

HOME BANCORP, INC.  
Form 10-Q  
August 08, 2017  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the quarterly period ended: June 30, 2017**

**or**

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

**Commission File Number: 001-34190**

**HOME BANCORP, INC.**

**(Exact name of Registrant as specified in its charter)**

**Louisiana**  
**(State or Other Jurisdiction of**  
**Incorporation or Organization)**

**71-1051785**  
**(I.R.S. Employer**  
**Identification Number)**

**503 Kaliste Saloom Road, Lafayette, Louisiana**  
**(Address of Principal Executive Offices)**

**70508**  
**(Zip Code)**

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

**Not Applicable**

**(Former Name, Former Address and Former Fiscal Year, if changed since last report)**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. YES NO

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

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

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

At July 31, 2017, the registrant had 7,402,376 shares of common stock, \$0.01 par value, outstanding.



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**HOME BANCORP, INC. and SUBSIDIARY**

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**HOME BANCORP, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

|  | (Unaudited)<br>June 30,<br>2017 | (Audited)<br>December 31,<br>2016 |
|--|---------------------------------|-----------------------------------|
| <b>Assets</b>  |                                 |                                   |
| Cash and cash equivalents  | \$ 51,702,408                   | \$ 29,314,741                     |
| Interest-bearing deposits in banks   | 1,391,000                       | 1,884,000                         |
| Investment securities available for sale, at fair value  | 197,376,270                     | 183,729,857                       |
| Investment securities held to maturity (fair values of \$13,321,862 and \$13,362,062, respectively)                                | 13,201,149                      | 13,365,479                        |
| Mortgage loans held for sale   | 4,297,920                       | 4,156,186                         |
| Loans, net of unearned income  | 1,218,762,771                   | 1,227,833,309                     |
| Allowance for loan losses  | (13,009,695)                    | (12,510,708)                      |
| <b>Total loans, net of unearned income and allowance for loan losses</b>   | <b>1,205,753,076</b>            | <b>1,215,322,601</b>              |
| Office properties and equipment, net   | 38,532,534                      | 39,566,639                        |
| Cash surrender value of bank-owned life insurance  | 20,389,918                      | 20,149,553                        |
| Accrued interest receivable and other assets   | 41,536,229                      | 49,242,977                        |
| <b>Total Assets</b>  | <b>\$ 1,574,180,504</b>         | <b>\$ 1,556,732,033</b>           |
| <b>Liabilities</b>   |                                 |                                   |
| Deposits:  |                                 |                                   |
| Noninterest-bearing  | \$ 306,674,160                  | \$ 296,519,496                    |
| Interest-bearing   | 1,002,563,337                   | 951,552,957                       |
| <b>Total deposits</b>  | <b>1,309,237,497</b>            | <b>1,248,072,453</b>              |
| Short-term Federal Home Loan Bank (FHLB) advances  |                                 | 40,000,000                        |
| Long-term Federal Home Loan Bank (FHLB) advances   | 67,493,057                      | 78,533,173                        |
| Accrued interest payable and other liabilities   | 8,511,085                       | 10,283,383                        |
| <b>Total Liabilities</b>   | <b>1,385,241,639</b>            | <b>1,376,889,009</b>              |
| <b>Shareholders Equity</b>   |                                 |                                   |
| Preferred stock, \$0.01 par value -10,000,000 shares authorized; none issued   |                                 |                                   |
| Common stock, \$0.01 par value - 40,000,000 shares authorized; 7,401,396 and 7,350,102 shares issued and outstanding, respectively | 74,015                          | 73,502                            |
| Additional paid-in capital   | 80,765,704                      | 79,425,604                        |
| Unallocated common stock held by:  |                                 |                                   |
| Employee Stock Ownership Plan (ESOP)   | (4,017,050)                     | (4,195,590)                       |
| Recognition and Retention Plan (RRP)   | (111,985)                       | (119,633)                         |
| Retained earnings  | 112,110,694                     | 104,647,375                       |

|  |                  |                  |
|--|------------------|------------------|
| Accumulated other comprehensive income           | 117,487          | 11,766           |
| <b>Total Shareholders Equity</b>                 | 188,938,865      | 179,843,024      |
| <b>Total Liabilities and Shareholders Equity</b> | \$ 1,574,180,504 | \$ 1,556,732,033 |

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

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**HOME BANCORP, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

|  | For the Three Months<br>Ended<br>June 30, |                   | For the Six Months Ended<br>June 30, |                   |
|--|---|-------------------|--------------------------------------|-------------------|
|  | 2017                                      | 2016              | 2017                                 | 2016              |
| <b>Interest Income</b>                                     |   |                   |                                      |                   |
| Loans, including fees                                      | \$ 16,167,363                             | \$ 15,852,931     | \$ 32,410,631                        | \$ 31,871,027     |
| Investment securities:                                     |   |                   |                                      |                   |
| Taxable interest   | 958,583                                   | 775,042           | 1,824,496                            | 1,573,395         |
| Tax-exempt interest  | 156,297                                   | 170,794           | 319,017                              | 343,525           |
| Other investments and deposits                             | 116,526                                   | 67,207            | 207,891                              | 126,589           |
| <b>Total interest income</b>                               | <b>17,398,769</b>                         | <b>16,865,974</b> | <b>34,762,035</b>                    | <b>33,914,536</b> |
| <b>Interest Expense</b>                                    |   |                   |                                      |                   |
| Deposits   | 1,149,489                                 | 919,152           | 2,141,929                            | 1,851,004         |
| Short-term FHLB advances                                   | 30,628                                    | 45,985            | 94,606                               | 89,583            |
| Long-term FHLB advances                                    | 321,201                                   | 348,200           | 658,848                              | 698,829           |
| <b>Total interest expense</b>                              | <b>1,501,318</b>                          | <b>1,313,337</b>  | <b>2,895,383</b>                     | <b>2,639,416</b>  |
| <b>Net interest income</b>                                 | <b>15,897,451</b>                         | <b>15,552,637</b> | <b>31,866,652</b>                    | <b>31,275,120</b> |
| Provision for loan losses                                  | 150,000                                   | 1,050,000         | 456,832                              | 1,900,000         |
| <b>Net interest income after provision for loan losses</b> | <b>15,747,451</b>                         | <b>14,502,637</b> | <b>31,409,820</b>                    | <b>29,375,120</b> |
| <b>Noninterest Income</b>                                  |   |                   |                                      |                   |
| Service fees and charges                                   | 990,432                                   | 1,001,856         | 1,927,361                            | 2,038,266         |
| Bank card fees   | 766,607                                   | 676,305           | 1,450,121                            | 1,277,506         |
| Gain on sale of loans, net                                 | 327,549                                   | 486,866           | 615,612                              | 787,539           |
| Income from bank-owned life insurance                      | 121,649                                   | 119,967           | 240,365                              | 240,679           |
| (Loss) gain on the closure or sale of assets, net          | (460,029)                                 | 640,573           | (104,489)                            | 640,580           |
| Other income   | 417,739                                   | 521,946           | 860,784                              | 1,030,221         |
| <b>Total noninterest income</b>                            | <b>2,163,947</b>                          | <b>3,447,513</b>  | <b>4,989,754</b>                     | <b>6,014,791</b>  |
| <b>Noninterest Expense</b>                                 |   |                   |                                      |                   |
| Compensation and benefits                                  | 6,892,412                                 | 6,920,908         | 13,667,861                           | 14,121,944        |
| Occupancy  | 1,272,246                                 | 1,322,342         | 2,492,129                            | 2,631,939         |
| Marketing and advertising                                  | 287,807                                   | 198,351           | 514,403                              | 456,015           |
| Data processing and communication                          | 1,073,303                                 | 1,147,318         | 2,148,510                            | 2,691,033         |
| Professional services                                      | 181,517                                   | 259,344           | 412,887                              | 553,551           |
| Forms, printing and supplies                               | 155,144                                   | 173,165           | 290,443                              | 350,457           |

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|   |                     |                     |                     |                     |
|---|---------------------|---------------------|---------------------|---------------------|
| Franchise and shares tax                        | 191,816             | 219,773             | 393,782             | 439,546             |
| Regulatory fees                                 | 312,437             | 329,024             | 635,275             | 651,715             |
| Foreclosed assets, net                          | (101,096)           | 307,425             | (159,871)           | 425,802             |
| Other expenses                                  | 785,290             | 977,858             | 1,686,170           | 1,874,695           |
| <b>Total noninterest expense</b>                | <b>11,050,876</b>   | <b>11,855,508</b>   | <b>22,081,589</b>   | <b>24,196,697</b>   |
| Income before income tax expense                | 6,860,522           | 6,094,642           | 14,317,985          | 11,193,214          |
| Income tax expense                              | 2,374,725           | 2,078,148           | 4,826,487           | 3,827,041           |
| <b>Net Income</b>                               | <b>\$ 4,485,797</b> | <b>\$ 4,016,494</b> | <b>\$ 9,491,498</b> | <b>\$ 7,366,173</b> |
| <b>Earnings per share:</b>                      |                     |                     |                     |                     |
| Basic   | \$ 0.64             | \$ 0.59             | \$ 1.36             | \$ 1.08             |
| Diluted   | \$ 0.62             | \$ 0.57             | \$ 1.31             | \$ 1.04             |
| <b>Cash dividends declared per common share</b> | <b>\$ 0.14</b>      | <b>\$ 0.10</b>      | <b>\$ 0.27</b>      | <b>\$ 0.19</b>      |

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



Table of Contents**HOME BANCORP, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)**

|  | <b>For the Three Months<br/>Ended<br/>June 30,</b> |              | <b>For the Six Months<br/>Ended<br/>June 30,</b> |              |
|--|--|--------------|--|--------------|
|  | <b>2017</b>  | <b>2016</b>  | <b>2017</b>                                      | <b>2016</b>  |
| <b>Net Income</b>                        | \$ 4,485,797                                       | \$ 4,016,494 | \$ 9,491,498                                     | \$ 7,366,173 |
| <b>Other Comprehensive Income</b>        |  |              |  |              |
| Unrealized gain on investment securities | \$ 57,467  | \$ 356,059   | \$ 162,647                                       | \$ 1,753,305 |
| Tax effect                               | (20,113)   | (124,621)    | (56,926)   | (613,657)    |
| Other comprehensive income, net of taxes | \$ 37,354  | \$ 231,438   | \$ 105,721                                       | \$ 1,139,648 |
| <b>Comprehensive Income</b>              | \$ 4,523,151                                       | \$ 4,247,932 | \$ 9,597,219                                     | \$ 8,505,821 |

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

Table of Contents**HOME BANCORP, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)**

|   | Common<br>Stock | Additional<br>Paid-in<br>Capital | Unallocated<br>Common Stock<br>Held by<br>ESOP | Unallocated<br>Common Stock<br>Held by<br>RRP | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total          |
|---|-----------------|----------------------------------|--|---|----------------------|---|----------------|
| <b>Balance,<br/>December 31,<br/>2015<sup>(1)</sup></b>   | \$ 72,399       | \$ 76,948,914                    | \$ (4,552,670)                                 | \$ (158,590)                                  | \$ 91,864,543        | \$ 871,758                                      | \$ 165,046,354 |
| Net income  |                 |                                  |  |   | 7,366,173            |   | 7,366,173      |
| Other<br>comprehensive<br>income  |                 |                                  |  |   |                      | 1,139,648                                       | 1,139,648      |
| Purchase of<br>Company's<br>common shares<br>at cost, 10,500<br>shares  | (105)           | (105,265)                        |  |   | (184,706)            |   | (290,076)      |
| Cash dividends<br>declared, \$0.19<br>per share   |                 |                                  |  |   | (1,377,674)          |   | (1,377,674)    |
| Common stock<br>issued under<br>incentive plans,<br>net of shares<br>surrendered in<br>payment,<br>including tax<br>benefit 3,877<br>shares | 39              | 3,442                            |  |   | (9,221)              |   | (5,740)        |
| Exercise of<br>stock options  | 735             | 969,856                          |  |   |                      |   | 970,591        |
| ESOP shares<br>released for<br>allocation   |                 | 381,974                          | 178,540  |   |                      |   | 560,514        |
| Restricted stock<br>vesting   |                 | (7,912)                          |  | 9,679   |                      |   | 1,767          |
| Share-based<br>compensation<br>cost   |                 | 155,870                          |  |   |                      |   | 155,870        |
| <b>Balance,<br/>June 30, 2016</b>   | \$ 73,068       | \$ 78,346,879                    | \$ (4,374,130)                                 | \$ (148,911)                                  | \$ 97,659,115        | \$ 2,011,406                                    | \$ 173,567,427 |

|   |           |               |                |              |                |            |                |
|---|-----------|---------------|----------------|--------------|----------------|------------|----------------|
| <b>Balance,<br/>December 31,<br/>2016<sup>(1)</sup></b>   | \$ 73,502 | \$ 79,425,604 | \$ (4,195,590) | \$ (119,633) | \$ 104,647,375 | \$ 11,766  | \$ 179,843,024 |
| Net income  |           |               |                |              | 9,491,498      |            | 9,491,498      |
| Other comprehensive income  |           |               |                |              |                | 105,721    | 105,721        |
| Purchase of Company's common shares at cost, 91 shares  | (1)       | (539)         |                |              | (1,684)        |            | (2,224)        |
| Cash dividends declared, \$0.27 per share   |           |               |                |              | (1,991,459)    |            | (1,991,459)    |
| Common stock issued under incentive plans, net of shares surrendered in payment, including tax benefit 7,805 shares | 78        | 17,055        |                |              | (35,036)       |            | (17,903)       |
| Exercise of stock options   | 436       | 508,205       |                |              |                |            | 508,641        |
| ESOP shares released for allocation   |           | 578,954       | 178,540        |              |                |            | 757,494        |
| Restricted stock vesting  |           | (3,553)       |                | 7,648        |                |            | 4,095          |
| Share-based compensation cost   |           | 239,978       |                |              |                |            | 239,978        |
| <b>Balance,<br/>June 30, 2017</b>   | \$ 74,015 | \$ 80,765,704 | \$ (4,017,050) | \$ (111,985) | \$ 112,110,694 | \$ 117,487 | \$ 188,938,865 |

(1) Balances as of December 31, 2015 and December 31, 2016 are audited.

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

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**HOME BANCORP, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

|   | <b>For the Six Months Ended</b> |              |
|---|---------------------------------|--------------|
|   | <b>June 30,</b>                 |              |
|   | <b>2017</b>                     | <b>2016</b>  |
| <b>Cash flows from operating activities:</b>                                      |                                 |              |
| Net income  | \$ 9,491,498                    | \$ 7,366,173 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |              |
| Provision for loan losses   | 456,832                         | 1,900,000    |
| Depreciation  | 957,910                         | 891,134      |
| Amortization of purchase accounting valuations and intangibles                    | 2,348,298                       | 1,556,694    |
| Net amortization of mortgage servicing asset                                      | 100,009                         | 127,038      |
| Federal Home Loan Bank stock dividends  | (53,300)                        | (41,200)     |
| Net amortization of premium on investments  | 827,562                         | 757,273      |
| Gain on loans sold, net   | (615,612)                       | (787,539)    |
| Proceeds, including principal payments, from loans held for sale                  | 64,813,882                      | 73,726,398   |
| Originations of loans held for sale   | (64,340,005)                    | (78,904,339) |
| Non-cash compensation   | 997,472                         | 629,870      |
| Deferred income tax benefit   | (183,150)                       | (572,122)    |
| Decrease (increase) in interest receivable and other assets                       | 607,288                         | (1,201,300)  |
| Increase in cash surrender value of bank-owned life insurance                     | (240,365)                       | (200,567)    |
| Decrease in accrued interest payable and other liabilities                        | (1,772,297)                     | (5,993,749)  |
| Net cash provided by (used in) operating activities                               | 13,396,022                      | (746,236)    |
| <b>Cash flows from investing activities:</b>                                      |                                 |              |
| Purchases of securities available for sale  | (33,716,007)                    | (13,339,070) |
| Proceeds from maturities, prepayments and calls on securities available for sale  | 19,569,009                      | 16,309,127   |
| Proceeds from maturities, prepayments and calls on securities held to maturity    |                                 | 235,000      |
| Net decrease in loans   | 7,216,038                       | 5,428,115    |
| Decrease in interest bearing deposits in other banks                              | 493,000                         | 2,713,000    |
| Proceeds from sale of repossessed assets  | 2,632,000                       | 146,760      |
| Purchases of office properties and equipment                                      | (667,584)                       | (2,603,508)  |
| Proceeds from sale of properties and equipment                                    | 639,290                         | 3,746,095    |
| Proceeds from redemption of Federal Home Loan Bank stock                          | 4,180,100                       |              |
| Net cash provided by investing activities   | 345,846                         | 12,635,519   |
| <b>Cash flows from financing activities:</b>                                      |                                 |              |
| Increase (decrease) in deposits   | 61,170,327                      | (19,153,324) |

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|   |               |                 |
|---|---------------|-----------------|
| Borrowings on Federal Home Loan Bank advances       | 130,750,000   | 1,952,400,000   |
| Repayments of Federal Home Loan Bank advances       | (181,771,583) | (1,942,377,387) |
| Purchase of Company's common stock                  | (2,224)       | (290,076)       |
| Proceeds from exercise of stock options             | 508,641       | 970,591         |
| Issuance of stock under incentive plans             | (17,903)      | (5,740)         |
| Payment of dividends on common stock                | (1,991,459)   | (1,377,674)     |
| Net cash provided by (used in) financing activities | 8,645,799     | (9,833,610)     |
| Net change in cash and cash equivalents             | 22,387,667    | 2,055,673       |
| Cash and cash equivalents at beginning of year      | 29,314,741    | 24,797,599      |
| Cash and cash equivalents at end of period          | \$ 51,702,408 | \$ 26,853,272   |

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

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**HOME BANCORP, INC. AND SUBSIDIARY**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation**

The accompanying unaudited consolidated financial statements of Home Bancorp, Inc. (the Company) were prepared in accordance with instructions for Form 10-Q and Regulation S-X and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations, comprehensive income, changes in shareholders' equity and cash flows in conformity with accounting principles generally accepted in the United States of America. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial statements have been included. The results of operations for the three month and six month periods ended June 30, 2017 are not necessarily indicative of the results which may be expected for the entire fiscal year. These statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) for the year ended December 31, 2016.

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

Certain amounts reported in prior periods have been reclassified to conform to the current period presentation. Such reclassifications had no effect on previously reported shareholders' equity or net income.

**2. Recent Accounting Pronouncements**

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The ASU amendments include changes related to how certain equity investments are measured, recognize changes in the fair value of certain financial liabilities measured under the fair value option, and disclose and present financial assets and liabilities on the Company's consolidated financial statements. Additionally, the ASU will also require entities to present financial assets and financial liabilities separately, grouped by measurement category and form of financial asset in the statement of financial position or in the accompanying notes to the financial statements. Entities will also no longer have to disclose the methods and significant assumptions for financial instruments measured at amortized cost, but will be required to measure such instruments under the exit price notion for disclosure purposes. The ASU is effective for annual and interim periods beginning after December 15, 2017. The Company is currently assessing the amendment but does not anticipate it will have a material impact on its Consolidated Financial Statements.

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

leases, the impact to the Company's consolidated balance sheet is estimated to be less than a 1% increase in assets and liabilities.

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In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*. The ASU requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net carrying value at the amount expected to be collected on the financial assets. The income statement reflects the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount of financial assets. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The allowance for credit losses for purchased financial assets with a more-than-insignificant amount of credit deterioration since origination that are measured at amortized cost basis is determined in a similar manner to other financial assets measured at amortized cost basis; however, the initial allowance for credit losses is added to the purchase price rather than being reported as a credit loss expense. Only subsequent changes in the allowance for credit losses are recorded as a credit loss expense for these assets. Off-balance-sheet arrangements such as commitments to extend credit, guarantees, and standby letters of credit that are not unconditionally cancellable are also within the scope of this amendment. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. This ASU is effective for fiscal years beginning after December 31, 2019. An entity will apply the amendments in this update on a modified retrospective basis, through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company is currently assessing the implementation of this accounting standard. It is too early to assess the impact that this guidance will have on our Consolidated Financial Statements.

In August 2016, FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The amendments in this ASU clarify the proper classification for certain cash receipts and cash payments, including clarification on debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, and proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, among others. The amendments in this update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently assessing the amendment but does not anticipate it will have a material impact on our Consolidated Financial Statements.

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

In April 2017, FASB issued ASU No. 2017-8, *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. This ASU shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. The accounting for purchased callable debt securities held at a discount does not change under the new guidance. This ASU is effective for fiscal and interim periods beginning after December 15, 2018. The Company is currently assessing the amendment but does not anticipate it will have a material impact on our Consolidated Financial Statements.





**Table of Contents****3. Investment Securities**

Summary information regarding the Company's investment securities classified as available for sale and held to maturity as of June 30, 2017 and December 31, 2016 is as follows.

| <i>(dollars in thousands)</i>       | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross Unrealized<br/>Losses</b> |                        | <b>Fair<br/>Value</b> |
|-------------------------------------|---------------------------|---------------------------------------|------------------------------------|------------------------|-----------------------|
|                                     |                           |                                       | <b>Less Than<br/>1 Year</b>        | <b>Over<br/>1 Year</b> |                       |
| <b>June 30, 2017</b>                |                           |                                       |                                    |                        |                       |
| Available for sale:                 |                           |                                       |                                    |                        |                       |
| U.S. agency mortgage-backed         | \$ 75,257                 | \$ 819                                | \$ 278                             | \$ 19                  | \$ 75,779             |
| Collateralized mortgage obligations | 94,570                    | 130                                   | 588                                | 274                    | 93,838                |
| Municipal bonds                     | 18,548                    | 304                                   | 2                                  |                        | 18,850                |
| U.S. government agency              | 8,821                     | 88                                    |                                    |                        | 8,909                 |
| Total available for sale            | \$ 197,196                | \$ 1,341                              | \$ 868                             | \$ 293                 | \$ 197,376            |
| Held to maturity:                   |                           |                                       |                                    |                        |                       |
| Municipal bonds                     | \$ 13,201                 | \$ 139                                | \$ 18                              | \$                     | \$ 13,322             |
| Total held to maturity              | \$ 13,201                 | \$ 139                                | \$ 18                              | \$                     | \$ 13,322             |

| <i>(dollars in thousands)</i>       | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross Unrealized<br/>Losses</b> |                        | <b>Fair<br/>Value</b> |
|-------------------------------------|---------------------------|---------------------------------------|------------------------------------|------------------------|-----------------------|
|                                     |                           |                                       | <b>Less<br/>Than<br/>1 Year</b>    | <b>Over<br/>1 Year</b> |                       |
| <b>December 31, 2016</b>            |                           |                                       |                                    |                        |                       |
| Available for sale:                 |                           |                                       |                                    |                        |                       |
| U.S. agency mortgage-backed         | \$ 78,361                 | \$ 938                                | \$ 368                             | \$                     | \$ 78,931             |
| Collateralized mortgage obligations | 75,193                    | 84                                    | 613                                | 334                    | 74,330                |
| Municipal bonds                     | 21,212                    | 260                                   | 44                                 |                        | 21,428                |
| U.S. government agency              | 8,946                     | 95                                    |                                    |                        | 9,041                 |
| Total available for sale            | \$ 183,712                | \$ 1,377                              | \$ 1,025                           | \$ 334                 | \$ 183,730            |
| Held to maturity:                   |                           |                                       |                                    |                        |                       |
| Municipal bonds                     | \$ 13,365                 | \$ 69                                 | \$ 72                              | \$                     | \$ 13,362             |
| Total held to maturity              | \$ 13,365                 | \$ 69                                 | \$ 72                              | \$                     | \$ 13,362             |

The estimated fair value and amortized cost by contractual maturity of the Company's investment securities as of June 30, 2017 are shown in the following tables. Securities are classified according to their contractual maturities without consideration of principal amortization, potential prepayments or call options. The expected maturity of a

security may differ from its contractual maturity because of prepayments or the exercise of call options. Accordingly, actual maturities may differ from contractual maturities.

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| <i>(dollars in thousands)</i>       | <b>One Year<br/>or Less</b> | <b>One Year<br/>to Five<br/>Years</b> | <b>Five to<br/>Ten Years</b> | <b>Over<br/>Ten<br/>Years</b> | <b>Total</b>      |
|-------------------------------------|-----------------------------|---------------------------------------|------------------------------|-------------------------------|-------------------|
| <b>Fair Value</b>                   |                             |                                       |                              |                               |                   |
| Securities available for sale:      |                             |                                       |                              |                               |                   |
| U.S. agency mortgage-backed         | \$ 123                      | \$ 5,525                              | \$ 32,337                    | \$ 37,794                     | \$ 75,779         |
| Collateralized mortgage obligations |                             | 1,835                                 | 4,990                        | 87,013                        | 93,838            |
| Municipal bonds                     | 1,549                       | 9,295                                 | 7,475                        | 531                           | 18,850            |
| U.S. government agency              | 1,005                       | 5,011                                 | 2,893                        |                               | 8,909             |
| <b>Total available for sale</b>     | <b>\$ 2,677</b>             | <b>\$ 21,666</b>                      | <b>\$ 47,695</b>             | <b>\$ 125,338</b>             | <b>197,376</b>    |
| Securities held to maturity:        |                             |                                       |                              |                               |                   |
| Municipal bonds                     | \$                          | \$ 4,900                              | \$ 6,773                     | \$ 1,649                      | \$ 13,322         |
| <b>Total investment securities</b>  | <b>\$ 2,677</b>             | <b>\$ 26,566</b>                      | <b>\$ 54,468</b>             | <b>\$ 126,987</b>             | <b>\$ 210,698</b> |

| <i>(dollars in thousands)</i>       | <b>One<br/>Year<br/>or Less</b> | <b>One<br/>Year<br/>to Five<br/>Years</b> | <b>Five to<br/>Ten<br/>Years</b> | <b>Over<br/>Ten<br/>Years</b> | <b>Total</b>      |
|-------------------------------------|---------------------------------|---|----------------------------------|-------------------------------|-------------------|
| <b>Amortized Cost</b>               |                                 |   |                                  |                               |                   |
| Securities available for sale:      |                                 |   |                                  |                               |                   |
| U.S. agency mortgage-backed         | \$ 120                          | \$ 5,490                                  | \$ 32,345                        | \$ 37,302                     | \$ 75,257         |
| Collateralized mortgage obligations |                                 | 1,825                                     | 5,006                            | 87,739                        | 94,570            |
| Municipal bonds                     | 1,541                           | 9,146                                     | 7,355                            | 506                           | 18,548            |
| U.S. government agency              | 1,000                           | 4,994                                     | 2,827                            |                               | 8,821             |
| <b>Total available for sale</b>     | <b>\$ 2,661</b>                 | <b>\$ 21,455</b>                          | <b>\$ 47,533</b>                 | <b>\$ 125,547</b>             | <b>\$ 197,196</b> |
| Securities held to maturity:        |                                 |   |                                  |                               |                   |
| Municipal bonds                     | \$                              | \$ 4,852                                  | \$ 6,705                         | \$ 1,644                      | \$ 13,201         |
| <b>Total investment securities</b>  | <b>\$ 2,661</b>                 | <b>\$ 26,307</b>                          | <b>\$ 54,238</b>                 | <b>\$ 127,191</b>             | <b>\$ 210,397</b> |

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

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

As of June 30, 2017, 64 of the Company's debt securities had unrealized losses totaling 1.2% of the individual securities' amortized cost basis and 0.6% of the Company's total amortized cost basis of the investment securities portfolio. At such date, 12 of the 64 securities had been in a continuous loss position for over 12 months. The 12 securities had an aggregate amortized cost basis of \$10.9 million and an unrealized loss of \$293,000 at June 30, 2017. Management has the intent and ability to hold these debt securities until maturity, or until anticipated recovery; hence, no declines in these 64 securities were deemed other-than-temporary at June 30, 2017.

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As of June 30, 2017 and December 31, 2016, the Company had \$105,495,000 and \$91,773,000, respectively, of securities pledged to secure public deposits.

**4. Earnings Per Share**

Earnings per common share were computed based on the following:

| <i>(in thousands, except per share data)</i>                 | Three Months Ended |                  | Six Months Ended |                  |
|--|--------------------|------------------|------------------|------------------|
|  | June 30,<br>2017   | June 30,<br>2016 | June 30,<br>2017 | June 30,<br>2016 |
| <b>Numerator:</b>  |                    |                  |                  |                  |
| Net income available to common shareholders                  | \$ 4,486           | \$ 4,016         | \$ 9,491         | \$ 7,366         |
| <b>Denominator:</b>  |                    |                  |                  |                  |
| Weighted average common shares outstanding                   | 6,972              | 6,816            | 6,954            | 6,800            |
| <b>Effect of dilutive securities:</b>                        |                    |                  |                  |                  |
| Restricted stock   | 3                  | 4                | 3                | 4                |
| Stock options  | 259                | 268              | 264              | 266              |
| Weighted average common shares outstanding assuming dilution | 7,234              | 7,088            | 7,221            | 7,070            |
| Basic earnings per common share                              | \$ 0.64            | \$ 0.59          | \$ 1.36          | \$ 1.08          |
| Diluted earnings per common share                            | \$ 0.62            | \$ 0.57          | \$ 1.31          | \$ 1.04          |

Options on 62,196 and 33,180 shares of common stock were not included in the computation of diluted earnings per share for the three months ended June 30, 2017 and June 30, 2016, respectively, because the effect of these shares was anti-dilutive. Options on 52,761 and 51,138 shares of common stock were not included in the computation of diluted earnings per share for the six months ended June 30, 2017 and June 30, 2016, respectively, because the effect of these shares was anti-dilutive.

**5. Credit Quality and Allowance for Loan Losses**

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

**Originated Loans**

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

probable losses incurred in this portfolio category.

***Acquired Loans***

Loans that were acquired as a result of our acquisitions of certain assets and liabilities of Statewide Bank ( Statewide ) of Covington, Louisiana, on March 12, 2010, and the acquisitions of GS Financial Corp. ( GSFC ), the former holding company of Guaranty Savings Bank of Metairie, Louisiana, on July 15, 2011, Britton & Koontz Capital Corporation ( Britton & Koontz ), the former holding company of Britton & Koontz Bank, N.A. ( Britton & Koontz Bank ) of Natchez, Mississippi on February 14, 2014, and Louisiana Bancorp, Inc. ( Louisiana Bancorp ), the former holding company of Bank of New Orleans ( BNO ) of Metairie, Louisiana on September 15, 2015 are referred to as Acquired Loans.

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

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

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

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

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

| (dollars in thousands)                 | As of June 30, 2017                   |                                       |                |                  |
|--|---------------------------------------|---------------------------------------|----------------|------------------|
|  | Originated Loans                      |                                       | Acquired Loans | Total            |
|  | Collectively Evaluated for Impairment | Individually Evaluated for Impairment |                |                  |
| Allowance for loan losses:             |                                       |                                       |                |                  |
| One- to four-family first mortgage     | \$ 1,503                              | \$                                    | \$ 59          | \$ 1,562         |
| Home equity loans and lines            | 681                                   | 348                                   | 62             | 1,091            |
| Commercial real estate                 | 4,441                                 | 6                                     |                | 4,447            |
| Construction and land                  | 1,540                                 |                                       | 7              | 1,547            |
| Multi-family residential               | 373                                   |                                       |                | 373              |
| Commercial and industrial              | 2,416                                 | 934                                   | 153            | 3,503            |
| Consumer                               | 485                                   |                                       | 2              | 487              |
| <b>Total allowance for loan losses</b> | <b>\$ 11,439</b>                      | <b>\$ 1,288</b>                       | <b>\$ 283</b>  | <b>\$ 13,010</b> |





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|                                    | <b>As of June 30, 2017</b>                           |  |   |                     |
|------------------------------------|--|--|---|---------------------|
|                                    | <b>Originated Loans</b>                              |  |   |                     |
| <i>(dollars in thousands)</i>      | <b>Collectively<br/>Evaluated for<br/>Impairment</b> | <b>Individually<br/>Evaluated for<br/>Impairment</b> | <b>Acquired<br/>Loans<sup>(1)</sup></b> | <b>Total</b>        |
| Recorded investment in loans:      |  |  |   |                     |
| One- to four-family first mortgage | \$ 188,799   | \$   | \$ 148,915                              | \$ 337,714          |
| Home equity loans and lines        | 50,361   | 937  | 36,094                                  | 87,392              |
| Commercial real estate             | 352,879  | 458  | 101,217                                 | 454,554             |
| Construction and land              | 117,407  |  | 1,819                                   | 119,226             |
| Multi-family residential           | 32,096   |  | 16,380                                  | 48,476              |
| Commercial and industrial          | 119,482  | 5,286  | 7,164                                   | 131,932             |
| Consumer                           | 38,203   |  | 1,266                                   | 39,469              |
| <b>Total loans</b>                 | <b>\$ 899,227</b>                                    | <b>\$ 6,681</b>                                      | <b>\$ 312,855</b>                       | <b>\$ 1,218,763</b> |

|  | <b>As of December 31, 2016</b>                       |  |                           |                  |
|--|--|--|---------------------------|------------------|
|  | <b>Originated Loans</b>                              |  |                           |                  |
| <i>(dollars in thousands)</i>          | <b>Collectively<br/>Evaluated for<br/>Impairment</b> | <b>Individually<br/>Evaluated for<br/>Impairment</b> | <b>Acquired<br/>Loans</b> | <b>Total</b>     |
| Allowance for loan losses:             |  |  |                           |                  |
| One- to four-family first mortgage     | \$ 1,397   | \$ 39  | \$ 75                     | \$ 1,511         |
| Home equity loans and lines            | 654  |  | 74                        | 728              |
| Commercial real estate                 | 4,158  | 19   |                           | 4,177            |
| Construction and land                  | 1,763  |  | 19                        | 1,782            |
| Multi-family residential               | 361  |  |                           | 361              |
| Commercial and industrial              | 2,579  | 737  | 123                       | 3,439            |
| Consumer                               | 513  |  |                           | 513              |
| <b>Total allowance for loan losses</b> | <b>\$ 11,425</b>                                     | <b>\$ 795</b>  | <b>\$ 291</b>             | <b>\$ 12,511</b> |

|                                    | <b>As of December 31, 2016</b>                           |  |   |              |
|------------------------------------|--|--|---|--------------|
|                                    | <b>Originated Loans</b>                                  |  |   |              |
| <i>(dollars in thousands)</i>      | <b>Collectively<br/>Evaluated<br/>for<br/>Impairment</b> | <b>Individually<br/>Evaluated<br/>for<br/>Impairment</b> | <b>Acquired<br/>Loans<sup>(1)</sup></b> | <b>Total</b> |
| Recorded investment in loans:      |  |  |   |              |
| One- to four-family first mortgage | \$ 176,392   | \$ 252   | \$ 165,239                              | \$ 341,883   |
| Home equity loans and lines        | 47,865   |  | 40,956                                  | 88,821       |
| Commercial real estate             | 321,361  | 462  | 105,692                                 | 427,515      |
| Construction and land              | 138,955  |  | 2,212                                   | 141,167      |
| Multi-family residential           | 26,941   |  | 19,428                                  | 46,369       |
| Commercial and industrial          | 126,791  | 4,844  | 8,175                                   | 139,810      |
| Consumer                           | 40,827   |  | 1,441                                   | 42,268       |

|             |            |          |            |              |
|-------------|------------|----------|------------|--------------|
| Total loans | \$ 879,132 | \$ 5,558 | \$ 343,143 | \$ 1,227,833 |
|-------------|------------|----------|------------|--------------|

- (1) \$10.7 million and \$13.1 million in acquired loans were deemed to be acquired impaired loans and were accounted for under ASC 310-30 at June 30, 2017 and December 31, 2016, respectively.

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A summary of activity in the allowance for loan losses for the six months ended June 30, 2017 and June 30, 2016 follows.

| <i>(dollars in thousands)</i>      | For the Six Months Ended June 30, 2017 |             |            |           | Ending<br>Balance |
|------------------------------------|--|-------------|------------|-----------|-------------------|
|                                    | Beginning<br>Balance                   | Charge-offs | Recoveries | Provision |                   |
| <b>Originated loans:</b>           |  |             |            |           |                   |
| Allowance for loan losses:         |  |             |            |           |                   |
| One- to four-family first mortgage | \$ 1,436                               | \$          | \$         | \$ 67     | \$ 1,503          |
| Home equity loans and lines        | 654                                    | (10)        | 16         | 369       | 1,029             |
| Commercial real estate             | 4,177                                  |             |            | 270       | 4,447             |
| Construction and land              | 1,763                                  |             |            | (223)     | 1,540             |
| Multi-family residential           | 361                                    |             |            | 12        | 373               |
| Commercial and industrial          | 3,316                                  | (58)        | 113        | (21)      | 3,350             |
| Consumer                           | 513                                    | (23)        | 4          | (9)       | 485               |
| Total allowance for loan losses    | \$ 12,220                              | \$ (91)     | \$ 133     | \$ 465    | \$ 12,727         |
| <b>Acquired loans:</b>             |  |             |            |           |                   |
| Allowance for loan losses:         |  |             |            |           |                   |
| One- to four-family first mortgage | \$ 75                                  | \$          | \$         | \$ (16)   | \$ 59             |
| Home equity loans and lines        | 74                                     |             |            | (12)      | 62                |
| Commercial real estate             |  |             |            |           |                   |
| Construction and land              | 19                                     |             |            | (12)      | 7                 |
| Multi-family residential           |  |             |            |           |                   |
| Commercial and industrial          | 123                                    |             |            | 30        | 153               |
| Consumer                           |  |             |            | 2         | 2                 |
| Total allowance for loan losses    | \$ 291                                 | \$          | \$         | \$ (8)    | \$ 283            |
| <b>Total loans:</b>                |  |             |            |           |                   |
| Allowance for loan losses:         |  |             |            |           |                   |
| One- to four-family first mortgage | \$ 1,511                               | \$          | \$         | \$ 51     | \$ 1,562          |
| Home equity loans and lines        | 728                                    | (10)        | 16         | 357       | 1,091             |
| Commercial real estate             | 4,177                                  |             |            | 270       | 4,447             |
| Construction and land              | 1,782                                  |             |            | (235)     | 1,547             |
| Multi-family residential           | 361                                    |             |            | 12        | 373               |
| Commercial and industrial          | 3,439                                  | (58)        | 113        | 9         | 3,503             |
| Consumer                           | 513                                    | (23)        | 4          | (7)       | 487               |
| Total allowance for loan losses    | \$ 12,511                              | \$ (91)     | \$ 133     | \$ 457    | \$ 13,010         |

| <i>(dollars in thousands)</i> | For the Six Months Ended June 30, 2016 |             |            |           | Ending<br>Balance |
|-------------------------------|--|-------------|------------|-----------|-------------------|
|                               | Beginning<br>Balance                   | Charge-offs | Recoveries | Provision |                   |

**Originated loans:**

## Allowance for loan losses:

|                                    |          |          |       |          |           |
|------------------------------------|----------|----------|-------|----------|-----------|
| One- to four-family first mortgage | \$ 1,372 | \$       | \$    | \$ 108   | \$ 1,480  |
| Home equity loans and lines        | 536      | (9)      | 1     | 121      | 649       |
| Commercial real estate             | 3,152    |          | 1     | 643      | 3,796     |
| Construction and land              | 1,360    |          | 52    | 53       | 1,465     |
| Multi-family residential           | 173      |          |       | 21       | 194       |
| Commercial and industrial          | 2,010    | (78)     | 28    | 975      | 2,935     |
| Consumer                           | 571      | (99)     | 10    | 75       | 557       |
| Total allowance for loan losses    | \$ 9,174 | \$ (186) | \$ 92 | \$ 1,996 | \$ 11,076 |

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Allowance for loan losses:

|                                    |        |    |       |         |        |
|------------------------------------|--------|----|-------|---------|--------|
| One- to four-family first mortgage | \$ 92  | \$ | \$    | \$ 8    | \$ 100 |
| Home equity loans and lines        | 224    |    |       | (150)   | 74     |
| Commercial real estate             |        |    |       |         |        |
| Construction and land              | 57     |    |       | 17      | 74     |
| Multi-family residential           |        |    |       |         |        |
| Commercial and industrial          |        |    | 94    | 29      | 123    |
| Consumer                           |        |    |       |         |        |
| Total allowance for loan losses    | \$ 373 | \$ | \$ 94 | \$ (96) | \$ 371 |

**Total loans:**

Allowance for loan losses:

|                                    |          |          |        |          |           |
|------------------------------------|----------|----------|--------|----------|-----------|
| One- to four-family first mortgage | \$ 1,464 | \$       | \$     | \$ 116   | \$ 1,580  |
| Home equity loans and lines        | 760      | (9)      | 1      | (29)     | 723       |
| Commercial real estate             | 3,152    |          | 1      | 643      | 3,796     |
| Construction and land              | 1,417    |          | 52     | 70       | 1,539     |
| Multi-family residential           | 173      |          |        | 21       | 194       |
| Commercial and industrial          | 2,010    | (78)     | 122    | 1,004    | 3,058     |
| Consumer                           | 571      | (99)     | 10     | 75       | 557       |
| Total allowance for loan losses    | \$ 9,547 | \$ (186) | \$ 186 | \$ 1,900 | \$ 11,447 |

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

| <i>(dollars in thousands)</i>      | <b>June 30, 2017</b> |                            |                    |                 |              |
|------------------------------------|----------------------|----------------------------|--------------------|-----------------|--------------|
|                                    | <b>Pass</b>          | <b>Special<br/>Mention</b> | <b>Substandard</b> | <b>Doubtful</b> | <b>Total</b> |
| <b>Originated loans:</b>           |                      |                            |                    |                 |              |
| One- to four-family first mortgage | \$ 186,816           | \$ 430                     | \$ 1,553           | \$              | \$ 188,799   |
| Home equity loans and lines        | 49,080               | 304                        | 1,914              |                 | 51,298       |
| Commercial real estate             | 343,249              | 772                        | 9,316              |                 | 353,337      |
| Construction and land              | 116,324              | 217                        | 866                |                 | 117,407      |
| Multi-family residential           | 32,096               |                            |                    |                 | 32,096       |
| Commercial and industrial          | 108,487              | 5,670                      | 10,611             |                 | 124,768      |
| Consumer                           | 37,688               | 175                        | 340                |                 | 38,203       |
| Total originated loans             | \$ 873,740           | \$ 7,568                   | \$ 24,600          | \$              | \$ 905,908   |
| <b>Acquired loans:</b>             |                      |                            |                    |                 |              |
| One- to four-family first mortgage | \$ 145,941           | \$ 226                     | \$ 2,748           | \$              | \$ 148,915   |
| Home equity loans and lines        | 35,959               | 44                         | 91                 |                 | 36,094       |
| Commercial real estate             | 98,146               | 1,716                      | 1,355              |                 | 101,217      |
| Construction and land              | 1,274                |                            | 545                |                 | 1,819        |
| Multi-family residential           | 16,049               |                            | 331                |                 | 16,380       |

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|                           |            |          |          |    |            |
|---------------------------|------------|----------|----------|----|------------|
| Commercial and industrial | 4,358      |          | 2,806    |    | 7,164      |
| Consumer                  | 1,232      | 34       |          |    | 1,266      |
| Total acquired loans      | \$ 302,959 | \$ 2,020 | \$ 7,876 | \$ | \$ 312,855 |

**Table of Contents****Total:**

|                                    |                     |                 |                  |           |                     |
|------------------------------------|---------------------|-----------------|------------------|-----------|---------------------|
| One- to four-family first mortgage | \$ 332,757          | \$ 656          | \$ 4,301         | \$        | \$ 337,714          |
| Home equity loans and lines        | 85,039              | 348             | 2,005            |           | 87,392              |
| Commercial real estate             | 441,395             | 2,488           | 10,671           |           | 454,554             |
| Construction and land              | 117,598             | 217             | 1,411            |           | 119,226             |
| Multi-family residential           | 48,145              |                 | 331              |           | 48,476              |
| Commercial and industrial          | 112,845             | 5,670           | 13,417           |           | 131,932             |
| Consumer                           | 38,920              | 209             | 340              |           | 39,469              |
| <b>Total loans</b>                 | <b>\$ 1,176,699</b> | <b>\$ 9,588</b> | <b>\$ 32,476</b> | <b>\$</b> | <b>\$ 1,218,763</b> |

**December 31, 2016**

| <i>(dollars in thousands)</i>      | <b>Pass</b>       | <b>Special<br/>Mention</b> | <b>Substandard</b> | <b>Doubtful</b> | <b>Total</b>      |
|------------------------------------|-------------------|----------------------------|--------------------|-----------------|-------------------|
| <b>Originated loans:</b>           |                   |                            |                    |                 |                   |
| One- to four-family first mortgage | \$ 175,045        | \$ 276                     | \$ 1,323           | \$              | \$ 176,644        |
| Home equity loans and lines        | 46,536            | 331                        | 998                |                 | 47,865            |
| Commercial real estate             | 311,517           | 822                        | 9,484              |                 | 321,823           |
| Construction and land              | 138,000           | 22                         | 933                |                 | 138,955           |
| Multi-family residential           | 26,941            |                            |                    |                 | 26,941            |
| Commercial and industrial          | 114,962           | 5,979                      | 10,694             |                 | 131,635           |
| Consumer                           | 40,369            | 98                         | 360                |                 | 40,827            |
| <b>Total originated loans</b>      | <b>\$ 853,370</b> | <b>\$ 7,528</b>            | <b>\$ 23,792</b>   | <b>\$</b>       | <b>\$ 884,690</b> |

**Acquired loans:**

|                                    |                   |                 |                 |           |                   |
|------------------------------------|-------------------|-----------------|-----------------|-----------|-------------------|
| One- to four-family first mortgage | \$ 162,037        | \$ 245          | \$ 2,957        | \$        | \$ 165,239        |
| Home equity loans and lines        | 40,812            | 47              | 97              |           | 40,956            |
| Commercial real estate             | 101,546           | 2,758           | 1,388           |           | 105,692           |
| Construction and land              | 1,537             | 71              | 604             |           | 2,212             |
| Multi-family residential           | 19,250            |                 | 178             |           | 19,428            |
| Commercial and industrial          | 4,843             |                 | 3,332           |           | 8,175             |
| Consumer                           | 1,401             | 38              | 2               |           | 1,441             |
| <b>Total acquired loans</b>        | <b>\$ 331,426</b> | <b>\$ 3,159</b> | <b>\$ 8,558</b> | <b>\$</b> | <b>\$ 343,143</b> |

**Total:**

|                                    |                     |                  |                  |           |                     |
|------------------------------------|---------------------|------------------|------------------|-----------|---------------------|
| One- to four-family first mortgage | \$ 337,082          | \$ 521           | \$ 4,280         | \$        | \$ 341,883          |
| Home equity loans and lines        | 87,348              | 378              | 1,095            |           | 88,821              |
| Commercial real estate             | 413,063             | 3,580            | 10,872           |           | 427,515             |
| Construction and land              | 139,537             | 93               | 1,537            |           | 141,167             |
| Multi-family residential           | 46,191              |                  | 178              |           | 46,369              |
| Commercial and industrial          | 119,805             | 5,979            | 14,026           |           | 139,810             |
| Consumer                           | 41,770              | 136              | 362              |           | 42,268              |
| <b>Total loans</b>                 | <b>\$ 1,184,796</b> | <b>\$ 10,687</b> | <b>\$ 32,350</b> | <b>\$</b> | <b>\$ 1,227,833</b> |



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

Pass loans are of satisfactory quality.

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

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

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

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

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

|                                    | June 30, 2017             |                           |   |                   |                  |             |
|------------------------------------|---------------------------|---------------------------|---|-------------------|------------------|-------------|
|                                    | 30-59<br>Days<br>Past Due | 60-89<br>Days<br>Past Due | Greater<br>Than<br>90<br>Days<br>Past Due | Total<br>Past Due | Current<br>Loans | Total Loans |
| <i>(dollars in thousands)</i>      |                           |                           |   |                   |                  |             |
| <b>Originated loans:</b>           |                           |                           |   |                   |                  |             |
| Real estate loans:                 |                           |                           |   |                   |                  |             |
| One- to four-family first mortgage | \$ 1,485                  | \$ 276                    | \$ 228                                    | \$ 1,989          | \$ 186,810       | \$ 188,799  |
| Home equity loans and lines        | 18                        |                           | 937                                       | 955               | 50,343           | 51,298      |
| Commercial real estate             | 786                       |                           | 23  | 809               | 352,528          | 353,337     |
| Construction and land              | 7                         |                           |   | 7                 | 117,400          | 117,407     |
| Multi-family residential           |                           |                           |   |                   | 32,096           | 32,096      |
| Total real estate loans            | 2,296                     | 276                       | 1,188                                     | 3,760             | 739,177          | 742,937     |
| Other loans:                       |                           |                           |   |                   |                  |             |
| Commercial and industrial          | 1,584                     | 55                        | 1,545                                     | 3,184             | 121,584          | 124,768     |
| Consumer                           | 250                       | 50                        | 138                                       | 438               | 37,765           | 38,203      |
| Total other loans                  | 1,834                     | 105                       | 1,683                                     | 3,622             | 159,349          | 162,971     |
| Total originated loans             | \$ 4,130                  | \$ 381                    | \$ 2,871                                  | \$ 7,382          | \$ 898,526       | \$ 905,908  |
| <b>Acquired loans:</b>             |                           |                           |   |                   |                  |             |
| Real estate loans:                 |                           |                           |   |                   |                  |             |
| One- to four-family first mortgage | \$ 1,101                  | \$ 332                    | \$ 1,654                                  | \$ 3,087          | \$ 145,828       | \$ 148,915  |
| Home equity loans and lines        | 136                       | 33                        | 20  | 189               | 35,905           | 36,094      |
| Commercial real estate             | 70                        |                           | 363                                       | 433               | 100,784          | 101,217     |
| Construction and land              | 1                         | 3                         |   | 4                 | 1,815            | 1,819       |
| Multi-family residential           |                           |                           | 164                                       | 164               | 16,216           | 16,380      |
| Total real estate loans            | 1,308                     | 368                       | 2,201                                     | 3,877             | 300,548          | 304,425     |

## Other loans:

|                           |          |  |  |          |              |              |
|---------------------------|----------|--|--|----------|--------------|--------------|
| Commercial and industrial |          |  |  |          | 7,164        | 7,164        |
| Consumer                  | 9        |  |  | 9        | 1,257        | 1,266        |
| <b>Total other loans</b>  | <b>9</b> |  |  | <b>9</b> | <b>8,421</b> | <b>8,430</b> |

|                      |          |        |          |          |            |            |
|----------------------|----------|--------|----------|----------|------------|------------|
| Total acquired loans | \$ 1,317 | \$ 368 | \$ 2,201 | \$ 3,886 | \$ 308,969 | \$ 312,855 |
|----------------------|----------|--------|----------|----------|------------|------------|

**Total loans:**

## Real estate loans:

|                                    |              |            |              |              |                  |                  |
|------------------------------------|--------------|------------|--------------|--------------|------------------|------------------|
| One- to four-family first mortgage | \$ 2,586     | \$ 608     | \$ 1,882     | \$ 5,076     | \$ 332,638       | \$ 337,714       |
| Home equity loans and lines        | 154          | 33         | 957          | 1,144        | 86,248           | 87,392           |
| Commercial real estate             | 856          |            | 386          | 1,242        | 453,312          | 454,554          |
| Construction and land              | 8            | 3          |              | 11           | 119,215          | 119,226          |
| Multi-family residential           |              |            | 164          | 164          | 48,312           | 48,476           |
| <b>Total real estate loans</b>     | <b>3,604</b> | <b>644</b> | <b>3,389</b> | <b>7,637</b> | <b>1,039,725</b> | <b>1,047,362</b> |

## Other loans:

|                           |       |    |       |       |         |         |
|---------------------------|-------|----|-------|-------|---------|---------|
| Commercial and industrial | 1,584 | 55 | 1,545 | 3,184 | 128,748 | 131,932 |
| Consumer                  | 259   | 50 | 138   | 447   | 39,022  | 39,469  |

|                   |       |     |       |       |         |         |
|-------------------|-------|-----|-------|-------|---------|---------|
| Total other loans | 1,843 | 105 | 1,683 | 3,631 | 167,770 | 171,401 |
|-------------------|-------|-----|-------|-------|---------|---------|

|                    |                 |               |                 |                  |                     |                     |
|--------------------|-----------------|---------------|-----------------|------------------|---------------------|---------------------|
| <b>Total loans</b> | <b>\$ 5,447</b> | <b>\$ 749</b> | <b>\$ 5,072</b> | <b>\$ 11,268</b> | <b>\$ 1,207,495</b> | <b>\$ 1,218,763</b> |
|--------------------|-----------------|---------------|-----------------|------------------|---------------------|---------------------|

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|                                    | December 31, 2016         |                           |                        |                   |                  |                |
|------------------------------------|---------------------------|---------------------------|------------------------|-------------------|------------------|----------------|
|                                    | Greater<br>Than           |                           |                        |                   |                  |                |
| <i>(dollars in thousands)</i>      | 30-59<br>Days<br>Past Due | 60-89<br>Days<br>Past Due | 90<br>Days<br>Past Due | Total<br>Past Due | Current<br>Loans | Total<br>Loans |
| <b>Originated loans:</b>           |                           |                           |                        |                   |                  |                |
| Real estate loans:                 |                           |                           |                        |                   |                  |                |
| One- to four-family first mortgage | \$ 651                    | \$                        | \$ 563                 | \$ 1,214          | \$ 175,430       | \$ 176,644     |
| Home equity loans and lines        | 37                        | 29                        |                        | 66                | 47,799           | 47,865         |
| Commercial real estate             | 475                       |                           | 587                    | 1,062             | 320,761          | 321,823        |
| Construction and land              | 467                       |                           | 12                     | 479               | 138,476          | 138,955        |
| Multi-family residential           |                           |                           |                        |                   | 26,941           | 26,941         |
| Total real estate loans            | 1,630                     | 29                        | 1,162                  | 2,821             | 709,407          | 712,228        |
| Other loans:                       |                           |                           |                        |                   |                  |                |
| Commercial and industrial          | 656                       | 706                       | 650                    | 2,012             | 129,623          | 131,635        |
| Consumer                           | 531                       | 97                        | 192                    | 820               | 40,007           | 40,827         |
| Total other loans                  | 1,187                     | 803                       | 842                    | 2,832             | 169,630          | 172,462        |
| Total originated loans             | \$ 2,817                  | \$ 832                    | \$ 2,004               | \$ 5,653          | \$ 879,037       | \$ 884,690     |
| <b>Acquired loans:</b>             |                           |                           |                        |                   |                  |                |
| Real estate loans:                 |                           |                           |                        |                   |                  |                |
| One- to four-family first mortgage | \$ 1,471                  | \$ 969                    | \$ 2,025               | \$ 4,465          | \$ 160,774       | \$ 165,239     |
| Home equity loans and lines        | 136                       | 27                        | 38                     | 201               | 40,755           | 40,956         |
| Commercial real estate             |                           |                           | 1,164                  | 1,164             | 104,528          | 105,692        |
| Construction and land              | 21                        |                           | 30                     | 51                | 2,161            | 2,212          |
| Multi-family residential           | 19                        |                           |                        | 19                | 19,409           | 19,428         |
| Total real estate loans            | 1,647                     | 996                       | 3,257                  | 5,900             | 327,627          | 333,527        |
| Other loans:                       |                           |                           |                        |                   |                  |                |
| Commercial and industrial          |                           |                           |                        |                   | 8,175            | 8,175          |
| Consumer                           | 2                         | 8                         | 2                      | 12                | 1,429            | 1,441          |
| Total other loans                  | 2                         | 8                         | 2                      | 12                | 9,604            | 9,616          |
| Total acquired loans               | \$ 1,649                  | \$ 1,004                  | \$ 3,259               | \$ 5,912          | \$ 337,231       | \$ 343,143     |
| <b>Total loans:</b>                |                           |                           |                        |                   |                  |                |
| Real estate loans:                 |                           |                           |                        |                   |                  |                |
| One- to four-family first mortgage | \$ 2,122                  | \$ 969                    | \$ 2,588               | \$ 5,679          | \$ 336,204       | \$ 341,883     |
| Home equity loans and lines        | 173                       | 56                        | 38                     | 267               | 88,554           | 88,821         |
| Commercial real estate             | 475                       |                           | 1,751                  | 2,226             | 425,289          | 427,515        |
| Construction and land              | 488                       |                           | 42                     | 530               | 140,637          | 141,167        |

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|                           |          |          |          |           |              |              |
|---------------------------|----------|----------|----------|-----------|--------------|--------------|
| Multi-family residential  | 19       |          |          | 19        | 46,350       | 46,369       |
| Total real estate loans   | 3,277    | 1,025    | 4,419    | 8,721     | 1,037,034    | 1,045,755    |
| Other loans:              |          |          |          |           |              |              |
| Commercial and industrial | 656      | 706      | 650      | 2,012     | 137,798      | 139,810      |
| Consumer                  | 533      | 105      | 194      | 832       | 41,436       | 42,268       |
| Total other loans         | 1,189    | 811      | 844      | 2,844     | 179,234      | 182,078      |
| Total loans               | \$ 4,466 | \$ 1,836 | \$ 5,263 | \$ 11,565 | \$ 1,216,268 | \$ 1,227,833 |

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Excluding Acquired Loans with deteriorated credit quality, as of June 30, 2017 and December 31, 2016, the Company did not have any loans greater than 90 days past due and accruing.

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

| <i>(dollars in thousands)</i>                               | <b>For the Six Months Ended</b> |                      |
|---|---------------------------------|----------------------|
|   | <b>June 30, 2017</b>            | <b>June 30, 2016</b> |
| Balance at beginning of period                              | \$ (11,091)                     | \$ (16,792)          |
| Accretion   | 1,746                           | 3,437                |
| Transfers from nonaccretable difference to accretable yield | (1,538)                         | (586)                |
| Balance at end of period                                    | \$ (10,883)                     | \$ (13,941)          |

The following is a summary of information pertaining to Originated Loans, which were deemed to be impaired loans as of the dates indicated.

| <i>(dollars in thousands)</i>       | <b>As of June 30, 2017</b> |                                 |                          |                                    |                                   |
|-------------------------------------|----------------------------|---------------------------------|--------------------------|------------------------------------|-----------------------------------|
|                                     | <b>Recorded Investment</b> | <b>Unpaid Principal Balance</b> | <b>Related Allowance</b> | <b>Average Recorded Investment</b> | <b>Interest Income Recognized</b> |
| With no related allowance recorded: |                            |                                 |                          |                                    |                                   |
| One- to four-family first mortgage  | \$                         | \$                              | \$                       | \$                                 | \$                                |
| Home equity loans and lines         | 476                        | 476                             |                          | 317                                | 12                                |
| Commercial real estate              | 22                         | 23                              |                          | 15                                 | 1                                 |
| Construction and land               |                            |                                 |                          |                                    |                                   |
| Multi-family residential            |                            |                                 |                          |                                    |                                   |
| Commercial and industrial           | 3,203                      | 3,336                           |                          | 3,359                              | 95                                |
| Consumer                            |                            |                                 |                          |                                    |                                   |
| <b>Total</b>                        | <b>\$ 3,701</b>            | <b>\$ 3,835</b>                 | <b>\$</b>                | <b>\$ 3,691</b>                    | <b>\$ 108</b>                     |
| With an allowance recorded:         |                            |                                 |                          |                                    |                                   |
| One- to four-family first mortgage  | \$                         | \$                              | \$                       | \$ 83                              | \$                                |
| Home equity loans and lines         | 461                        | 461                             | 348                      | 307                                | 11                                |
| Commercial real estate              | 435                        | 470                             | 6                        | 448                                | 10                                |
| Construction and land               |                            |                                 |                          |                                    |                                   |
| Multi-family residential            |                            |                                 |                          |                                    |                                   |
| Commercial and industrial           | 2,083                      | 2,170                           | 934                      | 1,967                              | 56                                |
| Consumer                            |                            |                                 |                          |                                    |                                   |
| <b>Total</b>                        | <b>\$ 2,979</b>            | <b>\$ 3,101</b>                 | <b>\$ 1,288</b>          | <b>\$ 2,805</b>                    | <b>\$ 77</b>                      |

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| Total impaired Originated Loans:   |                 |                 |                 |                 |               |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|---------------|
| One- to four-family first mortgage | \$              | \$              | \$              | \$ 83           | \$            |
| Home equity loans and lines        | 937             | 937             | 348             | 624             | 23            |
| Commercial real estate             | 457             | 493             | 6               | 463             | 11            |
| Construction and land              |                 |                 |                 |                 |               |
| Multi-family residential           |                 |                 |                 |                 |               |
| Commercial and industrial          | 5,286           | 5,506           | 934             | 5,326           | 151           |
| Consumer                           |                 |                 |                 |                 |               |
| <b>Total</b>                       | <b>\$ 6,680</b> | <b>\$ 6,936</b> | <b>\$ 1,288</b> | <b>\$ 6,496</b> | <b>\$ 185</b> |

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| <i>(dollars in thousands)</i>       | As of December 31, 2016 |                          |                   |                             |                            |
|-------------------------------------|-------------------------|--------------------------|-------------------|-----------------------------|----------------------------|
|                                     | Recorded Investment     | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| With no related allowance recorded: |                         |                          |                   |                             |                            |
| One- to four-family first mortgage  | \$                      | \$                       | \$                | \$                          | \$                         |
| Home equity loans and lines         |                         |                          |                   |                             |                            |
| Commercial real estate              |                         |                          |                   |                             |                            |
| Construction and land               |                         |                          |                   |                             |                            |
| Multi-family residential            |                         |                          |                   |                             |                            |
| Commercial and industrial           | 3,144                   | 3,178                    |                   | 262                         | 166                        |
| Consumer                            |                         |                          |                   |                             |                            |
| <b>Total</b>                        | <b>\$ 3,144</b>         | <b>\$ 3,178</b>          | <b>\$</b>         | <b>\$ 262</b>               | <b>\$ 166</b>              |
| With an allowance recorded:         |                         |                          |                   |                             |                            |
| One- to four-family first mortgage  | \$ 252                  | \$ 260                   | \$ 39             | \$ 93                       | \$ 13                      |
| Home equity loans and lines         |                         |                          |                   |                             |                            |
| Commercial real estate              | 462                     | 483                      | 19                | 423                         | 14                         |
| Construction and land               |                         |                          |                   |                             |                            |
| Multi-family residential            |                         |                          |                   |                             |                            |
| Commercial and industrial           | 1,700                   | 1,737                    | 737               | 1,635                       | 87                         |
| Consumer                            |                         |                          |                   |                             |                            |
| <b>Total</b>                        | <b>\$ 2,414</b>         | <b>\$ 2,480</b>          | <b>\$ 795</b>     | <b>\$ 2,151</b>             | <b>\$ 114</b>              |
| Total impaired loans:               |                         |                          |                   |                             |                            |
| One- to four-family first mortgage  | \$ 252                  | \$ 260                   | \$ 39             | \$ 93                       | \$ 13                      |
| Home equity loans and lines         |                         |                          |                   |                             |                            |
| Commercial real estate              | 462                     | 483                      | 19                | 423                         | 14                         |
| Construction and land               |                         |                          |                   |                             |                            |
| Multi-family residential            |                         |                          |                   |                             |                            |
| Commercial and industrial           | 4,844                   | 4,915                    | 737               | 1,897                       | 253                        |
| Consumer                            |                         |                          |                   |                             |                            |
| <b>Total</b>                        | <b>\$ 5,558</b>         | <b>\$ 5,658</b>          | <b>\$ 795</b>     | <b>\$ 2,413</b>             | <b>\$ 280</b>              |

| <i>(dollars in thousands)</i>       | As of June 30, 2016 |                          |                   |                             |                            |
|-------------------------------------|---------------------|--------------------------|-------------------|-----------------------------|----------------------------|
|                                     | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| With no related allowance recorded: |                     |                          |                   |                             |                            |
| One- to four-family first mortgage  | \$                  | \$                       | \$                | \$                          | \$                         |
| Home equity loans and lines         |                     |                          |                   |                             |                            |
| Commercial real estate              |                     |                          |                   |                             |                            |
| Construction and land               |                     |                          |                   |                             |                            |
| Multi-family residential            |                     |                          |                   |                             |                            |



|                                    |          |          |        |          |       |
|------------------------------------|----------|----------|--------|----------|-------|
| Commercial and industrial          |          |          |        |          |       |
| Consumer                           |          |          |        |          |       |
| Total                              | \$       | \$       | \$     | \$       | \$    |
| With an allowance recorded:        |          |          |        |          |       |
| One- to four-family first mortgage | \$ 77    | \$ 81    | \$ 35  | \$ 81    | \$ 3  |
| Home equity loans and lines        |          |          |        |          |       |
| Commercial real estate             | 624      | 650      | 124    | 252      | 12    |
| Construction and land              |          |          |        |          |       |
| Multi-family residential           |          |          |        |          |       |
| Commercial and industrial          | 1,139    | 1,170    | 442    | 965      | 32    |
| Consumer                           |          |          |        |          |       |
| Total                              | \$ 1,840 | \$ 1,901 | \$ 601 | \$ 1,298 | \$ 47 |

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|                                    |          |          |        |          |       |
|------------------------------------|----------|----------|--------|----------|-------|
| Total impaired loans:              |          |          |        |          |       |
| One- to four-family first mortgage | \$ 77    | \$ 81    | \$ 35  | \$ 81    | \$ 3  |
| Home equity loans and lines        |          |          |        |          |       |
| Commercial real estate             | 624      | 650      | 124    | 252      | 12    |
| Construction and land              |          |          |        |          |       |
| Multi-family residential           |          |          |        |          |       |
| Commercial and industrial          | 1,139    | 1,170    | 442    | 965      | 32    |
| Consumer                           |          |          |        |          |       |
| Total                              | \$ 1,840 | \$ 1,901 | \$ 601 | \$ 1,298 | \$ 47 |

A summary of information pertaining to nonaccrual loans as of dates indicated is as follows.

| <i>(dollars in thousands)</i>      | June 30, 2017 |                         |           | December 31, 2016 |                         |           |
|------------------------------------|---------------|-------------------------|-----------|-------------------|-------------------------|-----------|
|                                    | Originated    | Acquired <sup>(1)</sup> | Total     | Originated        | Acquired <sup>(1)</sup> | Total     |
| Nonaccrual loans:                  |               |                         |           |                   |                         |           |
| One- to four-family first mortgage | \$ 1,130      | \$ 944                  | 2,074     | \$ 891            | \$ 833                  | \$ 1,724  |
| Home equity loans and lines        | 1,848         | 86                      | 1,934     | 998               | 90                      | 1,088     |
| Commercial real estate             | 2,961         | 164                     | 3,125     | 1,799             | 164                     | 1,963     |
| Construction and land              |               |                         |           | 12                | 63                      | 75        |
| Multi-family residential           |               | 164                     | 164       |                   |                         |           |
| Commercial and industrial          | 8,007         | 260                     | 8,267     | 8,230             | 312                     | 8,542     |
| Consumer                           | 340           |                         | 340       | 360               | 1                       | 361       |
| Total                              | \$ 14,286     | \$ 1,618                | \$ 15,904 | \$ 12,290         | \$ 1,463                | \$ 13,753 |

<sup>(1)</sup> Table excludes acquired loans which were being accounted for under ASC 310-30 because they continue to earn interest from accretable yield regardless of their status as past due or otherwise not in compliance with their contractual terms. Acquired loans with deteriorated credit quality, which were being accounted for under ASC 310-30 and which were 90 days or more past due, totaled \$1.7 million and \$2.7 million as of June 30, 2017 and December 31, 2016, respectively.

As of June 30, 2017, the Company had no outstanding commitments to lend additional funds to any customer whose loan was classified as impaired.

**Troubled Debt Restructurings**

During the course of its lending operations, the Company periodically grants concessions to its customers in an attempt to protect as much of its investment as possible and to minimize risk of loss. These concessions may include restructuring the terms of a customer loan to alleviate the burden of the customer's near-term cash requirements. The Company must conclude that the restructuring of a loan to a borrower who is experiencing financial difficulties constitutes a concession. The Company defines a concession as a modification of existing terms granted to a borrower for economic or legal reasons related to the borrower's financial difficulties that the Company would otherwise not consider. The concession either is granted through an agreement with the customer or is imposed by a court or by law. Concessions include modifying original loan terms to reduce or defer cash payments required as part of the loan

agreement, including but not limited to:

a reduction of the stated interest rate for the remaining original life of the debt,

an extension of the maturity date or dates at an interest rate lower than the current market rate for new debt with similar risk characteristics,

a reduction of the face amount or maturity amount of the debt, or

a reduction of accrued interest receivable on the debt.

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

whether the customer is currently in default on its existing loan, or is in an economic position where it is probable the customer will be in default on its loan in the foreseeable future without a modification,

whether the customer has declared or is in the process of declaring bankruptcy,

whether there is substantial doubt about the customer's ability to continue as a going concern,

whether, based on its projections of the customer's current capabilities, the Company believes the customer's future cash flows will be insufficient to service the debt, including interest, in accordance with the contractual terms of the existing agreement for the foreseeable future, and

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

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

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

| <i>(dollars in thousands)</i>      | As of June 30, 2017 |  |                    |               |
|------------------------------------|---------------------|--|--------------------|---------------|
|                                    | Current             | Past Due<br>Greater Than<br>30 Days<br>and<br>Accruing | Nonaccrual<br>TDRs | Total<br>TDRs |
| <b>Originated loans:</b>           |                     |  |                    |               |
| Real estate loans:                 |                     |  |                    |               |
| One- to four-family first mortgage | \$ 430              | \$   | \$ 426             | \$ 856        |
| Home equity loans and lines        | 369                 |  | 868                | 1,237         |
| Commercial real estate             | 99                  |  | 1,558              | 1,657         |
| Construction and land              | 186                 |  |                    | 186           |
| Multi-family residential           |                     |  |                    |               |

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|                                    |          |       |          |           |
|------------------------------------|----------|-------|----------|-----------|
| Total real estate loans            | 1,084    |       | 2,852    | 3,936     |
| <b>Other loans:</b>                |          |       |          |           |
| Commercial and industrial          |          |       | 6,399    | 6,399     |
| Consumer                           |          |       | 202      | 202       |
| Total other loans                  |          |       | 6,601    | 6,601     |
| Total originated loans             | \$ 1,084 | \$    | \$ 9,453 | \$ 10,537 |
| <b>Acquired loans:</b>             |          |       |          |           |
| <b>Real estate loans:</b>          |          |       |          |           |
| One- to four-family first mortgage | \$ 220   | \$ 71 | \$ 124   | \$ 415    |
| Home equity loans and lines        |          |       | 73       | 73        |
| Commercial real estate             | 1,128    |       |          | 1,128     |
| Construction and land              |          |       |          |           |
| Multi-family residential           |          |       |          |           |
| Total real estate loans            | 1,348    | 71    | 197      | 1,616     |
| <b>Other loans:</b>                |          |       |          |           |
| Commercial and industrial          | 1,644    |       | 260      | 1,904     |
| Consumer                           |          |       |          |           |
| Total other loans                  | 1,644    |       | 260      | 1,904     |
| Total acquired loans               | \$ 2,992 | \$ 71 | \$ 457   | \$ 3,520  |

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|                                    |          |       |          |           |
|------------------------------------|----------|-------|----------|-----------|
| <b>Total loans:</b>                |          |       |          |           |
| Real estate loans:                 |          |       |          |           |
| One- to four-family first mortgage | \$ 650   | \$ 71 | \$ 550   | \$ 1,271  |
| Home equity loans and lines        | 369      |       | 941      | 1,310     |
| Commercial real estate             | 1,227    |       | 1,558    | 2,785     |
| Construction and land              | 186      |       |          | 186       |
| Multi-family residential           |          |       |          |           |
| Total real estate loans            | 2,432    | 71    | 3,049    | 5,552     |
| Other loans:                       |          |       |          |           |
| Commercial and industrial          | 1,644    |       | 6,659    | 8,303     |
| Consumer                           |          |       | 202      | 202       |
| Total other loans                  | 1,644    |       | 6,861    | 8,505     |
| Total loans                        | \$ 4,076 | \$ 71 | \$ 9,910 | \$ 14,057 |

|                                    |                |                                |          |           |
|------------------------------------|----------------|--------------------------------|----------|-----------|
|                                    |                | <b>As of December 31, 2016</b> |          |           |
|                                    |                | <b>Past Due</b>                |          |           |
|                                    |                | <b>Greater Than</b>            |          |           |
|                                    |                | <b>30 Days</b>                 |          |           |
|                                    |                | <b>and</b>                     |          |           |
|                                    |                | <b>Accruing</b>                |          |           |
|                                    |                | <b>Nonaccrual</b>              |          |           |
|                                    |                | <b>TDRs</b>                    |          |           |
|                                    |                | <b>Total</b>                   |          |           |
|                                    |                | <b>TDRs</b>                    |          |           |
| <i>(dollars in thousands)</i>      | <b>Current</b> |                                |          |           |
| <b>Originated loans:</b>           |                |                                |          |           |
| Real estate loans:                 |                |                                |          |           |
| One- to four-family first mortgage | \$ 276         | \$                             | \$ 327   | \$ 603    |
| Home equity loans and lines        | 331            |                                | 988      | 1,319     |
| Commercial real estate             | 102            |                                | 1,717    | 1,819     |
| Construction and land              | 562            |                                |          | 562       |
| Multi-family residential           |                |                                |          |           |
| Total real estate loans            | 1,271          |                                | 3,032    | 4,303     |
| Other loans:                       |                |                                |          |           |
| Commercial and industrial          |                |                                | 6,775    | 6,775     |
| Consumer                           |                |                                | 168      | 168       |
| Total other loans                  |                |                                | 6,943    | 6,943     |
| Total originated loans             | \$ 1,271       | \$                             | \$ 9,975 | \$ 11,246 |
| <b>Acquired loans:</b>             |                |                                |          |           |
| Real estate loans:                 |                |                                |          |           |
| One- to four-family first mortgage | \$ 292         | \$ 86                          | \$ 60    | \$ 438    |
| Home equity loans and lines        |                |                                | 62       | 62        |
| Commercial real estate             | 288            | 860                            |          | 1,148     |

|                                    |          |        |           |           |
|------------------------------------|----------|--------|-----------|-----------|
| Construction and land              |          |        |           |           |
| Multi-family residential           |          |        |           |           |
| Total real estate loans            | 580      | 946    | 122       | 1,648     |
| Other loans:                       |          |        |           |           |
| Commercial and industrial          | 1,853    |        | 313       | 2,166     |
| Consumer                           |          |        |           |           |
| Total other loans                  | 1,853    |        | 313       | 2,166     |
| Total acquired loans               | \$ 2,433 | \$ 946 | \$ 435    | \$ 3,814  |
| <b>Total loans:</b>                |          |        |           |           |
| Real estate loans:                 |          |        |           |           |
| One- to four-family first mortgage | \$ 568   | \$ 86  | \$ 387    | \$ 1,041  |
| Home equity loans and lines        | 331      |        | 1,050     | 1,381     |
| Commercial real estate             | 390      | 860    | 1,717     | 2,967     |
| Construction and land              | 562      |        |           | 562       |
| Multi-family residential           |          |        |           |           |
| Total real estate loans            | 1,851    | 946    | 3,154     | 5,951     |
| Other loans:                       |          |        |           |           |
| Commercial and industrial          | 1,853    |        | 7,088     | 8,941     |
| Consumer                           |          |        | 168       | 168       |
| Total other loans                  | 1,853    |        | 7,256     | 9,109     |
| Total loans                        | \$ 3,704 | \$ 946 | \$ 10,410 | \$ 15,060 |

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A summary of information pertaining to loans modified as of the periods indicated is as follows.

| <i>(dollars in thousands)</i>      | For the Six Months Ended |                     |                     |                    |                     |                     |
|------------------------------------|--------------------------|---------------------|---------------------|--------------------|---------------------|---------------------|
|                                    | June 30, 2017            |                     |                     | June 30, 2016      |                     |                     |
|                                    | Pre-                     | Post-               |                     | Pre-               | Post-               |                     |
|                                    | modification             | modification        |                     | modification       | modification        |                     |
|                                    | Outstanding              | Outstanding         | Outstanding         | Outstanding        | Outstanding         |                     |
|                                    | Number of Recorded       | Recorded Investment | Recorded Investment | Number of Recorded | Recorded Investment | Recorded Investment |
|                                    | Contracts                | Investment          | Investment          | Contracts          | Investment          | Investment          |
| Troubled debt restructurings:      |                          |                     |                     |                    |                     |                     |
| One- to four-family first mortgage | 5                        | \$ 275              | \$ 272              | 8                  | \$ 1,345            | \$ 891              |
| Home equity loans and lines        | 1                        | 15                  | 14                  | 3                  | 1,191               | 1,191               |
| Commercial real estate             | 1                        | 448                 | 448                 | 4                  | 1,259               | 1,209               |
| Construction and land              |                          |                     |                     | 3                  | 546                 | 315                 |
| Multi-family residential           |                          |                     |                     |                    |                     |                     |
| Commercial and industrial          | 1                        | 1,461               | 1,169               | 16                 | 3,753               | 3,752               |
| Other consumer                     | 2                        | 60                  | 57                  | 1                  | 51                  | 44                  |
| <b>Total</b>                       | <b>10</b>                | <b>\$ 2,259</b>     | <b>\$ 1,960</b>     | <b>35</b>          | <b>\$ 8,145</b>     | <b>\$ 7,402</b>     |

None of the performing troubled debt restructurings as of June 30, 2017 had defaulted subsequent to the restructuring through the date the financial statements were available to be issued.

**6. Fair Value Measurements and Disclosures**

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

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

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

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



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

**Table of Contents****Recurring Basis***Investment Securities Available for Sale*

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

Management primarily identifies investment securities, which may have traded in illiquid or inactive markets, by identifying instances of a significant decrease in the volume and frequency of trades, relative to historical levels, as well as instances of a significant widening of the bid-ask spread in the brokered markets. Investment securities that are deemed to have been trading in illiquid or inactive markets may require the use of significant unobservable inputs. For example, management may use quoted prices for similar investment securities in the absence of a liquid and active market for the investment securities being valued. As of June 30, 2017, management did not make adjustments to prices provided by the third-party pricing service as a result of illiquid or inactive markets.

The following tables present the balances of assets measured for fair value on a recurring basis as of June 30, 2017 and December 31, 2016.

| <i>(dollars in thousands)</i>       | June 30, 2017 | Fair Value Measurements Using |            |         |
|-------------------------------------|---------------|-------------------------------|------------|---------|
|                                     |               | Level 1                       | Level 2    | Level 3 |
| Available for sale securities:      |               |                               |            |         |
| U.S. agency mortgage-backed         | \$ 75,779     | \$                            | \$ 75,779  | \$      |
| Collateralized mortgage obligations | 93,838        |                               | 93,838     |         |
| Municipal bonds                     | 18,850        |                               | 18,850     |         |
| U.S. government agency              | 8,909         |                               | 8,909      |         |
| Total                               | \$ 197,376    | \$                            | \$ 197,376 | \$      |

| <i>(dollars in thousands)</i>       | December 31, 2016 | Fair Value Measurements Using |           |         |
|-------------------------------------|-------------------|-------------------------------|-----------|---------|
|                                     |                   | Level 1                       | Level 2   | Level 3 |
| Available for sale securities:      |                   |                               |           |         |
| U.S. agency mortgage-backed         | \$ 78,931         | \$                            | \$ 78,931 | \$      |
| Collateralized mortgage obligations | 74,330            |                               | 74,330    |         |
| Municipal bonds                     | 21,428            |                               | 21,428    |         |

|                        |    |         |    |            |    |
|------------------------|----|---------|----|------------|----|
| U.S. government agency |    | 9,041   |    | 9,041      |    |
| Total                  | \$ | 183,730 | \$ | \$ 183,730 | \$ |

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

***Nonrecurring Basis***

In accordance with the provisions of ASC 310, *Receivables*, the Company records loans considered impaired at fair value. A loan is considered impaired if it is probable the Company will be unable to collect all amounts due

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according to the contractual terms of the loan agreement. Fair value is measured at the fair value of the collateral for collateral-dependent loans. For non-collateral-dependent loans, fair value is measured by present valuing expected future cash flows. Impaired loans are classified as Level 3 assets when measured using appraisals from external parties of the collateral less any prior liens and when there is no observable market price. Repossessed assets are initially recorded at fair value less estimated costs to sell. The fair value of repossessed assets is based on property appraisals and an analysis of similar properties available. As such, the Company classifies repossessed assets as Level 3 assets.

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

| <i>(dollars in thousands)</i> | June 30, 2017   | Fair Value Measurements Using |           |                 |
|-------------------------------|-----------------|-------------------------------|-----------|-----------------|
|                               |                 | Level 1                       | Level 2   | Level 3         |
| Repossessed assets            | \$ 587          | \$                            | \$        | \$ 587          |
| Impaired loans                | 6,680           |                               |           | 6,680           |
| <b>Total</b>                  | <b>\$ 7,267</b> | <b>\$</b>                     | <b>\$</b> | <b>\$ 7,267</b> |

| <i>(dollars in thousands)</i> | December 31, 2016 | Fair Value Measurements Using |           |                 |
|-------------------------------|-------------------|-------------------------------|-----------|-----------------|
|                               |                   | Level 1                       | Level 2   | Level 3         |
| Repossessed assets            | \$ 2,893          | \$                            | \$        | \$ 2,893        |
| Impaired loans                | 4,763             |                               |           | 4,763           |
| <b>Total</b>                  | <b>\$ 7,656</b>   | <b>\$</b>                     | <b>\$</b> | <b>\$ 7,656</b> |

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

| <i>(dollars in thousands)</i>  | Fair Value | Valuation Technique  | Unobservable Inputs                              | Range of Discounts | Weighted Average Discount |
|--------------------------------|------------|--|--|--------------------|---------------------------|
| <b>As of June 30, 2017</b>     |            |  |  |                    |                           |
| Repossessed assets             | \$ 587     | Third party appraisals, sales contracts, broker price opinions | Collateral discounts and estimated costs to sell | 6% - 100%          | 15%                       |
| Impaired loans                 | \$ 6,680   | Third party appraisals and discounted cash flows               | Collateral discounts and discount rates          | 0% - 100%          | 19%                       |
| <b>As of December 31, 2016</b> |            |  |  |                    |                           |
| Repossessed assets             | \$ 2,893   | Third party appraisals, sales contracts, Broker                | Collateral discounts and estimated costs to      | 6% - 96%           | 19%                       |

|                |          | price opinions                                   | sell                                    |           |     |
|----------------|----------|--|---|-----------|-----|
| Impaired loans | \$ 4,763 | Third party appraisals and discounted cash flows | Collateral discounts and discount rates | 0% - 100% | 15% |

ASC 820, *Fair Value Measurements and Disclosures*, requires the disclosure of each class of financial instruments for which it is practicable to estimate. The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined

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based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. ASC 820 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial statements. These estimates are subjective in nature, involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates included herein are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the fair value of assets and liabilities that are not required to be recorded or disclosed at fair value like premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

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

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

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

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

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

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

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

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

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

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| <i>(dollars in thousands)</i>            | Carrying<br>Amount | Fair Value Measurements at June 30, 2017 |           |              |         |
|--|--------------------|--|-----------|--------------|---------|
|  |                    | Total                                    | Level 1   | Level 2      | Level 3 |
| <b>Financial Assets</b>                  |                    |  |           |              |         |
| Cash and cash equivalents                | \$ 51,702          | \$ 51,702                                | \$ 51,702 | \$           | \$      |
| Interest-bearing deposits in banks       | 1,391              | 1,391                                    | 1,391     |              |         |
| Investment securities available for sale | 197,376            | 197,376                                  |           | 197,376      |         |
| Investment securities held to maturity   | 13,201             | 13,322                                   |           | 13,322       |         |
| Mortgage loans held for sale             | 4,298              | 4,298                                    |           | 4,298        |         |
| Loans, net                               | 1,205,753          | 1,206,984                                |           | 1,200,304    | 6,680   |
| Cash surrender value of BOLI             | 20,390             | 20,390                                   | 20,390    |              |         |
| <b>Financial Liabilities</b>             |                    |  |           |              |         |
| Deposits                                 | \$ 1,309,237       | \$ 1,309,351                             | \$        | \$ 1,309,351 | \$      |
| Short-term FHLB advances                 |                    |  |           |              |         |
| Long-term FHLB advances                  | 67,493             | 67,274                                   |           | 67,274       |         |

| <i>(dollars in thousands)</i>            | Carrying<br>Amount | Fair Value Measurements at December 31,<br>2016 |           |              |         |
|--|--------------------|---|-----------|--------------|---------|
|  |                    | Total   | Level 1   | Level 2      | Level 3 |
| <b>Financial Assets</b>                  |                    |   |           |              |         |
| Cash and cash equivalents                | \$ 29,315          | \$ 29,315                                       | \$ 29,315 | \$           | \$      |
| Interest-bearing deposits in banks       | 1,884              | 1,884   | 1,884     |              |         |
| Investment securities available for sale | 183,730            | 183,730   |           | 183,730      |         |
| Investment securities held to maturity   | 13,365             | 13,362  |           | 13,362       |         |
| Mortgage loans held for sale             | 4,156              | 4,156   |           | 4,156        |         |
| Loans, net                               | 1,215,323          | 1,205,538                                       |           | 1,200,775    | 4,763   |
| Cash surrender value of BOLI             | 20,150             | 20,150  | 20,150    |              |         |
| <b>Financial Liabilities</b>             |                    |   |           |              |         |
| Deposits                                 | \$ 1,248,072       | \$ 1,247,526                                    | \$        | \$ 1,247,526 | \$      |
| Short-term FHLB advances                 | 40,000             | 40,000  | 40,000    |              |         |
| Long-term FHLB advances                  | 78,533             | 78,039  |           | 78,039       |         |

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

The purpose of this discussion and analysis is to focus on significant changes in the financial condition of Home Bancorp, Inc. (the Company) and its wholly owned subsidiary, Home Bank, N. A. (the Bank), from December 31, 2016 through June 30, 2017 and on its results of operations for the three and six months ended June 30, 2017 and June 30, 2016. This discussion and analysis is intended to highlight and supplement information presented elsewhere in this quarterly report on Form 10-Q, particularly the consolidated financial statements and related notes appearing in Item 1.

**Forward-Looking Statements**

To the extent that statements in this Form 10-Q relate to future plans, objectives, financial results or performance of the Company or Bank, these statements are deemed to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements, which are based on management's current



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information, estimates and assumptions and the current economic environment, are generally identified by the use of words such as plan , believe , expect , intend , anticipate , estimate , project or similar expressions, or by future conditional terms such as will , would , should , could , may , likely , probably , or possibly . The Company's actual strategies and results in future periods may differ materially from those currently expected due to various risks and uncertainties. Factors that may cause actual results to differ materially from these forward-looking statements include, but are not limited to, the risk factors described under the heading Risk Factors in the Company's Annual Report on Form 10-K filed with the Securities Exchange Commission ( SEC ) for the year ended December 31, 2016. The Company undertakes no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date on which such statements were made.

**EXECUTIVE OVERVIEW**

During the second quarter of 2017, the Company earned \$4.5 million, an increase of \$469,000, or 11.7%, compared to the second quarter of 2016. Diluted earnings per share for the second quarter of 2017 were \$0.62, an increase of \$0.05, or 8.8%, compared to the second quarter of 2016. The second quarter of 2017 includes a write down of \$292,000, net of taxes, taken upon the closure of a banking center. The second quarter of 2016 includes merger-related expenses related to the acquisition of Louisiana Bancorp, Inc. ( Louisiana Bancorp ) totaling \$143,000, net of taxes and a gain on the sale of a banking center totaling \$416,000, net of taxes. Excluding merger-related expenses and the banking centers loss and gain, net income for the second quarter of 2017 increased 27.6% compared to the second quarter of 2016 (see the Non-GAAP Reconciliation on page 29).

During the six months ended June 30, 2017, the Company earned \$9.5 million, an increase of \$2.1 million, or 28.9%, compared to the six months ended June 30, 2016. Diluted earnings per share for the six months ended June 30, 2017 were \$1.31, an increase of \$0.27, or 26.0%, compared to the six months ended June 30, 2016. Excluding merger-related expenses and banking centers loss and gains, net income for the six months ended June 30, 2017 increased 27.3% compared to the six months ended June 30, 2016. Diluted earnings per share, excluding merger-related expenses and the banking centers loss and gains, for the six months ended June 30, 2017 increased 24.5% compared to the six months ended June 30, 2016.

Key components of the Company's performance during the three and six months ended June 30, 2017 include:

Assets totaled \$1.6 billion as of June 30, 2017, an increase of \$17.4 million, or 1.1%, from December 31, 2016.

Investment securities totaled \$210.6 million as of June 30, 2017, an increase of \$13.5 million, or 6.8% from December 31, 2016.

Loans as of June 30, 2017 were \$1.2 billion, a decrease of \$9.1 million, or 0.7%, from December 31, 2016.

Deposits as of June 30, 2017 were \$1.3 billion, an increase of \$61.2 million, or 4.9%, from December 31, 2016. Core deposits (i.e., checking, savings, and money market accounts) totaled \$1.0 billion as of June 30, 2017, an increase of \$33.8 million, or 3.5%, from December 31, 2016.

Federal Home Loan Bank advances totaled \$67.5 million as of June 30, 2017, a decrease of \$51.0 million, or 43.1%, from December 31, 2016.

Interest income increased \$533,000, or 3.2%, in the second quarter of 2017, compared to the second quarter of 2016. For the six months ended June 30, 2017, interest income increased \$848,000, or 2.5%, compared to the six months ended June 30, 2016. The increase was due primarily to an increase in accretion income on acquired loans for the comparative three and six month periods totaling \$273,000 and \$617,000, respectively.

The provision for loan losses totaled \$150,000 for the second quarter of 2017, a decrease of \$900,000, or 85.7%, compared to the second quarter of 2016. For the six months ended June 30, 2017, the provision for loan losses totaled \$457,000, a decrease of \$1.4 million, or 76.0%, from the six months ended June 30, 2016.

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At June 30, 2017, the Company's ratio of the allowance for loan losses to total loans was 1.07%, compared to 0.94% at June 30, 2016. Excluding acquired loans, the ratio of the allowance for loan losses to total loans was 1.40% at June 30, 2017, compared to 1.33% at June 30, 2016. The Company recorded \$42,000 in net loan recoveries during the first six months of 2017, compared to virtually no net loan charge-offs during the first six months of 2016.

Noninterest income for the second quarter of 2017 decreased \$1.3 million, or 37.2%, compared to the second quarter of 2016. For the six months ended June 30, 2017, noninterest income decreased \$1.0 million, or 17.0%, compared to the six months ended June 30, 2016. The second quarter of 2017 includes a \$449,000 write down on a closed banking center in Vicksburg, Mississippi, while noninterest income in the second quarter of 2016 includes a gain on the sale of a banking center totaling \$641,000. Excluding the loss and gain recorded on the closure or sale of banking centers, noninterest income totaled \$2.6 million in the second quarter of 2017, a decrease of \$194,000, or 6.9%, compared to the second quarter of 2016. The six months ended June 30, 2017 includes a net loss of \$69,000 resulting from the write down on the closed banking center previously discussed and a gain on the sale of a banking center in the first quarter of 2017, while the six months ending June 30, 2016 includes a gain on a sale of a banking center totaling \$641,000. Excluding the loss and gains on the banking centers, noninterest income totaled \$5.1 million, a decrease of \$315,000, or 5.9%, during the comparative six months.

Noninterest expense for the second quarter of 2017 decreased \$805,000, or 6.8%, compared to the second quarter of 2016. Noninterest expense for the six months ended June 30, 2017 decreased \$2.1 million, or 8.7%, compared to the six months ended June 30, 2016. Noninterest expense includes merger-related expenses totaling \$214,000 for the second quarter of 2016 and \$827,000 for the six months ended June 30, 2016. Excluding merger-related expenses, noninterest expense decreased \$591,000, or 5.1%, for the second quarter of 2017 compared to the second quarter of 2016, and decreased \$1.3 million, or 5.5%, for the six months ended June 30, 2017 compared to the six months ended June 30, 2016.

This discussion and analysis contains financial information prepared other than in accordance with generally accepted accounting principles ( GAAP ). The Company uses these non-GAAP financial measures in its analysis of the Company's performance. Management believes that the non-GAAP information provides useful data in understanding the Company's operations and in comparing the Company's results to peers. This non-GAAP information should be considered in addition to the Company's financial information prepared in accordance with GAAP, and is not a substitute for, or superior to, GAAP results. A reconciliation of GAAP to non-GAAP disclosures is included in the table below.

**Non-GAAP Reconciliation**

| <i>(dollars in thousands)</i>                             | <b>For</b>                        |                      |                             |                      |
|---|-----------------------------------|----------------------|-----------------------------|----------------------|
|   | <b>For the Three Months Ended</b> |                      | <b>the Six Months Ended</b> |                      |
|   | <b>June 30, 2017</b>              | <b>June 30, 2016</b> | <b>June 30, 2017</b>        | <b>June 30, 2016</b> |
| Reported noninterest income                               | \$ 2,164                          | \$ 3,448             | \$ 4,990                    | \$ 6,015             |
| Less: (Loss) gain on closure or sale of banking center(s) | (449)                             | 641                  | (69)                        | 641                  |
| Non-GAAP noninterest income                               | \$ 2,613                          | \$ 2,807             | \$ 5,059                    | \$ 5,374             |

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|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Reported noninterest expense  | \$ 11,051 | \$ 11,856 | \$ 22,082 | \$ 24,197 |
| Less: Merger-related expenses   |           | 214       |           | 827       |
| Non-GAAP noninterest expense  | \$ 11,051 | \$ 11,642 | \$ 22,082 | \$ 23,370 |
| Reported net income   | \$ 4,486  | \$ 4,016  | \$ 9,491  | \$ 7,366  |
| Less: (Loss) gain on closure or sale of banking center(s), net of tax | (292)     | 416       | (45)      | 416       |
| Add: Merger-related expenses, net of tax                              |           | 143       |           | 542       |
| Non-GAAP net income   | \$ 4,778  | \$ 3,743  | \$ 9,536  | \$ 7,492  |
| Diluted EPS   | \$ 0.62   | \$ 0.57   | \$ 1.31   | \$ 1.04   |
| Less: (Loss) gain on closure or sale of banking center(s)             | (0.04)    | 0.06      | (0.01)    | 0.06      |
| Add: Merger-related expenses  |           | 0.02      |           | 0.08      |
| Non-GAAP diluted EPS  | \$ 0.66   | \$ 0.53   | \$ 1.32   | \$ 1.06   |

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**Loans** Loans outstanding as of June 30, 2017 were \$1.2 billion, a decrease of \$9.1 million, or 0.7%, from December 31, 2016. Growth in originated loans of 2.4% was offset by paydowns in acquired loans.

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

| <i>(dollars in thousands)</i>      | <b>June 30,<br/>2017</b> | <b>December 31,<br/>2016</b> | <b>Increase/(Decrease)</b> |                |
|------------------------------------|--------------------------|------------------------------|----------------------------|----------------|
|                                    |                          |                              | <b>Amount</b>              | <b>Percent</b> |
| <b>Real estate loans:</b>          |                          |                              |                            |                |
| One- to four-family first mortgage | \$ 337,714               | \$ 341,883                   | \$ (4,169)                 | (1.2)%         |
| Home equity loans and lines        | 87,392                   | 88,821                       | (1,429)                    | (1.6)          |
| Commercial real estate             | 454,554                  | 427,515                      | 27,039                     | 6.3            |
| Construction and land              | 119,226                  | 141,167                      | (21,941)                   | (15.5)         |
| Multi-family residential           | 48,476                   | 46,369                       | 2,107                      | 4.5            |
| <b>Total real estate loans</b>     | <b>1,047,362</b>         | <b>1,045,755</b>             | <b>1,607</b>               | <b>0.2</b>     |
| <b>Other loans:</b>                |                          |                              |                            |                |
| Commercial and industrial          | 131,932                  | 139,810                      | (7,878)                    | (5.6)          |
| Consumer                           | 39,469                   | 42,268                       | (2,799)                    | (6.6)          |
| <b>Total other loans</b>           | <b>171,401</b>           | <b>182,078</b>               | <b>(10,677)</b>            | <b>(5.9)</b>   |
| <b>Total loans</b>                 | <b>\$ 1,218,763</b>      | <b>\$ 1,227,833</b>          | <b>\$ (9,070)</b>          | <b>(0.7)%</b>  |

The outstanding balance of direct loans to borrowers in the energy sector totaled \$33.4 million, or 2.7% of total outstanding loans, at June 30, 2017, compared to \$34.0 million at December 31, 2016. We also had unfunded loan commitments to customers in the energy sector amounting to \$5.0 million at June 30, 2017, compared to \$6.7 million at December 31, 2016. At June 30, 2017, loans constituting 94.7% of the balance of our direct energy-related loans were performing in accordance with their original loan agreements. The remaining 5.3%, or \$1.8 million, had been restructured and were paying in accordance with the restructured terms as of June 30, 2017. The Company holds no shared national credits.

In addition to our exposure on direct energy-related loans, given the effect of the energy sector on the overall economy in several of our markets, we also have indirect exposure in making loans to borrowers who are not themselves in the energy sector but whose customers include energy sector entities.

**Asset Quality** One of management's key objectives has been, and continues to be, maintaining a high level of asset quality. In addition to maintaining credit standards for new loan originations, we proactively monitor loans and collection and workout processes of delinquent or problem loans. When a borrower fails to make a scheduled payment, we attempt to cure the deficiency by making personal contact with the borrower. Initial contacts are generally made within 10 days after the date payment is due. In most cases, deficiencies are promptly resolved. If the delinquency continues, late charges are assessed and additional efforts are made to collect the deficiency. All loans

which are designated as special mention, classified or which are delinquent 90 days or more are reported to the Board of Directors of the Bank monthly. For loans where the collection of principal or interest payments is doubtful, the accrual of interest income ceases. It is our policy, with certain limited exceptions, to discontinue accruing interest and reverse any interest accrued on any loan which is 90 days or more past due. On occasion, this action may be taken earlier if the financial condition of the borrower raises significant concern with regard to their ability to service the debt in accordance with the terms of the loan agreement. Interest income is not accrued on these loans until the borrower's financial condition and payment record demonstrate an ability to service the debt.

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

An impaired loan generally is one for which it is probable, based on current information, that the lender will not collect all the amounts due under the contractual terms of the loan. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Loans collectively evaluated for impairment include smaller balance commercial loans, residential real estate loans and consumer loans. These loans are evaluated as a group because they have similar characteristics and performance experience. Larger (i.e., loans with balances of \$100,000 or greater) commercial real estate loans, multi-family residential loans, construction and land loans and commercial and industrial loans are individually evaluated for impairment. Third party property valuations are obtained at the time of origination for real estate secured loans. When a determination is made that a loan has deteriorated to the point of becoming a problem loan, updated valuations may be ordered to help determine if there is impairment, which may lead to a recommendation for partial charge off or appropriate allowance allocation. Property valuations are ordered through, and are reviewed by, an appraisal officer at the bank. The Company typically orders an as is valuation for collateral property if a loan is in a criticized loan classification. The Board of Directors is provided with monthly reports on impaired loans. As of June 30, 2017 and December 31, 2016, loans individually evaluated for impairment, excluding acquired loans, amounted to \$6.7 million and \$5.6 million, respectively. As of June 30, 2017 and December 31, 2016, acquired impaired loans, loans considered to have deteriorated credit quality at the time of acquisition, amounted to \$10.7 million and \$13.1 million, respectively. As of June 30, 2017 and December 31, 2016, substandard loans, excluding acquired loans, amounted to \$24.6 million and \$23.8 million, respectively. The amount of the allowance for loan losses allocated to substandard loans originated by Home Bank totaled \$1.3 million as of June 30, 2017 and \$795,000 as of December 31, 2016. The amount of allowance for loan losses allocated to acquired loans totaled \$283,000 and \$291,000, respectively, at such dates. There were no assets classified as doubtful or loss as of June 30, 2017 or December 31, 2016.

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

A bank's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by Federal bank regulators which can order the establishment of additional general or specific loss allowances. The Federal banking agencies have adopted an interagency policy statement on the allowance for loan and lease losses. The policy statement provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of allowances and guidance for banking agency examiners to use in determining the adequacy of general valuation guidelines. Generally, the policy statement recommends that institutions have

effective systems and controls to identify, monitor and address asset quality problems; that management analyzes all significant factors that affect the collectability of the portfolio in a reasonable manner; and that management establishes acceptable allowance evaluation processes that meet the objectives set forth in the policy statement. Our management believes that, based on information currently available, our allowance for loan losses is maintained at a level which covers all known and inherent losses that are both probable and reasonably estimable as of each reporting date. However, actual losses are dependent upon future events and, as such, further additions to the level of allowance for loan losses may become necessary.



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

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

| <i>(dollars in thousands)</i>                                      | June 30, 2017    |                         |                  | December 31, 2016 |                         |                  |
|--|------------------|-------------------------|------------------|-------------------|-------------------------|------------------|
|  | Originated       | Acquired <sup>(1)</sup> | Total            | Originated        | Acquired <sup>(1)</sup> | Total            |
| <b>Nonaccrual loans:</b>   |                  |                         |                  |                   |                         |                  |
| <b>Real estate loans:</b>  |                  |                         |                  |                   |                         |                  |
| One- to four-family first mortgage                                 | \$ 1,130         | \$ 944                  | \$ 2,074         | \$ 891            | \$ 833                  | \$ 1,724         |
| Home equity loans and lines  | 1,848            | 86                      | 1,934            | 998               | 90                      | 1,088            |
| Commercial real estate   | 2,961            | 164                     | 3,125            | 1,799             | 164                     | 1,963            |
| Construction and land  |                  |                         |                  | 12                | 63                      | 75               |
| Multi-family residential   |                  | 164                     | 164              |                   |                         |                  |
| <b>Other loans:</b>  |                  |                         |                  |                   |                         |                  |
| Commercial and industrial  | 8,007            | 260                     | 8,267            | 8,230             | 312                     | 8,542            |
| Consumer   | 340              |                         | 340              | 360               | 1                       | 361              |
| <b>Total nonaccrual loans</b>                                      | <b>14,286</b>    | <b>1,618</b>            | <b>15,904</b>    | <b>12,290</b>     | <b>1,463</b>            | <b>13,753</b>    |
| <b>Accruing loans 90 days or more past due</b>                     |                  |                         |                  |                   |                         |                  |
| <b>Total nonperforming loans</b>                                   | <b>14,286</b>    | <b>1,618</b>            | <b>15,904</b>    | <b>12,290</b>     | <b>1,463</b>            | <b>13,753</b>    |
| Foreclosed assets  | 87               | 500                     | 587              | 722               | 2,171                   | 2,893            |
| <b>Total nonperforming assets</b>                                  | <b>14,373</b>    | <b>2,118</b>            | <b>16,491</b>    | <b>13,012</b>     | <b>3,634</b>            | <b>16,646</b>    |
| Performing troubled debt restructurings                            | 1,084            | 3,063                   | 4,147            | 1,270             | 3,380                   | 4,650            |
| <b>Total nonperforming assets and troubled debt restructurings</b> | <b>\$ 15,457</b> | <b>\$ 5,181</b>         | <b>\$ 20,638</b> | <b>\$ 14,282</b>  | <b>\$ 7,014</b>         | <b>\$ 21,296</b> |
| Nonperforming loans to total loans                                 |                  |                         | 1.30%            | 1.12%             |                         |                  |
| Nonperforming loans to total assets                                |                  |                         | 1.01%            | 0.88%             |                         |                  |
| Nonperforming assets to total assets                               |                  |                         | 1.05%            | 1.07%             |                         |                  |

<sup>(1)</sup> Table excludes acquired loans which were being accounted for under ASC 310-30 because they continue to earn interest from accretable yield regardless of their status as past due or otherwise not in compliance with their contractual terms. Acquired loans with deteriorated credit quality, which were being accounted for under ASC 310-30 and which were 90 days or more past due, totaled \$1.7 million and \$2.7 million as of June 30, 2017 and December 31, 2016, respectively.

The Company recorded net loan charge-offs for the second quarter of 2017 of \$58,000 and net loan recoveries for the six months ended June 30, 2017 of \$42,000. The Company recorded virtually no net loan charge-offs for the second quarter of 2016 and for the six months ended June 30, 2016.

**Allowance for Loan Losses** The allowance for loan losses is established through provisions for loan losses. The Company maintains the allowance at a level believed, to the best of management's knowledge, to cover all known and inherent losses in the portfolio that are both probable and reasonable to estimate at each reporting date. Management reviews the allowance for loan losses at least quarterly in order to identify those inherent losses and to assess the overall collection probability for the loan portfolio. The evaluation process includes, among other things, an analysis of delinquency trends, nonperforming loan trends, the level of charge-offs and recoveries, prior loss experience, total loans outstanding, the volume of loan originations, the type, size and geographic concentration of loans, the value of collateral securing loans, the borrower's ability to repay and repayment performance, the number of loans requiring heightened management oversight, economic conditions and industry experience. Based on this evaluation, management assigns risk ratings to segments of the loan

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portfolio. Such risk ratings are periodically reviewed by management and revised as deemed appropriate. These efforts are supplemented by reviews and validations performed by independent loan reviewers. The results of the reviews are reported to the Audit Committee of the Board of Directors. The establishment of the allowance for loan losses is significantly affected by management judgment. There is likelihood that different amounts would be reported under different conditions or assumptions. Federal regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require management to make additional provisions for estimated loan losses based upon judgments different from those of management.

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

Acquired loans were recorded at their acquisition date fair value, which was based on expected cash flows and included an estimation of expected future loan losses. If the present value of expected cash flows for a pool is less than its carrying value, an impairment is recognized by an increase in the allowance for loan losses and a charge to the provision for loan losses. As of June 30, 2017 and December 31, 2016, \$283,000 and \$291,000, respectively, of our allowance for loan losses was allocated to acquired loans with deteriorated credit quality.

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

The following table presents the activity in the allowance for loan losses during the first six months of 2017.

| <i>(dollars in thousands)</i>   | <b>Originated</b> | <b>Acquired</b> | <b>Total</b>  |
|---------------------------------|-------------------|-----------------|---------------|
| Balance, December 31, 2016      | \$ 12,220         | \$ 291          | \$ 12,511     |
| Provision charged to operations | 465               | (8)             | 457           |
| Loans charged off               | (91)              |                 | (91)          |
| Recoveries on charged off loans | 133               |                 | 133           |
| <b>Balance, June 30, 2017</b>   | <b>12,727</b>     | <b>283</b>      | <b>13,010</b> |

At June 30, 2017, the Company's ratio of allowance for loan losses to total loans was 1.07%, compared to 1.02% and 0.94% at December 31, 2016 and June 30, 2016, respectively. Excluding acquired loans, the ratio of allowance for loan losses to total loans was 1.40% at June 30, 2017, compared to 1.38% and 1.33% at December 31, 2016 and June 30, 2016, respectively.

The allowance for loan losses attributable to direct energy-related loans totaled 3.39% of the outstanding balance of energy-related loans at June 30, 2017, compared to 3.35% and 3.29% at December 31, 2016 and June 30, 2016, respectively.

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The Company's investment securities portfolio totaled \$210.6 million as of June 30, 2017, an increase of \$13.5 million, or 6.8%, from December 31, 2016. As of June 30, 2017, the Company had a net unrealized gain on its available for sale investment securities portfolio of \$181,000, compared to \$18,000 as of December 31, 2016. The investment securities portfolio had a modified duration of 3.0 and 3.6 years at June 30, 2017 and December 31, 2016, respectively.

The following table summarizes activity in the Company's investment securities portfolio during the first six months of 2017.

| <i>(dollars in thousands)</i>                            | <b>Available for Sale</b> | <b>Held to Maturity</b> |
|--|---------------------------|-------------------------|
| Balance, December 31, 2016                               | \$ 183,730                | \$ 13,365               |
| Purchases  | 33,716                    |                         |
| Principal payments and calls                             | (19,569)                  |                         |
| Accretion of discounts and amortization of premiums, net | (663)                     | (164)                   |
| Increase in market value                                 | 162                       |                         |
| Balance, June 30, 2017                                   | 197,376                   | 13,201                  |

**Funding Sources**

**Deposits** Deposits totaled \$1.3 billion as of June 30, 2017, an increase of \$61.2 million, or 4.9%, compared to December 31, 2016. Core deposits (which the Company defines as all deposits other than certificates of deposit) totaled \$1.0 billion as of June 30, 2017, an increase of \$33.8 million, or 3.5%, compared to December 31, 2016. Certificates of deposit totaled \$299.6 million as of June 30, 2017, an increase of \$27.3 million, or 10.0%, compared to December 31, 2016 due primarily to special promotions.

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

| <i>(dollars in thousands)</i> | <b>June 30,<br/>2017</b> | <b>December 31,<br/>2016</b> | <b>Increase<br/>(Decrease)</b> |                |
|-------------------------------|--------------------------|------------------------------|--------------------------------|----------------|
|                               |                          |                              | <b>Amount</b>                  | <b>Percent</b> |
| Demand deposit                | \$ 306,674               | \$ 296,519                   | \$ 10,155                      | 3.4%           |
| Savings                       | 109,018                  | 109,414                      | (396)                          | (0.4)          |
| Money market                  | 255,776                  | 264,784                      | (9,008)                        | (3.4)          |
| NOW                           | 338,166                  | 305,092                      | 33,074                         | 10.8           |
| Certificates of deposit       | 299,603                  | 272,263                      | 27,340                         | 10.0           |
| Total deposits                | \$ 1,309,237             | \$ 1,248,072                 | \$ 61,165                      | 4.9%           |

**Federal Home Loan Bank Advances** The Company had no short-term FHLB advances as of June 30, 2017. This represents a decrease of \$40.0 million in such advances during 2017. Long-term FHLB advances totaled \$67.5 million as of June 30, 2017, a decrease of \$11.0 million, or 14.1%, compared December 31, 2016.

**Shareholders Equity** Shareholders equity increased \$9.1 million, or 5.1%, from \$179.8 million as of December 31, 2016 to \$188.9 million as of June 30, 2017.

As of June 30, 2017, the Company and the Bank had regulatory capital that were well in excess of regulatory requirements. The following table presents actual and required capital ratios for the Company and the Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of June 30, 2017 based on the phase-in provisions of the Basel III Capital Rules and the minimum required capital levels as of January 1, 2019 when the Basel III Capital Rules have been fully phased-in. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

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| (dollars in thousands)                                 | Actual     |        | Minimum Capital Required Phase-In Schedule |       | Minimum Capital Required Phase-In Schedule |       | To Be Well Capitalized Under Prompt Corrective Action Provisions |       |
|--|------------|--------|--|-------|--|-------|--|-------|
|  | Amount     | Ratio  | Amount                                     | Ratio | Amount                                     | Ratio | Amount   | Ratio |
| <b>Company:</b>  |            |        |  |       |  |       |  |       |
| Tier 1 risk-based capital                              | \$ 177,029 | 15.13% | \$ 84,803                                  | 7.25% | \$ 99,425                                  | 8.50% | N/A  | N/A   |
| Total risk-based capital                               | 190,038    | 16.25  | 108,197                                    | 9.25  | 122,819                                    | 10.50 | N/A  | N/A   |
| Tier 1 leverage capital                                | 177,029    | 11.42  | 62,025                                     | 4.00  | 62,025                                     | 4.00  | N/A  | N/A   |
| <b>Bank:</b>   |            |        |  |       |  |       |  |       |
| Common equity Tier 1 capital (to risk-weighted assets) | \$ 161,946 | 13.86% | \$ 67,164                                  | 5.75% | \$ 81,765                                  | 7.00% | \$ 75,924  | 6.50% |
| Tier 1 risk-based capital                              | 161,946    | 13.86  | 84,685                                     | 7.25  | 99,286                                     | 8.50  | 93,445   | 8.00  |
| Total risk-based capital                               | 174,956    | 14.98  | 108,046                                    | 9.25  | 122,647                                    | 10.50 | 116,807  | 10.00 |
| Tier 1 leverage capital                                | 161,946    | 10.45  | 61,968                                     | 4.00  | 61,968                                     | 4.00  | 77,460   | 5.00  |

**LIQUIDITY AND ASSET/LIABILITY MANAGEMENT*****Liquidity Management***

Liquidity management encompasses our ability to ensure that funds are available to meet the cash flow requirements of depositors and borrowers, while also ensuring adequate cash flow exists to meet the Company's needs, including operating, strategic and capital. The Company develops its liquidity management strategies as part of its overall asset/liability management process. Our primary sources of funds are from deposits, amortization of loans, loan prepayments and the maturity of loans, investment securities and other investments, and other funds provided from operations. While scheduled payments from the amortization of loans and investment securities and maturing investment securities are relatively predictable sources of funds, deposit flows and loan prepayments can be greatly influenced by general interest rates, economic conditions and competition. The Company also maintains excess funds in short-term, interest-bearing assets that provide additional liquidity. As of June 30, 2017, cash and cash equivalents totaled \$51.7 million. At such date, investment securities available for sale totaled \$197.4 million.

The Company uses its liquidity to fund existing and future loan commitments, to fund maturing certificates of deposit and demand deposit withdrawals, to invest in other interest-earning assets, and to meet operating expenses. As of June 30, 2017, certificates of deposit maturing within the next 12 months totaled \$177.9 million. Based upon historical experience, the Company anticipates that a significant portion of the maturing certificates of deposit will be redeposited with us. For the three months ended June 30, 2017, the average balance of outstanding FHLB advances was \$84.8 million. As of June 30, 2017, the Company had \$67.5 million in total outstanding FHLB advances and had \$563.8 million in additional FHLB advances available.

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



**Table of Contents****Asset/Liability Management**

The objective of asset/liability management is to implement strategies for the funding and deployment of the Company's financial resources that are expected to maximize soundness and profitability over time at acceptable levels of risk. Interest rate sensitivity is the potential impact of changing rate environments on both net interest income and cash flows. The Company measures its interest rate sensitivity over the near term primarily by running net interest income simulations. Our interest rate sensitivity also is monitored by management through the use of a model which generates estimates of the change in its net interest income over a range of interest rate scenarios. Based on the Company's interest rate risk model, the table below sets forth the results of immediate and sustained changes in interest rates as of June 30, 2017.

| Shift in Interest Rates<br>(in bps) | % Change in Projected<br>Net Interest Income |
|-------------------------------------|--|
| +300                                | 1.9%   |
| +200                                | 1.6  |
| +100                                | 1.0  |

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

**Off-Balance Sheet Activities**

To meet the financing needs of its customers, the Bank issues financial instruments which represent conditional obligations that are not recognized, wholly or in part, in the statements of financial condition. These financial instruments include commitments to extend credit and standby letters of credit. Such instruments expose the Company to varying degrees of credit and interest rate risk in much the same way as funded loans. The same credit policies are used in these commitments as for on-balance sheet instruments. The Company's exposure to credit losses from these financial instruments is represented by their contractual amounts.

The following table summarizes our outstanding commitments to originate loans and to advance additional amounts pursuant to outstanding letters of credit, lines of credit and undisbursed construction loans as of June 30, 2017 and December 31, 2016.

| <i>(dollars in thousands)</i>           | Contract Amount  |                      |
|---|------------------|----------------------|
|   | June 30,<br>2017 | December 31,<br>2016 |
| Standby letters of credit               | \$ 3,981         | \$ 5,233             |
| Available portion of lines of credit    | 138,584          | 141,968              |
| Undisbursed portion of loans in process | 47,894           | 62,791               |
| Commitments to originate loans          | 104,064          | 98,714               |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may

require payment of a fee. Since many of the commitments are expected to be drawn upon, the total commitment amounts generally represent future cash requirements.

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

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

**RESULTS OF OPERATIONS**

During the second quarter of 2017, the Company earned \$4.5 million, an increase of \$469,000, or 11.7%, compared to the second quarter of 2016. Diluted earnings per share for the second quarter of 2017 were \$0.62, an increase of \$0.05, or 8.8%, compared to the second quarter of 2016. The second quarter of 2017 includes a write down of \$292,000, net of taxes, taken upon the closing of a banking center, while the second quarter of 2016 included a gain on the sale of a banking center, net of taxes, totaling \$416,000. The second quarter of 2016 also included merger-related expenses totaling \$143,000, net of taxes, related to the acquisition of Louisiana Bancorp, Inc. ( Louisiana Bancorp ). Excluding the banking centers loss and gain and merger-related expenses, net income for the second quarter 2017 totaled \$4.8 million, an increase of \$1.0 million, or 27.6%, compared to the second quarter of 2016. (See the Non-GAAP Reconciliation on page 29).

During the six months ended June 30, 2017, the Company earned \$9.5 million, an increase of \$2.1 million, or 28.9%, compared to the six months ended June 30, 2016. Diluted earnings per share for the six months ended June 30, 2017 were \$1.31, an increase of \$0.27, or 26.0%, compared to the six months ended June 30, 2016. The six months ended June 30, 2017 includes a net loss totaling \$45,000, net of taxes, resulting from a write down on a banking center, which closed in the second quarter of 2017 and a gain on the sale of a banking center in the first quarter of 2017. The six months ended June 30, 2016 includes a gain on the sale of a banking center, net of taxes, totaling \$416,000 and merger-related expenses totaling \$542,000, net of taxes. Excluding merger-related expenses and the gains and loss on banking centers closure and sales, net income totaled \$9.5 million, an increase of \$2.0 million, or 27.3%, compared to the six months ended June 30, 2016. Diluted earnings per share for the six months ended June 30, 2017 increased 24.5% compared to the six months ended June 30, 2016, excluding merger-related expenses and the gains and loss on the closure and sale of banking centers.

**Net Interest Income** Net interest income is the difference between the interest income earned on interest-earning assets, such as loans and investment securities, and the interest expense paid on interest-bearing liabilities, such as deposits and borrowings. The Company's net interest income is largely determined by our net interest spread, which is the difference between the average yield earned on interest-earning assets and the average rate paid on interest-bearing liabilities, and the relative amounts of interest-earning assets and interest-bearing liabilities. The Company's tax-equivalent net interest spread was 4.20% and 4.22% for the three months ended June 30, 2017 and June 30, 2016, respectively, and 4.24% and 4.25% for the six months ended June 30, 2017 and June 30, 2016, respectively. The Company's tax-equivalent net interest margin, which is net interest income as a percentage of average interest-earning assets, was 4.35% for the three months ended June 30, 2017 and June 30, 2016, and 4.38% and 4.37% six months ended June 30, 2017 and June 30, 2016, respectively.

Net interest income totaled \$15.9 million for the three months ended June 30, 2017, an increase of \$345,000, or 2.2%, compared to the three months ended June 30, 2016. For the six months ended June 30, 2017, net interest income totaled \$31.9 million, an increase of \$592,000, or 1.9%, compared to the six months ended June 30, 2016. The increase in net interest income was due primarily to an increase of \$273,000 and \$617,000, for the three and six months ended June 30, 2017, respectively, in accretion income on acquired loans and higher yields on investment

securities, which were partially offset with higher funding costs. The increase in funding cost for the three and six months ended June 30, 2017, resulted from an increase in the average volume of deposits with an increase in funding cost resulting primarily from special promotions of higher yielding certificates of deposit in the 2017 periods.

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

|   | <b>Three Months Ended June 30,</b> |                 |  |                            |                  |                                       |
|---|------------------------------------|-----------------|--|----------------------------|------------------|---------------------------------------|
|   | <b>2017</b>                        |                 |  | <b>2016</b>                |                  |                                       |
| <i>(dollars in thousands)</i>               | <b>Average<br/>Balance</b>         | <b>Interest</b> | <b>Average<br/>Yield/<br/>Rate<br/>(1)</b> | <b>Average<br/>Balance</b> | <b>Interest</b>  | <b>Average<br/>Yield/<br/>Rate(1)</b> |
| <b>Interest-earning assets:</b>             |                                    |                 |  |                            |                  |                                       |
| <b>Loans receivable<sup>(1)</sup></b>       |                                    |                 |  |                            |                  |                                       |
| Originated loans                            | \$ 908,958                         | \$ 11,502       | 5.03%                                      | \$ 827,702                 | \$ 10,599        | 5.09%                                 |
| Acquired loans                              | 313,367                            | 4,665           | 5.93                                       | 397,460                    | 5,254            | 5.27                                  |
| <b>Total loans receivable<sup>(1)</sup></b> | <b>1,222,325</b>                   | <b>16,167</b>   | <b>5.26</b>                                | <b>\$ 1,225,162</b>        | <b>\$ 15,853</b> | <b>5.15</b>                           |
| <b>Investment securities</b>                |                                    |                 |  |                            |                  |                                       |
| Taxable                                     | 174,638                            | 959             | 2.20                                       | 153,731                    | 775              | 2.02                                  |
| Tax-exempt (TE)                             | 30,937                             | 156             | 3.11                                       | 34,354                     | 171              | 3.06                                  |
| <b>Total investment securities</b>          | <b>205,575</b>                     | <b>1,115</b>    | <b>2.33</b>                                | <b>188,085</b>             | <b>946</b>       | <b>2.21</b>                           |
| Other interest-earning assets               | 32,744                             | 117             | 1.43                                       | 18,943                     | 67               | 1.43                                  |
| <b>Total interest-earning assets (TE)</b>   | <b>1,460,644</b>                   | <b>17,399</b>   | <b>4.76</b>                                | <b>1,432,190</b>           | <b>16,866</b>    | <b>4.71</b>                           |
| Noninterest-earning assets                  | 101,766                            |                 |  | 112,650                    |                  |                                       |
| <b>Total assets</b>                         | <b>\$ 1,562,410</b>                |                 |  | <b>\$ 1,544,840</b>        |                  |                                       |
| <b>Interest-bearing liabilities:</b>        |                                    |                 |  |                            |                  |                                       |
| <b>Deposits:</b>                            |                                    |                 |  |                            |                  |                                       |
| Savings, checking and money market          | \$ 695,828                         | \$ 486          | 0.28%                                      | \$ 670,019                 | \$ 390           | 0.23%                                 |
| Certificates of deposit                     | 290,032                            | 663             | 0.92                                       | 270,147                    | 529              | 0.79                                  |
| <b>Total interest-bearing deposits</b>      | <b>985,860</b>                     | <b>1,149</b>    | <b>0.47</b>                                | <b>940,166</b>             | <b>919</b>       | <b>0.39</b>                           |
| Short-term FHLB advances                    | 14,498                             | 31              | 0.84                                       | 45,727                     | 46               | 0.40                                  |
| Long term FHLB advances                     | 70,325                             | 321             | 1.83                                       | 83,697                     | 348              | 1.66                                  |
| <b>Total interest-bearing liabilities</b>   | <b>1,070,683</b>                   | <b>1,501</b>    | <b>0.56</b>                                | <b>1,069,590</b>           | <b>1,313</b>     | <b>0.49</b>                           |
| Noninterest-bearing liabilities             | 304,096                            |                 |  | 303,493                    |                  |                                       |

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|  |              |       |              |       |
|--|--------------|-------|--------------|-------|
| Total liabilities                          | 1,374,779    |       | 1,373,083    |       |
| Shareholders' equity                       | 187,631      |       | 171,757      |       |
| Total liabilities and shareholders' equity | \$ 1,562,410 |       | \$ 1,544,840 |       |
| Net interest-earning assets                | \$ 389,961   |       | \$ 362,600   |       |
| Net interest spread (TE)                   | \$ 15,898    | 4.20% | \$ 15,553    | 4.22% |
| Net interest margin (TE)                   |              | 4.35% |              | 4.35% |

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|   | Six Months Ended June 30, |           |                       |              |           |                   |
|---|---------------------------|-----------|-----------------------|--------------|-----------|-------------------|
|   | 2017                      |           |                       | 2016         |           |                   |
|   | Average                   |           | Average               | Average      |           | Average           |
| <i>(dollars in thousands)</i>             | Balance                   | Interest  | Yield/<br>Rate<br>(1) | Balance      | Interest  | Yield/<br>Rate(1) |
| <b>Interest-earning assets:</b>           |                           |           |                       |              |           |                   |
| Loans receivable <sup>(1)</sup>           |                           |           |                       |              |           |                   |
| Originated loans                          | \$ 904,950                | \$ 22,824 | 5.03%                 | \$ 824,473   | \$ 21,045 | 5.08%             |
| Acquired loans                            | 321,416                   | 9,587     | 5.96                  | 400,896      | 10,826    | 5.38              |
| Loans receivable <sup>(1)</sup>           | 1,226,366                 | 32,411    | 5.28                  | \$ 1,225,369 | \$ 31,871 | 5.17%             |
| Investment securities                     |                           |           |                       |              |           |                   |
| Taxable                                   | 171,198                   | 1,824     | 2.13                  | 153,533      | 1,573     | 2.05              |
| Tax-exempt (TE)                           | 31,818                    | 319       | 3.08                  | 34,784       | 343       | 3.04              |
| Total investment securities               | 203,016                   | 2,143     | 2.28                  | 188,317      | 1,916     | 2.23              |
| Other interest-earning assets             | 28,838                    | 208       | 1.46                  | 17,559       | 127       | 1.45              |
| Total interest-earning assets (TE)        | 1,458,220                 | 34,762    | 4.78                  | 1,431,245    | 33,914    | 4.74              |
| Noninterest-earning assets                | 103,626                   |           |                       | 113,630      |           |                   |
| Total assets                              | \$ 1,561,846              |           |                       | \$ 1,544,875 |           |                   |
| <b>Interest-bearing liabilities:</b>      |                           |           |                       |              |           |                   |
| Deposits:                                 |                           |           |                       |              |           |                   |
| Savings, checking and money market        | \$ 690,350                | \$ 901    | 0.26%                 | \$ 674,350   | \$ 790    | 0.24%             |
| Certificates of deposit                   | 283,470                   | 1,241     | 0.88                  | 271,952      | 1,061     | 0.78              |
| Total interest-bearing deposits           | 973,820                   | 2,142     | 0.44                  | 946,302      | 1,851     | 0.39              |
| Short-term FHLB advances                  | 27,249                    | 94        | 0.69                  | 43,366       | 89        | 0.41              |
| Long term FHLB advances                   | 74,316                    | 659       | 1.77                  | 84,342       | 699       | 1.66              |
| Total interest-bearing liabilities        | 1,075,385                 | 2,895     | 0.54                  | 1,074,010    | 2,639     | 0.49              |
| Noninterest-bearing liabilities           | 301,211                   |           |                       | 300,967      |           |                   |
| Total liabilities                         | 1,376,596                 |           |                       | 1,374,977    |           |                   |
| Shareholders equity                       | 185,250                   |           |                       | 169,898      |           |                   |
| Total liabilities and shareholders equity | \$ 1,561,846              |           |                       | \$ 1,544,875 |           |                   |
| Net interest-earning assets               | \$ 382,835                |           |                       | \$ 357,235   |           |                   |
| Net interest spread (TE)                  |                           | \$ 31,867 | 4.24%                 |              | \$ 31,275 | 4.25%             |
| Net interest margin (TE)                  |                           |           | 4.38%                 |              |           | 4.37%             |

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

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



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| <i>(dollars in thousands)</i>                     | For the Three Months Ended June 30, 2017 Compared to 2016 Change Attributable To Total Increase (Decrease) |               |               | For the Six Months Ended June 30, 2017 Compared to 2016 Change Attributable To Total Increase (Decrease) |               |               |
|---|--|---------------|---------------|--|---------------|---------------|
|   | Rate   | Volume        | (Decrease)    | Rate   | Volume        | (Decrease)    |
| <b>Interest income:</b>                           |  |               |               |  |               |               |
| Loans receivable                                  | \$ 289   | \$ 25         | \$ 314        | \$ 390   | \$ 150        | \$ 540        |
| Investment securities (TE)                        | 81   | 88            | 169           | 81   | 146           | 227           |
| Other interest-earning assets                     |  | 50            | 50            |  | 81            | 81            |
| <b>Total interest income</b>                      | <b>370</b>   | <b>163</b>    | <b>533</b>    | <b>471</b>   | <b>377</b>    | <b>848</b>    |
| <b>Interest expense:</b>                          |  |               |               |  |               |               |
| Savings, checking and money market accounts       | 75   | 21            | 96            | 84   | 27            | 111           |
| Certificates of deposit                           | 91   | 43            | 134           | 134  | 46            | 180           |
| FHLB advances                                     | 66   | (108)         | (42)          | 96   | (131)         | (35)          |
| <b>Total interest expense</b>                     | <b>232</b>   | <b>(44)</b>   | <b>188</b>    | <b>314</b>   | <b>(58)</b>   | <b>256</b>    |
| <b>Increase (decrease) in net interest income</b> | <b>\$ 138</b>  | <b>\$ 207</b> | <b>\$ 345</b> | <b>\$ 157</b>  | <b>\$ 435</b> | <b>\$ 592</b> |

**Provision for Loan Losses** For the quarter ended June 30, 2017, the Company recorded a provision for loan losses of \$150,000, which was 85.7% lower than the \$1.1 million recorded for the same period in 2016. For the six months ended June 30, 2017, the provision for loan losses totaled \$457,000, which was 76.0% lower than the \$1.9 million recorded for the same period in 2016. The Company recorded net loan charge-offs of \$58,000 during the second quarter of 2017, compared to virtually no net loan charge-offs in the second quarter of 2016. The Company recorded net loan recoveries of \$42,000 during the six months ended June 30, 2017 and virtually no net loan charge-offs during the six months ended June 30, 2016.

As of June 30, 2017, the Company's ratio of allowance for loan losses to total loans was 1.07%, compared to 1.02% and 0.94% at December 31, 2016 and June 30, 2016, respectively. Excluding acquired loans, the ratio of allowance for loan losses to total loans was 1.40% at June 30, 2017, compared to 1.38% and 1.33% at December 31, 2016 and June 30, 2016, respectively. The ratio of non-performing loans to total assets was 1.01% at June 30, 2017, compared to 0.88% at December 31, 2016.

**Noninterest Income** The Company's noninterest income was \$2.2 million for the quarter ended June 30, 2017, \$1.3 million, or 37.2%, lower than the \$3.4 million earned for the same period in 2016. The second quarter of 2017 includes a \$449,000 write down on a closed banking center in Vicksburg, Mississippi, while the second quarter of 2016 includes a gain on the sale of a banking center totaling \$641,000. Excluding the banking center loss and gain in the comparative quarters, noninterest income totaled \$2.6 million, a decrease of \$194,000, or 6.9% compared to the second quarter of 2016. The decrease in noninterest income in the second quarter of 2017, excluding the loss and gain on the closure or sale of banking center(s), for the comparative periods resulted primarily from lower gains on the sale of mortgage loans (down \$159,000) and other income (down \$104,000), which were partially offset by higher bank card fees (up \$90,000).

Noninterest income was \$5.0 million for the six months ended June 30, 2017, \$1.0 million, or 17.0%, lower than the \$6.0 million earned for the same period of 2016. The six months ended June 30, 2017 includes a net loss of \$69,000 resulting from a \$449,000 write down on a closed banking center in Vicksburg, Mississippi and a

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\$380,000 gain on the sale of a banking center in the first quarter of 2017, while the six months ending June 30, 2016 includes a gain on a sale of a banking center totaling \$641,000. Excluding the loss and gains on the banking center transactions, noninterest income totaled \$5.1 million, a decrease of \$315,000, or 5.9%, during the comparative six months period. In the comparative six months period, noninterest income reflected lower gains on the sale of mortgage loans (down \$172,000), other income (down \$169,000) and service fees and charges (down \$111,000), which were partially offset by higher bank card fees (up \$173,000).

**Noninterest Expense** The Company's noninterest expense was \$11.1 million for the three months ended June 30, 2017, \$805,000, or 6.8%, lower than the \$11.9 million recorded for the same period in 2016. Noninterest expense for the second quarter of 2016 includes merger-related expenses totaling \$214,000. Excluding merger-related expenses, noninterest expense decreased \$591,000, or 5.1%, for the second quarter of 2017 compared to the second quarter of 2016. The decrease in noninterest expense, excluding merger-related expenses, for the comparative three months period resulted primarily from reduced expenses on foreclosed assets (down \$409,000), other expenses (down \$93,000) and data processing and communications (down \$63,000).

Noninterest expense was \$22.1 million for the six months ended June 30, 2017, \$2.1 million, or 8.7% lower than the \$24.2 million for the same period of 2016. Noninterest expense for the six-month period of 2016 includes merger-related expenses totaling \$827,000. Excluding merger-related expenses, noninterest expense decreased \$1.3 million, or 5.5%, for the six months ended June 30, 2017 compared to the six months ended June 30, 2016. Excluding merger-related expenses, the decrease in noninterest expense for the six-month period of 2017 compared to the same period in 2016 resulted primarily from reduced expenses on foreclosed assets (down \$586,000), compensation and benefits (down \$352,000), occupancy (down \$126,000) professional services (down \$119,000) and data processing and communications (down \$115,000).

**Income Taxes** For the quarters ended June 30, 2017 and June 30, 2016, the Company incurred income tax expense of \$2.4 million and \$2.1 million, respectively. The Company's effective tax rate was 34.6% and 34.1% during the second quarters of 2017 and 2016, respectively. For the six months ended June 30, 2017 and June 30, 2016, the Company incurred income tax expense of \$4.8 million and \$3.8 million, respectively. The Company's effective tax rate amounted to 33.7% and 34.2% during the six months ended June 30, 2017 and June 30, 2016, respectively. Differences between the effective tax rate and the statutory tax rate primarily relate to variances in items that are non-taxable or non-deductible (e.g., state tax, tax-exempt income, merger-related expenses, etc.).

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Quantitative and qualitative disclosures about market risk are presented in the Company's Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2016, under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations – Asset/Liability Management and Market Risk". Additional information at June 30, 2017 is included herein under Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Asset/Liability Management".

**Item 4. Controls and Procedures.**

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are

designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and are operating in an effective manner.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Securities Exchange Act of 1934) occurred during the second quarter of 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

Not applicable.

**Item 1A. Risk Factors.**

There have been no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for December 31, 2016 filed with the Securities and Exchange Commission.

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

The Company made no purchases of its common stock during the second quarter of 2017. There are 368,654 shares available for purchase under the Company's plans. (On June 7, 2013, the Company announced the commencement of a stock repurchase program. Under the plan, the Company can repurchase up to 370,000 shares, or approximately 5% of its common stock outstanding, through open market or privately negotiated transactions. On April 26, 2016, the Company announced a new stock repurchase program. Under the plan, the Company can repurchase up to 365,000 shares, or approximately 5% of its common stock outstanding, through open market or privately negotiated transactions.)

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits and Financial Statement Schedules.**

| No.  | Description   |
|------|---|
| 31.1 | Rule 13(a)-14(a) Certification of the Chief Executive Officer |
| 31.2 | Rule 13(a)-14(a) Certification of the Chief Financial Officer |

|         |  |
|---------|--|
| 32.0    | Section 1350 Certification                             |
| 101.INS | XBRL Instance Document                                 |
| 101.SCH | XBRL Taxonomy Extension Schema Document                |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document        |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definitions Linkbase Document  |

**Table of Contents**

**SIGNATURES**

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

**HOME BANCORP, INC.**

August 8, 2017

By: /s/ John W. Bordelon  
John W. Bordelon  
*President, Chief Executive Officer and Director*

August 8, 2017

By: /s/ Joseph B. Zanco  
Joseph B. Zanco  
*Executive Vice President and Chief Financial Officer*

August 8, 2017

By: /s/ Mary H. Hopkins  
Mary H. Hopkins  
*Home Bank, N.A. First Vice President and Director of Financial Management*