TIERONE CORP
Form 10-K
March 09, 2005

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

Commission File Number: 005-78774

TierOne Corporation

(Exact name of registrant as specified in its charter)

Wisconsin	**04-3638672**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

1235 N Street, Lincoln, Nebraska 68508
Telephone Number (402) 475-0521

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Title of Class Common Stock, Par Value $0.01 Per Share

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 X NO ___

Indicate by check mark whether the Registrant is an accelerated filer as defined in Rule 12b-2 of the Securities Exchange Act of 1934.
YES X NO ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant s knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |_|

The aggregate market value of the voting stock held by non-affiliates of the Registrant was $393,327,795 as of June 30, 2004. As of March 1, 2005, there were 18,284,311 issued and outstanding shares of the Registrant s common stock.

Documents Incorporated by Reference

Portions of the definitive Proxy Statement for the Registrant s Annual Meeting of Shareholders to be held May 2, 2005 are incorporated by reference in Part III, Items 10, 11, 12, 13 and 14.

TierOne Corporation
Form 10-K Index

Part I.

Item 1. Business

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

Statements contained in this Annual Report on Form 10-K and the accompanying 2004 Annual Report which are not historical facts may be forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Such forward looking statements are subject to risks and uncertainties which could cause actual results to differ materially from those currently anticipated due to a number of factors. Factors which could result in material variations include, but are not limited to:

Changes in interest rates which could affect net interest margins and net interest income;

Competitive factors which could affect net interest income and noninterest income;

Changes in demand for loans, deposits and other financial services in the company's market area;

Changes in asset quality and general economic conditions;

Unanticipated issues associated with the execution of the company's strategic plan;

Unanticipated difficulties in realizing the growth opportunities and cost savings from recent acquisitions;

Unanticipated issues related to the resultant integration of recent acquisitions; and

Other factors discussed in documents filed by the company with the Securities and Exchange Commission from time to time.

These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. The company undertakes no obligation, and disclaims any obligation, to update information contained in this annual report on Form 10-K, including these forward-looking statements, to reflect events or circumstances that occur after the date of the filing of this Form 10-K and the accompanying 2004 Annual Report.

Available Information

TierOne Corporation (Company) is a public company and files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (SEC). The Company maintains a website at www.tieronebank.com and makes available, free of charge, on its Internet web site copies of its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and any amendments to such documents as soon as reasonably practicable after the reports have been electronically filed or furnished to the SEC. In addition, the Company has available on its website, free of charge, its Code of Conduct and Ethics, Audit Committee Charter, Compensation Committee Charter and Nominating and Corporate Governance Committee Charter. The Company is not including the information contained on or available through its website as a part of, or incorporating by reference into, this Annual Report on Form 10-K.

General

The Company is a Wisconsin corporation headquartered in Lincoln, Nebraska. The Company became the holding company for TierOne Bank (Bank), a federally chartered stock savings bank, in connection with the mutual to stock conversion of the Bank which was completed in October 2002. The Bank operates from 68 banking offices located in Nebraska, Iowa and Kansas and eight loan production offices located in Arizona, Colorado, Florida, Minnesota and North Carolina. The executive office of the Company is located at 1235 N Street, Lincoln, Nebraska 68508.

As used in this report, unless the context otherwise requires, the terms we, us, or our refer to TierOne Corporation and its wholly owned subsidiary, TierOne Bank.

The assets of the Company, on an unconsolidated basis, primarily consist of 100% of the Bank s common stock. The Company has no significant independent source of income and therefore depends on cash distributions from the Bank to meet its funding requirements.

Our principal business is gathering deposits from the general public in the market areas surrounding our 68 banking offices and investing those deposits, together with funds generated from operations and borrowings, primarily in loans and to a lesser degree in investment securities. We continue to implement our management strategy to grow and diversify our operations as a regional community bank. Highlights of our management strategy, which is also designed to increase our profitability, include:

- building a strong corporate brand and identity;
- continuing our controlled growth and expanding our franchise;
- repositioning our loan portfolio to increase yields and/or reduce interest rate risk;
- emphasizing growth of our core deposits and managing our cost of funds;
- increasing our fee income and expanding our products and services; and
- maintaining asset quality.

In recent years, we have increased our emphasis on construction, commercial real estate and land, second mortgage residential, consumer, business, multi-family residential and agricultural loans and warehouse mortgage lines of credit. These loans typically have higher yields than single-family residential first mortgage loans and/or expected shorter terms to maturity. At December 31, 2004, our portfolio of second mortgage residential, multi-family residential, commercial real estate and land, construction, agricultural, business and consumer loans and warehouse mortgage lines of credit amounted to $2.7 billion in the aggregate, or 86.5%, of our total loan portfolio, compared to an aggregate of $1.7 billion, or 74.8% of our total loan portfolio, at December 31, 2003. The remainder of our loan portfolio consisted of one-to-four family residential first mortgage loans which amounted to $418.3 million, or 13.5% of the total loan portfolio, and $559.1 million, or 25.2% of the total loan portfolio, at December 31, 2004 and 2003, respectively.

We originate loans to customers located in Nebraska, Iowa, Kansas, Arizona, Colorado, Florida, Minnesota and North Carolina (Primary Lending Market Area). We also purchase loans and loan participation interests from financial institutions, loan correspondents and mortgage bankers located throughout the United States. At December 31, 2004 approximately 29.2% of our loan portfolio consisted of loans secured by properties or made to individuals located outside our Primary Lending Market Area. During 2004, we redefined our Primary Lending Market Area to include Arizona, Florida, Minnesota and North Carolina. We purchase adjustable-rate, single-family residential first mortgage loans for our portfolio, while selling substantially all newly originated fixed-rate, single-family residential first mortgage loans in the secondary market (with servicing retained). We sell substantially all newly originated fixed-rate, single-family residential first mortgage loans which produce noninterest income in the form of net gains and losses on sales and loan servicing fees. We also have developed relationships with several financial institutions from which we purchase commercial real estate and land and construction loans or participation interests in such loans. In addition, we originate warehouse mortgage lines of credit with a number of mortgage brokerage firms located throughout the United States.

In order to effectively manage our diversified loan portfolio, we have employed a number of additional loan officers in recent years with experience in construction, commercial real estate, business, agricultural and consumer lending. We endeavor to ensure that all of our loans, whether originated by us or purchased, are in compliance with our underwriting standards.

In addition to our loan activities, we focus on our deposit products, particularly checking accounts, and the sale of other products such as annuities and securities.

Our revenues are derived principally from interest on our loans, and, to a lesser extent, noninterest income and interest and dividends on our investment securities. Our primary sources of funds are principal and interest payments on loans, proceeds from the sale of loans, advances from the Federal Home Loan Bank (FHLB), deposits and principal and interest payments on investment securities.

Market Area and Competition

We are a community-oriented bank offering a variety of financial products and services to meet the needs of the customers we serve. Our deposit gathering is concentrated in the communities surrounding our 68 banking offices located in Nebraska, seven counties in southwest Iowa and two counties in northern Kansas (Primary Banking Market Area). In addition to loans generated through our banking offices, our lending efforts have been expanded to include eight loan production offices located in Arizona, Colorado, Florida, Minnesota and North Carolina whose sole purpose is to originate commercial real estate and land and/or construction loans in their respective states. In recent years, we have increased our investment in commercial real estate and land and construction loans secured by properties located in other parts of the United States. The five largest concentrations of loans outside our Primary Lending Market Area (excluding warehouse mortgage lines of credit) are California ($130.5 million or 4.2% of the total loan portfolio), South Carolina ($117.9 million or 3.8%), Texas ($83.9 million or 2.7%), New York ($63.1 million or 2.0%) and the State of Washington ($56.0 million or 1.8%).

Our corporate headquarters are located in Lincoln, Nebraska, which is the state capital and home of the University of Nebraska-Lincoln. The Primary Banking Market Area in which our banking offices are located was once dominated by agriculture, but now consists of a diverse blend of industries, urban centers and significant corporate investment. The region s population is 1.9 million persons and more than 90% of the individuals in our Primary Banking Market Area live in Nebraska. Population growth continues in the region and, according to the latest Census Bureau estimates, Nebraska exhibited the second highest population growth between 2003 and 2004 of all states in the northern Great Plains area with populations of one million or more residents. The region s main metropolitan areas of Omaha and Lincoln, as well as other mid-sized regional growth centers scattered throughout our Primary Banking Market Area, lead the balance of the region in net population growth. The U.S. Census Bureau reported the median household income in Nebraska was estimated to be $41,406 in 2003, a 10.8% increase from 2000 compared to a national median household income growth rate of 5.0% for the same period. Nebraska s cost of living index ranks the state as the tenth most affordable in the country based on data from the third quarter of 2004.

The nation s continued economic recovery during 2004 contributed to Nebraska s growing economic momentum despite a state budget deficit and only modest relief from a continued severe drought which has impacted several states throughout the Midwest. Nebraska non-farm employment growth has been relatively consistent and continues to experience modest gains. Strong growth in the transportation, health care, professional/business and financial services sectors, combined with a large and relatively stable retail workforce, has helped to offset declines in the educational services area. Unemployment rates in Nebraska have historically been approximately two to three percentage points below national averages and typically rank the state among the lowest in the country for unemployment. Nebraska unemployment finished 2004 at 3.6% compared to a national level of 5.4%. After a record 2003, taxable retail sales through October 2004 have already outpaced the previous year by 7.8%. Sales of existing homes in Nebraska s two leading urban markets (Omaha and Lincoln) continue near record activity with major developments of new home construction in both communities. Median sales prices of existing single-family homes at the quarter ended September 30, 2004 were $134,100 and $139,600 for Omaha and Lincoln, respectively, and are well below national levels of $188,500 and less than the Des Moines ($144,500), Kansas City ($152,300) and Minneapolis ($219,800) metropolitan areas. Total Nebraska nonresidential and non-building construction contracts slowed in 2004 from record levels in 2003; however, residential construction continued to grow to over $1.65 billion, a 4.6% increase above 2003 record levels. Major capital developments throughout Omaha and Lincoln and continued corporate expansion of leading regional businesses, combined with other investment projects scattered throughout the primary banking market region, are expected to contribute to a modestly growing regional economy.

We strengthened our market footprint within our existing Primary Banking Market Area following the August 2004 acquisition of United Nebraska Financial Co. (UNFC), the parent company of United Nebraska Bank (UNB) headquartered in Grand Island, Nebraska. As a result of the acquisition, we added 16 banking offices in 11 Nebraska communities including Broken Bow, Burwell, Callaway, Columbus, Grand Island, Holdrege, Lexington, North Platte, Omaha, O Neill and Ord. Four existing Bank offices in Broken Bow, Columbus, North Platte and Ord were consolidated and the former UNB Omaha office was closed. As a result, we improved our market share position to the top three in nine of eleven former UNB communities. Virtually all of these communities serve as a regional economic growth center for retail commerce, medical care and professional and government services for local and surrounding area residents. Located generally in agricultural areas of Greater Nebraska, unemployment rates have historically run at or below state levels and many of the larger communities have diversified their industrial employment mix to minimize cyclical trends in the agricultural economy.

We also expanded our loan production capabilities in early 2004 with the opening of a third Colorado loan production office in Fort Collins. This growth was further supplemented through the November 2004 purchase from First Indiana Bank of Indianapolis, Indiana of four residential construction loan production offices located in Phoenix, Arizona; Orlando, Florida; and Charlotte and Raleigh, North Carolina and outstanding loan balances of $134.4 million. These additional offices will enable us to build upon our growing commercial real estate and land and/or construction lending business and were located in metropolitan areas known for economic growth and vitality. Five of our eight loan production offices are located in the top ten fastest growing major metropolitan areas of the country.

Fort Collins, Colorado, just 62 miles north of Denver, is Colorado s third largest metropolitan area with a 2000 Census population of over 251,000 residents. Fort Collins ranked as the fastest growing metropolitan area along Colorado s Front Range during the 1990 s with a population growth rate of 35.1%. Together with nearby Loveland, Fort Collins is the primary regional growth center of north central Colorado. Colorado State University is the area s largest employer and leads a diverse mix of education, health, retail and banking industries. Unemployment in December 2004 was 5.0%; moderately below the national unemployment rate of 5.4%.

Phoenix, Arizona, the 14th largest metropolitan area in the United States with over 3.25 million residents, ranks among the top three fastest growing metropolitan areas in the nation with populations in excess of one million. The greater Phoenix area is a $50 billion marketplace driven by technology and is the corporate or regional headquarters for Intel, Avnet, Motorola, AlliedSignal, Honeywell and Boeing Company. Nearly one-third of all Phoenix jobs are in the service sector with nearly one-fourth of all jobs in wholesale or retail trade. A strong manufacturing sector, especially in electronics, has ranked Phoenix third in the nation among electronic production centers. The third quarter 2004 median sale price of an existing single-family home in Phoenix was $172,700. The Phoenix metropolitan area is also home to Arizona State University. Unemployment in the Phoenix metropolitan area was 3.3% in December 2004.

Ranked as the 27th largest metropolitan area in the United States, Orlando, Florida had 1.6 million people in 2000; an increase of 34.3% from 1990. Orlando is considered the sixth fastest growing city in the nation. Tourism, lead by Walt Disney World, Epcot Center and Sea World, is a $21.8 billion annual industry followed by high technology at $9.0 billion. Orlando s cost of living index ranks the community below national levels. The median sales price for an existing home in the third quarter of 2004 was $180,500. Leading employment sectors include trade, transportation and utilities (181,600 employees), leisure and hospitality (178,600), professional and business services (162,000), government (108,800) and education and health services (99,100). The University of Central Florida, with over 42,000 students, is located in Orlando. December 2004 unemployment for the Orlando metropolitan area was 3.8%.

Charlotte, North Carolina is the nation s 33rd largest metropolitan area with nearly 1.5 million people in 2000. During the 1990 s, Charlotte s population grew 29.0% ranking it among the ten fastest growing cities (one million or more in population) in the United States. By 2013, the metropolitan area is expected to have 2.1 million people. Charlotte has more headquartered Fortune 500 companies than all but five other U.S. cities. Considered the nation s second largest banking center, Charlotte s largest industry segment is wholesale trade followed by services, manufacturing and construction. Over 12,600 residential units were built in Charlotte in 2004 totaling $1.6 billion. Unemployment was 5.2% in December 2004.

In 2000, Raleigh, North Carolina was ranked as the 40th largest metropolitan area in the United States with nearly 1.2 million people. It s growth rate during the 1990 s of 38.9% tied with Atlanta, Georgia as the fourth fastest growing major metropolitan area in the U.S. The tri-city metropolitan area of Raleigh, Durham and Chapel Hill, North Carolina has averaged growth of nearly 3,500 people each month since 2000. Forbes Magazine ranked Raleigh-Durham as the second best city in the country for business. The tri-city area is home to North Carolina State University, the University of North Carolina and Duke University. Education and health care is the area s leading employment industry followed by trade/transportation/utilities, professional and business services and manufacturing. The median sales price for residential homes was $184,800 in the third quarter 2004. The unemployment rate in Raleigh was 3.3% in December 2004.

We face significant competition, both in generating loans as well as in attracting deposits. Our market area is highly competitive and we face direct competition from a significant number of financial service providers, many with a statewide or regional presence and, in some cases, a national presence. In recent years, our market area has experienced continued consolidation of the banking industry as locally based institutions have been acquired by large regional and nationally based financial institutions.

Many of these financial service providers are significantly larger than us and have greater financial resources. Our competition for loans comes principally from commercial banks, savings banks, credit unions, mortgage brokers, mortgage-banking companies and insurance companies. Our most direct competition for deposits has historically come from commercial banks, savings associations and credit unions. In addition, we face increasing competition for deposits from non-bank institutions such as brokerage firms and insurance companies in such instruments as short-term money market funds, corporate and government securities funds, equity securities, mutual funds and annuities.

Lending Activities

Loan Portfolio Composition. At December 31, 2004, our total loans receivable amounted to $3.1 billion, of which $418.3 million or 13.5% consisted of one-to-four family residential loans. Our investment in one-to-four family residential loans decreased $140.9 million, or 25.2%, as implementation of our lending strategy has caused us to increase our emphasis on construction, second mortgage residential, consumer, commercial real estate and land, business, multi-family residential and agricultural loans as well as warehouse mortgage lines of credit. Our emphasis on higher yielding and/or shorter term loans has also allowed us to reduce the weighted average contractual maturity of our loan portfolio. At December 31, 2004, 77.4% of our total loan portfolio had contractual maturities of 10 years or less compared to 64.9% at December 31, 2003. Additionally, 64.0% of our total loan portfolio had adjustable interest rates at December 31, 2004 compared to 63.0% at December 31, 2003.

The types of loans that we may purchase and originate are subject to federal and state laws and regulations. The interest rates we charge on loans are affected by the demand for such loans and the supply of money available for lending purposes and the rates offered by competitors. These factors include, but are not limited to, economic conditions, monetary policies of the Federal Government, including the Board of Governors of the Federal Reserve System (Federal Reserve Board) and legislative tax policies.

Loan Portfolio Composition. The following table shows the composition of our loan portfolio by type of loan at the dates indicated:

	December 31,									
	2004		**2003**		**2002**		**2001**		**2000**	
(Dollars in thousands)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Real estate loans:										
One-to-four family residential (1)	$ 418,270	13.54%	$ 559,134	25.20%	$ 547,619	28.66%	$ 487,015	32.10%	$ 541,711	44.79%
Second mortgage residential	255,222	8.26	258,121	11.63	25,590	1.34	15,487	1.03	23,730	1.96
Multi-family residential	142,454	4.61	99,078	4.47	79,953	4.18	74,209	4.89	67,025	5.54
Commercial real estate and land	597,114	19.33	449,152	20.25	398,076	20.83	258,277	17.03	210,654	17.42
Residential construction	601,075	19.46	245,782	11.08	156,322	8.18	113,300	7.47	77,421	6.40
Commercial construction	282,399	9.14	154,247	6.95	143,020	7.49	95,614	6.30	46,187	3.82
Agriculture	66,830	2.16	--	--	--	--	--	--	--	--
Total real estate loans	2,363,364	76.50	1,765,514	79.58	1,350,580	70.68	1,043,902	68.82	966,728	79.93
Business loans	142,675	4.62	64,522	2.91	33,375	1.75	12,193	0.80	2,755	0.23
Agriculture - operating	71,223	2.31	--	--	--	--	--	--	--	--
Warehouse mortgage lines of credit	132,928	4.30	78,759	3.55	236,492	12.38	224,067	14.77	37,173	3.07
Consumer loans:										
Home equity	56,441	1.83	33,874	1.53	37,522	1.96	45,398	2.99	57,264	4.74
Home equity line of credit	142,725	4.62	117,899	5.31	94,801	4.96	61,839	4.08	38,700	3.20
Home improvement	73,386	2.37	74,915	3.38	82,081	4.30	76,555	5.05	76,015	6.29
Automobile	80,512	2.61	67,351	3.04	60,707	3.18	42,547	2.80	22,496	1.86
Other	25,956	0.84	15,621	0.70	15,131	0.79	10,486	0.69	8,283	0.68
Total consumer loans	379,020	12.27	309,660	13.96	290,242	15.19	236,825	15.61	202,758	16.77
Total loans	3,089,210	100.00%	2,218,455	100.00%	1,910,689	100.00%	1,516,987	100.00%	1,209,414	100.00%
Unamortized premiums, discounts and deferred loan fees	7,228		10,790		3,998		(232)		(768)	
Undisbursed portion of construction and land development loans in process	(441,452)		(193,063)		(123,331)		(109,852)		(70,625)	
Net loans	2,654,986		2,036,182		1,791,356		1,406,903		1,138,021	
Allowance for loan losses	(26,831)		(19,586)		(17,108)		(13,464)		(9,947)	

	December 31,				
Net loans after allowance for loan losses	$ 2,628,155	$ 2,016,596	$ 1,774,248	$ 1,393,439	$ 1,128,074
(1) Includes loans held for sale	$ 11,956	$ 7,083	$ 8,504	$ 14,373	$ 3,712

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Contractual Terms to Final Maturities. The following table shows the scheduled contractual maturities of our loans as of December 31, 2004, before giving effect to net items. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. The amounts shown below do not take into account loan prepayments.

(Dollars in thousands)	One-to-Four Family Residential	Second Mortgage Residential	Multi-Family Residential	Commercial Real Estate and Land	Residential Construction	Commercial Construction
Amounts due after December 31, 2004 in:						
One year or less	$ 1,579	$ 145	$ 5,251	$ 77,496	$ 548,066	$ 39,278
After one year through two years	1,031	911	12,354	42,007	38,654	43,299
After two years through three years	2,195	2,102	19,908	63,419	--	16,580
After three years through five years	15,688	6,596	38,391	102,336	--	76,527
After five years through ten years	15,086	34,739	59,904	269,659	194	91,001
After ten years through fifteen years	29,236	141,248	4,260	25,885	573	1,474
After fifteen years	353,455	69,481	2,386	16,312	13,588	14,240
Total (1)	$ 418,270	$ 255,222	$ 142,454	$ 597,114	$ 601,075	$ 282,399

(1) Gross of unamortized premiums, discounts and deferred loan fees, undisbursed portion of construction and land development loans in process and allowance for loan losses.

(Dollars in thousands)	Agriculture	Business Loans	Agriculture - Operating	Warehouse Mortgage Lines of Credit	Consumer	Total
Amounts due after December 31, 2004 in:						
One year or less	$ 6,574	$ 57,095	$ 54,264	$ 132,928	$ 26,075	$ 948,751
After one year through two years	2,448	9,176	4,487	--	34,193	188,560
After two years through three years	2,487	24,526	1,845	--	66,410	199,472
After three years through five years	10,005	33,239	7,416	--	207,874	498,072
After five years through ten years	35,615	16,880	2,887	--	28,942	554,907
After ten years through fifteen years	5,067	1,497	167	--	14,705	224,112
After fifteen years	4,634	262	157	--	821	475,336
Total (1)	$ 66,830	$ 142,675	$ 71,223	$ 132,928	$ 379,020	$ 3,089,210

(1) Gross of unamortized premiums, discounts and deferred loan fees, undisbursed portion of construction and land development loans in process and allowance for loan losses.

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The following table shows the dollar amount of all loans, including loans held for sale, before net items, due after one year from December 31, 2004 as shown in the preceding table, which have fixed interest rates or which have floating or adjustable interest rates.

(Dollars in thousands)	Fixed-Rate	Floating or Adjustable-Rate	Total

One-to-four family residential	$ 85,883	$ 330,808	$ 416,691
Second mortgage residential	240,527	14,550	255,077
Multi-family residential	60,221	76,982	137,203
Commercial real estate and land	107,016	412,602	519,618
Residential contruction	22,391	30,618	53,009
Commercial construction	151,612	91,509	243,121
Agriculture	13,124	47,132	60,256
Business loans	44,712	40,868	85,580
Agriculture - operating	10,144	6,815	16,959
Consumer	216,392	136,553	352,945
Total	$ 952,022	$ 1,188,437	$ 2,140,459

Origination, Purchase, Sale and Servicing of Loans. Our lending activities are subject to underwriting standards and loan origination procedures established by our Board of Directors and management. Applications for mortgages and other loans are taken at our banking and loan production offices. In the past, we relied on a network of loan correspondents and brokers to originate a substantial part of our loans. In recent years we have greatly expanded our capacity to directly originate loans through the expansion of our loan production office network and the employment of a number of experienced loan originators. We continue to use loan correspondents to originate single-family residential loans to supplement our origination efforts. A substantial portion of such loans consists of fixed-rate, single-family residential mortgage loans which we sell into the secondary market with servicing retained.

Although we originate both adjustable-rate and fixed-rate loans, our ability to originate and purchase fixed or adjustable-rate loans is dependent upon the relative customer demand for such loans, which is affected by the current and expected future level of interest rates. In order to implement our strategy of building a mortgage loan portfolio that consists primarily of adjustable-rate loans, our purchase activity has increased in recent years. The loans purchased for retention during this period consisted of construction, one-to-four family residential, second mortgage residential, consumer (primarily home improvement loans and indirect automobile financing), commercial real estate and land (including participation interests), multi-family residential and business loans.

Generally, we originate adjustable-rate mortgage loans for retention in our portfolio. It is our current policy to sell substantially all the single-family, fixed-rate residential first mortgage loans we originate or purchase. Substantially all of the loans sold are sold to either Fannie Mae (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC) or the FHLB pursuant to the Mortgage Partnership Finance program. Upon receipt of an application to make a fixed-rate loan, we typically enter into agreements to sell such loans to FNMA, FHLMC or the FHLB pursuant to forward sale commitments, with delivery being required in approximately 90 days. We generally agree to deliver a somewhat smaller dollar amount of loans in the event that not all the loans for which applications are submitted actually close. Loans are delivered pursuant to such sale contracts upon their origination or purchase and are not aggregated for sale as loan packages. As a result, we typically do not have a significant amount of loans held for sale at any given point in time. We recognize, at the time of disposition, the gain or loss on the sale of the loans. The gain or loss is based on the difference between the net proceeds received and the carrying value of the loans sold. During 2002, 2003 and 2004, we increased our purchases of fixed-rate, single-family residential first mortgage loans for immediate sale as we continued to increase the size of our loan servicing portfolio. While we purchased $15.6 million of such loans in 2000, in 2001, 2002, 2003 and 2004 such purchases increased to $195.4 million, $339.0 million, $324.1 million and $159.4 million, respectively.

In recent years, we have developed lending relationships with several financial institutions and mortgage bankers pursuant to which we have purchased whole loans or loan participation interests secured by properties located outside our Primary Lending Market Area. Our purchases have consisted of second mortgage residential, construction loans or participation interests in such loans, both residential and commercial, as well as commercial real estate and land, and were originated under underwriting guidelines substantially identical to our own guidelines. For loans in which we hold a participation interest we generally require the lead lender to maintain anywhere from 5% to 50% interest in the loans. Prior to entering into such relationships, we conduct on-site due diligence of each lender, including document review as well as management interviews. We also conduct on-site inspections of selected properties and of the market areas in which the properties are located. In addition, we apply our own underwriting standards to each loan or loan participation we purchase. We also review and underwrite, with respect to construction loans, the individual builders to whom loans are being extended, establishing a limit as to the total amount that we will lend to each such builder. We engage local independent inspectors to inspect the progress of construction on properties securing such loans and base our disbursements on such inspections. We also generally visit the lenders every three to six months to conduct follow-up inspections of the lenders operations as well as to review the collateral property securing the loans. The following primary lending relationships existed at December 31, 2004:

Charleston and Columbia, South Carolina. Of the primary relationships, the first is with a mortgage banker in the Charleston and Columbia, South Carolina markets. Pursuant to the relationship with this mortgage banker, we have purchased loans made to local builders to finance the construction of residential properties. Under the terms of our arrangement, we service these loans and the mortgage banker shares 50% of any losses incurred. As of December 31, 2004, this relationship consisted of 620 individual loans with an aggregate balance of $127.0 million. The outstanding loan balance under this relationship (disbursed loan proceeds) was $70.6 million at December 31, 2004.

Maitland (Orlando), Florida. The second relationship is with a mortgage banker in the Maitland (Orlando), Florida area which began in April 2003. Pursuant to this relationship, we have purchased loans made to individual borrowers to finance the construction of single-family residential properties. Under the terms of this relationship, all loans purchased are pre-approved for permanent financing following the construction phase. Disbursements are made on the purchased loans by others as the construction phase progresses. As of December 31, 2004, this relationship encompassed 455 individual loans with an aggregate balance of $67.3 million. The outstanding loan balance under this relationship (disbursed loan proceeds) was $31.5 million at December 31, 2004.

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Birmingham, Alabama. The third relationship is with a financial institution headquartered in Birmingham, Alabama and involves the purchase of generally a 50% loan participation interest in residential construction and commercial real estate and land loans extended to builders. Currently, the loans are secured by properties located in Birmingham, Alabama; Atlanta, Georgia and Las Vegas, Nevada. At December 31, 2004, this relationship consisted of 397 individual loans with an aggregate balance of $36.0 million. The outstanding loan balance under this relationship (disbursed loan proceeds) was $26.7 million at December 31, 2004.

At December 31, 2004 and 2003, we were servicing $1.1 billion and $956.7 million, respectively, of loans for others, primarily consisting of one-to-four family residential loans sold by us to investors. In recent years, we began selling substantially all fixed-rate loans with servicing retained in order to develop additional sources of noninterest income. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, contacting delinquent borrowers, supervising foreclosures and property dispositions in the event of unremedied defaults, remitting certain insurance and tax payments on behalf of the borrowers and generally administering the loans. The gross servicing fee income from loans sold is generally 0.25% to 0.50% of the total balance of each loan serviced.

Loans-to-One Borrower Limitations. As a federal savings bank, we are limited in the amount of loans we can make to any one borrower. This amount is equal to 15% of our unimpaired capital and surplus (this amount was approximately $38.5 million at December 31, 2004), although we are permitted to lend up to an additional 10% of unimpaired capital and surplus if the loans are secured by readily marketable securities. Our aggregate loans to any one borrower have been within these limits for the year ended December 31, 2004. At December 31, 2004, our six largest credit relationships with an individual borrower and related entities consisted of loans that total $25.4 million, $24.9 million, $20.0 million, $20.0 million, $19.4 million and $18.9 million. A brief summary of these six relationships follows:

The largest credit is a $25.4 million relationship collateralized by a 364 unit apartment complex located in Colorado Springs, Colorado. This relationship consists of three loans: a $12.6 million one-year adjustable-rate loan with a five-year term, a $12.7 million fixed-rate loan with a five-year term and a $100,000 fixed-rate loan with a five- year term. These loans are classified as multi-family residential loans in the loan composition table.

The second largest credit relationship consists of a business revolving line of credit for $12.0 million and an equipment term note of $12.9 million. Both loans are secured by the assets of four related companies in Lincoln, Nebraska engaged in asphalt and concrete paving and utilities construction. The $12.0 million adjustable-rate revolving line of credit, which matures in September 2006, is intended to finance work-in-process, accounts receivable and inventory. The $12.9 million adjustable-rate term note, which matures in September 2009, consolidated existing equipment loans with other financial institutions. At December 31, 2004, the total outstanding balance on the line of credit was $12.0 million. These loans are classified as business loans in the loan composition table.

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The third largest credit relationship consists of two $10.0 million business revolving lines of credit secured by real estate and other business assets to a borrower who owns an excavation and construction company in Lincoln, Nebraska. One $10.0 million line is intended to finance work-in-process, accounts receivable and inventory. The other $10.0 million line is intended to finance equipment. Both loans have adjustable interest rates and mature in September 2006. At December 31, 2004, the total outstanding balance for both lines of credit aggregated $575,000. These lines of credit are classified as business loans in the loan composition table.

The fourth largest credit relationship consists of two adjustable-rate business revolving lines of credit, one for $19.75 million and one for $250,000 to four related companies located in Lincoln, Nebraska. The $19.75 million line of credit is used to purchase real estate tax sale certificates from various governmental entities in several states while the $250,000 line of credit is used to meet operating needs of the borrower. The borrower s interest in the real estate tax sale certificates purchased and all other business assets of the borrower are used to secure both lines of credit. At December 31, 2004, the total outstanding balance for both lines of credit aggregated $14.3 million. These lines of credit are classified as business loans in the loan composition table.

The fifth largest credit relationship consists of a $19.4 million credit relationship to construct a 323 unit apartment complex to be built in San Antonio, Texas. In addition to being secured by real estate, we are also secured by letters of credit totaling $1.1 million. This credit relationship carries a fixed interest rate for the first three years with annual adjustments thereafter and matures in September 2009. At December 31, 2004, $1,000 had been disbursed under this credit relationship as this is a new loan which is classified as a commercial construction loan in the loan composition table.

The sixth largest credit relationship is an $18.9 million participation interest in the construction financing of a 442,576 square foot retail center located in Omaha, Nebraska. We are one of three financial institutions participating in this $67.3 million construction project. This loan has an adjustable-rate and matures in August 2005. At December 31, 2004, a total of $18.0 million had been disbursed under this credit relationship. This loan is classified as a commercial construction loan in the loan composition table.

Each of these relationships was performing in accordance with its terms and conditions as of December 31, 2004.

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The following table shows total loans originated, purchased, sold and repaid during the years indicated:

	Year Ended December 31,		
(Dollars in thousands)	**2004**	**2003**	**2002**
Net loans after allowance for loan losses, beginning of year	$ 2,016,596	$ 1,774,248	$ 1,393,439
Loan originations:			
One-to-four family residential	145,655	377,661	239,093
Second mortgage residential	3,361	2,787	1,084
Multi-family residential	10,794	42,309	6,243
Commercial real estate and land	167,448	99,426	75,889
Residential construction	190,964	154,695	100,599
Commercial construction	166,714	59,075	69,793
Agriculture	7,404	--	--
Business	221,466	99,198	38,340
Agriculture - operating	37,432	--	--
Warehouse mortgage lines of credit (1)	3,145,266	5,491,777	4,427,554
Consumer	152,692	147,069	133,379
Total loan originations	4,249,196	6,473,997	5,091,974
Loan purchases:			
One-to-four family residential (2)	192,163	652,751	641,188
Second mortgage residential	122,069	304,593	31,984
Multi-family residential	12,895	13,500	19,696
Commercial real estate and land	44,925	43,949	120,291
Residential construction	551,654	184,126	97,949
Commercial construction	42,371	45,568	14,200
Business	8,511	21,326	--
Consumer	75,891	67,526	85,249

	Year Ended December 31,		
Total loan purchases	1,050,479	1,333,339	1,010,557
Total loan originations and purchases	5,299,675	7,807,336	6,102,531
Sales and loan principal repayments:			
Loan sales:			
One-to-four family residential	(280,990)	(627,525)	(565,585)
Consumer	(4,041)	(6,519)	(2,129)
Loan principal repayments:			
Mortgage, business and consumer	(1,349,928)	(1,215,568)	(725,674)
Warehouse mortgage lines of credit (1)	(3,091,097)	(5,649,510)	(4,415,441)
Total loan sales and principal repayments	(4,726,056)	(7,499,122)	(5,708,829)
Increase due to acquisition	304,300	--	--
Decrease due to other items (3)	(266,360)	(65,866)	(12,893)
Net loans after allowance for loan losses, end of year	$ 2,628,155	$ 2,016,596	$ 1,774,248

(1) Reflects amounts advanced and repaid under such lines of credit during the years presented.
(2) Substantially all of these loans were acquired from mortgage bankers and sold to Fannie Mae, Freddie Mac or the Federal Home Loan Bank with servicing retained.
(3) Other items consist of unamortized premiums, discounts and deferred loan fees, undisbursed portion of construction and land development loans in process and the allowance for loan losses.

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One-to-Four Family Residential Mortgage Lending. We offer both fixed-rate and adjustable-rate loans with maturities of up to 30 years secured by single-family residences. Single-family mortgage loan originations are generally obtained from our in-house loan representatives, from existing or past customers, from mortgage bankers and through referrals from members of our local communities. At December 31, 2004, our one-to-four family residential mortgage loans totaled $418.3 million or 13.5% of total loans. Of such amount, $224.2 million, or 53.6%, related to loans secured by properties located outside our Primary Lending Market Area and approximately 79.3% had adjustable rates. The average loan size of our one-to-four family residential mortgage portfolio was $108,000 at December 31, 2004. A total of $1.9 million, or 0.46%, of our one-to-four family residential mortgage loans at December 31, 2004 were 90 days or more delinquent compared to $1.5 million, or 0.26%, at December 31, 2003. During the years ended December 31, 2004 and 2003, we charged-off an aggregate of $16,000 and $6,000 of one-to-four family residential mortgage loans, respectively.

We currently originate or purchase adjustable-rate, single-family residential mortgage loans with terms of up to 30 years and interest rates which generally adjust one to seven years from the outset of the loan and thereafter annually for the duration of the loan. The interest rates for such adjustable-rate loans are normally tied to indices such as the U.S. Treasury CMT or Libor, plus a margin. Our adjustable-rate loans generally provide for periodic caps (not more than 2.0%) on the increase or decrease in the interest rate at any adjustment date. The maximum amount the rate can increase or decrease from the initial rate during the life of the loan is 5% to 6%.

The origination or purchase of adjustable-rate, residential mortgage loans helps reduce our exposure to increases in interest rates. However, adjustable-rate loans generally pose credit risks not inherent in fixed-rate loans, primarily because as interest rates rise, the underlying payments of the borrower rise, thereby increasing the potential for default. Periodic and lifetime caps on interest rate increases help to reduce the risks associated with adjustable-rate loans but also limit the interest rate sensitivity of such loans.

Generally, we originate single-family residential mortgage loans in amounts up to 80% of the lower of the appraised value or the selling price of the property and up to 100% if private mortgage insurance is obtained. Mortgage loans originated by us generally include due-on-sale clauses which provide us with the contractual right to deem the loan immediately due and payable in the event the borrower transfers ownership of the property without our consent. We require fire, casualty, title and, in certain cases, flood insurance on properties securing real estate loans made by us.

Second Mortgage Residential Lending. Second mortgage loans declined to $255.2 million, or 8.3% of the total loan portfolio, at December 31, 2004 compared to $258.1 million, or 11.6% of the total loan portfolio, at December 31, 2003. Although the purchase for retention in our portfolio of fixed-rate second mortgage residential loans is contrary to our general policy of pursuing adjustable-rate loans, the expected yields and lives of the fixed-rate loans justified their inclusion in our loan portfolio. At December 31, 2004, $212.2 million, or 83.1% of our second mortgage residential loans, were secured by properties located outside our Primary Lending Market Area. The average loan size of our second mortgage residential loan portfolio was $35,000 at December 31, 2004. Of the second mortgage residential loans outstanding at December 31, 2004, approximately 94.3% were fixed-rate loans. At December 31, 2004, $739,000, or 0.29%, were 90 or more days delinquent compared to $224,000, or 0.09%, at December 31, 2003. During the years ended December 31, 2004 and 2003, we charged-off an aggregate of $520,000 and $107,000, respectively, of second mortgage residential loans.

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Multi-Family Residential Real Estate. We invest in multi-family residential loans that are secured by multi-family housing units generally located in our Primary Lending Market Area. At December 31, 2004, our multi-family residential loan portfolio totaled $142.5 million, or 4.6% of the total loan portfolio, compared to $99.1 million, or 4.5% of the total loan portfolio, at December 31, 2003. At December 31, 2004, 86.6% of the multi-family residential loans were secured by properties located in our Primary Lending Market Area. The average loan size of our multi-family residential loan portfolio was $1.8 million at December 31, 2004 and 54.0% of our multi-family residential loans had adjustable rates of interest. At December 31, 2004, $2.4 million, or 1.7% of our multi-family residential loans, were 90 or more days delinquent. We had no multi-family residential loans 90 or more days delinquent at December 31, 2003. We had no charge-offs of multi-family residential loans during the years ended December 31, 2004 and 2003.

The largest multi-family residential credit relationship at December 31, 2004 is a $25.4 million relationship collateralized by a 364 unit apartment complex located in Colorado Springs, Colorado. This relationship consists of three loans: a $12.6 million one-year adjustable-rate loan with a five-year term, a $12.7 million fixed-rate loan with a five-year term and a $100,000 fixed-rate loan with a five-year term. These loans were performing in accordance with their loan terms at December 31, 2004.

Commercial Real Estate and Land Lending. We invest in commercial real estate loans that are secured by properties generally used for business purposes, such as office buildings and retail facilities, and land being held for commercial and residential development. The properties securing these loans are located primarily in Lincoln and Omaha, Nebraska and in selected areas outside of our Primary Lending Market Area. We have increased our involvement in this lending category as part of our strategy to increase our investment in loans with higher yield and/or shorter expected average lives. We have also increased our capacity to originate such loans internally with the hiring of several experienced commercial real estate lenders as well as the opening of loan production offices in Arizona, Colorado, Florida, Minnesota and North Carolina.

Our underwriting procedures provide generally that commercial real estate loans (as well as multi-family, land and commercial construction loans) may be made in amounts up to 80% of the value of the property if it is located within our Primary Lending Market Area and 75% of the value if it is outside our Primary Lending Market Area. Any loan exceeding such loan-to-value ratio must be supported by documentation of the relevant factors justifying the deviation which is reviewed by the Board of Directors on a quarterly basis. The following is a summary of lending guidelines concerning our commercial real estate lending:

The total of commercial real estate loans exceeding established loan-to-value limits may not exceed 30% of our risk-based capital. At December 31, 2004, we were in compliance with established guidelines related to risk-based capital as these loans totaled 18.0% of our risk-based capital.

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The total of all commercial real estate loans, land loans related to commercial development, multi-family residential loans and commercial construction loans cannot exceed 50% of our total loan portfolio. At December 31, 2004, 33.1% of our total loan portfolio consisted of such loans. Furthermore, no more than 40% of such loans can be secured by properties located outside of our Primary Lending Market Area. At December 31, 2004, 19.4% of such loans were secured by properties outside our Primary Lending Market Area, with the highest concentration of such loans in California (4.2%).

Such loans are currently originated with various indices such as U.S. Treasury CMT, Libor or prime rate, plus a margin, with various terms and with interest rates which generally adjust every three or five years. The majority of these loans have 20 or 25 year amortization schedules and require payment of the remaining principal at maturity. Our adjustable-rate loans generally do not have periodic limits on the increases or decreases in the interest rate that may be affected at the time of the adjustment other than lifetime floor and ceiling limits.

Most commercial real estate and land and multi-family residential loans are underwritten by our centralized loan underwriting department. In underwriting these loans, we consider all aspects of the credit profile of each borrower s ability to repay the debt. We consider the borrower s income, probable continuation of income and credit history.

Loans in excess of $10.0 million, in addition to management level approval, must also be approved by our Board of Directors.

We have generally required that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings before debt service to debt service) of at least 125%. Personal guarantees are generally required. In addition, we require that security instruments contain affirmative language concerning the prospective borrower s responsibility for compliance with laws and regulations (including environmental, health and safety) and for protecting the environmental conditions of the security property. A phase one environmental assessment report, prepared in conformance with our environmental risk policy, is normally obtained if the loan is in excess of $1.0 million or if there is any indication of possible contamination at the security property.

Our commercial real estate and land loan portfolio at December 31, 2004 was $597.1 million, or 19.3% of total loans, compared to $449.2 million, or 20.3% of total loans, at December 31, 2003. At December 31, 2004, $468.2 million, or 78.4% of our commercial real estate and land loans, were secured by properties located within our Primary Lending Market Area. The average loan size of our commercial real estate loan portfolio at December 31, 2004 was $631,000. At December 31, 2004, 78.7% of our commercial real estate and land loans had adjustable rates. A total of $707,000, or 0.12%, of our commercial real estate and land loans at December 31, 2004 were 90 days or more delinquent. We had no commercial real estate and land loans delinquent 90 or more days at December 31, 2003. During the years ended December 31, 2004 and 2003, we charged-off an aggregate of $0 and $330,000, respectively, of commercial real estate and land loans.

The largest commercial real estate loan outstanding at December 31, 2004 is a $16.3 million 10-year adjustable-rate loan and a $3.0 million adjustable-rate operating line of credit secured by a 59 bed acute care hospital located in Lincoln, Nebraska dedicated to heart surgeries and related procedures. These loans were performing in accordance with their terms at December 31, 2004.

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In recent years we have increased our lending to finance the acquisition of land for residential and commercial real estate projects. Such land loans totaled $151.2 million, or 4.9% of total loans, at December 31, 2004 ($106.2 million of which had been disbursed at such date). The average size of our land loans at December 31, 2004 was $724,000.

During 2004, we refinanced a land development loan and a revolving line of credit loan aggregating $20.0 million which are secured by a 290 acre parcel of land in Lincoln, Nebraska. At December 31, 2004, a total of $10.8 million had been disbursed to the borrower. The loans were performing in accordance with their terms at December 31, 2004.

Loans secured by commercial real estate and multi-family residential real estate properties generally involve larger principal amounts and a greater degree of risk than single-family residential mortgage loans. Payments on loans secured by multi-family and commercial real estate properties are often dependent on the successful operation or management of the properties. Repayment of such loans may be subject to adverse conditions in the real estate market or the economy and a concentration of loans in a geographic region may be subject to greater risk because of the potential for adverse economic conditions affecting that region. We seek to minimize these risks through our underwriting standards.

Construction Lending. We offer residential construction loans for either pre-sold houses (a purchase contract has been signed) or speculative houses (properties for which no buyer yet exists). We are also involved in commercial real estate construction lending as well as purchasing participation interests in such loans. Approximately 60% of our residential construction loans are for pre-sold houses. We originate our residential construction loans within our Primary Lending Market Area typically through direct contact with home builders. Most of such loans involve properties located in our Primary Lending Market Area. During the past few years, we have become involved in purchasing residential construction loans and participation interests in such loans secured by properties located outside our Primary Lending Market Area, generally in more densely populated cities in South Carolina, Georgia, Alabama and Nevada. As part of the increased emphasis on construction lending, we have, in recent years, hired several experienced loan originators in order to increase our capabilities in this type of lending. Additionally, on November 1, 2004, we completed the purchase of all non-Indiana residential construction loan production offices from First Indiana Bank. The purchase, which included $134.4 million of outstanding residential construction loans against forward commitments of $264.5 million, also included loan production offices in Phoenix, Arizona; Charlotte, North Carolina; Raleigh, North Carolina and Orlando, Florida. The following summarizes the residential construction loan portfolios at each of the loan production offices acquired from First Indiana Bank:

Phoenix, Arizona. At December 31, 2004, there were 131 individual residential construction loans to individuals and local builders outstanding. The aggregate balance of these loans was $52.3 million ($24.6 million had been disbursed) at December 31, 2004.

Charlotte, North Carolina. At December 31, 2004, there were 205 individual residential construction loans to individuals and local builders outstanding. The aggregate balance of these loans was $63.1 million ($25.4 million had been disbursed) at December 31, 2004.

Raleigh, North Carolina. At December 31, 2004, there were 114 individual residential construction loans to individuals and local builders outstanding. The aggregate balance of these loans was $56.7 million ($25.1 million had been disbursed) at December 31, 2004.

Orlando, Florida. At December 31, 2004, there were 107 individual residential construction loans outstanding to both individuals and local builders. The aggregate balance of these loans was $98.9 million ($49.3 million had been disbursed) at December 31, 2004.

The following is a summary of our lending guidelines for residential construction loans:

Whether we originate or purchase residential construction loans, we review all plans, specifications and cost estimates and require that the contractor be deemed reputable.

The amount of construction advances to be made, together with the sum of previous disbursements, may not exceed the percentage of completion of the construction.

Such loans generally have terms not exceeding 18 months, have loan-to-value ratios of 90% or less of the appraised value upon completion and do not require the amortization of the principal during the term of the loan.

The loans are generally made with adjustable rates of interest based on the Wall Street Journal prime rate plus a margin.

At December 31, 2004, residential construction loans (including participation interests) totaled $601.1 million (including undisbursed loans in process), or 19.5%, of our total loan portfolio. Of such amount, $156.7 million, or 26.1%, related to loans secured by properties located outside our Primary Lending Market Area. The average loan size of our residential construction loans was $304,000 at December 31, 2004. A total of 83.6% of our residential construction loans had adjustable rates of interest at December 31, 2004. At December 31, 2004, $2.3 million, or 0.38%, of our total residential construction loan portfolio was 90 or more days delinquent compared to $1.0 million, or 0.41%, at December 31, 2003. During the years ended December 31, 2004 and 2003, we charged-off an aggregate of $138,000 and $13,000, respectively, of residential construction loans.

We have increased significantly our involvement in commercial construction lending during the last three years. Most of such loans are extended to build office buildings, retail centers or apartment buildings. As a result of such efforts, commercial construction loans totaled $282.4 million (including undisbursed loans in process) at December 31, 2004, or 9.1% of total loans, compared to $154.2 million, or 7.0% of total loans, at December 31, 2003. The average loan size of our commercial construction loan portfolio was $3.7 million at December 31, 2004. At December 31, 2004, $50.3 million, or 17.8%, of our commercial construction loans were secured by properties located outside our Primary Lending Market Area. Of the commercial construction loans outstanding at December 31, 2004, approximately 41.4% had adjustable rates. At December 31, 2004 and 2003, we had no commercial construction loans 90 or more days delinquent. Additionally, there were no commercial construction loans charged-off during the years ended December 31, 2004 and 2003.

At December 31, 2004, our largest commercial construction loan was an $18.9 million participation in the construction financing of a 442,576 square foot retail center located in Omaha, Nebraska. We are one of three financial institutions participating in this $67.3 million construction project. At December 31, 2004, a total of $18.0 million had been disbursed under this credit relationship. This loan was performing in accordance with its terms at December 31, 2004.

Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property s value when completed or developed compared to the projected cost (including interest) of construction and other assumptions, including the approximate time to sell residential properties. If the appraised value proves to be inaccurate, we may be confronted with a project, when completed, having a value which is insufficient to assure full repayment.

Agricultural Loans. Agricultural loans are made predominantly to farmers and ranchers in our Primary Banking Market Area to finance agricultural production activities and to purchase or refinance agricultural real estate. Agricultural real estate loans are made to farmers and ranchers to purchase or refinance real estate used in agricultural activities. At December 31, 2004, our agricultural real estate loans totaled $66.8

million or 2.2% of the total loan portfolio. At December 31, 2004, 76.6% of our agricultural real estate loans had adjustable interest rates. The average loan size of our agricultural real estate loan portfolio was $112,000 at December 31, 2004. At December 31, 2004, $349,000 or 0.52%, of our agricultural real estate loans were 90 or more days delinquent. We had no charge-offs of agricultural real estate loans during the year ended December 31, 2004.

Agricultural operating loans are made to finance the day-to-day operations of agricultural production activities. At December 31, 2004, our agricultural operating loans totaled $71.2 million or 2.3% of the total loan portfolio. At December 31, 2004, 73.8% of our agricultural operating loans had adjustable interest rates. The average loan size of our agricultural operating loan portfolio was $57,000 at December 31, 2004. At December 31, 2004, $1,000 of our agricultural operating loans was 90 or more days delinquent. We charged-off $64,000 of agricultural operating loans during the year ended December 31, 2004.

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Warehouse Mortgage Lines of Credit. We are actively involved in originating revolving lines of credit to mortgage brokers. The lines are drawn upon by such companies to fund the origination of single-family residential loans. Prior to funding the advance, the mortgage broker must have an approved commitment for the purchase of the loan which reduces credit exposure associated with the line. The lines are repaid upon sale of the mortgage loan to third parties which usually occurs within 30 days of origination of the loan. In connection with extending the line of credit to the mortgage broker, we enter into agreements with each company to which such mortgage broker intends to sell loans. Under such agreements, the loan purchaser agrees to hold the mortgage documents issued by the mortgage brokers on our behalf and for our benefit until such time that the purchaser remits to us the purchase price for such loans. As part of the structure of the lines of credit, the mortgage brokers are required to maintain commercial deposits with us, with the amount of such deposits depending upon the amount of the line and other factors. The lines are structured with adjustable rates indexed to the Wall Street Journal prime rate. We fund a portion of the advances using short-term borrowings from the FHLB. Maximum amounts permitted to be advanced by us under existing warehouse mortgage lines of credit range in amounts from $2.5 million to $55.0 million. Our warehouse mortgage lines of credit totaled $132.9 million, or 4.3% of the total loan portfolio, at December 31, 2004 compared to $78.8 million, or 3.6% of the total loan portfolio, at December 31, 2003. With respect to our largest line of credit ($55.0 million), we have arranged participation interests aggregating $20.0 million to other financial institutions thus reducing to $35.0 million our line of credit in order to limit risk and to ensure compliance with our loans-to-one borrower regulatory limitation. At December 31, 2004, the largest outstanding amount under an individual warehouse mortgage line was $16.1 million. Additionally, at December 31, 2004, unused warehouse mortgage lines of credit totaled $439.6 million compared to unused lines of $493.1 million at December 31, 2003. Line of credit advances totaled $3.1 billion for the year ended December 31, 2004 compared to $5.5 billon for the year ended December 31, 2003, which is the result of a reduced level of refinancing activity during the year ended December 31, 2004 compared to the year ended December 31, 2003 which was partially offset by an increased number of brokers with which we do business. At December 31, 2004 and December 31, 2003, there were no warehouse mortgage lines of credit 90 or more days delinquent. During the years ended December 31, 2004 and 2003, we charged-off an aggregate of $20,000 and $110,000, respectively, of warehouse mortgage lines of credit.

Business Lending. Business loans are made predominantly to small and mid-sized businesses located within our Primary Banking Market Area. We are increasing our focus on such lending in conjunction with our overall increased emphasis on loans with higher yields and/or shorter expected lives. At December 31, 2004, we had $142.7 million in business loans which amounted to 4.6% of total loans receivable compared to $64.5 million or 2.9% of total loans receivable at December 31, 2003. Of the business loans outstanding at December 31, 2004, approximately 60.2% had adjustable rates. At December 31, 2004, $771,000 or 0.54% of our total business loan portfolio was 90 or more days delinquent compared to $219,000 or 0.34% at December 31, 2003. For the years ended December 31, 2004 and 2003, we charged-off an aggregate of $57,000 and $5,000, respectively, of business loans.

The largest credits consists of a business revolving line of credit for $12.0 million and an equipment term note of $12.9 million. Both loans are secured by the assets of four related companies in Lincoln, Nebraska engaged in asphalt and concrete paving and utilities construction. The $12.0 million revolving line of credit is intended to finance work-in-process, accounts receivable and inventory. This line of credit carries an adjustable interest rate and matures in September 2006. The $12.9 million term note was executed to consolidate existing equipment loans with other financial institutions and carries an adjustable interest rate. This note matures in September 2009. At December 31, 2004, the total outstanding balance for both lines of credit aggregated $24.9 million.

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Consumer and Other Lending. Consumer loans, consisting primarily of home equity, home improvement and automobile loans amounted to $379.0 million or 12.3% of our total loan portfolio at December 31, 2004. We generally offer home equity loans and lines of credit in amounts up to $100,000 with a term of 15 years or less and a loan-to-value ratio up to 100% of value. We also offer home improvement loans in amounts up to $100,000 with a term of 15 years or less and a loan-to-value ratio up to 100% of value. A substantial portion of our home improvement loans consist of participation interests we have purchased from a third party. Under the terms of our arrangement with this third party, if any loan becomes more than 120 days past due, we can require the seller to repurchase such loan at a price equal to our total investment in the loan, including any uncollected and accrued interest. During 2004, we purchased $22.7 million of such loans and at December 31, 2004, we held $56.4 million of loans purchased under such arrangement. We also offer automobile loans in amounts up to $50,000 with maximum 72 month and 60 month terms for new and used cars, respectively, and purchase price ratios of generally not more than 95% and 85% for new and used cars, respectively. Most of our automobile loans are obtained through a network of 73 new and used automobile dealers located primarily in Lincoln and Omaha, Nebraska. During 2004, we purchased approximately $26.7 million of such loans. Although employees of the automobile dealership take the application, the loan is made pursuant to our own underwriting standards and must be approved by one of our authorized loan officers. Upon closing of the loan by the dealer, the loan is purchased by us. Our consumer loan portfolio also includes recreational vehicle, boat, motorcycle and other unsecured loans.

Unsecured loans and loans secured by rapidly depreciating assets, such as automobiles, entail greater risks than single-family residential mortgage loans. In such cases, repossessed collateral, if any, for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance. Further, consumer loan collections on these loans are dependent on the borrower s continuing financial stability and, therefore, are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Finally, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans in the event of a default. At December 31, 2004, $1.1 million, or 0.30% of our consumer loan portfolio, was 90 or more days delinquent compared to $700,000, or 0.23%, at December 31, 2003. For both years ended December 31, 2004 and 2003, we charged-off $1.4 million of consumer loans.

Loan Commitments. At December 31, 2004, we had issued commitments totaling $834.8 million, excluding the undisbursed portion of construction and land development loans in process, to fund and purchase loans, extend credit on commercial and consumer unused lines of credit and to extend credit under unused warehouse mortgage lines of credit. These outstanding loan commitments to extend credit do not necessarily represent future cash requirements since many of the commitments may expire without being drawn.

Derivative Financial Instruments. The Company enters into commitments to fund loans in which the interest rate on the loan is set prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives under Statement of Financial Accounting Standard (SFAS) No. 133 and are recorded at their fair value in other assets on the Consolidated Statements of Financial Condition. Changes in fair value are recorded in the net gain on loans held for sale category on the Consolidated Statements of Income. Fair value is based on a quoted market price that closely approximates the gain that would have been recognized if the loan commitment was funded and sold at December 31, 2004. The amount of expected servicing rights is excluded from the measurement of fair value. The measurement of fair value is also adjusted for anticipated cancellation by the borrower of commitments that will never be funded. Rate lock commitments expose the Company to interest rate risk.

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The Company manages the interest rate risk by entering into forward sales commitments, which are also defined as derivatives under SFAS No. 133, and are recorded at their fair value in the other liabilities category on the Consolidated Statements of Financial Condition, with changes in fair value reported in net gain on loans held for sale on the Consolidated Statements of Income. Their fair value is based on a quoted premium or penalty that would be received or paid if we exited the forward position at December 31, 2004.

Loan Approval Procedures and Authority. Our Board of Directors establishes lending policies. All general lending procedures are set on an ongoing basis by the Asset/Liability Committee composed of the following officers of the Bank: Chief Executive Officer, Chief Operating Officer, Director of Lending, Director of Administration, Director of Retail Banking, Chief Financial Officer, Controller and Financial Analysis Manager. Under policies established by the Board of Directors, various officers or combinations of officers have loan approval authority, the specific amounts and requirements being set forth for each loan type. For loan amounts in excess of $10.0 million, approval of our Board of Directors is required.

Delinquent Loans, Classified Assets and Real Estate Owned

Delinquencies and Classified Assets. Reports listing all delinquent accounts are generated and reviewed by management on a monthly basis. These reports include information regarding all loans 30 days or more delinquent and all real estate owned. These reports are also provided to the Board of Directors. The procedures we take with respect to delinquencies vary depending on the nature of the loan, period and cause of delinquency and whether the borrower is habitually delinquent. When a borrower fails to make a required payment on a loan, we take a number of steps to have the borrower cure the delinquency and restore the loan to current status. We generally send the borrower a written notice of non-payment after the loan is first past due. Our loan recovery guidelines provide that telephone, written correspondence and/or face-to-face contact will be attempted to ascertain the reasons for delinquency and the prospects of repayment. When contact is made with the borrower at any time prior to commencing legal action, we will attempt to obtain full payment or work out a repayment schedule with the borrower. In the event payment is not then received or the loan not otherwise satisfied, additional letters and telephone calls generally are made. If the loan is still not brought current or satisfied and it becomes necessary for us to take legal action, which typically occurs after a loan is 90 days or more delinquent, we will commence recovery proceedings against all property that secures the loan. If a legal action is instituted and the loan is not brought current, paid in full, or refinanced before the recovery sale, the property securing the loan generally is sold and, if purchased by us, becomes real estate owned.

Federal regulations and our Asset Classification Policy require that we utilize an internal asset classification system as a means of reporting problem and potential problem assets. We have incorporated the Office of Thrift Supervision s (OTS) internal asset classifications as a part of our credit monitoring system. All assets are subject to classification. Asset quality ratings are divided into three asset classifications: Pass (unclassified), special mention and classified (adverse classification). Additionally, there are three adverse classifications: substandard , doubtful and loss . A pass asset is considered to be of sufficient quality to preclude a special mention or an adverse rating. The special mention asset has potential weaknesses that deserve management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in our credit position at a future date. Problem assets receive an adverse classification. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that we 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.

When we classify one or more assets, or portions thereof, as substandard , doubtful or loss , we establish a valuation allowance for loan losses in an amount deemed prudent by management based on the specific facts of the asset. In addition to these specific valuation allowances, we establish a general valuation allowance to absorb losses which exist in the loan portfolio but which have not been specifically identified. To quantify this general valuation allowance, we segment the loan portfolio by loan type and apply loss factors to develop our allowance levels. These loss factors are developed using our historical loan loss experience for each group of loans as further adjusted for specific documented factors, including the following:

- Trends and levels of delinquent or "impaired" loans;
- Trends and levels of charge-offs;
- Trends in volume and underwriting terms or guarantees for the loans;
- Impact of changes in underwriting standards, risk tolerances, or other changes in lending practices;
- Changes in qualifications or experience of the lending staff;
- Changes in local or national economic or industry conditions; and
- Changes in credit concentration.

Although management believes that, based on information currently available to us at this time, our allowance for loan losses is maintained at a level which covers all known and inherent losses that are both probable and reasonably estimable at each reporting date, actual losses are dependent upon future events and, as such, further additions to the level of allowances for loan losses may become necessary.

The Asset Classification Committee is composed of the following officers of the Bank: Chief Executive Officer, Chief Operating Officer, Chief Credit Officer, Director of Lending, Chief Financial Officer, the Assistant Director of Lending, Controller, Financial Analysis Manager and Regulatory Reporting Accountant. The Asset Classification Committee reviews and classifies assets no less frequent than quarterly and the Board of Directors reviews the results of the reports on a quarterly basis. At December 31, 2004 and 2003, we had $29.3 million and $10.4 million, respectively, of assets classified as substandard which consisted of real estate owned, single-family residential mortgage, residential construction, business and consumer loans. Non-accrual loans are those loans 90 days or more delinquent. At December 31, 2004 and 2003, substandard assets included in loans 90 days or more delinquent were $10.2 million and $3.6 million, respectively. At such dates, we had no loans classified as doubtful or loss. In addition, as of December 31, 2004 and 2003, we had $36.9 million and $35.3 million, respectively, of loans designated special mention.

Delinquent Loans. The following table shows the delinquencies in our loan portfolio as of the dates indicated:

	December 31, 2004				December 31, 2003			
	30-89 Days Overdue		90 or More Days Overdue		30-89 Days Overdue		90 or More Days Overdue	
(Dollars in thousands)	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
One-to-four family residential	38	$ 8,203	13	$ 1,914	23	$ 1,844	11	$ 1,461

	December 31, 2004				December 31, 2003			
Second mortgage residential	43	1,426	19	739	26	1,051	4	224
Multi-family residential	--	--	1	2,374	--	--	--	--
Commercial real estate and land	8	643	3	707	2	142	--	--
Residential construction	16	1,529	13	2,256	15	2,501	3	1,012
Commercial construction	--	--	--	--	--	--	--	--
Agriculture	2	120	3	349	--	--	--	--
Business loans	20	1,122	4	771	2	126	1	219
Agriculture - operating	18	566	1	1	--	--	--	--
Warehouse mortgage lines of credit	--	--	--	--	--	--	--	--
Consumer loans	391	3,448	107	1,121	255	2,945	60	700
Total delinquent loans	536	$ 17,057	164	$ 10,232	323	$ 8,609	79	$ 3,616
Delinquent loans as a percentage of total loans		0.55%		0.33%		0.39%		0.16%

Non-Accrual Loans and Real Estate Owned. The following table sets forth information regarding non-accrual loans and real estate owned. At December 31, 2004, nonperforming loans consisted of 32 single-family residential loans with an average balance of $83,000, 13 residential construction loans with an average balance of $174,000, one multi-family residential loan with a balance of $2.4 million, six commercial real estate and land and agriculture real estate loans with an average balance of $176,000, four business loans with an average balance of $193,000 and 107 consumer loans with an average balance of $10,000. At such date, real estate owned totaled $382,000 consisting of nine single-family residential properties and repossessed automobiles. Troubled debt restructurings consisted of 11 loans with an average balance of $315,000 at December 31, 2004. Such restructured loans were performing in accordance with their terms at such date. It is our policy to cease accruing interest on loans contractually delinquent 90 days or more and charge-off all accrued interest. For the years ended December 31, 2004 and 2003, the amount of interest income not recognized on non-accrual loans was $513,000 and $308,000, respectively. Total impaired loans (includes troubled debt restructurings) amounted to approximately $6.1 million and $864,000 at December 31, 2004 and 2003, respectively.

The following table shows the amounts of our nonperforming assets at the dates indicated. We did not have any accruing loans 90 days or more past due at the dates shown.

	December 31,				
(Dollars in thousands)	**2004**	**2003**	**2002**	**2001**	**2000**
Non-accruing loans:					
One-to-four family residential	$ 1,914	$ 1,461	$ 981	$ 895	$ 1,009
Second mortgage residential	739	224	180	3	--
Multi-family residential	2,374	--	--	--	--
Commercial real estate and land	707	--	3,795	--	2,703
Residential construction	2,256	1,012	106	--	380
Commercial construction	--	--	--	--	--
Agriculture	349	--	--	--	--
Business loans	771	219	--	--	--
Agriculture - operating	1	--	--	--	--
Warehouse mortgage lines of credit	--	--	--	--	--

	December 31,				
Consumer	1,121	700	427	767	416
Total non-accruing loans	10,232	3,616	5,489	1,665	4,508
Real estate owned, net (1)	382	678	1,967	168	807
Total nonperforming assets	10,614	4,294	7,456	1,833	5,315
Troubled debt restructurings	3,469	468	209	345	185
Total nonperforming assets and troubled debt restructurings	$ 14,083	$ 4,762	$ 7,665	$ 2,178	$ 5,500
Total nonperforming loans as a percent of net loans	0.39%	0.18%	0.31%	0.12%	0.40%
Total nonperforming assets as a percent of total assets	0.35%	0.19%	0.38%	0.12%	0.39%
Total nonperforming assets and troubled debt restructurings as a percent of total assets	0.46%	0.22%	0.39%	0.14%	0.40%

(1) Real estate owned balances are shown net of related loss allowances. Includes both real property and other repossessed collateral consisting primarily of automobiles.

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When we acquire property through foreclosure or deed in lieu of foreclosure, it is initially recorded at the lower of the recorded investment in the corresponding loan or the fair value of the related assets at the date of foreclosure, less costs to sell. Thereafter, if there is a further deterioration in value, we provide for a specific valuation allowance and charge operations for the diminution in value. It is our policy to obtain an appraisal or broker s price opinion on all real estate subject to foreclosure proceedings prior to the time of foreclosure. It is our policy to require appraisals on a periodic basis on foreclosed properties as well as conduct inspections on such properties.

Allowance for Loan Losses. A provision for loan losses is charged to income when it is determined by management to be required based on its analysis. The allowance is maintained at a level to cover all known and inherent losses in the loan portfolio that are both probable and reasonable to estimate at each reporting date. Management reviews the loan portfolio no less frequently than quarterly in order to identify those inherent losses and to assess the overall collection probability of the portfolio. Management s review includes a quantitative analysis by loan category, using historical loss experience, classifying loans pursuant to a grading system and consideration of a series of qualitative loss factors. 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, terms and geographic concentration of loans held by us, the value of collateral securing the loan, the number of loans requiring heightened management oversight and general economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events change.

The allowance for loan losses consists of two elements. The first element is an allocated allowance established for specific loans identified by the credit review function that are evaluated individually for impairment and are considered to be impaired. A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Impairment is measured by (i) the fair value of the collateral if the loan is collateral dependent, (ii) the present value of expected future cash flows, or (iii) the loan s observable market price. The second element is an estimated allowance established for losses which are probable and reasonable to estimate on each category of outstanding loans. While management uses available information to recognize probable losses on loans inherent in the portfolio, future additions to the allowance may be necessary based on changes in economic conditions and other factors. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize additions to the allowance based on their judgment of information available to them at the time of their examination.

The following table shows changes in our allowance for loan losses during the years presented:

	At or For the Year Ended December 31,				
(Dollars in thousands)	2004	2003	2002	2001	2000
Allowance for loan losses, beginning of year	$ 19,586	$ 17,108	$ 13,464	$ 9,947	$ 8,860
Allowance for loan losses acquired	4,221	--	--	--	--
Charge-offs:					
One-to-four family residential	(16)	(6)	(16)	(37)	(61)
Second mortgage residential	(520)	(107)	(21)	--	--
Multi-family residential	--	--	--	--	--
Commercial real estate and land	--	(330)	--	(1)	--
Residential construction	(138)	(13)	--	--	--
Commercial construction	--	--	--	--	--
Agriculture	--	--	--	--	--
Business loans	(57)	(5)	(99)	--	--
Agriculture - operating	(64)	--	--	--	--
Warehouse mortgage lines of credit	(20)	(110)	--	--	--
Consumer	(1,421)	(1,368)	(1,018)	(458)	(137)
Total charge-offs	(2,236)	(1,939)	(1,154)	(496)	(198)
Recoveries on loans previously charged-off	373	146	103	16	12
Provision for loan losses	4,887	4,271	4,695	3,997	1,273
Allowance for loan losses, end of year	$ 26,831	$ 19,586	$ 17,108	$ 13,464	$ 9,947
Allowance for loan losses as a percent of net loans	1.01%	0.96%	0.96%	0.96%	0.87%
Allowance for loan losses as a percent of nonperforming loans	262.23%	541.65%	311.68%	808.65%	220.65%
Ratio of net charge-offs during the year as a percent of average loans outstanding during the year	0.08%	0.10%	0.08%	0.04%	0.02%

The following table shows how our allowance for loan losses is allocated by type of loan at each of the dates indicated:

December 31,				
2004	2003	2002	2001	2000

	December 31,									
(Dollars in thousands)	**Amount of Allowance**	**Loan Category as a % of Total Loans**	**Amount of Allowance**	**Loan Category as a % of Total Loans**	**Amount of Allowance**	**Loan Category as a % of Total Loans**	**Amount of Allowance**	**Loan Category as a % of Total Loans**	**Amount of Allowance**	**Loan Category as a % of Total Loans**
One-to-four family residential	$ 805	13.54%	$ 1,069	25.20%	$ 1,071	30.00%	$ 976	33.13%	$ 813	46.75%
Second mortgage residential *	2,369	8.26	2,343	11.63	--	--	--	--	--	--
Multi-family residential	2,468	4.61	2,002	4.47	1,740	4.18	1,715	4.89	1,395	5.54
Commercial real estate and land	7,323	19.33	5,482	20.25	6,343	20.83	3,876	17.03	3,316	17.42
Residential construction	3,140	19.46	1,570	11.08	1,051	8.18	597	7.47	353	6.40
Commercial construction	2,000	9.14	1,011	6.95	1,259	7.49	586	6.30	235	3.82
Agriculture	873	2.16	--	--	--	--	--	--	--	--
Business	1,796	4.62	788	2.91	400	1.75	146	0.80	33	0.23
Agriculture - operating	990	2.31	--	--	--	--	--	--	--	--
Warehouse mortgage lines of credit	266	4.30	207	3.55	473	12.38	448	14.77	74	3.07
Consumer	4,795	12.27	5,003	13.96	4,771	15.19	4,736	15.61	3,447	16.77
Unallocated	6	--	111	--	--	--	384	--	281	--
Total	$ 26,831	100.00%	$ 19,586	100.00%	$ 17,108	100.00%	$ 13,464	100.00%	$ 9,947	100.00%

* Second mortgage residential loans disclosed separately for 2004 and 2003 as we began analyzing this portfolio seperately in 2003 due to our increased investment in such loans.

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Investment Activities

Federally chartered savings institutions have the authority to invest in various types of liquid assets, including United States Treasury obligations, securities of various federal agencies, time deposits of insured banks and savings institutions, bankers acceptances, repurchase agreements and federal funds. Subject to various restrictions, federally chartered savings institutions may also invest their assets in commercial paper, investment-grade corporate debt securities and mutual funds whose assets conform to the investments that a federally chartered savings institution is otherwise authorized to make directly. Historically, we have maintained liquid assets at a level considered to be adequate to meet our normal daily activities.

Our investment policy, as approved by the Board of Directors, requires management to maintain adequate liquidity, generate a favorable return on investment without incurring undue interest rate and credit risk and to complement our lending activities. We primarily utilize investments in securities for liquidity management and as a method of deploying excess funding not utilized for loan originations and purchases. We have invested in U.S. Government securities and agency obligations, corporate commercial paper, municipal obligations, agency equity securities, mutual funds, U.S. Government sponsored agency issued mortgage-backed securities and collateralized mortgage obligations. As required by SFAS No. 115, we have established an investment portfolio of securities that are categorized as held to maturity or available for sale. We do not currently maintain a portfolio of securities categorized as held for trading. Substantially all of our investment securities are purchased for the available for sale portfolio which totaled $127.8 million, or 4.2% of total assets, at December 31, 2004. At such date, we had net unrealized losses with respect to such securities of $343,000. At December 31, 2004, the held to maturity securities portfolio totaled $126,000.

At December 31, 2004, our mortgage-backed security portfolio (all of which were classified as available for sale) totaled $36.2 million or 1.2% of total assets. Of such amount, $20.3 million were collateralized mortgage obligations (CMOs), $7.4 million were issued by FNMA, $5.9 million were issued by the Government National Mortgage Association (GNMA) and $2.5 million were issued by the FHLMC. Of the $36.2 million of mortgage-backed securities, $9.2 million had adjustable-rates with interest rate adjustments of 1.0% to 2.0% annually. Investments in mortgage-backed securities involve a risk that actual prepayments will be greater than estimated prepayments over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments thereby changing the net yield on such securities. There is also reinvestment risk associated with the cash flows from such securities or in the event such securities are redeemed by the issuer. In addition, the market value of such securities may be adversely affected by changes in interest rates.

The GNMA is a government agency within the Department of Housing and Urban Development which is intended to help finance government-assisted housing programs. GNMA securities are backed by loans insured by the Federal Housing Administration, or guaranteed by the Veterans Administration. The timely payment of principal and interest on GNMA securities is guaranteed by GNMA and backed by the full faith and credit of the U.S. Government. FHLMC is a private corporation chartered by the U.S. Government. FHLMC issues participation certificates backed principally by conventional mortgage loans. FHLMC guarantees the timely payment of interest and the ultimate return of principal on participation certificates. FNMA is a private corporation chartered by the U.S. Congress with a mandate to establish a secondary market for mortgage loans. FNMA guarantees the timely payment of principal and interest on FNMA securities. FHLMC and FNMA securities are not backed by the full faith and credit of the U.S. Government, but because FHLMC and FNMA are U.S. Government-sponsored enterprises, these securities are considered to be among the highest quality investments with minimal credit risks.

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The following table sets forth certain information relating to our investment securities portfolio at the dates indicated:

	December 31,					
	2004		2003		2002	
(Dollars in thousands)	**Carrying Value**	**Market Value**	**Carrying Value**	**Market Value**	**Carrying Value**	**Market Value**
U.S. Government securities and agency obligations	$ 83,371	$ 82,865	$ 12,877	$ 12,886	$ 2,000	$ 2,000
Corporate securities	11,532	11,714	24,496	24,660	23,418	22,546
Municipal obligations	23,560	23,554	142	142	157	157
Agency equity securities	3,763	3,823	--	--	--	--
Asset Management Fund - ARM Fund	6,000	5,927	6,000	5,969	6,000	6,000
Total investment securities	128,226	127,883	43,515	43,657	31,575	30,703
Federal Home Loan Bank stock	54,284	54,284	37,143	37,143	21,459	21,459
Total investment securities and Federal Home Loan Bank stock	$ 182,510	$ 182,167	$ 80,658	$ 80,800	$ 53,034	$ 52,162

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The following table sets forth the amount of investment securities which mature during each of the periods indicated and the weighted average yields for each range of maturities at December 31, 2004. No tax-exempt yields have been adjusted to a tax-equivalent basis.

(Dollars in thousands)	**One Year or less**	**Weighted Average Yield**	**Over One Year Through Five Years**	**Weighted Average Yield**	**Over Five Years Through Ten Years**	**Weighted Average Yield**	**Over Ten Years**	**Weighted Average Yield**	**Total Amortized Cost**	**2004 Fair Value**
Bonds and other debt securities:										
U.S. Government securities and agency obligations	$ 12,024	2.59%	$ 61,124	3.13%	$ 9,230	4.57%	$ 993	3.30%	$ 83,371	$ 82,865

(Dollars in thousands)	One Year or less	Weighted Average Yield	Over One Year Through Five Years	Weighted Average Yield	Over Five Years Through Ten Years	Weighted Average Yield	Over Ten Years	Weighted Average Yield	Total Amortized Cost	2004 Fair Value
Corporate securities	754	3.28	2,619	3.49	5,941	6.34	2,218	9.23	11,532	11,714
Municipal obligations	2,121	3.21	6,106	4.19	10,339	4.35	4,994	4.82	23,560	23,554
Equity securities:										
Asset Management Fund - ARM Fund	6,000	2.74	--	--	--	--	--	--	6,000	5,927
Agency equity securities	3,763	5.20	--	--	--	--	--	--	3,763	3,823
Federal Home Loan Bank stock	54,284	4.17	--	--	--	--	--	--	54,284	54,284
Total investment securities and Federal Home Loan Bank stock	$ 78,946	3.83%	$ 69,849	3.23%	$ 25,510	4.89%	$ 8,205	5.83%	$ 182,510	$ 182,167

The following table sets forth the purchases, sales and principal repayments of our investment securities portfolio during the years indicated:

	At or For the Year Ended December 31,		
rs in thousands)	**2004**	**2003**	**2002**
ment securities at ing of year	$ 43,657	$ 30,703	$ 44,745
ment securities ed	118,479	--	--
ses	13,969	33,939	62,980
ties	(28,362)	(22,000)	(76,259)
al repayments	(2,686)	(15)	(92)
	(16,787)	--	--
oss) on sale	596	--	--
n impairment of ies	(135)	--	--
e in unrealized oss), net	(486)	1,014	(491)
zations of ms and nts, net	(362)	16	(180)

stment securities of year &nbs			$ 1,338,026			$ 1,234,110			
st-bearing ties:									
sits:									
gs, checking money market	$ 672,444	$ 1,577	0.23%	$ 588,683	$ 1,331	0.23%	$ 491,832	$ 1,102	0.
ficates of it	267,878	2,124	0.79	236,804	1,742	0.74	231,164	1,640	0.
st-bearing its	940,322	3,701	0.39	825,487	3,073	0.37	722,996	2,742	0.
ities sold repurchase ments				10,291	39	0.38	20,716	73	0.

	At or For the Year Ended December 31,								
B advances	125,653	1,567	1.24	62,677	753	1.20	94,531	468	0.
st-bearing ties	1,065,975	5,268	0.49	898,455	3,865	0.43	838,243	3,283	0.
nterest-bearing ties	301,515			279,200			247,490		
liabilities	1,367,490			1,177,655			1,085,733		
holders equity	174,250			160,371			148,377		
liabilities and holders equity	$ 1,541,740			$ 1,338,026			$ 1,234,110		
terest-earning	$ 366,004			$ 330,313			$ 284,224		
nterest ne; net interest d (TE)		$ 62,416	4.22%		$ 54,544	4.32%		$ 51,039	4.
terest margin			4.34%			4.43%			4.

(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 life of the respective loans.

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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).

	2016 Compared to 2015 Change Attributable To			**2015 Compared to 2014 Change Attributable To**		
(dollars in thousands)	**Rate**	**Volume**	**Total Increase (Decrease)**	**Rate**	**Volume**	**Total Increase (Decrease)**
Interest income:						
Loans receivable	$ (1,855)	$ 11,120	$ 9,265	$ (1,511)	$ 5,704	$ 4,193
Investment securities	19	(86)	(67)	(107)	(35)	(142)
Other interest-earning assets	134	(57)	77	122	(86)	36
Total interest income	(1,702)	10,977	9,275	(1,496)	5,583	4,087
Interest expense:						
Savings, checking and money market accounts	44	203	247	9	220	229
Certificates of deposit	144	238	382	61	41	102
Securities sold under repurchase agreements		(39)	(39)	4	(38)	(34)
FHLB advances	39	774	813	(185)	470	285
Total interest expense	227	1,176	1,403	(111)	693	582
Increase (decrease) in net interest income	$ (1,929)	$ 9,801	$ 7,872	$ (1,385)	$ 4,890	$ 3,505

Interest income includes interest income earned on earning assets as well as applicable loan fees earned. Interest income that would have been earned on nonaccrual loans had they been on accrual status is not included in the data reported above.

Provision for Loan Losses - We have identified the evaluation of the allowance for loan losses as a critical accounting policy where amounts are sensitive to material variation. This policy is significantly affected by our judgment and uncertainties. There is likelihood that materially different amounts would be reported under different, but reasonably plausible, conditions or assumptions. Our activity in the provision for loan losses, which are charges or recoveries to operating results, is undertaken in order to maintain a level of total allowance for loan losses that management believes covers all known and inherent losses that are both probable and reasonably estimable as of each reporting date. Our evaluation process typically includes, among other things, an analysis of delinquency trends, non-performing 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 the loan, the borrower s ability to repay and repayment performance, the number of loans requiring heightened management oversight, general economic conditions and industry experience. The OCC, as an integral part of its examination process, periodically reviews our allowance for loan losses. The OCC may require the Bank to make additional provisions for estimated loan losses based upon judgments different from those of management. As part of the risk management program, independent reviews are performed on the loan portfolio, which supplement management s assessment of the loan portfolio and the allowance for loan losses. The results of independent reviews are reported to the Audit Committee of the Board of Directors.

For the year ended December 31, 2016, the Company recorded a provision for loan losses of $3.2 million, compared to provisions of $2.1 million and $2.4 million for 2015 and 2014, respectively. The provision for 2016 primarily related to downgrades of credit quality recorded as a result of our internal loan review and classification policy, as well as organic loan growth. The provision for 2015 related primarily to organic loan growth and an 11 basis point increase, or $873,000, on originated loans based on our analysis of the risk elements in our loan portfolio, including market conditions and the effects on state and local economies of continued low energy

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prices. The provision for loan losses recorded during 2014 resulted primarily from a $1.3 million partial charge-off on a $1.7 million medical equipment loan relationship and organic loan growth. Net charge-offs were $237,000 for 2016, compared to $283,000 and $1.5 million for 2015 and 2014, respectively. Charge-offs during 2014 resulted primarily from a $1.3 million partial charge-off mentioned previously.

At December 31, 2016, the Company s ratio of allowance for loan losses to total loans was 1.02%, compared to 0.78% at December 31, 2015. Excluding Acquired Loans, the ratio of allowance for loan losses to total originated loans was 1.38% at December 31, 2016, compared to 1.15% at December 31, 2015. Over the past two years, the Company has increased the ratio of its overall allowance for loan losses to loans on originated loans from 1.04% at December 31, 2014 due primarily to the potential direct and indirect impact of continuing low energy prices on our borrowers.

Noninterest Income The following table illustrates the primary components of noninterest income for the years indicated.

(dollars in thousands)	**2016**	**2015**	**2016 vs 2015 Percent Increase (Decrease)**	**2014**	**2015 vs 2014 Percent Increase (Decrease)**
Noninterest income:					
Service fees and charges	$ 4,061	$ 3,938	3.1%	$ 3,747	5.1%
Bank card fees	2,603	2,413	7.9	2,178	10.8
Gain on sale of loans, net	1,770	1,528	15.8	1,212	26.1
Income from bank-owned life insurance	483	504	(4.2)	458	10.0
Gain on sale of securities, net		7	(100.0)	2	250.0
Gain (loss) on sale of assets, net	595	(491)	221.3		
Other income	1,645	871	88.9	578	50.7
Total noninterest income	$ 11,157	$ 8,770	27.2%	$ 8,175	7.3%

2016 compared to 2015

Noninterest income for 2016 totaled $11.2 million, an increase of $2.4 million, or 27.2%, compared to 2015. The increase was primarily the result of increases in gains on sale of assets (up $1.1 million due to a $641,000 gain on the sale of a banking center in 2016 compared to a $491,000 loss on the sale of property during 2015), other income (up $774,000 primarily due to recoveries on previously charged off Acquired Loans), gains on the sale of mortgage loans (up $243,000), bank card fees (up $190,000) and service fees and charges (up $123,000).

2015 compared to 2014

Noninterest income for 2015 totaled $8.8 million, an increase of $595,000, or 7.3%, compared to 2014. The increase was primarily the result of increases in gains on the sale of mortgage loans (up $316,000), bank card fees (up $235,000) and service fees and charges (up $191,000). The increases were due to increased activity and the acquisition of Louisiana Bancorp.

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Noninterest Expense The following table illustrates the primary components of noninterest expense for the years indicated.

(dollars in thousands)	2016	2015	2016 vs 2015 Percent Increase (Decrease)	2014	2015 vs 2014 Percent Increase (Decrease)
Noninterest expense:					
Compensation and benefits	$ 27,634	$ 25,036	10.4%	$ 24,387	2.7%
Occupancy	5,255	4,876	7.8	4,670	4.4
Marketing and advertising	1,063	486	118.7	919	(47.1)
Data processing and communication	4,967	4,045	22.8	4,431	(8.7)
Professional services	983	1,755	(44.0)	1,160	51.3
Forms, printing and supplies	623	597	4.4	662	(9.8)
Franchise and shares tax	821	650	26.3	574	13.2
Regulatory fees	1,317	1,122	17.4	1,067	5.2
Foreclosed assets, net	140	443	(68.4)	997	(55.6)
Other expenses	3,994	3,012	32.6	2,905	3.7
Total noninterest expense	$ 46,797	$ 42,022	11.4%	$ 41,772	0.6%

2016 compared to 2015

Noninterest expense for 2016 totaled $46.8 million, an increase of $4.8 million, or 11.4%, from 2015. Noninterest expense includes merger-related expenses related to the acquisition of Louisiana Bancorp of $856,000 and $1.4 million for the years ended December 31, 2016 and 2015, respectively. Excluding merger-related expenses, noninterest expense increased $5.3 million, or 13.1%, for the year ended December 31, 2016. The increase was primarily the result of higher compensation and benefits, data processing and communications, marketing and advertising and other expenses due primarily to the Company s growth.

2015 compared to 2014

Noninterest expense for 2015 totaled $42.0 million, an increase of $250,000, or 0.6%, from 2014. Noninterest expense includes merger-related expenses related to the acquisition of Louisiana Bancorp of $1.4 million for the year ended December 31, 2015 and $2.3 million for the year ended December 31, 2014 due to the Britton & Koontz acquisition. Excluding merger-related expenses, noninterest expense increased $1.1 million, or 2.9%, for the year ended December 31, 2015. The increase in noninterest expense was primarily the result of the addition of Louisiana Bancorp employees, its operation and facilities.

Income Taxes For the years ended December 31, 2016, 2015 and 2014, the Company incurred income tax expense of $7.6 million, $6.7 million and $5.2 million, respectively. The Company s effective tax rate amounted to 32.1%, 34.7% and 34.5% during 2016, 2015 and 2014, respectively. The difference between the effective tax rate and the statutory tax rate primarily related to variances in items that are non-taxable or non-deductible, primarily the effect of tax-exempt income and various tax credits taken. The lower effective tax rate for 2016 resulted from our adoption of ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based

Payment Accounting. This ASU simplified several aspects of share-based payment transactions, including the income tax consequences. Excess tax benefits and tax deficiencies are now recognized as income tax expense or benefit in the income statement in the period exercise or vesting occurs, whereas they were previously recognized as adjustments to additional paid-in capital. See Note 12 to the Consolidated Financial Statements for additional information concerning our income taxes.

LIQUIDITY AND CAPITAL RESOURCES

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. We also maintain excess funds in short-term, interest-bearing assets that provide additional liquidity. As of December 31, 2016, our cash and cash equivalents totaled $29.3 million. In addition, as of such date, our available for sale investment securities totaled $183.7 million.

We use our 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 December 31, 2016, we had certificates of deposit maturing within the next 12 months totaling $151.5 million. Based upon historical experience, we anticipate that the majority of the maturing certificates of deposit will be redeposited with us in certificates of deposit or other deposit accounts.

In addition to cash flows from loan and securities payments and prepayments as well as from sales of available for sale securities, we have significant borrowing capacity available to fund liquidity needs. In recent years, we have utilized borrowings as a cost efficient addition to deposits as a source of funds. Our borrowings consist of advances from the FHLB, of which we are a member. Under terms of the collateral agreement with the FHLB, we may pledge residential mortgage loans and mortgage-backed securities as well as our stock in the FHLB as collateral for such advances. For the year ended December 31, 2016, the average balance of our outstanding FHLB advances was $125.7 million. As of December 31, 2016, we had $118.5 million in outstanding FHLB advances and $494.9 million in additional FHLB advances available to us.

Liquidity management is both a daily and long-term function of business management. Excess liquidity is generally invested in short-term investments such as overnight deposits. On a longer-term basis, the Company maintains a strategy of investing in various lending and investment security products. The Company uses its sources of funds primarily to meet its ongoing commitments and fund loan commitments. The Company has been able to generate sufficient cash through its deposits, as well as borrowings, and anticipates it will continue to have sufficient funds to meet its liquidity requirements.

ASSET/ LIABILITY MANAGEMENT AND MARKET RISK

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 is also monitored by management through the use of models which generate 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 December 31, 2016.

Shift in Interest Rates

(in bps)	% Change in Projected Net Interest Income
+300	0.1%
+200	0.3
+100	0.3

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 interest-earning assets and maintain a desired mix of interest-earning assets and interest-bearing liabilities, the actual timing of asset and liability repricing, the magnitude of interest rate changes and corresponding movement in interest rate spreads, and the level of success of asset/liability management strategies.

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Market risk is the risk of loss from adverse changes in market prices and rates. Our market risk arises primarily from the interest rate risk which is inherent in our lending and deposit taking activities. To that end, management actively monitors and manages interest rate risk exposure. In addition to market risk, our primary risk is credit risk on our loan portfolio. We attempt to manage credit risk through our loan underwriting and oversight policies.

The principal objective of our interest rate risk management function is to evaluate the interest rate risk embedded in certain balance sheet accounts, determine the level of risk appropriate given our business strategy, operating environment, capital and liquidity requirements, performance objectives and interest rate environment and manage the risk consistent with approved guidelines. We seek to manage our exposure to risks from changes in interest rates while at the same time trying to improve our net interest spread. We monitor interest rate risk as such risk relates to our operating strategies. We have established an Asset/Liability Committee (ALCO), which is comprised of our Chief Executive Officer, Chief Financial Officer, Chief Banking Officer, Chief Credit Officer, Chief Operating Officer, Director of Financial Management and Treasurer. ALCO is responsible for reviewing our asset/liability and investment policies and interest rate risk position. ALCO meets at least monthly. The extent of the movement of interest rates is an uncertainty that could have a negative impact on future earnings.

In recent years, we primarily have utilized the following strategies in our efforts to manage interest rate risk:

- we have increased our originations of shorter term loans, particularly commercial real estate and commercial and industrial loans;

- we generally sell our conforming long-term (30-year) fixed-rate single-family residential mortgage loans into the secondary market; and

- we have invested in securities, consisting primarily of mortgage-backed securities and collateral mortgage obligations, with relatively short average lives, generally three to five years, and we maintain adequate amounts of liquid assets.

OFF-BALANCE SHEET ACTIVITIES

To meet the financing needs of its customers, the Company 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 the undisbursed portion of construction loans as of December 31 of the years indicated.

	Contract Amount	
(dollars in thousands)	**2016**	**2015**

Standby letters of credit	$ 5,233	$ 3,764
Available portion of lines of credit	141,968	127,393
Undisbursed portion of loans in process	62,791	73,699
Commitments to originate loans	98,714	89,653

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 and revolving credit lines 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 position or results of operations of the Company.

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 the undisbursed portion of construction loans as of December 31, 2016.

(dollars in thousands)	**Less Than One Year**	**One to Three Years**	**Three to Five Years**	**Over Five Years**	**Total**
Unused commercial lines of credit	$ 59,853	$ 13,512	$ 530	$	$ 73,895
Unused personal lines of credit	3,641	6,866	4,776	52,790	68,073
Undisbursed portion of loans in process	51,838	7,287	3,543	123	62,791
Commitments to originate loans	98,714				98,714
Standby letters of credit	4,513	600	120		5,233
Total	$ 218,559	$ 28,265	$ 8,969	$ 52,913	$ 308,706

The Company has utilized leasing arrangements to support the ongoing activities of the Company. The required payments under such commitments and other contractual cash commitments as of December 31, 2016 are shown in the following table.

(dollars in thousands)	**2017**	**2018**	**2019**	**2020**	**2021**	**Thereafter**	**Total**
Operating leases	$ 179	$ 179	$ 134	$ 101	$ 100	$ 638	$ 1,331
Certificates of deposit	151,474	78,337	17,779	8,777	12,435	3,461	272,263
Long-term FHLB advances	22,788	6,000	12,563	31,830	848	4,504	78,533
Total	$ 174,441	$ 84,516	$ 30,476	$ 40,708	$ 13,383	$ 8,603	$ 352,127

IMPACT OF INFLATION AND CHANGING PRICES

The financial statements, accompanying notes and related financial data of the Company presented herein have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of operations. Most of our assets and liabilities are monetary in nature; therefore, the impact of interest rates has a greater impact on its performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

<u>Item 7A.</u> **<u>Quantitative and Qualitative Disclosures about Market Risk</u>.**

The information contained in the section captioned Management s Discussion and Analysis of Financial Condition and Results of Operations Asset/Liability Management and Market Risk in Item 7 hereof is incorporated herein by reference.

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Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

Home Bancorp, Inc.

Lafayette, Louisiana

We have audited the accompanying consolidated statements of financial condition of Home Bancorp, Inc. and subsidiary (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in shareholders equity, and cash flows for each of the three years in the period ended December 31, 2016. We also have examined the internal control over financial reporting of the Company as of December 31, 2016, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assertion of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures of the company are being made only in accordance with authorizations of management and those charged with governance; and (c) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

/s/ Porter Keadle Moore, LLC

Atlanta, Georgia

March 14, 2017

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HOME BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents	$ 29,314,741	$ 24,797,599
Interest-bearing deposits in banks	1,884,000	5,143,585
Investment securities available for sale, at fair value	183,729,857	176,762,200
Investment securities held to maturity (fair values of $13,362,062 and $14,120,842, respectively)	13,365,479	13,926,861
Mortgage loans held for sale	4,156,186	5,651,250
Loans, net of unearned income	1,227,833,309	1,224,365,916
Allowance for loan losses	(12,510,708)	(9,547,487)
Total loans, net of unearned income and allowance for loan losses	1,215,322,601	1,214,818,429
Office properties and equipment, net	39,566,639	40,815,744
Cash surrender value of bank-owned life insurance	20,149,553	19,666,900
Accrued interest receivable and other assets	49,242,977	50,329,032
Total Assets	$ 1,556,732,033	$ 1,551,911,600
Liabilities		
Deposits:		
Noninterest-bearing	$ 296,519,496	$ 296,616,693
Interest-bearing	951,552,957	947,599,823
Total deposits	1,248,072,453	1,244,216,516
Short-term Federal Home Loan Bank advances	40,000,000	39,939,375
Long-term Federal Home Loan Bank advances	78,533,173	85,213,222
Accrued interest payable and other liabilities	10,283,383	17,496,133
Total Liabilities	1,376,889,009	1,386,865,246
Shareholders Equity		
Preferred stock, $0.01 par value - 10,000,000 shares authorized; none issued		
Common stock, $0.01 par value - 40,000,000 shares authorized; 7,350,102 and 7,239,821 shares issued and outstanding	73,502	72,399
Additional paid-in capital	79,425,604	76,948,914
Unallocated common stock held by:		
Employee Stock Ownership Plan (ESOP)	(4,195,590)	(4,552,670)
Recognition and Retention Plan (RRP)	(119,633)	(158,590)
Retained earnings	104,647,375	91,864,543
Accumulated other comprehensive income	11,766	871,758

Total Shareholders Equity	179,843,024	165,046,354
Total Liabilities and Shareholders Equity	$ 1,556,732,033	$ 1,551,911,600

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

	Years Ended December 31,		
	2016	**2015**	**2014**
Interest Income			
Loans, including fees	$ 63,731,508	$ 54,466,025	$ 50,273,076
Investment securities:			
Taxable interest	3,001,887	3,031,381	3,146,187
Tax-exempt interest	674,695	712,602	740,333
Other investments and deposits	276,224	199,646	162,965
Total interest income	67,684,314	58,409,654	54,322,561
Interest Expense			
Deposits	3,701,244	3,072,725	2,742,106
Securities sold under repurchase agreements		39,126	72,986
Short-term Federal Home Loan Bank advances	188,425	51,406	125,021
Long-term Federal Home Loan Bank advances	1,378,702	702,136	343,306
Total interest expense	5,268,371	3,865,393	3,283,419
Net interest income	62,415,943	54,544,261	51,039,142
Provision for loan losses	3,200,000	2,070,894	2,364,358
Net interest income after provision for loan losses	59,215,943	52,473,367	48,674,784
Noninterest Income			
Service fees and charges	4,060,906	3,937,797	3,746,580
Bank card fees	2,603,075	2,413,459	2,178,194
Gain on sale of loans, net	1,770,249	1,527,721	1,212,157
Income from bank-owned life insurance	482,653	503,790	458,163
Gain on sale of securities, net		7,279	1,826
Gain (loss) on sale of assets, net	595,523	(491,109)	
Other income	1,644,758	870,581	577,858
Total noninterest income	11,157,164	8,769,518	8,174,778
Noninterest Expense			
Compensation and benefits	27,633,636	25,035,862	24,386,501
Occupancy	5,254,889	4,875,945	4,670,318
Marketing and advertising	1,062,935	486,341	919,483
Data processing and communication	4,967,028	4,044,553	4,430,519
Professional services	983,445	1,755,286	1,159,814
Forms, printing and supplies	623,495	596,748	662,074

Franchise and shares tax	820,774	650,461	574,060
Regulatory fees	1,317,015	1,122,254	1,066,999
Foreclosed assets, net	139,578	443,228	996,633
Other expenses	3,994,022	3,011,747	2,905,191
Total noninterest expense	46,796,817	42,022,425	41,771,592
Income before income tax expense	23,576,290	19,220,460	15,077,970
Income tax expense	7,567,954	6,670,559	5,206,383
Net Income	$ 16,008,336	$ 12,549,901	$ 9,871,587
Earnings per share:			
Basic	$ 2.34	$ 1.87	$ 1.51
Diluted	$ 2.25	$ 1.79	$ 1.42
Cash dividends declared per common share	$ 0.41	$ 0.30	$ 0.07

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

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HOME BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Years Ended December 31,		
	2016	**2015**	**2014**
Net Income	$ 16,008,336	$ 12,549,901	$ 9,871,587
Other Comprehensive (Loss) Income			
Unrealized (losses) gains on investment securities	(1,323,064)	(659,057)	1,709,151
Reclassification adjustment for gains included in net income		(7,279)	(1,826)
Tax effect	463,072	233,218	(597,564)
Other comprehensive (loss) income, net of taxes	(859,992)	(433,118)	1,109,761
Comprehensive Income	$ 15,148,344	$ 12,116,783	$ 10,981,348

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

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HOME BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

	Common Stock	Additional Paid-in Capital	Treasury Stock	Unallocated Common Stock Held by ESOP	Unallocated Common Stock Held by RRP	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	
ecember 31, 2013	$ 89,585	$ 92,192,410	$ (28,011,398)	$ (5,266,830)	$ (1,018,497)	$ 83,729,144	$ 195,115	$ 14
						9,871,587		
orehensive income							1,109,761	
f Company s common t, 26,222 shares			(561,493)					
ends declared, hare						(498,816)		
stock options	503	580,585						
released for allocation		(584,015)			815,907			
es released for allocation		447,496		357,080				
d compensation cost		695,632						
ecember 31, 2014	$ 90,088	$ 93,332,108	$ (28,572,891)	$ (4,909,750)	$ (202,590)	$ 93,101,915	$ 1,304,876	$ 15
						12,549,901		1
orehensive income							(433,118)	
f Company s common t, 155,218 shares			(3,465,959)					(
ation of treasury stock na law[1]	(20,405)	(20,393,258)	32,038,850			(11,625,187)		
ends declared, $0.30 per						(2,162,086)		(
stock options	2,716	3,279,481						
released for allocation		(32,106)			44,000			
es released for allocation		641,576		357,080				
d compensation cost		121,113						
ecember 31, 2015	$ 72,399	$ 76,948,914	$	$ (4,552,670)	$ (158,590)	$ 91,864,543	$ 871,758	$ 16
						16,008,336		1
orehensive income							(859,992)	
f Company s common t, 12,826 shares	(128)	(128,501)				(228,686)		
ends declared, $0.41 per						(2,987,597)		(

tock issued under ans, net of shares in payment, x benefit, 3,877 shares	39	3,442				(9,221)		
stock options	1,192	1,414,744						
released for allocation		(25,992)			38,957			
es released for allocation		842,631		357,080				
d compensation cost		370,366						
ecember 31, 2016	$ 73,502	$ 79,425,604	$	$ (4,195,590)	$ (119,633)	$ 104,647,375	$ 11,766	$ 17

(1) See Note 2 for details on the Louisiana Business Corporation Act.

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

	Years Ended December 31, 2016	2015	2014
Cash flows from operating activities, net of effects of acquisitions:			
Net income	$ 16,008,336	$ 12,549,901	$ 9,871,587
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	3,200,000	2,070,894	2,364,358
Depreciation	1,794,714	1,807,480	1,737,579
Amortization and accretion of purchase accounting valuations and intangibles	3,256,194	4,045,736	8,650,398
Net amortization of mortgage servicing asset	254,077	180,364	160,071
Federal Home Loan Bank stock dividends	(86,600)	(12,800)	(18,800)
Net amortization of discount on investments	1,652,856	1,530,144	1,327,352
Gain on sale of investment securities, net		(7,279)	(1,826)
Gain on loans sold, net	(1,770,249)	(1,527,721)	(1,212,157)
Proceeds, including principal payments, from loans held for sale	179,638,804	153,954,728	113,074,911
Originations of loans held for sale	(176,373,491)	(153,561,422)	(112,793,674)
Non-cash compensation	1,570,077	1,119,769	1,451,883
Deferred income tax (benefit) expense	(321,490)	630,864	516,456
(Increase) decrease in accrued interest receivable and other assets	(588,526)	8,905,751	7,688,608
Increase in cash surrender value of bank-owned life insurance	(482,653)	(503,790)	(458,163)
(Increase) decrease in accrued interest payable and other liabilities	(7,264,364)	4,982,769	(4,458,388)
Net cash provided by operating activities	20,487,685	36,165,388	27,900,195
Cash flows from investing activities, net of effects of acquisitions:			
Purchases of securities available for sale	(47,075,669)	(18,713,312)	(22,810,016)
Purchases of securities held to maturity		(2,927,988)	(3,000,747)
Proceeds from maturities, prepayments and calls on securities available for sale	37,458,473	30,094,652	29,337,106
Proceeds from maturities, prepayments and calls on securities held to maturity	235,000	400,000	466,470
Proceeds from sales on securities available for sale		21,194,622	66,905,382
Increase in loans, net	(7,061,612)	(41,104,084)	(57,637,109)
Reimbursement from FDIC for covered assets	51,128	403,865	837,396

Decrease in interest-bearing deposits in banks	3,259,585	863,700	1,237,000
Proceeds from sale of repossessed assets	1,410,569	5,378,286	6,771,868
Purchases of office properties and equipment	(4,112,610)	(828,723)	(3,304,837)
Proceeds from sale of office properties and equipment	4,335,095	2,016,239	60,480
Net cash disbursed in business combinations		(56,404,340)	(22,995,649)
Purchases of Federal Home Loan Bank stock		(4,751,000)	(3,024,600)
Proceeds from redemption of Federal Home Loan Bank stock		2,444,900	5,360,300
Net cash used in investing activities	(11,500,041)	(61,933,183)	(1,796,956)
Cash flows from financing activities, net of effects of acquisitions:			
Increase in deposits	3,943,483	42,055,227	35,778,663
Borrowings on Federal Home Loan Bank advances	2,642,250,000	4,931,772,337	13,972,850,000
Repayments of Federal Home Loan Bank advances	(2,648,729,269)	(4,929,994,229)	(14,031,499,000)
Decrease in securitites sold under repurchase agreements		(20,000,000)	(6,314,674)
Proceeds from exercise of stock options	1,415,936	3,282,197	581,088
Issuance of stock under incentive plans	(5,740)		
Dividends paid to shareholders	(2,987,597)	(2,162,086)	(498,816)
Purchase of Company s common stock	(357,315)	(3,465,959)	(561,493)
Net cash provided (used in) by financing activities	(4,470,502)	21,487,487	(29,664,232)
Net change in cash and cash equivalents	4,517,142	(4,280,308)	(3,560,993)
Cash and cash equivalents at beginning of year	24,797,599	29,077,907	32,638,900
Cash and cash equivalents at end of year	$ 29,314,741	$ 24,797,599	$ 29,077,907
Supplementary cash flow information:			
Interest paid on deposits and borrowed funds	$ 5,207,346	$ 3,844,807	$ 3,524,374
Income taxes paid	7,913,000	3,702,500	5,140,000
Noncash investing and financing activities:			
Transfer of loans to repossessed assets	$ 1,885,180	$ 3,073,326	$ 8,062,009
Assets acquired and liabilities assumed in acquisitions:			
Assets acquired in acquisitions		351,138,388	298,929,990
Liablities assumed in acquisitions		291,313,436	264,457,929

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

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HOME BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

Home Bancorp, Inc., a Louisiana Corporation (Company), was organized by Home Bank (a federally chartered savings bank and the predecessor of Home Bank, N.A.) (Bank) in May 2008 to facilitate the conversion of the Bank from the mutual to the stock form (Conversion) of ownership. The Conversion was completed on October 2, 2008, at which time the Company became the holding company for the Bank, with the Company owning all of the issued and outstanding shares of the Bank s common stock. The Company and Bank are headquartered in Lafayette, Louisiana. As of December 31, 2016, the Company was a bank holding company.

As of December 31, 2016, Home Bank, N.A. was a nationally chartered bank. The Bank was originally chartered in 1908 as a Louisiana state chartered savings association. The Bank converted to a federal mutual savings bank charter in 1993.

In 2010, the Bank expanded into the Northshore (of Lake Pontchartrain) region through a Federal Deposit Insurance Corporation (FDIC) assisted acquisition of certain assets and liabilities of the former Statewide Bank (Statewide). In July 2011, the Bank expanded into the Greater New Orleans region through its acquisition of GS Financial Corporation (GSFC), the former holding company of Guaranty Savings Bank (Guaranty). In February 2014, the Bank expanded into west Mississippi through its acquisition of Britton & Koontz Capital Corporation (Britton & Koontz), the holding company for Britton & Koontz Bank, N.A. (Britton & Koontz Bank) of Natchez, Mississippi. In September 2015, the Bank expanded its existing presence in the Greater New Orleans region through the acquisition of Louisiana Bancorp, Inc. (Louisiana Bancorp), the former holding company of Bank of New Orleans (BNO) of Metairie, Louisiana. As of December 31, 2016, the Bank conducted business from 29 banking offices in the Greater Lafayette, Northshore, Baton Rouge and Greater New Orleans regions of south Louisiana and west Mississippi.

The Bank is primarily engaged in attracting deposits from the general public and using those funds to invest in loans and investment securities. The Bank s principal sources of funds are customer deposits, repayments of loans, repayments of investments and funds borrowed from outside sources such as the Federal Home Loan Bank (FHLB) of Dallas. The Bank derives its income principally from interest earned on loans and investment securities and, to a lesser extent, from fees received in connection with the origination of loans, service charges on deposit accounts and for other services. The Bank s primary expenses are interest expense on deposits and borrowings and general operating expenses.

The Bank s primary regulator is the Office of the Comptroller of the Currency (OCC). Its deposits are insured to the maximum amount permissible under federal law by the FDIC. In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was passed by Congress. The Dodd-Frank Act, among other things, imposed new restrictions and an expanded framework of regulatory oversight for financial institutions and their holding companies, including the Bank and the Company. The Dodd-Frank Act also created the Consumer Financial Protection Bureau (CFPB) that has the authority to promulgate rules intended to protect consumers in the financial products and services market. Because many of the regulations under the new law have not been promulgated, we cannot determine the full impact on our business and operations at this time.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term include, but are not limited to, the determination of the allowance for loan losses, income taxes, valuation of investments with other-than-temporary impairment, acquisition accounting valuations and valuation of share-based compensation.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, due from banks and interest-bearing deposits with the FHLB. The Company considers all highly liquid debt instruments with original maturities of three months or less (excluding interest-bearing deposits in banks) to be cash equivalents.

The Bank is required to maintain cash reserves with the Federal Reserve Bank. The requirement is dependent upon the Bank s cash on hand or noninterest-bearing balances. There was no reserve requirement as of December 31, 2016 and 2015. The Bank was in compliance with reserve requirements at such dates.

Investment Securities

The Company follows the guidance under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 320, *Investments Debt and Equity Securities*. This standard addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities. Under the topic, investment securities, which the Company both positively intends and has the ability to hold to maturity, are classified as held to maturity and carried at amortized cost.

Investment securities that are acquired with the intention of being resold in the near term are classified as trading securities under ASC 320 and are carried at fair value, with unrealized holding gains and losses recognized in current earnings. The Company did not hold any securities for trading purposes at, or during the years ended, December 31, 2016 or 2015.

Securities not meeting the criteria of either trading securities or held to maturity are classified as available for sale and are carried at fair value. Unrealized holding gains and losses for these securities are recognized, net of related income tax effects in the Consolidated Statements of Comprehensive Income.

Interest income earned on securities either held to maturity or available for sale is included in current earnings, including the amortization of premiums and the accretion of discounts using the interest method. Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to the yield. The gain or loss realized on the sale of securities classified as available for sale or held to maturity, as determined using the specific identification method for determining the cost of the securities sold, is computed with reference to its amortized cost and is also included in current earnings.

The Company reviews investment securities for other-than-temporary impairment quarterly. Impairment is considered to be other-than-temporary if it is likely that all amounts contractually due will not be received for debt securities and when there is no positive evidence indicating that an investment s carrying amount is recoverable in the near term for equity securities. When a decline in the fair value of available for sale and held to maturity securities below cost is deemed to be credit related, a charge for other-than-temporary impairment is included in earnings as Other-than-temporary impairment of securities . The decline in fair value attributed to non-credit related factors is recognized in other comprehensive income and a new cost basis for the security is established. The new cost basis is not changed for subsequent recoveries in fair value. Increases and decreases between fair value and cost on available for sale securities are reflected in the Consolidated Statements of Comprehensive Income. In evaluating whether impairment is temporary or other-than-temporary, the Company considers, among other things, the time period the security has been in an unrealized loss position; the financial condition of the issuer and its industry; recommendations of investment advisors; economic forecasts; market or industry trends; changes in tax laws, regulations, or other governmental policies significantly affecting the issuer;

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any downgrades from rating agencies; and any reduction or elimination of dividends. The Company s intent and ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value is also considered.

Loans Held for Sale

The Company sells mortgage loans and loan participations for an amount equal to the principal amount of loans or participations with yields to investors based upon current market rates. Realized gains and losses related to loan sales are included in noninterest income.

The Company allocates the cost to acquire or originate a mortgage loan between the loan and the right to service the loan if it intends to sell or securitize the loan and retain servicing rights. In addition, the Company periodically assesses capitalized mortgage servicing rights for impairment based on the fair value of such rights. To the extent that temporary impairment exists, write-downs are recognized in current earnings as an adjustment to the corresponding valuation allowance. Permanent impairment is recognized through a write-down of the asset with a corresponding reduction in the valuation allowance. For purposes of performing its impairment evaluation, the portfolio is stratified on the basis of certain risk characteristics, including loan type and interest rates. Capitalized servicing rights are amortized over the period of, and in proportion to, estimated net servicing income, which considers appropriate prepayment assumptions.

For financial reporting purposes, the Company classifies a portion of its loans as Mortgage loans held for sale . Included in this category are loans which the Company has the current intent to sell and loans which are available to be sold in the event that the Company determines that loans should be sold to support the Company s investment and liquidity objectives, as well as to support its overall asset and liability management strategies. Loans included in this category for which the Company has the current intention to sell are recorded at the lower of aggregate cost or fair value. As of December 31, 2016 and 2015, the Company had $4,156,000 and $5,651,000, respectively, in loans classified as Mortgage loans held for sale.

As of December 31, 2016 and 2015 the Company had $188,103,000 and $226,379,000, respectively, outstanding in loans sold to government agencies that it was servicing through a third party.

Loans

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

Originated Loans

Loans are carried net of discounts on loan originations are amortized using the level yield interest method over the remaining contractual life of the loan. Nonrefundable loan origination fees, net of direct loan origination costs, are deferred and recognized over the life of the loan as an adjustment of yield using the interest method.

Interest on loans receivable is accrued as earned using the interest method over the life of the loan. Interest on loans deemed uncollectible is excluded from income. The accrual of interest is discontinued and reversed against current income once loans become more than 90 days past due or earlier if conditions warrant. The past due status of loans is determined based on the contractual terms. When a loan is placed on nonaccrual status, previously accrued and uncollected interest is charged against interest income on loans. Interest payments are applied to reduce the principal balance on nonaccrual loans. Loans are returned to accrual status when all past due payments are received in full and future payments are probable.

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 being deemed a criticized or classified 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 reviewed by, the Company s Appraisal and Review Department. The Company typically orders an as is valuation for collateral property if the loan is in a criticized loan classification.

Loans, or portions of loans, are charged off in the period that such loans, or portions thereof, are deemed uncollectible. The collectability of individual loans is determined through an estimate of the fair value of the underlying collateral and/or assessment of the financial condition and repayment capacity of the borrower.

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Acquired Loans

Acquired Loans at December 31, 2016 and 2015 are those associated with our acquisitions of Statewide, GSFC, Britton & Koontz and Louisiana Bancorp. These 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 development 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.

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 fair value discount for the loan pool. Once the 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.

Certain loans purchased in the Statewide acquisition are covered by loss sharing agreements between the FDIC and the Company. Historically, the Company has referred to loans subject to loss share agreements with the FDIC as covered loans. However, in March 2015, a significant portion of the loss sharing agreements had expired and any future losses on these formerly covered loans are no longer eligible for reimbursement from the FDIC. As of December 31, 2016, only residential mortgage loans acquired from Statewide remained subject to loss sharing agreements with the FDIC. The Company s remaining loans subject to loss sharing agreements with the FDIC amounted to approximately $2.8 million, or less than 0.2% of the Company s total loan portfolio at such date. Given the limited amount of covered loans remaining, the Company is no longer reporting such loans as covered loans, and they are included in Acquired Loans.

Allowance for Loan Losses

The allowance for loan losses on loans in our portfolio is maintained at an amount which management believes covers the reasonably estimable and probable losses on such portfolio. The allowance for loan losses is comprised of specific and general reserves. The Company determines specific reserves based on the provisions of ASC 310, *Receivables*. The Company s allowance for loan losses includes a measure of impairment related to those loans specifically identified for evaluation under the topic. This measurement is based on a comparison of the recorded investment in the loan with either the expected cash flows discounted using the loan s original

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effective interest rate, observable market price for the loan or the fair value of the collateral underlying certain collateral-dependent loans. General reserves are based on management s evaluation of many factors, including current economic trends, industry experience, historical loss experience (generally three years), industry loan concentrations, the borrowers abilities to repay and repayment performance, probability of foreclosure and estimated collateral values. As these factors change, adjustments to the allowance for loan losses are charged to current operations. Loans that are determined to be uncollectible are charged-off against the allowance for loan losses once that determination is made.

While management uses available information to make loan loss allowance evaluations, adjustments to the allowance may be necessary based on changes in economic and other conditions or changes in accounting guidance. The OCC, as an integral part of its examination processes, periodically reviews the allowance for loan losses. The OCC may require the recognition of adjustments to the allowance for loan losses based on its judgment of information available to it as of the time of its examinations. To the extent the OCC s estimates differ from management s estimates, additional provisions to the allowance for loan losses may be required as of the time of its examination. As part of the risk management program, an independent review is performed on the loan portfolio, which supplements management s assessment of the loan portfolio and the allowance for loan losses. The result of the independent review is reported directly to the Audit Committee of the Board of Directors.

Repossessed Assets

Repossessed assets are recorded at fair value less estimated selling costs at the date acquired or upon receiving new property valuations. Costs relating to the development and improvement of foreclosed property are capitalized, and costs relating to holding and maintaining the property are expensed. Write-downs from cost to fair value at the dates of foreclosure are charged against the allowance for loan losses. Valuations are performed periodically and a charge to operations is recorded if the carrying value of a property exceeds its fair value less selling costs. Generally, the Company appraises the property at the time of foreclosure and at least every 12 months following the foreclosure. The Company had $2,893,000 and $3,128,000 of repossessed assets as of December 31, 2016 and 2015, respectively. Repossessed Assets are recorded in accrued interest receivable and other assets on the Consolidated Statements of Financial Condition.

Federal Home Loan Bank Stock

As a member of the FHLB, the Bank is required to maintain a minimum investment in its stock that varies with the level of FHLB advances outstanding. The stock is bought from and sold to the FHLB based upon its $100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated for impairment in accordance with GAAP. The stock s value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted, (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance, (c) the impact of legislative and regulatory changes on the customer base of the FHLB and (d) the liquidity position of the FHLB.

Office Properties and Equipment

Office properties and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method with rates based on the estimated useful lives of the individual assets, which range from 3 to 40 years. Expenditures which substantially increase the useful lives of existing property and equipment are capitalized while routine expenditures for repairs and maintenance are expensed as incurred.

Cash Surrender Value of Bank-owned Life Insurance

Life insurance contracts represent single premium life insurance contracts on the lives of certain officers of the Bank. The Bank is the beneficiary of these policies. These contracts are reported at their cash surrender value and changes in the cash surrender value are included in noninterest income.

Intangible Assets

Intangible assets consist of goodwill, core deposit intangibles and mortgage servicing rights. These assets are recorded in accrued interest receivable and other assets on the Consolidated Statements of Financial Condition. Goodwill represents the excess purchase price over the fair value of net assets acquired in business acquisitions.

Goodwill is not amortized but rather is evaluated for impairment at least annually. Core deposit intangibles represent the estimated value related to customer deposit relationships assumed in the Company s acquisitions. Core deposit intangibles are being amortized over nine to 15 years. The mortgage servicing rights represent servicing assets related to mortgage loans sold and serviced at fair value. Mortgage servicing rights are being amortized over a maximum of 10 years using an accelerated method.

Shareholders Equity

Effective January 1, 2015, companies incorporated under Louisiana law became subject to the Louisiana Business Corporation Act. Provisions of the Louisiana Business Corporation Act eliminate the concept of treasury stock and provide that shares reacquired by a company are to be treated as authorized but unissued shares. Accounting principles generally accepted in the United States of America state that accounting for treasury stock shall conform to state law. The Company s Consolidated Financial Statements at and for the years ended December 31, 2015 and 2016 reflect this change. For the years ended December 31, 2016 and 2015, the cost of shares repurchased by the Company have been allocated to common stock, additional paid-in capital and retained earnings.

Transfer of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right, free of conditions that constrain it from taking advantage of that right, to pledge or exchange the transferred assets and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before maturity.

Salary Continuation Agreements

The Company records the expense associated with its salary continuation agreements over the service periods of the persons covered under these agreements.

Income Taxes

The Company accounts for income taxes under the liability method. Deferred tax assets and liabilities are recorded for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax benefits are recognized to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the assets and liabilities are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income taxes during the period that includes the enactment date.

In the event the future tax consequences of differences between the financial reporting bases and the tax bases of the Company s assets and liabilities results in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such asset is required. A valuation allowance is provided for the portion of the deferred tax asset when it is more likely than not that some or all of the deferred tax asset will not be realized. In assessing the realizability of the deferred tax assets, management considers the scheduled reversals of deferred tax liabilities, projected future taxable earnings and tax planning strategies.

The income tax benefit or expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities.

A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50 percent likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits, if applicable, in noninterest expense. During the years ended December 31, 2016, 2015, and 2014, the Company did not recognize any interest or penalties in its financial statements, nor has it recorded an accrued liability for interest or penalty payments.

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Stock-based Compensation Plans

The Company issues stock options under the 2009 Stock Option Plan and the 2014 Equity Incentive Plan to directors, officers and other key employees. In accordance with the requirements of ASC 718, *Compensation Stock Compensation*, the Company has adopted a fair value based method of accounting for employee stock compensation plans, whereby compensation cost is measured as of the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period.

The Company may issue restricted stock under the 2009 Recognition and Retention Plan and restricted stock or restricted stock units under the 2014 Equity Incentive Plan for directors, officers and other key employees. Awards under the plans may not be sold or otherwise transferred until certain restrictions have lapsed. The unearned compensation related to these awards is amortized to compensation expense over the service period, which is usually the vesting period. The total share-based compensation expense for these awards is determined based on the market price of the Company s common stock as of the date of grant applied to the total number of shares granted and is amortized over the vesting period.

Earnings Per Share

Earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance.

Comprehensive Income

GAAP generally requires that recognized revenues, expenses, gains and losses be included in net earnings. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheets, such items, along with net earnings, are components of comprehensive income. The tax effect for unrealized gains and losses on investment securities was ($463,072), ($230,670) and $598,203 for the periods ending December 31, 2016, 2015 and 2014, respectively. The reclassification adjustment for gains included in net income had a tax effect of $0, ($2,548) and ($639) for the periods ending December 31, 2016, 2015 and 2014. Comprehensive income is reflected in the Consolidated Statements of Comprehensive Income.

Reclassifications

Certain reclassifications have been made to prior period balances to conform to the current period presentation.

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 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 March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting . The ASU amends the codification to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification in the statement of cash flows. This ASU is effective for annual and interim periods beginning after December 15, 2016, with early adoption permitted. The Company elected to early adopt this ASU effective January 1, 2016. The Company elected to account for forfeitures as they occur. The adoption of ASU 2016-09 reduced income tax expense by $524,000 in 2016.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments . The ASU requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net carrying value at the amount expected to be collected on the financial assets. The income statement reflects the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount of financial assets. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The allowance for credit losses for purchased financial assets with a more-than-insignificant amount of credit deterioration since origination that are measured at amortized cost basis is determined in a similar manner to other financial assets measured at amortized cost basis; however, the initial allowance for credit losses is added to the purchase price rather than being reported as a credit loss expense. Only subsequent changes in the allowance for credit losses are recorded as a credit loss expense for these assets. Off-balance-sheet arrangements such as commitments to extend credit, guarantees, and standby letters of credit that and are not unconditionally cancellable are also within the scope of this amendment. Credit losses relating to 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.

3. Acquisition Activity

Louisiana Bancorp, Inc. On September 15, 2015, the Company acquired Louisiana Bancorp, Inc., the former holding company of Bank of New Orleans of Metairie, Louisiana. Assets acquired from Louisiana Bancorp totaled $352,897,000, which included loans of $281,583,000, investment securities of $36,420,000 and cash of $14,098,000. The Bank also recorded a core deposit intangible asset of $1,586,000 and goodwill of $8,454,000 relating to the acquisition of Louisiana Bancorp, and assumed liabilities of $291,313,000, which included $208,670,000 in deposits and $75,957,000 in FHLB advances. None of the loans acquired were considered impaired as of the date of acquisition.

Britton & Koontz Capital Corporation. On February 14, 2014, the Company acquired Britton & Koontz, the former holding company of Britton & Koontz Bank of Natchez, Mississippi. Assets acquired from Britton & Koontz totaled $298,930,000, which included loans of $162,581,000, investment securities of $97,985,000 and cash of $15,342,000. The Bank also recorded a core deposit intangible asset of $3,030,000 and goodwill of $43,000 relating to the acquisition of Britton & Koontz, and assumed liabilities of $264,458,000, which included $216,600,000 in deposits, $9,252,000 in FHLB advances and $27,291,000 in other borrowings.

Acquired loans which are impaired as of the date of acquisition are accounted for under ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. The nonaccretable difference on loans acquired from Britton & Koontz totaled $17,946,000 as of February 14, 2014 and represented an estimate of the undiscounted loss exposure in the acquired loans with deteriorated credit quality as of the acquisition date.

The following table summarizes the accretable yield on the loans acquired from Britton & Koontz with deteriorated credit quality as of February 14, 2014 and the changes therein through December 31, 2016.

(dollars in thousands)	2016	2015	2014
Balance, beginning of period	$ (1,682)	$ (1,824)	$
Acquisition accretable yield			(2,260)
Accretion	1,072	590	436
Net transfers from nonaccretable difference to accretable yield	(1,172)	(448)	
Balance, end of period	$ (1,782)	$ (1,682)	$ (1,824)

As of December 31, 2016, the weighted average remaining contractual life of the loan portfolio acquired with deteriorated credit quality from Britton & Koontz was 0.8 year.

GS Financial Corp. On July 15, 2011, the Company acquired GSFC, the former holding company of Guaranty Savings Bank of Metairie, Louisiana. Assets acquired from GSFC totaled $256,677,000, which included loans of $182,440,000, investment securities of $46,481,000 and cash of $9,262,000. The Bank also recorded a core deposit intangible asset of $859,000 and goodwill of $296,000 relating to the acquisition of GSFC, and assumed liabilities of $230,614,000, which included $193,518,000 in deposits and $34,707,000 in FHLB advances.

The nonaccretable difference on loans acquired from GSFC totaled $5,490,000 as of July 15, 2011 and represented an estimate of the undiscounted loss exposure in the acquired loans with deteriorated credit quality as of the acquisition date.

The following table summarizes the accretable yield on the loans acquired from GSFC with deteriorated credit quality as of July 15, 2011 and the changes therein through December 31, 2016.

(dollars in thousands)	2016	2015	2014
Balance, beginning of period	$ (1,240)	$ (1,270)	$ (1,281)
Acquisition accretable yield			
Accretion	942	30	11
Net transfers from nonaccretable difference to accretable yield			
Balance, end of period	$ (298)	$ (1,240)	$ (1,270)

As of December 31, 2016, the weighted average remaining contractual life of the loan portfolio acquired with deteriorated credit quality from GSFC was 5.9 years.

Statewide Bank. On March 12, 2010, the Bank acquired certain assets and liabilities of the former Statewide Bank, a full-service community bank formerly headquartered in Covington, Louisiana, from the FDIC. As a result of the Statewide acquisition, the Bank s branch office network was expanded to include six branches in the Northshore (of Lake Pontchartrain) region of Louisiana. Assets acquired in the Statewide transaction totaled $188,026,000, which included loans of $110,415,000, investment securities of $24,841,000 and cash of $11,569,000. In addition, the Bank recorded an FDIC Asset, representing the portion of estimated losses covered by loss sharing agreements between the Bank and the FDIC, of $34,422,000. The loss sharing agreements between the Bank and the FDIC afforded us significant protection against losses in the loan portfolio and repossessed assets acquired in the Statewide transaction. The Bank also recorded a core deposit intangible asset of $1,429,000 and goodwill of $560,000 relating to the Statewide acquisition, and assumed liabilities of $223,910,000, which included $206,925,000 in deposits and $16,824,000 in FHLB advances.

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The following table summarizes the accretable yield on the loans acquired from Statewide as of March 12, 2010 and the changes therein through December 31, 2016.

(dollars in thousands)	2016	2015	2014
Balance, beginning of period	$ (13,870)	$ (7,706)	$ (2,134)
Acquisition accretable yield			
Accretion	4,859	3,238	8,121
Net transfers from nonaccretable difference to accretable yield		(9,402)	(13,693)
Balance, end of period	$ (9,011)	$ (13,870)	$ (7,706)

As of December 31, 2016, the weighted average remaining contractual life of loan portfolio acquired with deteriorated credit quality from Statewide was 4.9 years.

4. Investment Securities

Summary information regarding the Company s investment securities classified as available for sale and held to maturity as of December 31, 2016 and 2015 follows.

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value
December 31, 2016			Less Than 1 Year	Over 1 Year	
Available for sale:					
U.S. agency mortgage-backed	$ 148,511	$ 984	$ 980	$ 290	$ 148,225
Non-U.S. agency mortgage-backed	5,043	38	1	44	5,036
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

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value
December 31, 2015			Less Than 1 Year	Over 1 Year	

Available for sale:										
U.S. agency mortgage-backed	$	134,748	$	1,464	$	287	$	447	$	135,478
Non-U.S. agency mortgage-backed		6,055		51				41		6,065
Municipal bonds		22,453		490		10				22,933
U.S. government agency		12,166		145		25				12,286
Total available for sale	$	175,422	$	2,150	$	322	$	488	$	176,762
Held to maturity:										
Municipal bonds	$	13,927	$	239	$	45	$		$	14,121
Total held to maturity	$	13,927	$	239	$	45	$		$	14,121

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Management evaluates securities for other-than-temporary impairment at least semi-annually, 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; (3) the Company s intent to sell a security or whether it is more likely than not we will be required to sell the security before the recovery of its amortized cost, which may extend to maturity and our ability and intent to hold the security for a period of time that allows for the recovery in value in the case of equity securities.

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 to be other than temporarily impaired, an impairment loss is recognized.

As of December 31, 2016, 83 of the Company s debt securities had unrealized losses totaling 1.5% of the individual securities amortized cost basis and 0.7% of the Company s total amortized cost basis of the investment securities portfolio. 10 of the 83 securities had been in a continuous loss position for over 12 months at such date. The 10 securities had an aggregate amortized cost basis and unrealized loss of $11,060,000 and $334,000, respectively, at December 31, 2016. Management has the intent and ability to hold these debt securities until maturity or until anticipated recovery. No declines in these 83 securities were deemed to be other-than-temporary.

The amortized cost and estimated fair value by maturity of the Company s investment securities as of December 31, 2016 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 the exercise of call options and potential paydowns. Accordingly, actual maturities may differ from contractual maturities.

(dollars in thousands)	**One Year or Less**	**After One Year through Five Years**	**After Five Years through Ten Years**	**After Ten Years**	**Total**
Fair Value					
Securities available for sale:					
U.S. agency mortgage-backed	$ 65	$ 4,463	$ 41,400	$ 102,297	$ 148,225
Non-U.S. agency mortgage-backed				5,036	5,036
Municipal bonds	1,877	10,024	8,722	805	21,428
U.S. government agency	1,011	5,023		3,007	9,041
Total securities available for sale	$ 2,953	$ 19,510	$ 50,122	$ 111,145	$ 183,730
Securities held to maturity:					
Municipal bonds	$	$ 2,730	$ 7,948	$ 2,684	$ 13,362
Total securities held to maturity	$ 2,953	$ 22,240	$ 58,070	$ 113,829	$ 197,092

(dollars in thousands)	One Year or Less	After One Year through Five Years	After Five Years through Ten Years	After Ten Years	Total
Amortized Cost					
Securities available for sale:					
U.S. agency mortgage-backed	$ 63	$ 4,426	$ 41,396	$ 102,626	$ 148,511
Non-U.S. agency mortgage-backed				5,043	5,043
Municipal bonds	1,876	9,925	8,651	760	21,212
U.S. government agency	999	4,993		2,954	8,946
Total securities available for sale	$ 2,938	$ 19,344	$ 50,047	$ 111,383	$ 183,712
Securities held to maturity:					
Municipal bonds	$	$ 2,723	$ 7,900	$ 2,742	$ 13,365
Total securities held to maturity	$ 2,938	$ 22,067	$ 57,947	$ 114,125	$ 197,077

For the year ended December 31, 2016, the Company recorded no gross gains or losses related to the sale of investment securities. For the year ended December 31, 2015, the Company recorded gross gains of $8,000 and gross losses of $1,000 related to the sale of investment securities.

As of December 31, 2016 and 2015, the Company had accrued interest receivable for investment securities of $802,000 and $784,000, respectively.

As of December 31, 2016 and 2015, the Company had $91,773,000 and $94,661,000, respectively, of securities pledged to secure public deposits.

5. Loans

The Company s loans, net of unearned income, consisted of the following as of December 31 of the years indicated.

(dollars in thousands)	2016	2015
Real estate loans:		
One- to four-family first mortgage	$ 341,883	$ 371,238
Home equity loans and lines	88,821	94,060
Commercial real estate	427,515	405,379
Construction and land	141,167	136,803
Multi-family residential	46,369	43,863
Total real estate loans	1,045,755	1,051,343
Other loans:		
Commercial and industrial	139,810	125,108
Consumer	42,268	47,915

Total other loans	182,078	173,023
Total loans	$ 1,227,833	$ 1,224,366

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A summary of activity in the Company s allowance for loan losses for the years ended December 31, 2016, 2015 and 2014 is as follows.

	For the Year Ended December 31, 2016				
(dollars in thousands)	**Beginning Balance**	**Charge-offs**	**Recoveries**	**Provision**	**Ending Balance**
Originated loans:					
Allowance for loan losses:					
One- to four-family first mortgage	$ 1,372	$	$	$ 64	$ 1,436
Home equity loans and lines	536	(9)	2	125	654
Commercial real estate	3,152		1	1,024	4,177
Construction and land	1,360		52	351	1,763
Multi-family residential	173			188	361
Commercial and industrial	2,010	(242)	56	1,492	3,316
Consumer	571	(162)	5	99	513
Total allowance for loan losses	$ 9,174	$ (413)	$ 116	$ 3,343	$ 12,220
Acquired loans:					
Allowance for loan losses:					
One- to four-family first mortgage	$ 92	$ (33)	$	$ 16	$ 75
Home equity loans and lines	224			(150)	74
Commercial real estate					
Construction and land	57			(38)	19
Multi-family residential					
Commercial and industrial			94	29	123
Consumer					
Total allowance for loan losses	$ 373	$ (33)	$ 94	$ (143)	$ 291
Total loans:					
Allowance for loan losses:					
One- to four-family first mortgage	$ 1,464	$ (33)	$	$ 80	$ 1,511
Home equity loans and lines	760	(9)	2	(25)	728
Commercial real estate	3,152		1	1,024	4,177
Construction and land	1,417		52	313	1,782
Multi-family residential	173			188	361
Commercial and industrial	2,010	(242)	150	1,521	3,439
Consumer	571	(162)	5	99	513
Total allowance for loan losses	$ 9,547	$ (446)	$ 210	$ 3,200	$ 12,511

	For the Year Ended December 31, 2015				
(dollars in thousands)	**Beginning Balance**	**Charge-offs**	**Recoveries**	**Provision**	**Ending Balance**

Originated loans:					
Allowance for loan losses:					
One- to four-family first mortgage	$ 1,136	$ (62)	$ 30	$ 268	$ 1,372
Home equity loans and lines	442	(15)	20	89	536
Commercial real estate	2,922		1	229	3,152
Construction and land	968			392	1,360
Multi-family residential	192			(19)	173
Commercial and industrial	1,161	(190)	226	813	2,010
Consumer	521	(130)	1	179	571
Total allowance for loan losses	$ 7,342	$ (397)	$ 278	$ 1,951	$ 9,174

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	For the Year Ended December 31, 2015				
(dollars in thousands)	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
Acquired loans:					
Allowance for loan losses:					
One- to four-family first mortgage	$ 174	$ (42)	$	$ (40)	$ 92
Home equity loans and lines	111	(12)		125	224
Commercial real estate					
Construction and land	133	(111)		35	57
Multi-family residential					
Commercial and industrial					
Consumer					
Total allowance for loan losses	$ 418	$ (165)	$	$ 120	$ 373
Total loans:					
Allowance for loan losses:					
One- to four-family first mortgage	$ 1,310	$ (104)	$ 30	$ 228	$ 1,464
Home equity loans and lines	553	(27)	20	214	760
Commercial real estate	2,922		1	229	3,152
Construction and land	1,101	(111)		427	1,417
Multi-family residential	192			(19)	173
Commercial and industrial	1,161	(190)	226	813	2,010
Consumer	521	(130)	1	179	571
Total allowance for loan losses	$ 7,760	$ (562)	$ 278	$ 2,071	$ 9,547

	For the Year Ended December 31, 2014				
(dollars in thousands)	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
Originated loans:					
Allowance for loan losses:					
One- to four-family first mortgage	$ 904	$ (99)	$	$ 331	$ 1,136
Home equity loans and lines	366	(2)	5	73	442
Commercial real estate	2,528			394	2,922
Construction and land	977	(19)		10	968
Multi-family residential	90			102	192
Commercial and industrial	1,332	(1,407)	184	1,052	1,161
Consumer	473	(32)	3	77	521
Total allowance for loan losses	$ 6,670	$ (1,559)	$ 192	$ 2,039	$ 7,342
Acquired loans:					
Allowance for loan losses:					
One- to four-family first mortgage	$ 184	$ (114)	$	$ 104	$ 174
Home equity loans and lines	58			53	111
Commercial real estate		(41)		41	

Construction and land				133	133
Multi-family residential					
Commercial and industrial	6			(6)	
Consumer					
Total allowance for loan losses	$ 248	$ (155)	$	$ 325	$ 418

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(dollars in thousands)	For the Year Ended December 31, 2014 Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
Total loans:					
Allowance for loan losses:					
One- to four-family first mortgage	$ 1,088	$ (213)	$	$ 435	$ 1,310
Home equity loans and lines	424	(2)	5	126	553
Commercial real estate	2,528	(41)		435	2,922
Construction and land	977	(19)		143	1,101
Multi-family residential	90			102	192
Commercial and industrial	1,338	(1,407)	184	1,046	1,161
Consumer	473	(32)	3	77	521
Total allowance for loan losses	$ 6,918	$ (1,714)	$ 192	$ 2,364	$ 7,760

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

(dollars in thousands)	As of December 31, 2016 Originated Loans Collectively Evaluated for Impairment	Originated Loans Individually Evaluated for Impairment	Acquired Loans	Total
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
Total allowance for loan losses	$ 11,425	$ 795	$ 291	$ 12,511

(dollars in thousands)	As of December 31, 2016 Originated Loans Collectively Evaluated for Impairment	Originated Loans Individually Evaluated for Impairment	Acquired Loans(1)	Total
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

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	As of December 31, 2015			
	Originated Loans			
(dollars in thousands)	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Acquired Loans	Total
Allowance for loan losses:				
One- to four-family first mortgage	$ 1,338	$ 34	$ 92	$ 1,464
Home equity loans and lines	536		224	760
Commercial real estate	3,066	86		3,152
Construction and land	1,360		57	1,417
Multi-family residential	173			173
Commercial and industrial	1,977	33		2,010
Consumer	571			571
Total allowance for loan losses	$ 9,021	$ 153	$ 373	$ 9,547

	As of December 31, 2015			
	Originated Loans			
(dollars in thousands)	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Acquired Loans(1)	Total
Loans:				
One- to four-family first mortgage	$ 165,774	$ 78	$ 205,386	$ 371,238
Home equity loans and lines	40,251		53,809	94,060
Commercial real estate	285,856	181	119,342	405,379
Construction and land	129,035		7,768	136,803
Multi-family residential	14,962		28,901	43,863
Commercial and industrial	115,360	707	9,041	125,108
Consumer	45,641		2,274	47,915
Total loans	$ 796,879	$ 966	$ 426,521	$ 1,224,366

(1) $13.1 million and $20.0 million in acquired loans were accounted for under ASC 310-30 at December 31, 2016 and 2015, respectively.

Although the Company has a diversified loan portfolio, a substantial portion of the loan portfolio is collateralized by improved and unimproved real estate and is dependent, in part, on values in the real estate market.

Credit quality indicators on the Company s loan portfolio as of the dates indicated are as follows.

	December 31, 2016				
(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total

Originated loans:					
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
Total originated loans	$ 853,370	$ 7,528	$ 23,792	$	$ 884,690

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	December 31, 2016				
(dollars in thousands)	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
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
Total acquired loans	$ 331,426	$ 3,159	$ 8,558	$	$ 343,143
Total loans:					
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
Total loans	$ 1,184,796	$ 10,687	$ 32,350	$	$ 1,227,833

	December 31, 2015				
(dollars in thousands)	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Originated loans:					
One- to four-family first mortgage	$ 163,835	$ 439	$ 1,578	$	$ 165,852
Home equity loans and lines	39,736	394	121		40,251
Commercial real estate	282,963	988	2,086		286,037
Construction and land	127,929		1,106		129,035
Multi-family residential	14,962				14,962
Commercial and industrial	113,108	585	2,374		116,067
Consumer	45,133	38	470		45,641
Total originated loans	$ 787,666	$ 2,444	$ 7,735	$	$ 797,845
Acquired loans:					
One- to four-family first mortgage	$ 200,966	$ 791	$ 3,629	$	$ 205,386
Home equity loans and lines	53,352	20	437		53,809
Commercial real estate	112,802	4,085	2,455		119,342
Construction and land	4,573	1,819	1,376		7,768
Multi-family residential	27,931	12	958		28,901
Commercial and industrial	7,071	1,191	779		9,041

Consumer	2,160	51	63		2,274
Total acquired loans	$ 408,855	$ 7,969	$ 9,697	$	$ 426,521

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	December 31, 2015				
(dollars in thousands)	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Total:					
One- to four-family first mortgage	$ 364,801	$ 1,230	$ 5,207	$	$ 371,238
Home equity loans and lines	93,088	414	558		94,060
Commercial real estate	395,765	5,073	4,541		405,379
Construction and land	132,502	1,819	2,482		136,803
Multi-family residential	42,893	12	958		43,863
Commercial and industrial	120,179	1,776	3,153		125,108
Consumer	47,293	89	533		47,915
Total loans	$ 1,196,521	$ 10,413	$ 17,432	$	$ 1,224,366

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

Pass loans are of satisfactory quality.

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

Substandard loans have an existing specific and well defined weakness that may include poor liquidity and deterioration of financial ratios. The loan 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-regulatory agency methodology that incorporates, among other factors, the extent of delinquencies and loan-to-value ratios. These classifications were the most current available as of December 31, 2016 and 2015, respectively, and were generally updated within the prior three months.

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

	December 31, 2016					
(dollars in thousands)	**30-59 Days Past Due**	**60-89 Days Past Due**	**Greater Than 90 Days Past Due**	**Total Past Due**	**Current Loans**	**Total Loans**
Originated loans:						
Real estate loans:						

One- to four-family first mortgage	$ 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

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(dollars in thousands)	December 31, 2016 30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current Loans	Total Loans
Acquired loans:						
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
Total loans:						
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
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

(dollars in thousands)	December 31, 2015 30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current Loans	Total Loans

Originated loans:						
Real estate loans:						
One- to four-family first mortgage	$ 1,059	$ 435	$ 890	$ 2,384	$ 163,468	$ 165,852
Home equity loans and lines	87		121	208	40,043	40,251
Commercial real estate	438		602	1,040	284,997	286,037
Construction and land	1,232		87	1,319	127,716	129,035
Multi-family residential					14,962	14,962
Total real estate loans	2,816	435	1,700	4,951	631,186	636,137
Other loans:						
Commercial and industrial	411	15	707	1,133	114,934	116,067
Consumer	533	277	358	1,168	44,473	45,641
Total other loans	944	292	1,065	2,301	159,407	161,708
Total originated loans	$ 3,760	$ 727	$ 2,765	$ 7,252	$ 790,593	$ 797,845

(dollars in thousands)	December 31, 2015 30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current Loans	Total Loans
Acquired loans:						
Real estate loans:						
One- to four-family first mortgage	$ 1,976	$ 885	$ 2,582	$ 5,443	$ 199,943	$ 205,386
Home equity loans and lines	327	40	317	684	53,125	53,809
Commercial real estate	140	6	1,441	1,587	117,755	119,342
Construction and land	592	7	48	647	7,121	7,768
Multi-family residential		14	12	26	28,875	28,901
Total real estate loans	3,035	952	4,400	8,387	406,819	415,206
Other loans:						
Commercial and industrial	14	7	429	450	8,591	9,041
Consumer	64	4	48	116	2,158	2,274
Total other loans	78	11	477	566	10,749	11,315
Total acquired loans	$ 3,113	$ 963	$ 4,877	$ 8,953	$ 417,568	$ 426,521
Total loans:						
Real estate loans:						
One- to four-family first mortgage	$ 3,035	$ 1,320	$ 3,472	$ 7,827	$ 363,411	$ 371,238
Home equity loans and lines	414	40	438	892	93,168	94,060
Commercial real estate	578	6	2,043	2,627	402,752	405,379
Construction and land	1,824	7	135	1,966	134,837	136,803
Multi-family residential		14	12	26	43,837	43,863
Total real estate loans	5,851	1,387	6,100	13,338	1,038,005	1,051,343
Other loans:						
Commercial and industrial	425	22	1,136	1,583	123,525	125,108
Consumer	597	281	406	1,284	46,631	47,915
Total other loans	1,022	303	1,542	2,867	170,156	173,023
Total loans	$ 6,873	$ 1,690	$ 7,642	$ 16,205	$ 1,208,161	$ 1,224,366

As of December 31, 2016 and 2015, the Company did not have any loans greater than 90 days past due which were accruing interest.

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. The Company evaluates loans for impairment on an individual basis when it believes that there is a potential for loss. 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. The following is a summary of information pertaining to the Company s impaired loans, excluding acquired loans, as of the dates indicated.

	For the Year Ended December 31, 2016				
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
One- to four-family first mortgage	$	$	$	$	$
Home equity loans and lines					
Commercial real estate					
Construction and land					
Multi-family residential					
Commercial and industrial	3,144	3,178		262	166
Consumer					
Total	$ 3,144	$ 3,178	$	$ 262	$ 166
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					
Total	$ 2,414	$ 2,480	$ 795	$ 2,151	$ 114
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	4,914	737	1,897	253
Consumer					
Total	$ 5,558	$ 5,658	$ 795	$ 2,413	$ 280

	For the Year Ended December 31, 2015				
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
One- to four-family first mortgage	$	$	$	$ 72	$
Home equity loans and lines					
Commercial real estate					
Construction and land					
Multi-family residential					

Commercial and industrial								213		
Consumer										
Total	$		$		$		$	285	$	
With an allowance recorded:										
One- to four-family first mortgage	$	78	$	78	$	34	$	6	$	5
Home equity loans and lines										
Commercial real estate		181		181		86		461		11
Construction and land										
Multi-family residential										
Commercial and industrial		707		707		33		729		39
Consumer										
Total	$	966	$	966	$	153	$	1,196	$	55

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(dollars in thousands)	For the Year Ended December 31, 2015 Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Total impaired loans:					
One- to four-family first mortgage	$ 78	$ 78	$ 34	$ 78	$ 5
Home equity loans and lines					
Commercial real estate	181	181	86	461	11
Construction and land					
Multi-family residential					
Commercial and industrial	707	707	33	942	39
Consumer					
Total	$ 966	$ 966	$ 153	$ 1,481	$ 55

The Company reviews its significant nonaccrual loans for specific impairment in accordance with its allowance for loan loss methodology. If it is determined that losses are probable when other credit quality indicators are considered, the loan is considered impaired and the Company specifically allocates a portion of the allowance for loan losses to these loans. A summary of information pertaining to the Company s nonaccrual loans as of December 31, 2016 and 2015 is as follows.

(dollars in thousands)	December 31, 2016 Originated	Acquired[(1)]	Total	December 31, 2015 Originated	Acquired[(1)]	Total
Nonaccrual loans:						
One- to four-family first mortgage	$ 891	$ 833	$ 1,724	$ 928	$ 530	$ 1,458
Home equity loans and lines	998	90	1,088	121	139	260
Commercial real estate	1,799	164	1,963	1,671	1,014	2,685
Construction and land	12	63	75	87	68	155
Multi-family residential					763	763
Commercial and industrial	8,230	312	8,542	2,374	84	2,458
Consumer	360	1	361	470	6	476
Total	$ 12,290	$ 1,463	$ 13,753	$ 5,651	$ 2,604	$ 8,255

(1) Table excludes acquired loans which were being accounted for under ASC 310-30 because they continue to earn interest from accretable yield regardless of their status as past due or otherwise not in compliance with their contractual terms. Acquired loans with deteriorated credit quality, which were being accounting for under ASC 310-30 and which were 90 days or more past due totaled $2.7 million and $4.0 million as of December 31, 2015 and 2014, respectively.

As of December 31, 2015, the Company was not committed to lend additional funds to any customer whose loan was classified as impaired.

As of December 31, 2016 and 2015, the Company had accrued interest receivable for loans of $3,897,000 and $3,940,000, respectively.

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

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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 is either granted through an agreement with the customer or is imposed by a court or by a law. Concessions include modifying original loan terms to reduce or defer cash payments required as part of the loan agreement, including but not limited to:

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

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

- whether the customer is currently in default on its existing loan, or is in an economic position where it is probable the customer will be in default on its loan in the foreseeable future without a modification,
- whether the customer has declared or is in the process of declaring bankruptcy,
- whether there is substantial doubt about the customer s ability to continue as a going concern,
- whether, based on its projections of the customer s current capabilities, the Company believes the customer s future cash flows will be insufficient to service the debt, including interest, in accordance with the contractual terms of the existing agreement for the foreseeable future, and
- whether, without modification, the customer cannot obtain sufficient funds from other sources at an effective interest rate equal to the current market rate for similar debt for a non-troubled debtor.

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

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

	As of December 31, 2016			
(dollars in thousands)	Current	Past Due Greater Than 30 Days	Nonaccrual TDRs	Total TDRs
Originated loans:				
Real estate loans:				
One- to four-family first mortgage	$ 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 loans	$ 1,271	$	$ 9,975	$ 11,246

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	As of December 31, 2016			
(dollars in thousands)	Current	Past Due Greater Than 30 Days	Nonaccrual TDRs	Total TDRs
Acquired loans:				
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 loans	$ 2,433	$ 946	$ 435	$ 3,814
Total loans:				
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

	As of December 31, 2015			
(dollars in thousands)	Current	Past Due Greater Than 30 Days	Nonaccrual TDRs	Total TDRs
Originated loans:				
Real estate loans:				
One- to four-family first mortgage	$ 281	$	$ 38	$ 319

Home equity loans and lines	383		3	386
Commercial real estate	107		1,069	1,176
Construction and land			87	87
Multi-family residential				
Total real estate loans	771		1,197	1,968
Other loans:				
Commercial and industrial			2,374	2,374
Consumer	27		142	169
Total other loans	27		2,516	2,543
Total loans	$ 798	$	$ 3,713	$ 4,511

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(dollars in thousands)	As of December 31, 2015 Current	Past Due Greater Than 30 Days	Nonaccrual TDRs	Total TDRs
Acquired loans:				
Real estate loans:				
One- to four-family first mortgage	$ 419	$ 73	$ 15	$ 507
Home equity loans and lines				
Commercial real estate			1,192	1,192
Construction and land			52	52
Multi-family residential				
Total real estate loans	419	73	1,259	1,751
Other loans:				
Commercial and industrial				
Consumer				
Total other loans				
Total loans	$ 419	$ 73	$ 1,259	$ 1,751
Total loans:				
Real estate loans:				
One- to four-family first mortgage	$ 700	$ 73	$ 53	$ 826
Home equity loans and lines	383		3	386
Commercial real estate	107		2,261	2,368
Construction and land			139	139
Multi-family residential				
Total real estate loans	1,190	73	2,456	3,719
Other loans:				
Commercial and industrial			2,374	2,374
Consumer	27		142	169
Total other loans	27		2,516	2,543
Total loans	$ 1,217	$ 73	$ 4,972	$ 6,262

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

(dollars in thousands)	For the Years Ended 2016 Number of Contracts	Pre-modification Outstanding	Post-modification Outstanding	2015 Number of Contracts	Pre-modification Outstanding	Post-modification Outstanding

		Recorded Investment	Recorded Investment		Recorded Investment	Recorded Investment
Troubled debt restructurings:						
One- to four-family first mortgage	8	$ 1,113	$ 656	1	$ 39	$ 38
Home equity loans and lines	7	1,062	1,049	2	386	385
Commercial real estate	4	924	856	4	1,464	1,385
Construction and land	2	702	562			
Multi-family residential						
Commercial and industrial	20	8,512	8,154	14	1,684	1,668
Other consumer	1	50	36	4	185	169
Total	42	$ 12,363	$ 11,313	25	$ 3,758	$ 3,645

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None of the performing troubled debt restructurings as of December 31, 2016 had defaulted subsequent to the restructuring through the date the financial statements were available to be issued.

6. Loan Servicing

Mortgage loans sold to and serviced for others are not included in the accompanying statements of financial condition. The unpaid principal balances of these loans as of December 31 of the years indicated are summarized as follows:

(dollars in thousands)	**2016**	**2015**
Mortgage loans sold to Federal Home Loan Mortgage Corporation without recourse	$ 6,772	$ 7,710
Mortgage loans sold to Federal National Mortgage Association without recourse	180,596	217,869
Mortgage loans sold to Federal Home Loan Bank without recourse	735	800
Balance, end of period	$ 188,103	$ 226,379

The Company records servicing assets related to mortgage loans sold and serviced at fair value and will amortize these servicing assets over the period of estimated net servicing income associated with each loan. Management assesses servicing assets for potential impairment annually. Activity related to servicing assets for the years ended December 31, 2016, 2015 and 2014 is summarized as follows.

(dollars in thousands)	**2016**	**2015**	**2014**
Balance at the beginning of the year	$ 876	$ 356	$ 516
Recognition of servicing assets from the transfer of financial assets		18	
Acquired from LABC, at fair value		682	
Amortization	(254)	(180)	(160)
Balance, end of period	$ 622	$ 876	$ 356
Fair value, end of period	$ 1,050	$ 1,561	$ 629

Custodial and escrow account balances maintained in connection with the foregoing loan servicing arrangements were $1,620,000 and $1,336,000 as of December 31, 2016 and 2015, respectively.

7. Office Properties and Equipment

Office properties and equipment consisted of the following as of December 31 of the years indicated.

(dollars in thousands)	**2016**	**2015**

Land	$ 12,662	$ 14,049
Buildings and improvements	31,491	31,084
Furniture and equipment	9,864	10,917
Total office properties and equipment	54,017	56,050
Less accumulated depreciation	14,450	15,234
Total office properties and equipment, net	$ 39,567	$ 40,816

Depreciation expense for the years ended December 31, 2016, 2015 and 2014 was $1,795,000, $1,807,000 and $1,738,000, respectively.

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8. Goodwill and Intangibles

The carrying amount of the Company s goodwill was $9,353,000 and $11,095,000 as of December 31, 2016 and 2015, respectively.

A summary of the Company s core deposit intangible assets as of December 31 of the years indicated follows.

(dollars in thousands)	**2016**	**2015**	**2014**
Gross carrying amount	$ 4,209	$ 3,367	$ 1,053
Core deposit intangibles acquired during the year		1,586	3,030
Less amortization	(800)	(744)	(716)
Total core deposit intangible asset	$ 3,409	$ 4,209	$ 3,367

Amortization expense on the Company s core deposit intangible assets for the years ended December 31, 2016, 2015 and 2014 was $800,000, $744,000 and $716,000, respectively.

The carrying amount of the Company s mortgage servicing asset as of December 31, 2016, 2015 and 2014 was $622,000, $876,000 and $356,000, respectively.

9. Deposits

The Company s deposits consisted of the following major classifications as of December 31 of the years indicated.

(dollars in thousands)	**2016**	**2015**
Demand deposit accounts	$ 296,519	$ 296,617
Savings	109,414	109,393
Money market accounts	264,784	293,637
NOW accounts	305,092	267,707
Certificates of deposit	272,263	276,863
Total deposits	$ 1,248,072	$ 1,244,217

As of December 31, 2016, the scheduled maturities of the Company s certificates of deposit are as follows.

(dollars in thousands)	**Amount**
2017	$ 151,474
2018	78,337
2019	17,779
2020	8,777
2021	12,435
Thereafter	3,461

Total certificates of deposit	$ 272,263

As of December 31, 2016 and 2015, the aggregate amount of certificates of deposit with balances of $250,000 or more was $33,740,000 and $27,272,000, respectively.

10. Short-term FHLB Advances

As of December 31, 2016, the Company s short-term FHLB advances totaled $40,000,000, compared to $39,939,000 as of December 31, 2015. For the years ended December 31, 2016 and 2015, the average volume of short-term FHLB advances carried by the Company was $44,184,000 and $22,177,000, respectively.

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Collateral for short and long-term FHLB advances is secured through a blanket lien evidenced by the Bank s pledge of first mortgage collateral, demand deposit accounts, capital stock and certain other assets pursuant to the Advances, Collateral Pledge and Security Agreement. Under this collateral pledge agreement, the Bank must meet all statutory and regulatory capital standards and must meet all FHLB credit underwriting standards. Management believes that the Bank was in compliance with all such requirements as of December 31, 2016 and 2015.

As of December 31, 2016 and 2015, the Bank had $494,894,000 and $480,654,000, respectively, of additional FHLB advances available. As of December 31, 2016, the Company had $544,470,000 of loans pledged through the Bank s blanket lien.

11. Long-term FHLB Advances

As of December 31, 2016 and 2015, the Company s long-term FHLB advances totaled $78,533,000 and $85,213,000, respectively. The following table summarizes long-term advances as of December 31, 2016.

(dollars in thousands)	**Amount**	**Weighted Average Rate**
Fixed rate advances maturing in:		
2017	$ 22,788	1.88%
2018	6,000	1.32
2019	12,563	1.64
2020	31,830	1.70
2021	848	1.54
Thereafter	4,504	1.93
Total long-term FHLB advances	$ 78,533	1.72%

12. Income Taxes

The Company files federal income tax returns on a calendar year basis. Income tax (benefit) expense for the years indicated is summarized as follows:

(dollars in thousands)	**2016**	**2015**	**2014**
Current	$ 7,889	$ 6,040	$ 4,690
Deferred	(321)	631	516
Total income tax expense	$ 7,568	$ 6,671	$ 5,206

The components of the Company s net deferred tax asset as of December 31 of the years indicated are as follows:

(dollars in thousands)	**2016**	**2015**
Deferred tax assets:		

Provision for loan losses	$ 4,378	$ 3,341
Discount on purchased loans	514	1,278
Acquired tax credits		1,069
Salary continuation plan	978	929
Mortgage servicing rights		150
Deferred compensation	141	120
Stock-based compensation	697	730
Real estate owned	359	143
Other	1,251	1,808
Deferred tax assets	$ 8,318	$ 9,568

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(dollars in thousands)	2016	2015
Deferred tax liabilities:		
FHLB stock dividends	$ (88)	$ (60)
Accumulated depreciation	(2,418)	(2,963)
Intangible assets	(677)	(898)
Unrealized gain on securities available for sale	(6)	(469)
Mortgage servicing rights	(49)	
Premium on investment securities acquired	(950)	(760)
Other	(125)	(1,721)
Deferred tax liabilities	(4,313)	(6,871)
Net deferred tax asset	$ 4,005	$ 2,697

For the years ended December 31, 2016, 2015 and 2014, the Company s provision for federal income taxes differed from the amount computed by applying the federal income tax statutory rate of 35% on income from operations as indicated in the following analysis:

(dollars in thousands)	2016	2015	2014
Federal tax based on statutory rate	$ 8,232	$ 6,706	$ 5,263
State tax based on statutory rate	55	60	41
(Decrease) increase resulting from:			
Effect of tax-exempt income	(228)	(242)	(225)
Changes the cash surrender value of bank owned life insurance	(169)	(176)	(160)
Nondeductible merger-related expenses	4	261	52
Nondeductible share based compensation expense	246	178	203
Exercise of stock options	(606)	(105)	
Other	34	(11)	32
Income tax expense	$ 7,568	$ 6,671	$ 5,206
Effective tax rate	32.1%	34.7%	34.5%

Retained earnings as of December 31, 2016 and 2015, included $5,837,000 for which no deferred federal income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions for tax purposes only. Reductions of amounts so allocated for purposes other than bad debt losses would create income for tax purposes only, which would be subject to the then-current federal statutory income tax rate. The unrecorded deferred income tax liability on the above amount was $1,985,000 as of December 31, 2016 and 2015. Current accounting standards do not require the accrual of this deferred tax amount to be recorded unless it is probable that the reserve (for tax purposes) will be significantly depleted by loan losses deductible for tax purposes in the future. Based on current estimates of losses within the Company s loan portfolio, accrual of the deferred tax liability associated with this reserve was not required as of December 31, 2016 and 2015.

13. Commitments and Contingencies

Standby letters of credit represent commitments by the Bank to meet the obligations of certain customers if called upon. The Bank normally secures its outstanding standby letters of credit with deposits from the customer. Additionally, in the normal course of business, there were various other commitments and contingent liabilities which are not reflected in the financial statements. Loan commitments are single-purpose commitments to lend

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which will be funded and reduced according to specified repayment schedules. Most of these commitments have maturities of less than one year. 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 the undisbursed portion of construction loans as of December 31 of the years indicated.

	Contract Amount	
(dollars in thousands)	**2016**	**2015**
Standby letters of credit	$ 5,233	$ 3,764
Available portion of lines of credit	141,968	127,393
Undisbursed portion of loans in process	62,791	73,699
Commitments to originate loans	98,714	89,653

The Bank uses the same credit policies in making commitments as it does for on-balance-sheet instruments. The Bank evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management s credit evaluation of the customer. Collateral held varies but may include certificates of deposit, property, plant and equipment and income-producing properties. There are no commitments which present an unusual risk to the Bank, and no material losses are anticipated as a result of these transactions.

14. Regulatory Matters

The Bank is subject to regulatory capital requirements administered by the OCC. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company and the Bank s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

In July 2013, the Federal bank regulatory agencies issued a final rule that revised their risk-based capital requirements and the method for calculating components of capital and of computing risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The final rule applies to all depository institutions and top-tier bank holding companies with total consolidated assets of $1.0 billion or more. The rule establishes a new common equity Tier 1 minimum capital requirement, increases the minimum capital ratios and assigns a higher risk weight to certain assets based on the risk associated with these assets. The final rule includes transition periods that generally implement the new regulations over a five year period. Beginning January 1, 2016, minimum Common equity tier 1, Tier 1 risk-based capital and Total risk-based are subject to a capital conservation buffer of 0.625%. This capital buffer will increase in subsequent years by 0.625% annually until it is fully phased in on January 1, 2019 at 2.5%.

Dividends paid by the Bank are the primary source of funds available to the Company. Banking regulations limit the amount of dividends that may be paid without prior approval of the regulatory authorities.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined) to average assets and risk-weighted assets (as defined). Management believes, as of December 31, 2016 and 2015, that the Company and the Bank met all capital adequacy requirements to which it was subject.

As of December 31, 2016 and 2015, the most recent notification from the OCC categorized the Bank as well capitalized under the OCC regulatory classification framework. To be categorized as well capitalized, the Bank must maintain minimum Total risk-based, Tier 1 risk-based, Tier 1 leverage and tangible capital ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank s category.

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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 December 31, 2016 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. The Company s and the Bank s actual capital amounts and ratios are presented for December 31, 2015 without the phase-in provisions.

	Actual		Minimum Capital Required Basel III Phase-In Schedule		Minimum Capital Required Basel III Fully Phased-In		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2016								
Company:								
Tier 1 risk-based capital	$ 168,433	14.24%	$ 78,363	6.625%	$ 100,541	8.50%	N/A	N/A
Total risk-based capital	180,943	15.30	102,020	8.625	124,198	10.50	N/A	N/A
Tier 1 leverage capital	168,433	10.98	61,377	4.00	61,377	4.00	N/A	N/A
Bank:								
Common equity Tier 1 capital (to risk-weighted assets)	$ 152,512	12.91%	$ 60,564	5.125%	$ 82,721	7.00%	$ 76,813	6.50%
Tier 1 risk-based capital	152,512	12.91	78,290	6.625	100,447	8.50	94,539	8.00
Total risk-based capital	165,022	13.96	101,924	8.625	124,082	10.50	118,173	10.00
Tier 1 leverage capital	152,512	9.94	61,376	4.00	61,376	4.00	76,720	5.00

(dollars in thousands)	**Actual**		**Minimum For Capital Adequacy Purposes**		**To Be Well Capitalized Under Prompt Corrective Action Provisions**	
December 31, 2015						
Company						
Tier 1 risk-based capital:	$ 151,221	13.05%	$ 69,534	6.0%	N/A	N/A
Total risk-based capital:	160,769	13.87	92,712	8.0	N/A	N/A
Tier 1 leverage capital:	151,221	9.82	61,569	4.0	N/A	N/A
Bank						
Common Equity Tier 1 (to risk-weighted assets):	$ 134,348	11.61%	$ 52,087	4.5%	$ 75,237	6.5%
Tier 1 risk-based capital:	134,348	11.61	69,449	6.0	92,599	8.0
Total risk-based capital:	143,895	12.43	92,599	8.0	115,749	10.0
Tier 1 leverage capital:	134,348	8.74	61,512	4.0	76,890	5.0

15. Benefit Plans

401(k) Match and Profit Sharing Plan

The Company s 401(k) defined contribution plan allows its participants to contribute up to 75% of their pretax earnings on a tax-deferred basis up to the statutory limit, and the Company contributes a matching contribution on behalf of plan participants limited to 4% of the employees salaries. For the years ended December 31, 2016, 2015 and 2014, the Company made contributions of $657,000, $596,000 and $524,000, respectively, in connection with the plans, which is included in compensation and benefits expense in the accompanying statements of income.

Employee Stock Ownership Plan

In 2008, the Company established an employee stock ownership plan (ESOP) for the benefit of all eligible employees of the Company. The leveraged ESOP is accounted for in accordance with the requirements of ASC 718, Compensation Stock Compensation.

Employees of the Bank who have been employed for a six-month period and who have attained age 21 are eligible to participate in the ESOP. It is anticipated that contributions will be made to the plan in amounts necessary to amortize the debt to the Company over a period of 20 years.

Under ASC 718, unearned ESOP shares are not considered outstanding and are shown as a reduction of shareholders equity as unearned compensation. Dividends on unallocated ESOP shares are considered to be compensation expense. The Company recognizes compensation cost equal to the fair value of the ESOP shares during the periods in which they are committed to be released. To the extent that the fair value of the Company s ESOP shares differ from the cost of such shares, the differential is credited to shareholders equity. The Company receives a tax deduction equal to the cost of the shares released. As the loan is internally leveraged, the loan receivable from the ESOP to the Company is not reported as an asset nor is the debt of the ESOP shown as a Company liability.

Compensation cost related to the ESOP was $928,000, $795,000 and $756,000 for the years ended December 31, 2016, 2015 and 2014, respectively. The fair value of the unearned ESOP shares, using the closing quoted market price per share as of year-end, was approximately $16,199,000 and $11,828,000 as of December 31, 2016 and 2015, respectively. A summary of the ESOP share allocation as of December 31, 2016 and 2015 follows.

	2016	**2015**
Shares allocated, beginning of year	219,415	198,836
Shares allocated during the year	35,708	35,708
Shares distributed during the year	(20,063)	(15,129)
Allocated shares held by ESOP trust as of year end	235,060	219,415
Unallocated shares	419,563	455,271
Total ESOP shares	654,623	674,686

Salary Continuation Agreements

As a supplement to its 401(k) retirement plan, the Bank has entered into nonqualified salary continuation agreements with two executive officers of the Bank. Under his salary continuation agreement, the Chief Executive Officer (CEO) will be entitled to a stated annual benefit for a period of ten years upon retirement from the Bank after attaining age 62. Benefits under the agreement vest over ten years, with 50% of this benefit having vested in 2007. In the event of early retirement, the Bank shall pay the CEO his vested benefits in 120 equal monthly installments upon his attaining age 62. Upon death during active service, the Bank shall distribute to the executive s beneficiary an amount equal to two times his fully vested normal retirement benefit, payable in monthly installments over five years.

In the event of a separation from service within 24 months following a change in control but prior to normal retirement age, the Bank shall distribute to the CEO his fully vested annual benefit in 12 equal monthly installments for ten years beginning the earlier of 24 months after separation from service or age 62. If separation from service occurs more than 24 months following a change in control, the annual benefit shall be distributed beginning at age 62.

The Bank s nonqualified salary continuation agreement with its Chief Credit Officer provides that the executive will be entitled to a stated annual benefit for a period of ten years upon retirement from the Bank after attaining age 65, distributed monthly. In the event of early retirement, the Bank shall pay the executive his vested benefits in 120 equal monthly installments upon attaining age 65. Upon death during active service, the Bank shall distribute the fully vested normal retirement benefit to the executive s beneficiary in 120 monthly installments. In the event of a separation from service within 24 months following a change in control but prior to normal retirement age, the Bank shall distribute to the executive the vested portion of the annual benefit in a lump sum on the first day of the month following the separation from service. Benefits are subject to a six-month delay to the extent required by applicable law.

Britton & Koontz had two salary continuation agreements funded in the amount of $465,000 at the time of acquisition in February 2014. The Bank will pay former executives of Britton & Koontz or their beneficiary over the next 15 years. Louisiana Bancorp also had two salary continuation agreements funded in the amount of $1,200,000 at the time of acquisition in September 2015. The Bank will pay former executives of Louisiana Bancorp or their beneficiary within the next 10 years. The Company had an outstanding liability totaling $2,795,000 and $2,868,000 as of December 31, 2016 and 2015, respectively, in connection with the agreements.

16. Stock-based Payment Arrangements

The Company s shareholders approved the 2009 Stock Option Plan (the SOP) and the 2009 Recognition and Retention Plan (the RRP) on May 12, 2009 to provide incentives and awards for directors, officers and other key employees of the Company and its subsidiary. A maximum of 892,687 shares of Company common stock were reserved for issuance upon the exercise of options granted under the SOP. A total of 357,075 shares of the Company s outstanding common stock, or 4% of total shares outstanding at the time the RRP was implemented, were approved for restricted stock awards under the RRP. On May 6, 2014, the Company s shareholders approved the 2014 Equity Incentive Plan (the 2014 Plan). The 2014 Plan authorizes the granting of stock options, restricted stock units, and other awards to directors, officers and other key employees. The aggregate number of shares of our common stock reserved and available for issuance pursuant to awards granted under the 2014 Plan is 350,000. These plans are administered by a committee appointed by the Board of Directors, which selects persons eligible to receive awards and determines the number of shares and/or options subject to each award, the terms, conditions and other provisions of the awards. In accordance with ASC 718, the Company adopted a fair value based method of accounting for employee stock compensation plans, whereby compensation cost is measured as of the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period.

Stock Option Plans

The Company issues stock options under the SOP and the 2014 Plan to directors, officers and other key employees. The option exercise price cannot be less than the fair value of the underlying common stock as of the date of the option grant and the maximum option term cannot exceed ten years. All stock options granted have been issued with vesting periods of five years with accelerated vesting provided under certain circumstances. As of December 31, 2016, options to acquire an aggregate of 484,688 shares were outstanding under the SOP and the 2014 Plan.

The fair value of each option granted is estimated on the grant date using the Black-Scholes option pricing model. This model requires management to make certain assumptions, including the expected life of the option, the risk-free rate of interest, the expected volatility and the expected dividend yield. The following assumptions were made in estimating 2016 fair values:

Expected dividends	1.4%
Expected volatility	20.34%
Risk-free interest rate	1.6%
Expected term (in years)	6.5

As of December 31, 2016, there was $387,000 of unrecognized compensation cost related to stock options which is expected to be recognized over a period of 3.6 years.

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For the years ended December 31, 2016, 2015 and 2014, the Company recognized $132,000, $70,000 and $295,000, respectively, in compensation cost related to stock options, which is included in compensation and benefits expense in the accompanying consolidated statements of income.

The following table represents stock option activity for the year ended December 31, 2016.

Options	Number of Options	Weighted-Average Exercise Price	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (Years)
Outstanding as of January 1, 2016	559,733	$ 12.85	$ 4.02	
Granted	47,725	27.96	5.33	
Exercised	(119,230)	11.88	3.91	
Forfeited	(3,540)	16.64	4.22	
Outstanding as of December 31, 2016	484,688	$ 14.55	$ 4.17	3.9
Exercisable as of December 31, 2016	391,215	$ 12.18	$ 3.93	2.8

Restricted Stock Plans

The Company has issued restricted stock under the RRP to directors, officers and other key employees. During 2009, the Company purchased in the open market all shares required to fund the RRP at an average cost of $11.81 per share. As of December 31, 2016, the cost of such shares held by the RRP totaled $119,633, which is included in the Company s unallocated common stock held by the RRP in the consolidated statements of financial condition. Under the 2014 Plan, the Company may issue restricted stock units, restricted stock awards, options and other awards.

Awards under the RRP and the 2014 Plan may not be sold or otherwise transferred until certain restrictions have lapsed. The unearned compensation related to these awards is amortized to compensation expense over the five-year vesting period. The total share-based compensation expense for these awards is determined based on the market price of the Company s common stock as of the date of grant applied to the total number of shares granted and is amortized over the vesting period. As of December 31, 2016, unearned share-based compensation associated with these awards totaled $1,042,000.

For the years ended December 31, 2016, 2015 and 2014, the Company recognized $239,000, $51,000 and $401,000, respectively, in compensation cost related to restricted stock and restricted stock units, which is included in compensation and benefits expense in the accompanying consolidated statements of income.

The following table represents unvested restricted stock activity in for the year ended December 31, 2016.

	Number of Shares	Weighted-Average Grant Date Fair Value

Balance, beginning of year	30,815	$ 16.25
Granted	25,645	27.96
Forfeited	(200)	22.25
Released	(7,703)	13.00
Balance, end of period	48,557	22.93

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17. Earnings Per Share

Earnings per common share was computed based on the following:

	Years Ended December 31,		
(in thousands, except per share data)	**2016**	**2015**	**2014**
Numerator:			
Income applicable to common shares	$ 16,008	$ 12,550	$ 9,872
Denominator:			
Weighted average common shares outstanding	6,842	6,708	6,553
Effect of dilutive securities:			
Restricted stock	4	4	25
Stock options	261	289	355
Weighted average common shares outstanding - assuming dilution	7,107	7,001	6,933
Earnings per common share	$ 2.34	$ 1.87	$ 1.51
Earnings per common share - assuming dilution	$ 2.25	$ 1.79	$ 1.42

Options on 70,522, 45,877 and 26,500 shares of common stock were not included in computing diluted earnings per share for the years ended December 31, 2016, 2015 and 2014, respectively, because the effect of these shares were anti-dilutive.

18. Related Party Transactions

Certain directors and officers of the Company are customers of the Company. Loan transactions with directors, officers and employees are made on the same terms as those prevailing at the time for comparable loans to other persons. A summary of related party loan activity during 2016 follows.

(dollars in thousands)	
Balance, beginning of year	$ 7,590
New loans	1,198
Repayments, net	(7,297)
Balance, end of year	$ 1,491

None of the related party loans were identified as impaired or exceeded 5% of shareholders equity for the years ended 2016 or 2015.

Related party deposits totaled $14,252,000 and $28,904,000 as of December 31, 2016 and 2015, respectively.

19. Fair Value Disclosures

The Company values its financial assets and liabilities measured 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 of inputs used to measure fair value are as follows:

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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 of input that is significant to the fair value measurement. Management reviews and updates the fair value hierarchy classifications of the Company s assets and liabilities on a quarterly basis.

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 evaluated pricing models supported with market data information. Standard inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers and 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 were estimated primarily by the use of pricing models. Level 2 investment securities were 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 December 31, 2016, 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 and liabilities measured on a recurring basis as of December 31, 2016 and 2015 aggregated by the level in the fair value hierarchy in which these measurements fall.

(dollars in thousands)	**December 31, 2016**	**Level 1**	**Level 2**	**Level 3**
Available for sale securities:				
U.S. agency mortgage-backed	$ 148,225	$	$ 148,225	$
Non-U.S. agency mortgage-backed	5,036		5,036	

Municipal bonds		21,428		21,428		
U.S. government agency		9,041		9,041		
Total	$	183,730	$	$ 183,730	$	

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(dollars in thousands)	December 31, 2015	Level 1	Level 2	Level 3
Available for sale securities:				
U.S. agency mortgage-backed	$ 135,478	$	$ 135,478	$
Non-U.S. agency mortgage-backed	6,065		6,065	
Municipal bonds	22,933		22,933	
U.S. government agency	12,286		12,286	
Total	$ 176,762	$	$ 176,762	$

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 their fair value. A loan is considered impaired if it is probable the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Fair value is measured at the fair value of the collateral for collateral-dependent loans. For non-collateral-dependent loans, fair value is measured by present valuing expected future cash flows. Impaired loans are classified as Level 3 assets when measured using appraisals from external parties of the collateral less any prior liens. 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 and liabilities 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.

		Fair Value Measurements Using		
(dollars in thousands)	December 31, 2016	Level 1	Level 2	Level 3
Assets				
Impaired loans	$ 4,763	$	$	$ 4,763
Repossessed assets	2,893			2,893
Total	$ 7,656	$	$	$ 7,656

		Fair Value Measurements Using		
(dollars in thousands)	December 31, 2015	Level 1	Level 2	Level 3
Assets				
Impaired loans	$ 813	$	$	$ 813
Repossessed assets	3,128			3,128
Total	$ 3,941	$	$	$ 3,941

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

(dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Range of Discounts	Weighted Average Discount
As of December 31, 2016:					
Impaired loans	$ 4,763	Third party appraisals and discounted cash flows	Collateral discounts and discount rates	0% - 100%	15%
Repossessed assets	$ 2,893	Third party appraisals, sales contracts, Broker price opinions	Collateral discounts and estimated costs to sell	6% - 96%	19%
As of December 31, 2015:					
Impaired loans	$ 813	Third party appraisals and discounted cash flows	Collateral discounts and discount rates	0% - 100%	15%
Repossessed assets	$ 3,128	Third party appraisals, sales contracts, Broker price opinions	Collateral discounts and estimated costs to sell	6% - 96%	19%

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

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

Fair value estimates 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.

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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 third party pricing services or quoted market prices of securities with similar characteristics.

The carrying value of mortgage loans held for sale are recorded at the lower of aggregate cost or market value, which is a reasonable estimate of fair value.

The fair value of loans are 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 demand deposits, savings and interest-bearing demand deposits 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 carrying amount of the FHLB advances is estimated using the rates currently offered for advances of similar maturities.

The carrying value of the securities sold under repurchase agreement is its fair value.

The fair value of off-balance sheet financial instruments as of December 31, 2016 and 2015 was immaterial.

	Carrying	Fair Value Measurements at December 31, 2016			
(dollars in thousands)	**Amount**	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial Assets					
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		
Financial Liabilities					
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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(dollars in thousands)	Carrying Amount	Fair Value Measurements at December 31, 2015 Total	Level 1	Level 2	Level 3
Financial Assets					
Cash and cash equivalents	$ 24,798	$ 24,798	$ 24,798	$	$
Interest-bearing deposits in banks	5,144	5,144	5,144		
Investment securities available for sale	176,762	176,762		176,762	
Investment securities held to maturity	13,927	14,121		14,121	
Mortgage loans held for sale	5,651	5,651		5,651	
Loans, net	1,214,818	1,216,370		1,215,557	813
Cash surrender value of BOLI	19,667	19,667	19,667		
Financial Liabilities					
Deposits	$ 1,244,217	$ 1,243,698	$	$ 1,243,698	$
Short-term FHLB advances	39,939	39,939	39,939		
Long-term FHLB advances	85,213	84,711		84,711	

20. Condensed Parent Company Only Financial Statements

Condensed financial statements of Home Bancorp, Inc. (parent company only) are shown below. The parent company has no significant operating activities.

Condensed Balance Sheets

December 31, 2016 and 2015

(dollars in thousands)	2016	2015
Assets		
Cash in bank	$ 14,924	$ 19,512
Investment in subsidiary	163,922	148,172
Other assets	1,102	1,333
Total assets	$ 179,948	$ 169,017
Liabilities	$ 105	$ 3,971
Shareholders equity	179,843	165,046
Total liabilities and shareholders equity	$ 179,948	$ 169,017

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Condensed Statements of Operations

For the Years Ended December 31, 2016, 2015 and 2014

(dollars in thousands)	2016	2015	2014
Operating income			
Interest income	$	$	$ 1
Gain on sale of investment			
Dividend from subsidiary		72,500	40,000
Total operating income		72,500	40,001
Operating expenses			
Interest expenses			5
Other expenses	192	142	147
Total operating expenses	192	142	152
(Loss) income before income tax benefit and equity in undistributed earnings of subsidiary	(192)	72,358	39,849
Income tax benefit	(77)	(57)	(61)
Income before equity in undistributed earnings of subsidiary	(115)	72,415	39,910
Undistributed earnings of subsidiary (Dividends received in excess of earnings of subsidiary)	16,123	(59,865)	(30,038)
Net income	$ 16,008	$ 12,550	$ 9,872

Condensed Statements of Cash Flows

For the Years Ended December 31, 2016, 2015 and 2014

(dollars in thousands)	2016	2015	2014
Cash Flows from Operating Activities			
Net income	$ 16,008	$ 12,550	$ 9,872
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Non-cash compensation	1,200	999	805
Decrease (increase) in accrued interest and other assets	135	(624)	(58)
Dividends received in excess of earnings from subsidiary (undistributed earnings in subsidiary)	(16,123)	59,865	30,038
	(3,865)	3,855	(226)

(Decrease) Increase in accrued expenses and other liabilities			
Net Cash Provided by Operating Activities	(2,645)	76,645	40,431
Cash Flows from Investing Activities			
Net cash paid in acquisitions		(57,455)	(37,597)
Net Cash Used in Investing Activities		(57,455)	(37,597)
Cash Flows from Financing Activities			
Proceeds from exercise of stock options	1,416	3,282	581
Payment of dividends on common stock	(2,988)	(2,162)	(499)
Issuance of stock under incentive plan	(14)		
Purchase of Company s common stock	(357)	(3,466)	(561)
Net Cash Used in Financing Activities	(1,943)	(2,346)	(479)
Net Increase (Decrease) in Cash and Cash Equivalents	(4,588)	16,844	2,355
Cash and Cash Equivalents as of Beginning of Period	19,512	2,668	313
Cash and Cash Equivalents as of End of Period	$ 14,924	$ 19,512	$ 2,668

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21. Consolidated Quarterly Results of Operations (unaudited)

(dollars in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year Ended December 31, 2016				
Total interest income	$ 17,049	$ 16,866	$ 16,847	$ 16,923
Total interest expense	1,326	1,313	1,308	1,321
Net interest income	15,723	15,553	15,539	15,602
Provision for loan losses	850	1,050	800	500
Net interest income after provision for loan losses	14,873	14,503	14,739	15,102
Noninterest income	2567	3,448	2,515	2,628
Noninterest expense	12,341	11,856	10,643	11,957
Income before income taxes	5,099	6,095	6,611	5,773
Income tax expense	1,749	2,079	2,251	1,491
Net income	$ 3,350	$ 4,016	$ 4,360	$ 4,282
Earnings per share basic	$ 0.49	$ 0.59	$ 0.63	$ 0.62
Earnings per share diluted	$ 0.47	$ 0.57	$ 0.61	$ 0.60

(dollars in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year Ended December 31, 2015				
Total interest income	$ 13,305	$ 13,588	$ 14,425	$ 17,092
Total interest expense	814	823	894	1,335
Net interest income	12,491	12,765	13,531	15,757
Provision for loan losses	538	294	569	670
Net interest income after provision for loan losses	11,953	12,471	12,962	15,087
Noninterest income	2,079	2,039	2,197	2,455
Noninterest expense	9,719	10,228	10,522	11,553
Income before income taxes	4,313	4,282	4,637	5,989
Income tax expense	1,465	1,441	1,739	2,026
Net income	$ 2,848	$ 2,841	$ 2,898	$ 3,963
Earnings per share basic	$ 0.43	$ 0.42	$ 0.43	$ 0.59
Earnings per share diluted	$ 0.41	$ 0.41	$ 0.41	$ 0.56

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

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Item 9A. Controls and Procedures.

Evaluation of Disclosure 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 December 31, 2016. 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.

Management s Report on Internal Control over Financial Reporting

The management of Home Bancorp, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. The Company s internal control over financial reporting is a process designed under the supervision of the Company s Chief Executive Officer and the Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company s financial statements for external purposes in accordance with the accounting principles generally accepted in the United States of America. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934, as amended.

The Company s internal control systems are designed to ensure that transactions are properly authorized and recorded in the financial records and to safeguard assets from material loss or misuse. Such assurance cannot be absolute because of inherent limitations in any internal control system.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2016 based on the criteria for effective internal control established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2016. Our independent registered public accountants have issued an audit report on the Company s internal control over financial reporting. This report appears on pages 39 and 40.

Changes in Internal Control over Financial Reporting

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 fourth fiscal quarter of 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required herein is incorporated by reference from the information contained in the sections captioned Information with Respect to Nominees for Director, Continuing Directors and Executive Officers and Beneficial Ownership of Common Stock by Certain Beneficial Owners and Management Section 16(a) Beneficial Ownership Reporting Compliance in the Company s definitive proxy statement to be filed with the SEC for the 2017 Annual Meeting of Shareholders to be held in May 2017 (the Proxy Statement).

The Company has adopted a Code of Conduct and Ethics that applies to its principal executive officer and principal financial officer, as well as other officers and employees of the Company and the Bank. A copy of the Code of Ethics is available on the Company s website at *www.home24bank.com*.

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Item 11. Executive Compensation.

The information required herein with respect to the security ownership of certain beneficial owners and management is incorporated by reference from the information contained in the sections captioned Management Compensation in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Equity Compensation Plan Information. The following table provides information as of December 31, 2016 with respect to shares of common stock that may be issued under our existing equity compensation plans, which consist of the 2009 Stock Option Plan, 2009 Recognition and Retention Plan and the 2014 Equity Incentive Plan, each of which was approved by our shareholders.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	491,676[1]	$ 14.55[1]	242,317
Equity compensation plans not approved by security holders			
Total	491,676	$ 14.55	242,317

[1] Includes 6,988 shares subject to restricted stock grants and 41,567 restricted share units which were not vested as of December 31, 2016. The weighted-average exercise price excludes such restricted stock grants.

The information required herein is incorporated by reference from the information contained in the section captioned Beneficial Ownership of Common Stock by Certain Beneficial Owners and Management in the Proxy Statement.

Item 13. Certain Relationships and Related Transactions and Director Independence.

The information required herein is incorporated by reference from the information contained in the sections captioned Management Compensation Related Party Transactions and Information with Respect to Nominees for Director, Continuing Directors and Executive Officers in the Proxy Statement.

Item 14. Principal Accounting Fees and Services.

The information required herein is incorporated by reference from the information contained in the sections captioned Ratification of Appointment of Independent Registered Public Accounting Firm in the Proxy Statement.

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PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) (1) The following financial statements are incorporated by reference from Item 8 hereof:

Report of Independent Registered Public Accounting Firm
Consolidated Statements of Financial Condition
Consolidated Statements of Income
Consolidated Statements of Comprehensive Income
Consolidated Statements of Changes in Shareholders Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

(2) All schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

(3) Exhibits

The following exhibits are filed as part of this Form 10-K and this list includes the Exhibit Index.

No.	Description	Location
3.1	Articles of Incorporation of Home Bancorp, Inc.	(1)
3.2	Amended and Restated Bylaws of Home Bancorp, Inc.	(2)
4.0	Form of Stock Certificate of Home Bancorp, Inc.	(1)
10.1	Salary Continuation Agreement by and between Home Bank and John W. Bordelon*	(1)
10.2	Salary Continuation Agreement by and between Home Bank and Darren E. Guidry*	(1)
10.3	Amendment No. 1 to the Salary Continuation Agreement by and between Home Bank and John W. Bordelon*	(3)
10.4	Amendment No. 1 to the Salary Continuation Agreement by and between Home Bank and Darren E. Guidry*	(3)
10.5	2005 Directors Deferral Plan*	(3)
10.6	Amended and Restated Employment Agreement by and between Home Bank and John W. Bordelon*	(4)
10.7	Amended and Restated Employment Agreement by and between Home Bancorp, Inc. and John W. Bordelon*	(4)
10.8		(4)

	Amended and Restated Employment Agreement by and between Home Bank and Darren E. Guidry*	
10.9	Amended and Restated Employment Agreement by and between Home Bank and Joseph B. Zanco*	(4)
10.10	Home Bancorp, Inc. 2009 Stock Option Plan*	(5)
10.11	Home Bancorp, Inc. 2009 Recognition and Retention Plan and Trust Agreement*	(6)
10.12	Employment Agreement by and between Home Bank and Scott A. Ridley*	(7)
10.13	Home Bancorp, Inc. 2014 Equity Incentive Plan*	(8)
10.14	Amendment to the Amended and Restated Employment Agreement between Home Bancorp, Inc. and John W. Bordelon*	(9)
10.15	Amendment to the Amended and Restated Employment Agreement between Home Bank and John W. Bordelon*	(9)
10.16	Amendment to the Amended and Restated Employment Agreement between Home Bank and Darren E. Guidry*	(9)
10.17	Amendment to the Employment Agreement between Home Bank and Scott A. Ridley*	(9)
10.18	Amendment to the Amended and Restated Employment Agreement between Home Bank and Joseph B. Zanco*	(9)

No.	Description	Location
10.19	Employment Agreement between Home Bank, N.A. and Jason P. Freyou*	(10)
10.20	Amendment to the Employment Agreement between Home Bank, N.A. and Jason P. Freyou*	(9)
23.1	Consent of Porter Keadle Moore, LLC	Filed herewith
31.1	Rule 13(a)-14(a) Certification of the Chief Executive Officer	Filed herewith
31.2	Rule 13(a)-14(a) Certification of the Chief Financial Officer	Filed herewith
32.0	Section 1350 Certification	Filed herewith
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	

* Denotes a management contract or compensatory plan or arrangement.

(1) Incorporated by reference from the like-numbered exhibit included in Home Bancorp s registration statement on Form S-1, filed June 6, 2008 (SEC File No. 333-151492).
(2) Incorporated by reference from the exhibit included in the Company s Current Report on Form 8-K, dated as of March 23, 2009 and filed March 27, 2009 (SEC File No. 001-34190).
(3) Incorporated by reference from the exhibit included in the Company s Current Report on Form 8-K, dated as of December 22, 2008 and filed December 29, 2008 (SEC File No. 001-34190).
(4) Incorporated by reference from the exhibit included in the Company s Current Report on Form 8-K, dated as of March 28, 2011 and filed March 30, 2011 (SEC File No. 001-34190).
(5) Incorporated by reference from Appendix A to Home Bancorp s definitive proxy statement filed April 1, 2009 (SEC File No. 001-34190) and included in Form S-8, filed June 23, 2009 (SEC File No. 333-160155).
(6) Incorporated by reference from Appendix B to Home Bancorp s definitive proxy statement filed April 1, 2009 (SEC File No. 001-34190).
(7) Incorporated by reference from the exhibit included in the Company s Current Report on Form 8-K, dated as of January 27, 2014 and filed January 31, 2014 (SEC File No. 001-34190).
(8) Incorporated by reference from Appendix A to Home Bancorp s definitive proxy statement filed April 3, 2014 (SEC File No. 001-34190).
(9) Incorporated by reference from the exhibit included Home Bancorp s Current Report on Form 8-K, dated as of May 23, 2016 and filed on May 26, 2016 (SEC File No. 001-34190).
(10) Incorporated by reference from the exhibit included in the Company s Current Report on Form 8-K, dated as of April 27, 2015 and filed April 30, 2015 (SEC File No. 001-34190).

(b) Exhibits

The exhibits listed under (a)(3) of this Item 15 are filed herewith.

(c) Reference is made to (a)(2) of this Item 15.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

March 14, 2017

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Name	Title	Date
/s/ John W. Bordelon John W. Bordelon	President, Chief Executive Officer and Director	March 14, 2017
/s/ Michael P. Maraist Michael P. Maraist	Chairman of the Board	March 14, 2017
/s/ Paul J. Blanchet, III Paul J. Blanchet, III	Director, Chairman of Audit Committee	March 14, 2017
/s/ Kathy J. Bobbs Kathy J. Bobbs	Director	March 14, 2017
/s/ Richard J. Bourgeois Richard J. Bourgeois	Director	March 14, 2017
/s/ John A. Hendry John A. Hendry	Director	March 14, 2017
/s/ Marc W. Judice Marc W. Judice	Director	March 14, 2017

/s/ Chris P. Rader	Director	March 14, 2017
Chris P. Rader		
/s/ Donald W. Washington	Director	March 14, 2017
Donald W. Washington		
/s/ Joseph B. Zanco	Executive Vice President and Chief Financial Officer	March 14, 2017
Joseph B. Zanco		
/s/ Mary H. Hopkins	Home Bank First Vice President and Director of Financial Management	March 14, 2017
Mary H. Hopkins		