600,657	$608,118
HELOCs - originated	569	354	923	155,692	156,615
HELOCs - purchased	—	—	—	173,511	173,511
Construction and land/lots	116	83	199	42,429	42,628
Indirect auto finance	353	30	383	128,749	129,132
Consumer	45	13	58	5,794	5,852
Commercial loans:					
Commercial real estate	128	4,486	4,614	526,707	531,321
Construction and development	638	1,222	1,860	127,510	129,370
Commercial and industrial	575	1,714	2,289	75,063	77,352
Municipal leases	114	—	114	101,616	101,730
Total loans	$6,271	$11,630	$17,901	$1,937,728	$1,955,629

The table above includes PCI loans of $214 30-89 days past due and $5,382 90 days or more past due as of December 31, 2016.

	Past Due				Total
	30-89 Days	90 Days+	Total	Current	Loans
June 30, 2016					
Retail consumer loans:					
One-to-four family	$3,514	$5,476	$8,990	$614,711	$623,701
HELOCs - originated	220	377	597	162,696	163,293
HELOCs - purchased	—	—	—	144,377	144,377
Construction and land/lots	100	119	219	37,883	38,102
Indirect auto finance	182	—	182	108,296	108,478
Consumer	4	4	8	4,627	4,635
Commercial loans:					
Commercial real estate	1,436	3,353	4,789	481,772	486,561
Construction and development	371	1,296	1,667	85,173	86,840
Commercial and industrial	216	2,819	3,035	70,254	73,289
Municipal leases	—	—	—	103,183	103,183
Total loans	$6,043	$13,444	$19,487	$1,812,972	$1,832,459

The table above includes PCI loans of $1,596 30-89 days past due and $5,776 90 days or more past due as of June 30, 2016.

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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, 2016		June 30, 2016	
	Nonaccruing	90 Days + & still accruing	Nonaccruing	90 Days + & still accruing
Retail consumer loans:				
One-to-four family	$ 7,361	$ —	$ 9,192	$ —
HELOCs - originated	654	—	1,026	—
Construction and land/lots	173	—	188	—
Indirect auto finance	176	—	20	—
Consumer	31	—	15	—
Commercial loans:				
Commercial real estate	3,374	—	3,222	—
Construction and development	1,759	—	1,417	—
Commercial and industrial	2,070	—	3,019	—
Municipal leases	408	—	419	—
Total loans	$ 16,006	$ —	$ 18,518	$ —

PCI loans totaling $6,228 at December 31, 2016 and $6,607 at June 30, 2016 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, 2016.

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, 2016	June 30, 2016
Performing TDRs included in impaired loans	$ 27,448	$28,263

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

	Three Months Ended December 31, 2016				Three Months Ended December 31, 2015			
	PCI	Retail Consumer	Commercial	Total	PCI	Retail Consumer	Commercial	Total
Balance at beginning of period	$356	$ 10,446	$ 10,149	$20,951	$328	$ 12,426	$ 9,358	$22,112
Provision for (recovery of) loan losses	(20)	(609)	629	—	27	(553)	526	—
Charge-offs	—	(155)	(67)	(222)	—	(306)	(543)	(849)
Recoveries	—	131	126	257	—	503	211	714
Balance at end of period	$336	$ 9,813	$ 10,837	$20,986	$355	$ 12,070	$ 9,552	$21,977

	Six Months Ended December 31, 2016				Six Months Ended December 31, 2015			
	PCI	Retail Consumer	Commercial	Total	PCI	Retail Consumer	Commercial	Total
Balance at beginning of period	$361	$ 11,549	$ 9,382	$21,292	$401	$ 12,575	$ 9,398	$22,374
	(25)	(1,505)	1,530	—	(46)	(480)	526	—

Provision for (recovery of) loan losses								
Charge-offs	—	(574)	(675)	(1,249)	—	(775)	(877)	(1,652)
Recoveries	—	343	600	943	—	750	505	1,255
Balance at end of period	$336	$9,813	$ 10,837	$20,986	$355	$12,070	$ 9,552	$21,977

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

	Allowance for Loan Losses				Total Loans Receivable			
	PCI	Loans individually evaluated for impairment	Loans collectively evaluated	Total	PCI	Loans individually evaluated for impairment	Loans collectively evaluated	Total
December 31, 2016								
Retail consumer loans:								
One-to-four family	$16	$ 343	$ 5,097	$5,456	$5,184	$ 10,980	$591,954	$608,118
HELOCs - originated	—	9	1,714	1,723	283	14	156,318	156,615
HELOCs - purchased	—	—	694	694	—	—	173,511	173,511
Construction and land/lots	—	—	959	959	536	659	41,433	42,628
Indirect auto finance	—	—	942	942	—	31	129,101	129,132
Consumer	—	10	45	55	6	10	5,836	5,852
Commercial loans:								
Commercial real estate	290	135	6,471	6,896	16,521	5,928	508,872	531,321
Construction and development	12	—	2,629	2,641	2,781	2,083	124,506	129,370
Commercial and industrial	18	3	949	970	3,118	2,726	71,508	77,352
Municipal leases	—	—	650	650	—	294	101,436	101,730
Total	$336	$ 500	$ 20,150	$20,986	$28,429	$ 22,725	$1,904,475	$1,955,629
June 30, 2016								
Retail consumer loans:								
One-to-four family	$23	$ 187	$ 6,385	$6,595	$7,038	$ 12,411	$604,252	$623,701
HELOCs - originated	—	288	1,709	1,997	278	1,145	161,870	163,293
HELOCs - purchased	—	—	558	558	—	—	144,377	144,377
Construction and land/lots	—	198	1,146	1,344	574	392	37,136	38,102
Indirect auto finance	—	—	1,016	1,016	—	—	108,478	108,478
Consumer	—	10	51	61	9	—	4,626	4,635
Commercial loans:								
Commercial real estate	288	—	6,142	6,430	21,323	5,376	459,862	486,561
Construction and development	17	—	1,891	1,908	3,147	1,789	81,904	86,840
Commercial and industrial	33	3	685	721	3,595	2,927	66,767	73,289
Municipal leases	—	—	662	662	—	305	102,878	103,183
Total	$361	$ 686	$ 20,245	$21,292	$35,964	$ 24,345	$1,772,150	$1,832,459

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 are 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.

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

	Total Impaired Loans				
	Unpaid Principal Balance	Recorded Investment With a Recorded Allowance	Recorded Investment With No Recorded Allowance	Total	Related Recorded Allowance
December 31, 2016					
Retail consumer loans:					
One-to-four family	$29,018	$ 17,836	$ 7,904	$25,740	$ 841
HELOCs - originated	3,504	1,986	311	2,297	42
Construction and land/lots	3,128	1,076	765	1,841	66
Indirect auto finance	196	145	31	176	2
Consumer	568	14	23	37	10
Commercial loans:					
Commercial real estate	8,576	4,086	3,638	7,724	152
Construction and development	3,847	1,089	1,759	2,848	13
Commercial and industrial	8,619	710	2,419	3,129	13
Municipal leases	408	114	294	408	1
Total impaired loans	$57,864	$ 27,056	$ 17,144	$44,200	$ 1,140
June 30, 2016					
Retail consumer loans:					
One-to-four family	$29,053	$ 12,348	$ 13,375	$25,723	$ 281
HELOCs - originated	4,486	1,999	1,178	3,177	305
Construction and land/lots	2,890	764	693	1,457	209
Indirect auto finance	45	20	—	20	—
Consumer	514	9	13	22	10
Commercial loans:					
Commercial real estate	7,433	857	5,776	6,633	13
Construction and development	3,556	600	1,929	2,529	14
Commercial and industrial	9,710	1,197	2,930	4,127	17
Municipal leases	419	114	305	419	1
Total impaired loans	$58,106	$ 17,908	$ 26,199	$44,107	$ 850

Impaired loans above excludes $68 at December 31, 2016 and $2,541 at June 30, 2016 in PCI loans due to the accretion of discounts established in accordance with the acquisition method of accounting for business combinations.
At December 31, 2016, impaired loans with a recorded allowance increased $9,148 during the six months ended December 31, 2016 primarily due to the change in methodology of measuring impairment during the first quarter of 2017 from the collateral method to the present value of future cash flows method to better reflect the anticipated repayments of these loans.
The table above includes $21,475 and $19,762, of impaired loans that were not individually evaluated at December 31, 2016 and June 30, 2016, respectively, because these loans did not meet the Company's threshold for individual impairment evaluation. The recorded allowance above includes $640 and $164 related to these loans that were not individually evaluated at December 31, 2016 and June 30, 2016, respectively.

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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, 2016 and 2015 was as follows:

	Three Months Ended			
	December 31, 2016		December 31, 2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Retail consumer loans:				
One-to-four family	$26,673	$ 283	$29,765	$ 382
HELOCs - originated	2,544	33	3,485	50
Construction and land/lots	1,594	38	1,940	38
Indirect auto finance	134	1	7	—
Consumer	32	5	80	6
Commercial loans:				
Commercial real estate	7,673	63	8,919	40
Construction and development	2,530	31	3,594	20
Commercial and industrial	3,372	22	4,019	29
Municipal leases	408	—	428	14
Total loans	$44,960	$ 476	$52,237	$ 579

	Six Months Ended			
	December 31, 2016		December 31, 2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Retail consumer loans:				
One-to-four family	$26,356	$ 585	$29,869	$ 782
HELOCs - originated	2,755	65	3,942	100
Construction and land/lots	1,548	75	2,033	67
Indirect auto finance	96	3	3	—
Consumer	29	10	66	15
Commercial loans:				
Commercial real estate	7,326	130	12,121	73
Construction and development	2,530	49	4,947	40
Commercial and industrial	3,624	58	3,463	61
Municipal leases	412	12	413	24
Total loans	$44,676	$ 987	$56,857	$ 1,162

A summary of changes in the accretable yield for PCI loans for the three and six months ended December 31, 2016 and 2015 was as follows:

	Three Months Ended	
	December 31, 2016	December 31, 2015
Accretable yield, beginning of period	$8,339	$ 9,763
Reclass from nonaccretable yield (1)	185	236
Other changes, net (2)	(282)	1,191
Interest income	(723)	(1,226)

Accretable yield, end of period	$7,519	$ 9,964

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	Six Months Ended December 31, 2016	December 31, 2015
Accretable yield, beginning of period	$9,532	$11,096
Reclass from nonaccretable yield [1]	1,072	602
Other changes, net [2]	(741)	1,080
Interest income	(2,344)	(2,814)
Accretable yield, end of period	$7,519	$9,964

(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, 2016 and 2015, the following table presents a breakdown of the types of concessions made on TDRs by loan class:

	Three Months Ended December 31, 2016			Three Months Ended December 31, 2015		
	Number of Loans	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment	Number of Loans	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment
Below market interest rate:						
Retail consumer:						
One-to-four family	—	$ —	$ —	2	$ 108	$ 110
Total	—	$ —	$ —	2	$ 108	$ 110
Extended term:						
Retail consumer:						