HOME BANCORP, INC.
Form 10-Q
November 08, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the quarterly period ended: September 30, 2013**

**or**

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

**Commission File Number: 001-34190**

**HOME BANCORP, INC.**

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

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

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

**Not Applicable**

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

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

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

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

| | |
|---|---|
| Large accelerated filer ¨ | Accelerated filer x |
| Non-accelerated filer ¨ (Do not check if a smaller reporting company) | Smaller reporting company ¨ |

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

At November 1, 2013, the registrant had 7,099,164 shares of common stock, $0.01 par value, outstanding.

**HOME BANCORP, INC. and SUBSIDIARY**

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**HOME BANCORP, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

| | (Unaudited) September 30, 2013 | (Audited) December 31, 2012 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 35,953,034 | $ 39,539,366 |
| Interest-bearing deposits in banks | 3,185,000 | 3,529,000 |
| Investment securities available for sale, at fair value | 151,453,721 | 157,255,828 |
| Investment securities held to maturity (fair values of $8,904,726 and $1,746,375, respectively) | 8,965,112 | 1,665,184 |
| Mortgage loans held for sale | 1,711,585 | 5,627,104 |
| Loans covered by loss sharing agreements | 23,723,936 | 45,764,397 |
| Noncovered loans, net of unearned income | 657,150,445 | 627,363,937 |
| Total loans, net of unearned income | 680,874,381 | 673,128,334 |
| Allowance for loan losses | (6,462,841) | (5,319,235) |
| Total loans, net of unearned income and allowance for loan losses | 674,411,540 | 667,809,099 |
| Office properties and equipment, net | 30,312,996 | 30,777,184 |
| Cash surrender value of bank-owned life insurance | 17,638,008 | 17,286,434 |
| FDIC loss sharing receivable | 13,576,606 | 15,545,893 |
| Accrued interest receivable and other assets | 24,688,760 | 23,891,172 |
| **Total Assets** | $ 961,896,362 | $ 962,926,264 |
| **Liabilities** | | |
| Deposits: | | |
| Noninterest-bearing | $ 171,915,471 | $ 152,461,606 |
| Interest-bearing | 593,894,841 | 618,967,729 |
| Total deposits | 765,810,312 | 771,429,335 |
| Short-term Federal Home Loan Bank (FHLB) advances | 40,900,000 | 10,000,000 |
| Long-term Federal Home Loan Bank (FHLB) advances | 10,000,000 | 36,256,805 |
| Accrued interest payable and other liabilities | 4,965,371 | 3,666,264 |
| **Total Liabilities** | 821,675,683 | 821,352,404 |
| **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; 8,957,845 and 8,950,495 shares issued; 7,099,164 and 7,439,127 shares outstanding, respectively | 89,579 | 89,506 |
| Additional paid-in capital | 91,743,191 | 90,986,820 |

| | | |
|---|---|---|
| Treasury stock at cost - 1,858,681 and 1,511,368 shares, respectively | (28,003,896) | (21,719,954) |
| Unallocated common stock held by: | | |
| Employee Stock Ownership Plan (ESOP) | (5,356,100) | (5,623,910) |
| Recognition and Retention Plan (RRP) | (1,020,857) | (1,831,759) |
| Retained earnings | 82,023,494 | 76,435,222 |
| Accumulated other comprehensive income | 745,268 | 3,237,935 |
| **Total Shareholders Equity** | 140,220,679 | 141,573,860 |
| **Total Liabilities and Shareholders Equity** | $ 961,896,362 | $ 962,926,264 |

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

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**HOME BANCORP, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| **Interest Income** | | | | |
| Loans, including fees | $ 10,438,505 | $ 11,309,112 | $ 30,578,885 | $ 32,063,514 |
| Investment securities | 754,902 | 769,202 | 2,278,112 | 2,440,833 |
| Other investments and deposits | 32,471 | 41,404 | 96,077 | 110,870 |
| Total interest income | 11,225,878 | 12,119,718 | 32,953,074 | 34,615,217 |
| **Interest Expense** | | | | |
| Deposits | 729,941 | 1,036,707 | 2,410,621 | 3,253,133 |
| Short-term FHLB advances | 12,060 | 4,830 | 27,146 | 36,281 |
| Long-term FHLB advances | 80,550 | 162,154 | 331,660 | 489,306 |
| Total interest expense | 822,551 | 1,203,691 | 2,769,427 | 3,778,720 |
| Net interest income | 10,403,327 | 10,916,027 | 30,183,647 | 30,836,497 |
| Provision for loan losses | 453,133 | 55,736 | 3,221,326 | 1,927,962 |
| Net interest income after provision for loan losses | 9,950,194 | 10,860,291 | 26,962,321 | 28,908,535 |
| **Noninterest Income** | | | | |
| Service fees and charges | 627,607 | 535,016 | 1,753,547 | 1,688,874 |
| Bank card fees | 445,784 | 443,986 | 1,314,299 | 1,396,678 |
| Gain on sale of loans, net | 314,626 | 651,457 | 1,289,487 | 1,395,561 |
| Income from bank-owned life insurance | 114,473 | 124,566 | 351,575 | 386,772 |
| Gain on sale of securities, net | | 162,534 | 428,200 | 221,781 |
| Accretion of FDIC loss sharing receivable | 111,066 | 108,762 | 334,913 | 461,893 |
| Other income | 52,215 | 60,537 | 170,351 | 134,870 |
| Total noninterest income | 1,665,771 | 2,086,858 | 5,642,372 | 5,686,429 |
| **Noninterest Expense** | | | | |
| Compensation and benefits | 5,017,628 | 5,046,836 | 14,993,975 | 14,569,194 |
| Occupancy | 779,908 | 722,320 | 2,248,632 | 2,119,265 |
| Marketing and advertising | 152,270 | 202,400 | 563,793 | 538,764 |
| Data processing and communication | 574,364 | 694,440 | 1,842,036 | 2,033,779 |
| Professional services | 217,657 | 213,294 | 623,909 | 701,030 |
| Forms, printing and supplies | 86,965 | 111,203 | 329,762 | 377,918 |
| Franchise and shares tax | 272,960 | 305,889 | 819,540 | 657,191 |

| | | | | |
|---|---|---|---|---|
| Regulatory fees | 225,175 | 218,193 | 668,059 | 629,368 |
| Foreclosed assets, net | 90,982 | 248,089 | 236,740 | 758,813 |
| Other expenses | 471,670 | 626,409 | 1,873,530 | 1,855,486 |
| Total noninterest expense | 7,889,579 | 8,389,073 | 24,199,976 | 24,240,808 |
| Income before income tax expense | 3,726,386 | 4,558,076 | 8,404,717 | 10,354,156 |
| Income tax expense | 1,243,639 | 1,505,746 | 2,816,445 | 3,488,694 |
| **Net Income** | $ 2,482,747 | $ 3,052,330 | $ 5,588,272 | $ 6,865,462 |
| **Earnings per share:** | | | | |
| Basic | $ 0.38 | $ 0.44 | $ 0.84 | $ 0.99 |
| Diluted | $ 0.37 | $ 0.42 | $ 0.80 | $ 0.95 |

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

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**HOME BANCORP, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)**

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| **Net Income** | $ 2,482,747 | $ 3,052,330 | $ 5,588,272 | $ 6,865,462 |
| **Other Comprehensive (Loss) Income** | | | | |
| Unrealized (losses) gains on investment securities | $ (209,341) | $ 1,255,562 | $ (3,759,396) | $ 2,547,374 |
| Reclassification adjustment for gains included in net income | | (162,534) | (428,200) | (221,781) |
| Tax effect[1] | 59,710 | (374,362) | 1,694,929 | (644,326) |
| Other comprehensive (loss) income, net of taxes | $ (149,631) | $ 718,666 | $ (2,492,667) | $ 1,681,267 |
| **Comprehensive Income** | $ 2,333,116 | $ 3,770,996 | $ 3,095,605 | $ 8,546,729 |

(1) The tax effect for the three and nine months ended September 30, 2013 on the change in unrealized (losses) gains on investment securities was $59,710 and $1,545,059, respectively, compared to $430,030 and $720,286, respectively, for the three and nine months ended September 30, 2012. The tax effect for the three and nine months ended September 30, 2013 on the reclassification adjustment for gains included in net income had a tax effect of $0 and $149,870, respectively, compared to $55,668 and $75,960, respectively, for the three and nine months ended September 30, 2012.

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

**HOME BANCORP, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)**

| | 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 | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2011**[1] | $ 89,335 | $ 89,741,406 | $ (15,892,315) | $ (5,980,990) | $ (2,644,523) | $ 67,245,350 | $ 1,726,571 | $ 134,284,834 |
| Comprehensive income: | | | | | | | | |
| Net income | | | | | | 6,865,462 | | 6,865,462 |
| Other Comprehensive income | | | | | | | 1,681,267 | 1,681,267 |
| Treasury stock acquired at cost, 184,429 shares | | | (4,473,680) | | | | | (4,473,680) |
| Exercise of stock options | 148 | 175,577 | | | | | | 175,725 |
| RRP shares released for allocation | | (680,600) | | | 812,764 | | | 132,164 |
| ESOP shares released for allocation | | 181,413 | | 267,810 | | | | 449,223 |
| Share-based compensation cost | | 1,095,964 | | | | | | 1,095,964 |
| **Balance, September 30, 2012** | $ 89,483 | $ 90,513,760 | $ (20,365,995) | $ (5,713,180) | $ (1,831,759) | $ 74,110,812 | $ 3,407,838 | $ 140,210,959 |
| **Balance, December 31, 2012**[1] | $ 89,506 | $ 90,986,820 | $ (21,719,954) | $ (5,623,910) | $ (1,831,759) | $ 76,435,222 | $ 3,237,935 | $ 141,573,860 |
| Comprehensive income: | | | | | | | | |
| Net income | | | | | | 5,588,272 | | 5,588,272 |
| Other Comprehensive loss | | | | | | | (2,492,667) | (2,492,667) |
| Treasury stock acquired at cost, | | | (6,283,942) | | | | | (6,283,942) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 347,313 shares | | | | | | | | |
| Exercise of stock options | 73 | 84,734 | | | | | | 84,807 |
| RRP shares released for allocation | | (652,717) | | | 810,902 | | | 158,185 |
| ESOP shares released for allocation | | 220,977 | | 267,810 | | | | 488,787 |
| Share-based compensation cost | | 1,103,377 | | | | | | 1,103,377 |
| **Balance, September 30, 2013** | $ 89,579 | $ 91,743,191 | $ (28,003,896) | $ (5,356,100) | $ (1,020,857) | $ 82,023,494 | $ 745,268 | $ 140,220,679 |

(1) Balances as of December 31, 2011 and December 31, 2012 are audited.

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

**HOME BANCORP, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

| | For the Nine Months Ended September 30, 2013 | 2012 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | $ 5,588,272 | $ 6,865,462 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 3,221,326 | 1,927,962 |
| Depreciation | 1,072,571 | 1,089,025 |
| Amortization (accretion) of purchase accounting valuations and intangibles | 575,194 | (115,098) |
| Net amortization of mortgage servicing asset | 146,142 | 124,858 |
| Federal Home Loan Bank stock dividends | (6,900) | (13,700) |
| Net amortization of premium on investments | 832,966 | 858,908 |
| Gain on sale of investment securities, net | (428,200) | (221,781) |
| Gain on loans sold, net | (1,289,487) | (1,395,561) |
| Proceeds, including principal payments, from loans held for sale | 69,787,342 | 21,371,657 |
| Originations of loans held for sale | (64,683,615) | (18,585,639) |
| Non-cash compensation | 1,592,164 | 1,545,187 |
| Deferred income tax provision | 473,020 | 468,208 |
| Decrease in interest receivable and other assets | 53,803 | 456,365 |
| Increase in cash surrender value of bank-owned life insurance | (351,574) | (386,772) |
| Increase in accrued interest payable and other liabilities | 1,349,999 | 626,452 |
| Net cash provided by operating activities | 17,933,023 | 14,615,533 |
| **Cash flows from investing activities:** | | |
| Purchases of securities available for sale | (28,894,559) | (36,559,185) |
| Purchases of securities held to maturity | (7,793,964) | |
| Proceeds from maturities, prepayments and calls on securities available for sale | 22,865,281 | 25,478,920 |
| Proceeds from maturities, prepayments and calls on securities held to maturity | 456,395 | 1,411,471 |
| Proceeds from sales on securities available for sale | 7,704,863 | 15,264,114 |
| Net increase in loans | (14,039,556) | (11,266,490) |
| Reimbursement from FDIC for covered assets | 1,399,929 | 1,748,270 |
| Decrease in certificates of deposit in other institutions | 344,000 | 1,564,000 |
| Proceeds from sale of foreclosed assets | 4,177,336 | 5,164,085 |
| Purchases of office properties and equipment | (608,383) | (1,197,629) |
| Proceeds from sale of properties and equipment | | 1,048,771 |
| Purchases of Federal Home Loan Bank stock | (1,751,500) | |
| Proceeds from redemption of Federal Home Loan Bank stock | 1,533,600 | 2,792,000 |
| Net cash (used in) provided by investing activities | (14,606,558) | 5,448,327 |
| **Cash flows from financing activities:** | | |
| (Decrease) increase in deposits | (5,554,642) | 54,594,797 |

| | | |
|---|---|---|
| Increase (decrease) in Federal Home Loan Bank advances | 4,840,980 | (49,822,437) |
| Purchase of treasury stock | (6,283,942) | (4,473,680) |
| Proceeds from exercise of stock options | 84,807 | 175,725 |
| Net cash (used in) provided by financing activities | (6,912,797) | 474,405 |
| Net change in cash and cash equivalents | (3,586,332) | 20,538,265 |
| Cash and cash equivalents at beginning of year | 39,539,366 | 31,769,438 |
| Cash and cash equivalents at end of period | $ 35,953,034 | $ 52,307,703 |

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

**HOME BANCORP, INC. AND SUBSIDIARY**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation**

The accompanying unaudited consolidated financial statements of Home Bancorp, Inc. (the Company ) were prepared in accordance with instructions for Form 10-Q and Regulation S-X and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations, other comprehensive income, changes in shareholders equity and cash flows in conformity with accounting principles generally accepted in the United States of America. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial statements have been included. The results of operations for the nine-month period ended September 30, 2013 are not necessarily indicative of the results which may be expected for the entire fiscal year. These statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission ( SEC ) for the year ended December 31, 2012.

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

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

**2. Accounting Developments**

In October 2012, the FASB issued Accounting Standards Update ( ASU ) No. 2012-06, *Subsequent Accounting for an Indemnification Asset as a result of a Government-Assisted Acquisition of a Financial Institution.* ASU 2012-06 requires the change in measurement of the indemnification asset to be accounted for on the same basis as the change in the indemnified item. Any amortization period for the changes in value is limited to the shorter of the term of the indemnification agreement or the remaining life of the indemnified assets. The amendments are effective for fiscal years beginning on or after December 15, 2012 and interim periods within those fiscal years. The amendments are applied prospectively to any new indemnification assets acquired after the date of adoption and to indemnification assets existing as of the date of adoption. The Company has adopted ASU 2012-06, and the adoption of the guidance did not have a material impact on the Company s results of operations, financial position or disclosures.

ASU 2013-02*, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income* was issued in the first quarter of 2013 to improve the reporting of reclassifications out of accumulated other comprehensive income ( AOCI ). The ASU requires information regarding the impact to net earnings of the reclassification on significant amounts out of AOCI to be presented on either the face of the statement of earnings or in the notes to the financial statements. The amendments in this Update do not change the current reporting requirements for net earnings or AOCI. For public entities, the amendments in this Update are effective prospectively for reporting periods beginning after December 15, 2012. The Company has adopted ASU 2013-02, and the information required has been included in the Consolidated Statements of Comprehensive Income.

In January 2013, the FASB issued ASU No. 2013-01, *Balance Sheet (Topic 210), Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. The amendments limit the scope of ASU 2011-11, *Disclosures about*

*Offsetting Assets and Liabilities*, to certain derivative instruments (including bifurcated embedded derivatives), repurchase agreements and reverse repurchase agreements, and securities borrowing and

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lending arrangements that are either (1) offset on the balance sheet or (2) subject to an enforceable master netting arrangement or similar agreement. This ASU amends the scope of FASB ASU No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*, which requires additional disclosure regarding the offsetting of assets and liabilities to enable users of financial statements to evaluate the effect or potential effect of netting arrangements on an entity s financial position. The effective date of the amendments coincides with that of ASU 2011-11 (i.e., for fiscal years beginning on or after January 1, 2013, and interim periods within those years). The amendments are applied retrospectively for all comparative periods presented on the balance sheet. The Company has adopted ASU 2013-01, and the adoption of the guidance did not have a material impact on the Company s results of operations, financial position or disclosures.

In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740)*, which clarifies the presentation requirements of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014 and should be applied prospectively. The adoption of this ASU is not expected to have a material effect on our consolidated statements of financial condition, results of operations, or cash flows.

**3. Investment Securities**

Summary information regarding the Company s investment securities classified as available for sale and held to maturity as of September 30, 2013 and December 31, 2012 is as follows.

| *(dollars in thousands)* | | | Gross Unrealized Losses | | |
|---|---|---|---|---|---|
| September 30, 2013 | Amortized Cost | Gross Unrealized Gains | Less Than 1 Year | Over 1 Year | Fair Value |
| Available for sale: | | | | | |
| U.S. agency mortgage-backed | $ 95,693 | $ 2,015 | $ 802 | $ 1 | $ 96,905 |
| Non-U.S. agency mortgage-backed | 10,522 | 130 | 54 | 60 | 10,538 |
| Municipal bonds | 20,449 | 334 | 366 | | 20,417 |
| U.S. government agency | 23,645 | 277 | 328 | | 23,594 |
| Total available for sale | $ 150,309 | $ 2,756 | $ 1,550 | $ 61 | $ 151,454 |
| Held to maturity: | | | | | |
| U.S. agency mortgage-backed | $ 237 | $ 4 | $ | $ | $ 241 |
| Municipal bonds | 8,728 | 80 | 144 | | 8,664 |
| Total held to maturity | $ 8,965 | $ 84 | $ 144 | $ | $ 8,905 |

| *(dollars in thousands)* | | | Gross Unrealized Losses | | |
|---|---|---|---|---|---|

| December 31, 2012 | Amortized Cost | Gross Unrealized Gains | Less Than 1 Year | Over 1 Year | Fair Value |
|---|---|---|---|---|---|
| Available for sale: | | | | | |
| U.S. agency mortgage-backed | $ 99,137 | $ 3,391 | $ 14 | $ 1 | $ 102,513 |
| Non-U.S. agency mortgage-backed | 12,426 | 280 | | 38 | 12,668 |
| Municipal bonds | 16,843 | 774 | 32 | | 17,585 |
| U.S. government agency | 23,944 | 553 | 7 | | 24,490 |
| Total available for sale | $ 152,350 | $ 4,998 | $ 53 | $ 39 | $ 157,256 |
| Held to maturity: | | | | | |
| U.S. agency mortgage-backed | $ 693 | $ 13 | $ | $ | $ 706 |
| Municipal bonds | 972 | 68 | | | 1,040 |
| Total held to maturity | $ 1,665 | $ 81 | $ | $ | $ 1,746 |

The amortized cost and estimated fair value by maturity of the Company s investment securities as of September 30, 2013 are shown in the following tables. Securities are classified according to their contractual maturities without consideration of principal amortization, potential prepayments or call options. The expected maturity of a security may differ from its contractual maturity because of prepayments or the exercise of call options. Accordingly, actual maturities may differ from contractual maturities.

| ***(dollars in thousands)*** | **One Year or Less** | **One Year to Five Years** | **Five to Ten Years** | **Over Ten Years** | **Total** |
|---|---|---|---|---|---|
| **Fair Value** | | | | | |
| Securities available for sale: | | | | | |
| U.S. agency mortgage-backed | $ 217 | $ 253 | $ 16,352 | $ 80,083 | $ 96,905 |
| Non-U.S. agency mortgage-backed | | | | 10,538 | 10,538 |
| Municipal bonds | 508 | 4,084 | 12,427 | 3,398 | 20,417 |
| U.S. government agency | 2,521 | 4,296 | 11,699 | 5,078 | 23,594 |
| Total available for sale | $ 3,246 | $ 8,633 | $ 40,478 | $ 99,097 | $ 151,454 |
| Securities held to maturity: | | | | | |
| U.S. agency mortgage-backed | $ 63 | $ 178 | $ | $ | $ 241 |
| Municipal bonds | 219 | 800 | 6,963 | 682 | 8,664 |
| Total held to maturity | 282 | 978 | 6,963 | 682 | 8,905 |
| Total investment securities | $ 3,528 | $ 9,611 | $ 47,441 | $ 99,779 | $ 160,359 |

| ***(dollars in thousands)*** | **One Year or Less** | **One Year to Five Years** | **Five to Ten Years** | **Over Ten Years** | **Total** |
|---|---|---|---|---|---|
| **Amortized Cost** | | | | | |
| Securities available for sale: | | | | | |
| U.S. agency mortgage-backed | $ 205 | $ 235 | $ 16,334 | $ 78,919 | $ 95,693 |
| Non-U.S. agency mortgage-backed | | | | 10,522 | 10,522 |
| Municipal bonds | 507 | 4,006 | 12,556 | 3,380 | 20,449 |
| U.S. government agency | 2,500 | 4,252 | 11,983 | 4,910 | 23,645 |
| Total available for sale | $ 3,212 | $ 8,493 | $ 40,873 | $ 97,731 | $ 150,309 |
| Securities held to maturity: | | | | | |
| U.S. agency mortgage-backed | $ 59 | $ 178 | $ | $ | $ 237 |
| Municipal bonds | 215 | 757 | 7,080 | 676 | 8,728 |
| Total held to maturity | 274 | 935 | 7,080 | 676 | 8,965 |
| Total investment securities | $ 3,486 | $ 9,428 | $ 47,953 | $ 98,407 | $ 159,274 |

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

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

As of September 30, 2013 and December 31, 2012, the Company had $42,941,000 and $41,462,000, respectively, of securities pledged to secure public deposits.

As of September 30, 2013, 60 of the Company s debt securities had unrealized losses totaling 2.8% of the individual securities amortized cost basis and 1.1% of the Company s total amortized cost basis of the investment securities portfolio. Two of the 60 securities had been in a continuous loss position for over 12 months at such date. The two securities had an aggregate amortized cost basis of $1,100,000 and unrealized loss of $60,000 at September 30, 2013. Management has the intent and ability to hold these debt securities until maturity, or until anticipated recovery; hence, no declines in these two securities were deemed to be other-than-temporary.

**4. Earnings Per Share**

Earnings per common share were computed based on the following:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, | | September 30, | |
| *(in thousands, except per share data)* | 2013 | 2012 | 2013 | 2012 |
| Numerator: | | | | |
| Net income available to common shareholders | $ 2,483 | $ 3,052 | $ 5,588 | $ 6,865 |
| Denominator: | | | | |
| Weighted average common shares outstanding | 6,482 | 6,951 | 6,627 | 6,959 |
| Effect of dilutive securities: | | | | |
| Restricted stock | 36 | 60 | 60 | 78 |
| Stock options | 251 | 201 | 257 | 178 |
| Weighted average common shares outstanding - assuming dilution | 6,769 | 7,212 | 6,944 | 7,215 |
| Earnings per common share | $ 0.38 | $ 0.44 | $ 0.84 | $ 0.99 |
| Earnings per common share - assuming dilution | $ 0.37 | $ 0.42 | $ 0.80 | $ 0.95 |

Options on 54,000 and 40,478 shares of common stock were not included in the computation of diluted earnings per share for the three months ended September 30, 2013 and September 30, 2012, respectively, because the effect of these shares was anti-dilutive. Options on 51,496 and 40,024 shares of common stock were not included in the computation of diluted earnings per share for the nine months ended September 30, 2013 and September 30, 2012, respectively, because the effect of these shares was anti-dilutive.

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

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

***Originated Loans***

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

***Non-covered Acquired Loans***

Non-covered acquired loans are those associated with our acquisition of GS Financial Corp. ( GSFC ), the former holding company of Guaranty Savings Bank of Metairie, Louisiana on July 15, 2011. These loans were recorded at estimated fair value at the acquisition date with no carryover of the related allowance for loan losses. The non-covered 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.

***Covered Loans and the Related Loss Share Receivable***

The loans purchased in the Company s 2010 acquisition of certain assets and liabilities of Statewide Bank ( Statewide ) are covered by loss share agreements between the FDIC and the Company that afford the Company significant loss protection. In connection with the transaction, Home Bank entered into loss sharing agreements with the FDIC which cover the acquired loan portfolio ( Covered Loans ) and repossessed assets (collectively referred to as Covered Assets ). Under the terms of the loss sharing agreements, the FDIC will, subject to the terms and conditions of the agreements, absorb 80% of the first $41,000,000 of losses incurred on Covered Assets and 95% of losses on Covered Assets exceeding $41,000,000 during the periods specified in the loss sharing agreements. These covered loans are accounted for as acquired impaired loans as described above. The loss share receivable is measured separately from the related covered loans as it is not contractually embedded in the loans and is not transferable should the loans be sold. The fair value of the loss share receivable at acquisition was estimated by discounting projected cash flows related to the loss share agreements based on the expected reimbursements for losses using the applicable loss share percentages. The discounted amount is accreted into non-interest income over the remaining life of the covered loan pool or the life of the loss share agreement.

The loss share receivable is reviewed and updated prospectively as loss estimates related to covered loans change. Increases in expected reimbursements under the loss sharing agreements from a covered loan pool will lead to an increase in the loss share receivable. A decrease in expected reimbursements is reflected first as a reversal of any previously recorded increase in the loss share receivable on the covered loan pool with the remainder reflected as a reduction in the loss share receivable s accretion rate. Increases and decreases in the loss share receivable can result in reductions in or additions to the provision for loan losses, which serve to offset the impact on the provision from impairment recognized on the underlying covered loan pool and reversals of previously recognized impairment. The impact on operations of a reduction in the loss share receivable s accretion rate is associated with an increase in the accretable yield on the underlying loan pool.

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

| | As of September 30, 2013 | | | | |
|---|---|---|---|---|---|
| | Originated Loans | | Acquired Loans | | |
| ***(dollars in thousands)*** | **Collectively Evaluated for Impairment** | **Individually Evaluated for Impairment** | **Non-covered Acquired Loans** | **Covered Loans** | **Total** |
| Allowance for loan losses: | | | | | |
| One- to four-family first mortgage | $ 848 | $ | $ 218 | $ | $ 1,066 |
| Home equity loans and lines | 368 | | 121 | | 489 |
| Commercial real estate | 2,374 | | | | 2,374 |
| Construction and land | 858 | | | | 858 |
| Multi-family residential | 88 | | | | 88 |
| Commercial and industrial | 822 | 295 | 11 | | 1,128 |
| Consumer | 459 | | | | 459 |
| Total allowance for loan losses | $ 5,817 | $ 295 | $ 350 | $ | $ 6,463 |

| | As of September 30, 2013 | | | | |
|---|---|---|---|---|---|
| | Originated Loans | | Acquired Loans | | |
| ***(dollars in thousands)*** | **Collectively Evaluated for Impairment** | **Individually Evaluated for Impairment** | **Non-covered Acquired Loans(1)** | **Covered Loans** | **Total** |
| Loans: | | | | | |
| One- to four-family first mortgage | $ 131,477 | $ 656 | $ 40,017 | $ 5,992 | $ 178,142 |
| Home equity loans and lines | 30,630 | 3 | 7,861 | 2,427 | 40,921 |
| Commercial real estate | 207,520 | 360 | 34,926 | 10,842 | 253,648 |
| Construction and land | 68,003 | 19 | 2,126 | 2,054 | 72,202 |
| Multi-family residential | 7,545 | | 7,982 | 1,337 | 16,864 |
| Commercial and industrial | 74,664 | 2,241 | 2,301 | 1,072 | 80,278 |
| Consumer | 38,312 | | 507 | | 38,819 |
| Total loans | $ 558,151 | $ 3,279 | $ 95,720 | $ 23,724 | $ 680,874 |

| | As of December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Originated Loans | | Acquired Loans | | |
| ***(dollars in thousands)*** | **Collectively Evaluated for Impairment** | **Individually Evaluated for Impairment** | **Non-covered Acquired Loans(1)** | **Covered Loans** | **Total** |
| Allowance for loan losses: | | | | | |
| One- to four-family first mortgage | $ 749 | $ 49 | $ 184 | $ | $ 982 |
| Home equity loans and lines | 322 | | 21 | | 343 |
| Commercial real estate | 1,906 | 134 | | | 2,040 |
| Construction and land | 785 | | | | 785 |
| Multi-family residential | 86 | | | | 86 |
| Commercial and industrial | 683 | | | | 683 |
| Consumer | 400 | | | | 400 |
| Total allowance for loan losses | $ 4,931 | $ 183 | $ 205 | $ | $ 5,319 |

| (dollars in thousands) | As of December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Originated Loans | | Acquired Loans | | |
| | Collectively Evaluated for Impairment | Individually Evaluated for Impairment | Non-covered Acquired Loans[(1)] | Covered Loans | Total |
| Loans: | | | | | |
| One- to four-family first mortgage | $ 115,278 | $ 1,464 | $ 49,943 | $ 11,131 | $ 177,816 |
| Home equity loans and lines | 26,938 | 56 | 10,123 | 3,309 | 40,426 |
| Commercial real estate | 182,376 | 3,428 | 44,132 | 22,869 | 252,805 |
| Construction and land | 66,815 | 60 | 3,650 | 5,004 | 75,529 |
| Multi-family residential | 7,929 | 528 | 9,818 | 1,383 | 19,658 |
| Commercial and industrial | 66,321 | | 4,469 | 1,463 | 72,253 |
| Consumer | 33,341 | | 695 | 605 | 34,641 |
| Total loans | $ 498,998 | $ 5,536 | $ 122,830 | $ 45,764 | $ 673,128 |

(1) $4.7 million and $5.3 million in GSFC loans were accounted for under ASC 310-30 at September 30, 2013 and December 31, 2012, respectively.

A summary of the activity in the allowance for loan losses during the nine months ended September 30, 2013 and September 30, 2012 is as follows.

| (dollars in thousands) | For the Nine Months Ended September 30, 2013 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Charge-offs | Recoveries | Provision | Ending Balance |
| Originated loans: | | | | | |
| Allowance for loan losses: | | | | | |
| One- to four-family first mortgage | $ 798 | $ (76) | $ | $ 126 | $ 848 |
| Home equity loans and lines | 322 | | 10 | 37 | 369 |
| Commercial real estate | 2,040 | | | 334 | 2,374 |
| Construction and land | 785 | (25) | 8 | 90 | 858 |
| Multi-family residential | 86 | | | 2 | 88 |
| Commercial and industrial | 683 | (1,990) | 18 | 2,406 | 1,117 |
| Consumer | 400 | (8) | 22 | 45 | 459 |
| Total allowance for loan losses | $ 5,114 | $ (2,099) | $ 58 | $ 3,040 | $ 6,113 |
| Non-covered acquired loans: | | | | | |
| Allowance for loan losses: | | | | | |
| One- to four-family first mortgage | $ 184 | $ (36) | $ | $ 70 | $ 218 |
| Home equity loans and lines | 21 | | | 100 | 121 |
| Commercial real estate | | | | | |
| Construction and land | | | | | |
| Multi-family residential | | | | | |
| Commercial and industrial | | | | 11 | 11 |

| | | | | | |
|---|---|---|---|---|---|
| Consumer | | | | | |
| Total allowance for loan losses | $ 205 | $ (36) | $ | $ 181 | $ 350 |
| Covered loans: | | | | | |
| Allowance for loan losses: | | | | | |
| One- to four-family first mortgage | $ | $ | $ | $ | $ |
| Home equity loans and lines | | | | | |
| Commercial real estate | | | | | |
| Construction and land | | | | | |
| Multi-family residential | | | | | |
| Commercial and industrial | | | | | |
| Consumer | | | | | |
| Total allowance for loan losses | $ | $ | $ | $ | $ |
| Total loans: | | | | | |
| Allowance for loan losses: | | | | | |
| One- to four-family first mortgage | $ 982 | $ (112) | $ | $ 196 | $ 1,066 |
| Home equity loans and lines | 343 | | 10 | 137 | 490 |
| Commercial real estate | 2,040 | | | 334 | 2,374 |
| Construction and land | 785 | (25) | 8 | 90 | 858 |
| Multi-family residential | 86 | | | 2 | 88 |
| Commercial and industrial | 683 | (1,990) | 18 | 2,417 | 1,128 |
| Consumer | 400 | (8) | 22 | 45 | 459 |
| Total allowance for loan losses | $ 5,319 | $ (2,135) | $ 58 | $ 3,221 | $ 6,463 |

| (dollars in thousands) | Beginning Balance | Charge-offs | Recoveries | Provision | Ending Balance |
|---|---|---|---|---|---|
| | For the Nine Months Ended September 30, 2012 | | | | |
| Originated loans: | | | | | |
| Allowance for loan losses: | | | | | |
| One- to four-family first mortgage | $ 778 | $ | $ | $ 5 | $ 783 |
| Home equity loans and lines | 336 | (15) | 13 | (16) | 318 |
| Commercial real estate | 1,755 | (1,836) | | 2,100 | 2,019 |
| Construction and land | 904 | (215) | | (40) | 649 |
| Multi-family residential | 64 | | | 15 | 79 |
| Commercial and industrial | 872 | (56) | 5 | (147) | 674 |
| Consumer | 345 | (29) | 7 | 61 | 384 |
| Total allowance for loan losses | $ 5,054 | $ (2,151) | $ 25 | $ 1,978 | $ 4,906 |
| Non-covered acquired loans: | | | | | |
| Allowance for loan losses: | | | | | |
| One- to four-family first mortgage | $ | $ | $ | $ | $ |
| Home equity loans and lines | | | | | |
| Commercial real estate | | | | | |
| Construction and land | | | | | |
| Multi-family residential | | | | | |
| Commercial and industrial | | | | | |
| Consumer | | | | | |
| Total allowance for loan losses | $ | $ | $ | $ | $ |
| Covered loans: | | | | | |
| Allowance for loan losses: | | | | | |
| One- to four-family first mortgage | $ | $ | $ | $ | $ |
| Home equity loans and lines | | | | | |
| Commercial real estate | | | | | |
| Construction and land | | | | | |
| Multi-family residential | | | | | |
| Commercial and industrial | 50 | | | (50) | |
| Consumer | | | | | |
| Total allowance for loan losses | $ 50 | $ | $ | $ (50) | $ |
| Total loans: | | | | | |
| Allowance for loan losses: | | | | | |
| One- to four-family first mortgage | $ 778 | $ | $ | $ 5 | $ 783 |
| Home equity loans and lines | 336 | (15) | 13 | (16) | 318 |
| Commercial real estate | 1,755 | (1,836) | | 2,100 | 2,019 |
| Construction and land | 904 | (215) | | (40) | 649 |
| Multi-family residential | 64 | | | 15 | 79 |
| Commercial and industrial | 922 | (56) | 5 | (197) | 674 |
| Consumer | 345 | (29) | 7 | 61 | 384 |

| | | | | | |
|---|---|---|---|---|---|
| Total allowance for loan losses | $ 5,104 | $ (2,151) | $ 25 | $ 1,928 | $ 4,906 |

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

| | September 30, 2013 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | Pass | Special Mention | Substandard | Doubtful | Total |
| **Originated loans:** | | | | | |
| One- to four-family first mortgage | $ 130,088 | $ 504 | $ 1,541 | $ | $ 132,133 |
| Home equity loans and lines | 30,228 | 402 | 3 | | 30,633 |
| Commercial real estate | 201,698 | 1,875 | 4,307 | | 207,880 |
| Construction and land | 66,559 | 151 | 1,312 | | 68,022 |
| Multi-family residential | 6,664 | 881 | | | 7,545 |
| Commercial and industrial | 70,899 | 3,765 | 2,241 | | 76,905 |
| Consumer | 38,089 | 49 | 174 | | 38,312 |
| Total loans | $ 544,225 | $ 7,627 | $ 9,578 | $ | $ 561,430 |
| **Non-covered acquired loans:** | | | | | |
| One- to four-family first mortgage | $ 34,340 | $ 66 | $ 5,611 | $ | $ 40,017 |
| Home equity loans and lines | 7,200 | 87 | 574 | | 7,861 |
| Commercial real estate | 31,155 | | 3,771 | | 34,926 |
| Construction and land | 1,090 | 63 | 973 | | 2,126 |
| Multi-family residential | 5,473 | 35 | 2,474 | | 7,982 |
| Commercial and industrial | 2,301 | | | | 2,301 |
| Consumer | 507 | | | | 507 |
| Total loans | $ 82,066 | $ 251 | $ 13,403 | $ | $ 95,720 |
| **Covered:** | | | | | |
| One- to four-family first mortgage | $ 4,053 | $ 483 | $ 1,456 | $ | $ 5,992 |
| Home equity loans and lines | 2,194 | 19 | 214 | | 2,427 |
| Commercial real estate | 9,412 | 241 | 1,189 | | 10,842 |
| Construction and land | 1,717 | 117 | 220 | | 2,054 |
| Multi-family residential | 414 | 923 | | | 1,337 |
| Commercial and industrial | 358 | 4 | 710 | | 1,072 |
| Consumer | | | | | |
| Total loans | $ 18,148 | $ 1,787 | $ 3,789 | $ | $ 23,724 |
| **Total:** | | | | | |
| One- to four-family first mortgage | $ 168,481 | $ 1,053 | $ 8,608 | $ | $ 178,142 |
| Home equity loans and lines | 39,622 | 508 | 791 | | 40,921 |
| Commercial real estate | 242,265 | 2,116 | 9,267 | | 253,648 |
| Construction and land | 69,366 | 331 | 2,505 | | 72,202 |
| Multi-family residential | 12,551 | 1,839 | 2,474 | | 16,864 |
| Commercial and industrial | 73,558 | 3,769 | 2,951 | | 80,278 |
| Consumer | 38,596 | 49 | 174 | | 38,819 |

| | | | | | |
|---|---|---|---|---|---|
| Total loans | $ 644,439 | $ 9,665 | $ 26,770 | $ | $ 680,874 |

| | December 31, 2012 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | **Pass** | **Special Mention** | **Substandard** | **Doubtful** | **Total** |
| Originated loans: | | | | | |
| One- to four-family first mortgage | $ 114,278 | $ 690 | $ 1,774 | $ | $ 116,742 |
| Home equity loans and lines | 26,871 | 56 | 67 | | 26,994 |
| Commercial real estate | 176,410 | 4,951 | 4,443 | | 185,804 |
| Construction and land | 66,441 | 267 | 167 | | 66,875 |
| Multi-family residential | 7,030 | 899 | 528 | | 8,457 |
| Commercial and industrial | 63,561 | 2,590 | 170 | | 66,321 |
| Consumer | 33,280 | 60 | 1 | | 33,341 |
| Total loans | $ 487,871 | $ 9,513 | $ 7,150 | $ | $ 504,534 |
| Non-covered acquired loans: | | | | | |
| One- to four-family first mortgage | $ 43,673 | $ 952 | $ 5,318 | $ | $ 49,943 |
| Home equity loans and lines | 9,402 | 82 | 639 | | 10,123 |
| Commercial real estate | 37,137 | 782 | 6,213 | | 44,132 |
| Construction and land | 3,072 | 106 | 472 | | 3,650 |
| Multi-family residential | 8,756 | 264 | 798 | | 9,818 |
| Commercial and industrial | 4,424 | | 45 | | 4,469 |
| Consumer | 695 | | | | 695 |
| Total loans | $ 107,159 | $ 2,186 | $ 13,485 | $ | $ 122,830 |
| **Covered:** | | | | | |
| One- to four-family first mortgage | $ 8,555 | $ 254 | $ 2,322 | $ | $ 11,131 |
| Home equity loans and lines | 3,147 | 28 | 134 | | 3,309 |
| Commercial real estate | 20,563 | | 2,306 | | 22,869 |
| Construction and land | 3,432 | 4 | 1,568 | | 5,004 |
| Multi-family residential | 424 | 959 | | | 1,383 |
| Commercial and industrial | 577 | 5 | 881 | | 1,463 |
| Consumer | 565 | 23 | 17 | | 605 |
| Total loans | $ 37,263 | $ 1,273 | $ 7,228 | $ | $ 45,764 |
| **Total:** | | | | | |
| One- to four-family first mortgage | $ 166,506 | $ 1,896 | $ 9,414 | $ | $ 177,816 |
| Home equity loans and lines | 39,420 | 166 | 840 | | 40,426 |
| Commercial real estate | 234,110 | 5,733 | 12,962 | | 252,805 |
| Construction and land | 72,945 | 377 | 2,207 | | 75,529 |
| Multi-family residential | 16,210 | 2,122 | 1,326 | | 19,658 |
| Commercial and industrial | 68,562 | 2,595 | 1,096 | | 72,253 |
| Consumer | 34,540 | 83 | 18 | | 34,641 |
| Total loans | $ 632,293 | $ 12,972 | $ 27,863 | $ | $ 673,128 |

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

Pass loans are of satisfactory quality.

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

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

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

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

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

| | September 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| ***(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 | $ 1,667 | $ 368 | $ 274 | $ 2,309 | $ 129,824 | $ 132,133 |
| Home equity loans and lines | 48 | 15 | 3 | 66 | 30,567 | 30,633 |
| Commercial real estate | 53 | | 1,253 | 1,306 | 206,574 | 207,880 |
| Construction and land | 2 | 13 | 102 | 117 | 67,905 | 68,022 |
| Multi-family residential | | | | | 7,545 | 7,545 |
| Total real estate loans | 1,770 | 396 | 1,632 | 3,798 | 442,415 | 446,213 |
| Other loans: | | | | | | |
| Commercial and industrial | 1,557 | 497 | 1 | 2,055 | 74,850 | 76,905 |
| Consumer | 415 | 54 | 174 | 643 | 37,669 | 38,312 |
| Total other loans | 1,972 | 551 | 175 | 2,698 | 112,519 | 115,217 |
| Total loans | $ 3,742 | $ 947 | $ 1,807 | $ 6,496 | $ 554,934 | $ 561,430 |
| **Non-covered acquired loans:** | | | | | | |
| Real estate loans: | | | | | | |
| One- to four-family first mortgage | $ 1,726 | $ 388 | $ 3,991 | $ 6,105 | $ 33,912 | $ 40,017 |
| Home equity loans and lines | 26 | | 243 | 269 | 7,592 | 7,861 |
| Commercial real estate | 2,232 | 96 | 701 | 3,029 | 31,897 | 34,926 |
| Construction and land | 8 | 69 | 973 | 1,050 | 1,076 | 2,126 |
| Multi-family residential | 854 | | 897 | 1,751 | 6,231 | 7,982 |
| Total real estate loans | 4,846 | 553 | 6,805 | 12,204 | 80,708 | 92,912 |
| Other loans: | | | | | | |
| Commercial and industrial | | | | | 2,301 | 2,301 |
| Consumer | 23 | | | 23 | 484 | 507 |
| Total other loans | 23 | | | 23 | 2,785 | 2,808 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total loans | $ 4,869 | $ 553 | $ 6,805 | $ 12,227 | $ 83,493 | $ 95,720 |
| **Covered loans:** | | | | | | |
| Real estate loans: | | | | | | |
| One- to four-family first mortgage | $ 740 | $ 586 | $ 1,115 | $ 2,441 | $ 3,551 | $ 5,992 |
| Home equity loans and lines | 187 | 49 | 127 | 363 | 2,064 | 2,427 |
| Commercial real estate | 65 | | 668 | 733 | 10,109 | 10,842 |
| Construction and land | 38 | 30 | 95 | 163 | 1,891 | 2,054 |
| Multi-family residential | | | | | 1,337 | 1,337 |
| Total real estate loans | 1,030 | 665 | 2,005 | 3,700 | 18,952 | 22,652 |
| Other loans: | | | | | | |
| Commercial and industrial | 3 | | 169 | 172 | 900 | 1,072 |
| Consumer | | | | | | |
| Total other loans | 3 | | 169 | 172 | 900 | 1,072 |
| Total loans | $ 1,033 | $ 665 | $ 2,174 | $ 3,872 | $ 19,852 | $ 23,724 |
| **Total loans:** | | | | | | |
| Real estate loans: | | | | | | |
| One- to four-family first mortgage | $ 4,133 | $ 1,342 | $ 5,380 | $ 10,855 | $ 167,287 | $ 178,142 |
| Home equity loans and lines | 261 | 64 | 373 | 698 | 40,223 | 40,921 |
| Commercial real estate | 2,350 | 96 | 2,622 | 5,068 | 248,580 | 253,648 |
| Construction and land | 48 | 112 | 1,170 | 1,330 | 70,872 | 72,202 |
| Multi-family residential | 854 | | 897 | 1,751 | 15,113 | 16,864 |
| Total real estate loans | 7,646 | 1,614 | 10,442 | 19,702 | 542,075 | 561,777 |
| Other loans: | | | | | | |
| Commercial and industrial | 1,560 | 497 | 170 | 2,227 | 78,051 | 80,278 |
| Consumer | 438 | 54 | 174 | 666 | 38,153 | 38,819 |
| Total other loans | 1,998 | 551 | 344 | 2,893 | 116,204 | 119,097 |
| Total loans | $ 9,644 | $ 2,165 | $ 10,786 | $ 22,595 | $ 658,279 | $ 680,874 |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| *(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 | $ 2,241 | $ 236 | $ 20 | $ 2,497 | $ 114,245 | $ 116,742 |
| Home equity loans and lines | 63 | 17 | | 80 | 26,914 | 26,994 |
| Commercial real estate | 1,008 | 757 | 511 | 2,276 | 183,528 | 185,804 |
| Construction and land | 285 | | 167 | 452 | 66,423 | 66,875 |
| Multi-family residential | 220 | | 528 | 748 | 7,709 | 8,457 |
| Total real estate loans | 3,817 | 1,010 | 1,226 | 6,053 | 398,819 | 404,872 |
| Other loans: | | | | | | |
| Commercial and industrial | 60 | 35 | 170 | 265 | 66,056 | 66,321 |
| Consumer | 479 | 449 | 1 | 929 | 32,412 | 33,341 |
| Total other loans | 539 | 484 | 171 | 1,194 | 98,468 | 99,662 |
| Total loans | $ 4,356 | $ 1,494 | $ 1,397 | $ 7,247 | $ 497,287 | $ 504,534 |
| **Non-covered acquired loans:** | | | | | | |
| Real estate loans: | | | | | | |
| One- to four-family first mortgage | $ 726 | $ 240 | $ 1,489 | $ 2,455 | $ 47,488 | $ 49,943 |
| Home equity loans and lines | 54 | 98 | 147 | 299 | 9,824 | 10,123 |
| Commercial real estate | 348 | 92 | 2,907 | 3,347 | 40,785 | 44,132 |
| Construction and land | 577 | | 366 | 943 | 2,707 | 3,650 |
| Multi-family residential | 311 | | 678 | 989 | 8,829 | 9,818 |
| Total real estate loans | 2,016 | 430 | 5,587 | 8,033 | 109,633 | 117,666 |
| Other loans: | | | | | | |
| Commercial and industrial | 48 | 65 | | 113 | 4,356 | 4,469 |
| Consumer | | | | | 695 | 695 |
| Total other loans | 48 | 65 | | 113 | 5,051 | 5,164 |
| Total loans | $ 2,064 | $ 495 | $ 5,587 | $ 8,146 | $ 114,684 | $ 122,830 |
| **Covered loans:** | | | | | | |
| Real estate loans: | | | | | | |
| One- to four-family first mortgage | $ 1,438 | $ 1,079 | $ 1,706 | $ 4,223 | $ 6,908 | $ 11,131 |
| Home equity loans and lines | 294 | | 135 | 429 | 2,880 | 3,309 |
| Commercial real estate | 76 | 4 | 1,209 | 1,289 | 21,580 | 22,869 |
| Construction and land | 89 | 6 | 1,249 | 1,344 | 3,660 | 5,004 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Multi-family residential | | | | | 1,383 | 1,383 |
| Total real estate loans | 1,897 | 1,089 | 4,299 | 7,285 | 36,411 | 43,696 |
| Other loans: | | | | | | |
| Commercial and industrial | | 75 | 366 | 441 | 1,022 | 1,463 |
| Consumer | 44 | 4 | 13 | 61 | 544 | 605 |
| Total other loans | 44 | 79 | 379 | 502 | 1,566 | 2,068 |
| Total loans | $ 1,941 | $ 1,168 | $ 4,678 | $ 7,787 | $ 37,977 | $ 45,764 |
| **Total loans:** | | | | | | |
| Real estate loans: | | | | | | |
| One- to four-family first mortgage | $ 4,405 | $ 1,555 | $ 3,215 | $ 9,175 | $ 168,641 | $ 177,816 |
| Home equity loans and lines | 411 | 115 | 282 | 808 | 39,618 | 40,426 |
| Commercial real estate | 1,432 | 853 | 4,627 | 6,912 | 245,893 | 252,805 |
| Construction and land | 951 | 6 | 1,782 | 2,739 | 72,790 | 75,529 |
| Multi-family residential | 531 | | 1,206 | 1,737 | 17,921 | 19,658 |
| Total real estate loans | $ 7,730 | 2,529 | 11,112 | 21,371 | 544,863 | 566,234 |
| Other loans: | | | | | | |
| Commercial and industrial | 108 | 175 | 536 | 819 | 71,434 | 72,253 |
| Consumer | 523 | 453 | 14 | 990 | 33,651 | 34,641 |
| Total other loans | 631 | 628 | 550 | 1,809 | 105,085 | 106,894 |
| Total loans | $ 8,361 | $ 3,157 | $ 11,662 | $ 23,180 | $ 649,948 | $ 673,128 |

Excluding non-covered acquired and covered loans (collectively referred to as Acquired Loans ) with deteriorated credit quality, as of September 30, 2013 and December 31, 2012, the Company did not have any loans greater than 90 days past due and accruing.

The following is a summary of information pertaining to impaired loans excluding acquired loans with deteriorated credit quality as of the dates indicated.

| | As of Period Ended September 30, 2013 | | | | |
|---|---|---|---|---|---|
| *(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 | $ 656 | $ 656 | $ | $ 820 | $ 21 |
| Home equity loans and lines | 3 | 3 | | 33 | |
| Commercial real estate | 360 | 360 | | 1,657 | |
| Construction and land | 19 | 19 | | 100 | |
| Multi-family residential | | | | 423 | |
| Commercial and industrial | 970 | 970 | | 717 | 21 |
| Consumer | | | | | |
| Total | $ 2,008 | $ 2,008 | $ | $ 3,750 | $ 42 |
| With an allowance recorded: | | | | | |
| One- to four-family first mortgage | $ | $ | $ | $ 163 | $ |
| Home equity loans and lines | | | | | |
| Commercial real estate | | | | 133 | |
| Construction and land | | | | 7 | |
| Multi-family residential | | | | | |
| Commercial and industrial | 1,271 | 1,271 | 295 | 907 | 29 |
| Consumer | | | | | |
| Total | $ 1,271 | $ 1,271 | $ 295 | $ 1,210 | $ 29 |
| Total impaired loans: | | | | | |
| One- to four-family first mortgage | $ 656 | $ 656 | $ | $ 983 | $ 21 |
| Home equity loans and lines | 3 | 3 | | 33 | |
| Commercial real estate | 360 | 360 | | 1,790 | |
| Construction and land | 19 | 19 | | 107 | |
| Multi-family residential | | | | 423 | |
| Commercial and industrial | 2,241 | 2,241 | 295 | 1,624 | 50 |
| Consumer | | | | | |
| Total | $ 3,279 | $ 3,279 | $ 295 | $ 4,960 | $ 71 |

| | As of Period Ended December 31, 2012 | | | | |
|---|---|---|---|---|---|
| *(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 | $ 1,117 | $ 1,117 | $ | $ 956 | $ 62 |
| Home equity loans and lines | 56 | 56 | | 71 | 2 |
| Commercial real estate | 2,985 | 2,985 | | 3,451 | 100 |
| Construction and land | 60 | 60 | | 631 | |
| Multi-family residential | 528 | 528 | | 528 | |
| Commercial and industrial | | | | 48 | |
| Consumer | | | | | |
| Total | $ 4,746 | $ 4,746 | $ | $ 5,685 | $ 164 |
| With an allowance recorded: | | | | | |
| One- to four-family first mortgage | $ 347 | $ 347 | $ 49 | $ 445 | $ 23 |
| Home equity loans and lines | | | | 3 | |
| Commercial real estate | 443 | 443 | 134 | 296 | 30 |
| Construction and land | | | | 950 | |
| Multi-family residential | | | | | |
| Commercial and industrial | | | | 29 | |
| Consumer | | | | | |
| Total | $ 790 | $ 790 | $ 183 | $ 1,723 | $ 53 |
| Total impaired loans: | | | | | |
| One- to four-family first mortgage | $ 1,464 | $ 1,464 | $ 49 | $ 1,401 | $ 85 |
| Home equity loans and lines | 56 | 56 | | 74 | 2 |
| Commercial real estate | 3,428 | 3,428 | 134 | 3,747 | 130 |
| Construction and land | 60 | 60 | | 1,581 | |
| Multi-family residential | 528 | 528 | | 528 | |
| Commercial and industrial | | | | 77 | |
| Consumer | | | | | |
| Total | $ 5,536 | $ 5,536 | $ 183 | $ 7,408 | $ 217 |

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

| | September 30, 2013 | | | | December 31, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| *(dollars in thousands)* | Originated | Non-covered Acquired[1] | Covered | Total | Originated | Non-covered Acquired[1] | Covered | Total |
| Nonaccrual loans: | | | | | | | | |
| One- to four-family first mortgage | $ 661 | $ 4,610 | $ 2,426 | $ 7,697 | $ 126 | $ 4,518 | $ 2,616 | $ 7,260 |
| Home equity loans and lines | 3 | 561 | 149 | 713 | | 149 | 135 | 284 |
| Commercial real estate | 1,943 | 1,806 | 1,212 | 4,961 | 1,187 | 4,180 | 1,617 | 6,984 |
| Construction and land | 102 | 1,209 | 749 | 2,060 | 166 | 543 | 3,404 | 4,113 |
| Multi-family residential | | 2,473 | | 2,473 | 529 | 798 | | 1,327 |
| Commercial and industrial | 2,242 | | 1,155 | 3,397 | 170 | | 1,746 | 1,916 |
| Consumer | 174 | | 115 | 289 | 1 | | 62 | 63 |
| Total | $ 5,125 | $ 10,659 | $ 5,806 | $ 21,590 | $ 2,179 | $ 10,188 | $ 9,580 | $ 21,947 |

(1) Nonaccrual non-covered acquired loans accounted for under ASC 310-30 totaled $3.4 million as of September 30, 2013 and December 31, 2012.

As of September 30, 2013, the Company was not committed to lend additional funds to any customer whose loan was classified as impaired.

***Troubled Debt Restructurings***

During the course of its lending operations, the Company periodically grants concessions to its customers in an attempt to protect as much of its investment as possible and to minimize risk of loss. These concessions may include restructuring the terms of a customer loan to alleviate the burden of the customer s near-term cash requirements. Effective January 1, 2011, the Company adopted the provisions of ASU No. 2011-02, *Receivables* (Topic 310): *A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring*, which provides clarification on the determination of whether loan restructurings are considered troubled debt restructurings ( TDRs ). In accordance with the ASU, in order to be considered a TDR, the Company must conclude that the restructuring of a loan to a borrower who is experiencing financial difficulties constitutes a concession . The Company defines a concession as a modification of existing terms granted to a borrower for economic or legal reasons related to the borrower s financial difficulties that the Company would otherwise not consider. The concession 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 September 30, 2013 | | | |
|---|---|---|---|---|
| *(dollars in thousands)* | **Current** | **Past Due Greater Than 30 Days** | **Nonaccrual TDRs** | **Total TDRs(1)** |
| **Originated loans:** | | | | |
| Real estate loans: | | | | |
| One- to four-family first mortgage | $ | $ | $ 298 | $ 298 |
| Home equity loans and lines | | | | |
| Commercial real estate | 281 | | 111 | 392 |
| Construction and land | 151 | | | 151 |
| Multi-family residential | | | | |
| Total real estate loans | 432 | | 409 | 841 |
| Other loans: | | | | |
| Commercial and industrial | | | | |
| Consumer | 5 | | | 5 |
| Total other loans | 5 | | | 5 |
| Total loans | $ 437 | $ | $ 409 | $ 846 |
| **Non-covered acquired loans:** | | | | |
| Real estate loans: | | | | |
| One- to four-family first mortgage | $ | $ | $ 590 | $ 590 |
| Home equity loans and lines | | | | |
| Commercial real estate | | | 1,067 | 1,067 |
| Construction and land | | | | |
| Multi-family residential | | | 676 | 676 |
| Total real estate loans | | | 2,333 | 2,333 |

| | | | | |
|---|---|---|---|---|
| Other loans: | | | | |
| Commercial and industrial | | | | |
| Consumer | | | | |
| Total other loans | | | | |
| Total loans | $ | $ | $ 2,333 | $ 2,333 |
| **Covered loans:** | | | | |
| Real estate loans: | | | | |
| One- to four-family first mortgage | $ | $ | $ | $ |
| Home equity loans and lines | | | | |
| Commercial real estate | | | | |
| Construction and land | | | 413 | 413 |
| Multi-family residential | | | | |
| Total real estate loans | | | 413 | 413 |
| Other loans: | | | | |
| Commercial and industrial | | | 846 | 846 |
| Consumer | 6 | | 35 | 41 |
| Total other loans | 6 | | 881 | 887 |
| Total loans | $ 6 | $ | $ 1,294 | $ 1,300 |
| **Total loans:** | | | | |
| Real estate loans: | | | | |
| One- to four-family first mortgage | $ | $ | $ 888 | $ 888 |
| Home equity loans and lines | | | | |
| Commercial real estate | 281 | | 1,178 | 1,459 |
| Construction and land | 151 | | 413 | 564 |
| Multi-family residential | | | 676 | 676 |
| Total real estate loans | 432 | | 3,155 | 3,587 |
| Other loans: | | | | |
| Commercial and industrial | | | 846 | 846 |
| Consumer | 11 | | 35 | 46 |
| Total other loans | 11 | | 881 | 892 |
| Total loans | $ 443 | $ | $ 4,036 | $ 4,479 |

| | As of December 31, 2012 | | | |
|---|---|---|---|---|
| *(dollars in thousands)* | **Current** | **Past Due Greater Than 30 Days** | **Nonaccrual TDRs** | **Total TDRs(1)** |
| Originated loans: | | | | |
| Real estate loans: | | | | |
| One- to four-family first mortgage | $ | $ 310 | $ | $ 310 |
| Home equity loans and lines | | | | |
| Commercial real estate | | 299 | 112 | 411 |
| Construction and land | 182 | | | 182 |
| Multi-family residential | | | | |
| Total real estate loans | 182 | 609 | 112 | 903 |
| Other loans: | | | | |
| Commercial and industrial | 5 | | | 5 |
| Consumer | 12 | | | 12 |
| Total other loans | 17 | | | 17 |
| Total loans | $ 199 | $ 609 | $ 112 | $ 920 |
| **Non-covered acquired loans:** | | | | |
| Real estate loans: | | | | |
| One- to four-family first mortgage | $ | $ | $ 52 | $ 52 |
| Home equity loans and lines | | | | |
| Commercial real estate | | | 1,126 | 1,126 |
| Construction and land | | | | |
| Multi-family residential | | | 678 | 678 |
| Total real estate loans | | | 1,856 | 1,856 |
| Other loans: | | | | |
| Commercial and industrial | | | | |
| Consumer | | | | |
| Total other loans | | | | |
| Total loans | $ | $ | $ 1,856 | $ 1,856 |
| **Covered loans:** | | | | |
| Real estate loans: | | | | |
| One- to four-family first mortgage | $ | $ | $ | $ |
| Home equity loans and lines | | | | |
| Commercial real estate | | | | |
| Construction and land | 289 | | | 289 |
| Multi-family residential | | | | |

| | | | | |
|---|---|---|---|---|
| Total real estate loans | 289 | | | 289 |
| Other loans: | | | | |
| Commercial and industrial | | | 896 | 896 |
| Consumer | 17 | | | 17 |
| Total other loans | 17 | | 896 | 913 |
| Total loans | $ 306 | $ | $ 896 | $ 1,202 |
| **Total loans:** | | | | |
| Real estate loans: | | | | |
| One- to four-family first mortgage | $ | $ 310 | $ 52 | $ 362 |
| Home equity loans and lines | | | | |
| Commercial real estate | | 299 | 1,238 | 1,537 |
| Construction and land | 471 | | | 471 |
| Multi-family residential | | | 678 | 678 |
| Total real estate loans | 471 | 609 | 1,968 | 3,048 |
| Other loans: | | | | |
| Commercial and industrial | 5 | | 896 | 901 |
| Consumer | 29 | | | 29 |
| Total other loans | 34 | | 896 | 930 |
| Total loans | $ 505 | $ 609 | $ 2,864 | $ 3,978 |

None of the TDRs defaulted subsequent to the restructuring through the date the financial statements were issued. The Company restructured, as a TDR, one loan totaling $442,000 during the third quarter of 2013.

**6. Fair Value Disclosures**

The Company groups 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:

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 quarterly.

***Recurring Basis***

*Investment Securities Available for Sale*

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

Management primarily identifies investment securities which may have traded in illiquid or inactive markets by identifying instances of a significant decrease in the volume and frequency of trades, relative to historical levels, as well as instances of a significant widening of the bid-ask spread in the brokered markets. Investment securities that are deemed to have been trading in illiquid or inactive markets may require the use of significant unobservable inputs. For example, management may use quoted prices for similar investment securities in the absence of a liquid and active market for the investment securities being valued. As of September 30, 2013, 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 for fair value on a recurring basis as of September 30, 2013 and December 31, 2012.

| | | **Fair Value Measurements Using** | | |
|---|---|---|---|---|
| ***(dollars in thousands)*** | **September 30, 2013** | **Level 1** | **Level 2** | **Level 3** |
| Available for sale securities: | | | | |
| U.S. agency mortgage-backed | $ 96,905 | $ | $ 96,905 | $ |
| Non-U.S. agency mortgage-backed | 10,538 | | 10,538 | |
| Municipal bonds | 20,417 | | 20,417 | |
| U.S. government agency | 23,594 | | 23,594 | |
| Total | $ 151,454 | $ | $ 151,454 | $ |

| | | **Fair Value Measurements Using** | | |
|---|---|---|---|---|
| ***(dollars in thousands)*** | **December 31, 2012** | **Level 1** | **Level 2** | **Level 3** |
| Available for sale securities: | | | | |
| U.S. agency mortgage-backed | $ 102,513 | $ | $ 102,513 | $ |
| Non-U.S. agency mortgage-backed | 12,668 | | 12,668 | |
| Municipal bonds | 17,585 | | 17,585 | |
| U.S. government agency | 24,490 | | 24,490 | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total | $ | 157,256 | $ | | $ | 157,256 | $ | |

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

***Nonrecurring Basis***

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

Acquired loans, the FDIC loss sharing receivable, acquired FHLB advances, and acquired interest-bearing deposit liabilities are measured on a nonrecurring basis using significant unobservable inputs (Level 3).

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)*** | **September 30, 2013** | **Level 1** | **Level 2** | **Level 3** |
| **Assets** | | | | |
| Acquired loans with deteriorated credit quality | $ 28,343 | $ | $ | $ 28,343 |
| Acquired loans without deteriorated credit quality | 90,751 | | | 90,751 |
| Impaired loans, excluding acquired loans | 2,985 | | | 2,985 |
| Repossessed assets | 5,850 | | | 5,850 |
| FDIC loss sharing receivable | 13,577 | | | 13,577 |
| Total | $ 141,506 | $ | $ | $ 141,506 |
| **Liabilities** | | | | |
| Deposits acquired through business combinations | $ 42,437 | $ | $ | $ 42,437 |
| Total | $ 42,437 | $ | $ | $ 42,437 |

| | | **Fair Value Measurements Using** | | |
|---|---|---|---|---|
| ***(dollars in thousands)*** | **December 31, 2012** | **Level 1** | **Level 2** | **Level 3** |
| **Assets** | | | | |
| Acquired loans with deteriorated credit quality | $ 50,854 | $ | $ | $ 50,854 |
| Acquired loans without deteriorated credit quality | 117,536 | | | 117,536 |
| Impaired loans, excluding acquired loans | 5,353 | | | 5,353 |
| Repossessed assets | 6,454 | | | 6,454 |
| FDIC loss sharing receivable | 15,546 | | | 15,546 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total | $ | 195,743 | $ | $ | | $ | 195,743 |
| | | | | | | | |
| **Liabilities** | | | | | | | |
| Deposits acquired through business combinations | $ | 81,948 | $ | $ | | $ | 81,948 |
| FHLB advances acquired through business combinations | | 18,257 | | | | | 18,257 |
| | | | | | | | |
| Total | $ | 100,205 | $ | $ | | $ | 100,205 |

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. 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.

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 approximates its 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 the FDIC loss sharing receivable is determined by discounting projected cash flows from loss sharing agreements based on expected reimbursements for losses at the applicable loss sharing percentages based on the terms of the loss sharing agreements.

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

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

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

| (dollars in thousands) | Carrying Amount | Fair Value Measurements at September 30, 2013 Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| **Financial Assets** | | | | | |
| Cash and cash equivalents | $ 35,953 | $ 35,953 | $ 35,953 | $ | $ |
| Interest-bearing deposits in banks | 3,185 | 3,185 | 3,185 | | |
| Investment securities available for sale | 151,454 | 151,454 | | 151,454 | |
| Investment securities held to maturity | 8,965 | 8,904 | | 8,904 | |
| Mortgage loans held for sale | 1,712 | 1,712 | | 1,712 | |
| Loans, net | 674,412 | 679,035 | | | 679,035 |
| Cash surrender value of BOLI | 17,638 | 17,638 | 17,638 | | |
| FDIC loss sharing receivable | 13,577 | 13,577 | | | 13,577 |
| **Financial Liabilities** | | | | | |
| Deposits | $ 765,810 | $ 766,274 | $ | $ 723,837 | $ 42,437 |
| Short-term FHLB advances | 40,900 | 40,900 | 40,900 | | |
| Long-term FHLB advances | 10,000 | 10,521 | | 10,521 | |

| (dollars in thousands) | Carrying Amount | Fair Value Measurements at December 31, 2012 Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| **Financial Assets** | | | | | |
| Cash and cash equivalents | $ 39,539 | $ 39,539 | $ 39,539 | $ | $ |
| Interest-bearing deposits in banks | 3,529 | 3,529 | 3,529 | | |
| Investment securities available for sale | 157,256 | 157,256 | | 157,256 | |
| Investment securities held to maturity | 1,665 | 1,746 | | 1,746 | |
| Mortgage loans held for sale | 5,627 | 5,627 | | 5,627 | |
| Loans, net | 667,809 | 676,622 | | | 676,622 |
| Cash surrender value of BOLI | 17,286 | 17,286 | 17,286 | | |
| FDIC loss sharing receivable | 15,546 | 15,546 | | | 15,546 |
| **Financial Liabilities** | | | | | |
| Deposits | $ 771,429 | $ 774,325 | $ | $ 692,377 | $ 81,948 |
| Short-term FHLB advances | 10,000 | 10,000 | 10,000 | | |
| Long-term FHLB advances | 36,257 | 37,619 | | 19,362 | 18,257 |

**7. Subsequent Events**

On November 5, 2013, the Company announced it has entered into a definitive agreement to acquire Britton & Koontz Capital Corporation. Under the terms of the agreement, shareholders of Britton & Koontz Capital Corporation will receive $16.14 per share in cash upon completion of the merger. The combined company will have total assets of approximately $1.2 billion, $843 million in loans and $990 million in deposits. The merger, which is expected to be completed in the first quarter of 2014, is subject to Britton & Koontz Capital Corporation shareholder approval, regulatory approval, which is incorporated herein by reference, and other customary conditions. For additional information, see the Company s current report on Form 8-K filed on November 5, 2013 related to the definitive agreement.

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

The purpose of this discussion and analysis is to focus on significant changes in the financial condition of Home Bancorp, Inc. and its wholly owned subsidiary, Home Bank, from December 31, 2012 to September 30, 2013 and on its results of operations for the three and nine months ended September 30, 2013 and September 30, 2012. This discussion and analysis is intended to highlight and supplement information presented elsewhere in this quarterly report on Form 10-Q, particularly the consolidated financial statements and related notes appearing in Item 1.

**Forward-Looking Statements**

To the extent that statements in this Form 10-Q relate to future plans, objectives, financial results or performance of the Company or Bank, these statements are deemed to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements, which are based on management s current information, estimates and assumptions and the current economic environment, are generally identified by the use of words such as plan , believe , expect , intend , anticipate , estimate , project or similar expressions, or by futur conditional terms such as will , would , should , could , may , likely , probably , or possibly . The Company actual strategies and results in future periods may differ materially from those currently expected due to various risks and uncertainties. Factors that may cause actual results to differ materially from these forward-looking statements include, but are not limited to, the risk factors described under the heading Risk Factors in the Company s Annual Report on Form 10-K filed with the Securities Exchange Commission ( SEC ) for the year ended December 31, 2012. The Company undertakes no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date on which such statements were made.

**EXECUTIVE OVERVIEW**

During the third quarter of 2013, the Company earned $2.5 million, a decrease of $570,000, or 18.7%, compared to the third quarter of 2012. Diluted earnings per share for the third quarter of 2013 were $0.37, a decrease of $0.05, or 11.9%, compared to the third quarter of 2012. During the nine months ended September 30, 2013, the Company earned $5.6 million, a decrease of $1.3 million, or 18.6%, compared to the nine months ended September 30, 2012. Diluted earnings per share for the nine months ended September 30, 2013 were $0.80, a decrease of $0.15, or 15.8%, compared to the nine months ended September 30, 2012.

Key components of the Company s performance during the three months and nine months ended September 30, 2013 are summarized below.

Total loans as of September 30, 2013 were $680.9 million, an increase of $7.7 million, or 1.2%, from December 31, 2012. Increases in commercial and industrial loans (up $8.0 million) and other consumer loans (up $4.2 million) were partially offset by decreases in construction and land loans (down $3.3 million) and multi-family residential loans (down $2.8 million). As of September 30, 2013, Covered Loans totaled $23.7 million, a decrease of $22.0 million, or 48.2%, from December 31, 2012.

Core deposits (i.e., checking, savings, and money market accounts) totaled $556.4 million as of September 30, 2013, an increase of $38.0 million, or 7.3%, from December 31, 2012. The increase in core deposits was offset by declines in certificate of deposits ( CDs ), as higher-priced CDs matured. Total customer deposits as of September 30, 2013 were $765.8 million, a decrease of $5.6 million, or 0.7%, from December 31, 2012.

Interest income decreased $894,000, or 7.4%, in the third quarter of 2013 compared to the third quarter of 2012. For the nine months ended September 30, 2013, interest income decreased $1.7 million, or 4.8%, compared to the nine months ended September 30, 2012. The decreases relate primarily to a decline in loan interest income as a result of lower average yields earned on loans, reflecting the continuing low interest rate environment as well as the effect of significant competition for loans.

Interest expense decreased $381,000, or 31.7%, for the third quarter of 2013 compared to the third quarter of 2012. For the nine months ended September 30, 2013, interest expense decreased $1.0 million, or 26.7%, compared to the nine months ended September 30, 2012. The decreases were primarily the result of reduced market rates and changes in the mix of customer deposits.

The provision for loan losses totaled $453,000 for the third quarter of 2013, an increase of $397,000, or 713.0%, compared to the third quarter of 2012. The increase in provisions for loan losses was primarily the result of loan growth and deterioration in non-covered acquired loans. For the nine months ended September 30, 2013, the provision for loan losses totaled $3.2 million, an increase of $1.3 million, or 67.1%, compared to the nine months ended September 30, 2012. The increase in provisions for loan losses was primarily the result of loan growth.

As of September 30, 2013, the Company s ratio of allowance for loan losses to total loans was 0.95%, compared to 0.79% at December 31, 2012. Excluding Acquired Loans, the ratio of the allowance for loan losses to total loans was 1.09% at September 30, 2013, compared to 1.01% at December 31, 2012. Net charge-offs were $2.1 million for the first nine months of 2013 and 2012.

Noninterest income for the third quarter of 2013 decreased $421,000, or 20.2%, compared to the third quarter of 2012, due primarily to lower gains on the sale of loans (down $337,000) and the absence of gains on the sale of securities ($163,000). For the nine months ended September 30, 2013, noninterest income decreased $44,000, or 0.8%, compared to the nine months ended September 30, 2012, due primarily to lower discount accretion on the FDIC loss sharing receivable (down $127,000) and lower gains on the sale of mortgage loans (down $106,000), which were partially offset by increases in gains on the sale of securities (up $206,000).

Noninterest expense for the third quarter of 2013 decreased $499,000, or 6.0%, compared to the third quarter of 2012, due primarily to lower foreclosed asset expenses (down $157,000), other expenses (down $155,000), data processing and communication expenses (down $120,000) and marketing and advertising expenses (down $50,000). For the nine months ended September 30, 2013, noninterest expense decreased $41,000, or 0.2%, compared to the nine months ended September 30, 2012, due primarily to lower foreclosed asset expenses (down $522,000), data processing and communications (down $192,000) and professional services (down $77,000), which were partially offset by higher compensation and benefits expenses (up $425,000), Louisiana shares tax (up $162,000) and occupancy expenses (up $129,000).

**FINANCIAL CONDITION**

***Loans, Asset Quality and Allowance for Loan Losses***

**Loans** Loans totaled $680.9 million as of September 30, 2013, an increase of $7.7 million, or 1.2%, from December 31, 2012. The increase in loans was primarily driven by commercial and industrial loans (up $8.0 million) and other consumer loans (up $4.2 million), which were largely offset by decreases in construction and land loans (down $3.3 million) and multi-family residential loans (down $2.8 million). Covered Loans totaled $23.7 million as of September 30, 2013, a decrease of $22.0 million, or 48.2%, compared to December 31, 2012. The decrease in the Covered Loan portfolio was primarily the result of principal repayments.

The following table summarizes the composition of the Company s loan portfolio (including Covered Loans) as of the dates indicated.

| *(dollars in thousands)* | September 30, 2013 | December 31, 2012 | Increase/(Decrease) Amount | Increase/(Decrease) Percent |
|---|---|---|---|---|
| Real estate loans: | | | | |
| One- to four-family first mortgage | $ 178,142 | $ 177,816 | $ 326 | 0.2% |
| Home equity loans and lines | 40,922 | 40,425 | 497 | 1.2 |

| | | | | |
|---|---|---|---|---|
| Commercial real estate | 253,648 | 252,805 | 843 | 0.3 |
| Construction and land | 72,201 | 75,529 | (3,328) | (4.4) |
| Multi-family residential | 16,864 | 19,659 | (2,795) | (14.2) |
| Total real estate loans | 561,777 | 566,234 | (4,457) | (0.8) |
| Other loans: | | | | |
| Commercial and industrial | 80,278 | 72,253 | 8,025 | 11.1 |
| Consumer | 38,819 | 34,641 | 4,178 | 12.1 |
| Total other loans | 119,097 | 106,894 | 12,203 | 11.4 |
| Total loans | $ 680,874 | $ 673,128 | $ 7,746 | 1.2% |

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

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

An impaired loan generally is one for which it is probable, based on current information, that the lender will not collect all the amounts due under the contractual terms of the loan. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Loans collectively evaluated for impairment include smaller balance commercial loans, residential real estate loans and consumer loans. These loans are evaluated as a group because they have similar characteristics and performance experience. Larger (i.e., loans with balances of $100,000 or greater) commercial real estate, multi-family residential, construction and land loans and commercial and industrial loans are individually evaluated for impairment. Third party property valuations are obtained at the time of origination for real estate secured loans. When a determination is made that a loan has deteriorated to the point of becoming a problem loan, updated valuations may be ordered to help determine if there is impairment, which may lead to a recommendation for partial charge off or appropriate allowance allocation. Property valuations are ordered through, and are reviewed by, an appraisal officer. The Company typically orders an as is valuation for collateral property if the loan is in a criticized loan classification. The Board of Directors is provided with monthly reports on impaired loans. As of September 30, 2013 and December 31, 2012, loans individually evaluated for impairment, excluding Acquired Loans, amounted to $3.3 million and $5.5 million, respectively. As of September 30, 2013 and December 31, 2012, substandard loans, excluding Covered Loans, amounted to $23.0 million and $20.6 million, respectively. The amount of the allowance for loan losses allocated to originated impaired or substandard loans totaled $295,000 and $183,000 as of September 30, 2013 and December 31, 2012, respectively. There were no assets classified as doubtful or loss as of September 30, 2013 and December 31, 2012.

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

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

Nonperforming assets ( NPAs ) defined as nonaccrual loans, accruing loans past due 90 days or more and foreclosed assets, excluding Covered Assets, amounted to $18.6 million, or 2.0% of total assets, as of September 30, 2013, compared to $16.1 million, or 1.8% of total assets, as of December 31, 2012. Total NPAs, including Covered Assets, amounted to $27.4 million, or 2.9% of total assets as of September 30, 2013, compared to $28.4 million, or 2.9% of total assets as of December 31, 2012.

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

The following table sets forth the composition of the Company s NPAs and troubled debt restructurings as of the dates indicated.

| | **September 30, 2013** | | | | **December 31, 2012** | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Acquired Loans** | | | | **Acquired Loans** | | |
| | | **Non-covered** | | | | **Non-covered** | | |
| ***(dollars in thousands)*** | **Originated** | **Acquired**[(1)] | **Covered** | **Total** | **Originated** | **Acquired**[(1)] | **Covered** | **Total** |
| Nonaccrual loans: | | | | | | | | |
| Real estate loans: | | | | | | | | |
| One- to four-family first mortgage | $ 661 | $ 4,610 | $ 2,426 | $ 7,697 | $ 126 | $ 4,518 | $ 2,616 | $ 7,260 |
| Home equity loans and lines | 3 | 561 | 149 | 713 | | 149 | 135 | 284 |
| Commercial real estate | 1,943 | 1,806 | 1,212 | 4,961 | 1,187 | 4,180 | 1,617 | 6,984 |
| Construction and land | 102 | 1,209 | 749 | 2,060 | 166 | 543 | 3,404 | 4,113 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Multi-family residential | | 2,473 | | 2,473 | 529 | 798 | | 1,327 |
| Other loans: | | | | | | | | |
| Commercial and industrial | 2,242 | | 1,155 | 3,397 | 170 | | 1,746 | 1,916 |
| Consumer | 174 | | 115 | 289 | 1 | | 62 | 63 |
| Total nonaccrual loans | 5,125 | 10,659 | 5,806 | 21,590 | 2,179 | 10,188 | 9,580 | 21,947 |
| Accruing loans 90 days or more past due | | | | | | | | |
| Total nonperforming loans | 5,125 | 10,659 | 5,806 | 21,590 | 2,179 | 10,188 | 9,580 | 21,947 |
| Foreclosed assets | 638 | 2,148 | 3,064 | 5,850 | 2,760 | 1,011 | 2,683 | 6,454 |
| Total nonperforming assets | 5,763 | 12,807 | 8,870 | 27,440 | 4,939 | 11,199 | 12,263 | 28,401 |
| Performing troubled debt restructurings | 437 | | 6 | 443 | 808 | | 306 | 1,114 |
| Total nonperforming assets and troubled debt restructurings | $ 6,200 | $ 12,807 | $ 8,876 | $ 27,883 | $ 5,747 | $ 11,199 | $ 12,569 | $ 29,515 |
| Nonperforming loans to total loans | | | | 3.17% | | | | 3.26% |
| Nonperforming loans to total assets | | | | 2.24% | | | | 2.28% |
| Nonperforming assets to total assets | | | | 2.85% | | | | 2.95% |

(1) Includes \$3.4 million in non-covered acquired loans accounted for under ASC 310-30 at September 30, 2013 and December 31, 2012. Excluding acquired loans and assets, ratios for nonperforming loans to total loans, nonperforming loans to total assets and nonperforming assets to total assets were 0.91%, 0.61% and 0.69%, respectively, at September 30, 2013.

Net loan charge-offs for the third quarter of 2013 were \$84,000, compared to \$464,000 for the third quarter of 2012. Net loan charge-offs for the nine months ended September 30, 2013 and September 30, 2012 were \$2.1 million.

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

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

Acquired loans were recorded as of their acquisition date fair value, which was based on expected cash flows and included an estimation of expected future loan losses. Under current accounting principles, if the Company determines that losses arose after the acquisition date, the additional losses will be reflected as a provision to the allowance for loan losses. As of September 30, 2013, \$283,000 of our allowance for loan losses was allocated to loans acquired without deteriorated credit quality and \$67,000 of our allowance for loan losses was allocated to acquired loans with deteriorated credit quality.

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

The following table presents the activity in the allowance for loan losses during the first nine months of 2013.

| *(dollars in thousands)* | **Originated** | **Non-covered Acquired** | **Covered** | **Total** |
|---|---|---|---|---|
| Balance, December 31, 2012 | $ 5,114 | $ 205 | $ | $ 5,319 |
| Provision charged to operations | 3,040 | 181 | | 3,221 |
| Loans charged off | (2,099) | (36) | | (2,135) |
| Recoveries on charged off loans | 58 | | | 58 |
| Balance, September 30, 2013 | $ 6,113 | $ 350 | $ | $ 6,463 |

At September 30, 2013, the Company s ratio of allowance for loan losses to total loans was 0.95%, compared to 0.79% and 0.73% at December 31, 2012 and September 30, 2012, respectively. Excluding acquired loans, the ratio of allowance for loan losses to total loans was 1.09% at September 30, 2013, compared to 1.01% at December 31, 2012 and September 30, 2012.

***Investment Securities***

The Company s investment securities portfolio totaled $160.4 million as of September 30, 2013, an increase of $1.5 million, or 0.9%, from December 31, 2012. As of September 30, 2013, the Company had a net unrealized gain on its available for sale investment securities portfolio of $1.1 million, compared to $4.9 million as of December 31, 2012. The decrease in the unrealized gain primarily reflects increasing long-term market interest rates. The investment securities portfolio had a modified duration of 4.7 and 3.7 years at September 30, 2013 and December 31, 2012, respectively.

The following table summarizes activity in the Company s investment securities portfolio during the first nine months of 2013.

| *(dollars in thousands)* | **Available for Sale** | **Held to Maturity** |
|---|---|---|
| Balance, December 31, 2012 | $ 157,256 | $ 1,665 |
| Purchases | 28,895 | 7,794 |
| Sales | (7,277) | |
| Principal payments and calls | (22,866) | (456) |
| Accretion of discounts and amortization of premiums, net | (795) | (38) |
| Decrease in market value | (3,759) | |
| Balance, September 30, 2013 | $ 151,454 | $ 8,965 |

***Funding Sources***

**Deposits** Deposits totaled $765.8 million as of September 30, 2013, a decrease of $5.6 million, or 0.7%, compared to December 31, 2012. Core deposits totaled $556.4 million as of September 30, 2013, an increase of $38.0 million, or 7.3%, compared to December 31, 2012.

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

| *(dollars in thousands)* | September 30, 2013 | December 31, 2012 | Increase (Decrease) Amount | Percent |
|---|---|---|---|---|
| Demand deposit | $ 171,915 | $ 152,462 | $ 19,453 | 12.8% |
| Savings | 54,709 | 51,515 | 3,194 | 6.2 |
| Money market | 203,218 | 191,191 | 12,027 | 6.3 |
| NOW | 126,595 | 123,294 | 3,301 | 2.7 |
| Certificates of deposit | 209,373 | 252,967 | (43,594) | (17.2) |
| Total deposits | $ 765,810 | $ 771,429 | $ (5,619) | (0.7)% |

**Federal Home Loan Bank Advances** Short-term FHLB advances totaled $40.9 million as of September 30, 2013, compared to $10.0 million as of December 31, 2012. Short-term FHLB advances increased primarily due to the payoff of $26.3 million in long-term FHLB advances. Long-term FHLB advances totaled $10.0 million as of September 30, 2013, compared to $36.3 million as of December 31, 2012.

**Shareholders Equity** Shareholders equity provides a source of permanent funding that allows for future growth and provides the Company with a cushion to withstand unforeseen adverse developments. Shareholders equity decreased $1.4 million, or 1.0%, from $141.6 million as of December 31, 2012 to $140.2 million as of September 30, 2013. The decrease was primarily the result of stock repurchases of $6.3 million and a $2.5 million decrease in other comprehensive income, which were offset partially by a $5.6 million increase in retained earnings.

As of September 30, 2013, the Bank had regulatory capital that was well in excess of regulatory requirements. The following table details the Bank s actual levels and current regulatory capital requirements as of September 30, 2013.

| | Actual | | Required for Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Tier 1 risk-based capital | $ 137,016 | 21.33% | $ 25,697 | 4.00% | $ 38,546 | 6.00% |
| Total risk-based capital | 143,479 | 22.33 | 51,394 | 8.00 | 64,243 | 10.00 |
| Tier 1 leverage capital | 137,016 | 14.29 | 38,353 | 4.00 | 47,942 | 5.00 |
| Tangible capital | 137,016 | 14.29 | 14,382 | 1.50 | N/A | N/A |

## LIQUIDITY AND ASSET/LIABILITY MANAGEMENT

***Liquidity Management***

Liquidity management encompasses our ability to ensure that funds are available to meet the cash flow requirements of depositors and borrowers, while also ensuring adequate cash flow exists to meet the Company s needs, including operating, strategic and capital. The Company develops its liquidity management strategies as part of its overall asset/liability management process. Our primary sources of funds are from deposits, amortization of loans, loan prepayments and the maturity of loans, investment securities and other investments, and other funds provided from operations. While scheduled payments from the amortization of loans and investment securities and maturing investment securities are relatively predictable sources of funds, deposit flows and loan prepayments can be greatly influenced by general interest rates, economic conditions and competition. The Company also maintains excess funds in short-term, interest-bearing assets that provide additional liquidity. As of September 30, 2013, cash and cash equivalents totaled $36.0 million. At such date, investment securities available for sale totaled $151.5 million.

The Company uses its liquidity to fund existing and future loan commitments, to fund maturing certificates of deposit and demand deposit withdrawals, to invest in other interest-earning assets, and to meet operating expenses. As of September 30, 2013, certificates of deposit maturing within the next 12 months totaled $142.0 million. Based upon historical experience, the Company anticipates that a significant portion of the maturing certificates of deposit will be redeposited with us. For the three months ended September 30, 2013, the average balance of our outstanding FHLB advances was $41.1 million. As of September 30, 2013, the Company had $50.9 million in outstanding FHLB advances and had $311.8 million in additional FHLB advances available.

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

***Asset/Liability Management***

The objective of asset/liability management is to implement strategies for the funding and deployment of the Company s financial resources that are expected to maximize soundness and profitability over time at acceptable levels of risk. Interest rate sensitivity is the potential impact of changing rate environments on both net interest income and cash flows. The Company measures its interest rate sensitivity over the near term primarily by running net interest income simulations.

Our interest rate sensitivity also is monitored by management through the use of a model which generates estimates of the change in its net interest income over a range of interest rate scenarios. Based on the Company s interest rate risk model, the table below sets forth the results of immediate and sustained changes in interest rates as of September 30, 2013.

| **Shift in Interest Rates (in bps)** | **% Change in Projected Net Interest Income** |
|---|---|
| +300 | (0.5)% |
| +200 | |
| +100 | 0.2 |

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

***Off-Balance Sheet Activities***

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

The following table summarizes our outstanding commitments to originate loans and to advance additional amounts pursuant to outstanding letters of credit, lines of credit and undisbursed construction loans as of September 30, 2013 and December 31, 2012.

| | Contract Amount | |
|---|---|---|
| *(dollars in thousands)* | **September 30, 2013** | **December 31, 2012** |
| Standby letters of credit | $ 2,483 | $ 2,907 |
| Available portion of lines of credit | 66,436 | 59,124 |
| Undisbursed portion of loans in process | 78,423 | 47,678 |
| Commitments to originate loans | 54,787 | 77,857 |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to be drawn upon, the total commitment amounts generally represent future cash requirements.

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

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

**RESULTS OF OPERATIONS**

During the third quarter of 2013, the Company earned $2.5 million, a decrease of $570,000, or 18.7%, compared to the third quarter of 2012. For the nine months ended September 30, 2013, the Company s net income was $5.6 million, a decrease of $1.3 million, or 18.6%, compared to the nine months ended September 30, 2012. Diluted earnings per share for the third quarter of 2013 were $0.37, a decrease of $0.05, or 11.9%, compared to the third quarter of 2012. Diluted earnings per share for the nine months ended September 30, 2013 were $0.80, a decrease of $0.15, or 15.8%, compared to the nine months ended September 30, 2012.

**Net Interest Income** Net interest income is the difference between the interest income earned on interest-earning assets, such as loans and investment securities, and the interest expense paid on interest-bearing liabilities, such as deposits and borrowings. The Company s net interest income is largely determined by our net interest spread, which is the difference between the average yield earned on interest-earning assets and the average rate paid on interest-bearing liabilities, and the relative amounts of interest-earning assets and interest-bearing liabilities. The Company s tax-equivalent net interest spread was 4.66% and 4.81% for the three months ended September 30, 2013 and September 30, 2012, respectively, and 4.53% and 4.61% for the nine months ended September 30, 2013 and September 30, 2012, respectively. The Company s tax-equivalent net interest margin, which is net interest income as a percentage of average interest-earning assets, was 4.79% and 4.96% for the three months ended September 30, 2013 and September 30, 2012, respectively, and 4.67% and 4.76% for the nine months ended September 30, 2013 and September 30, 2012, respectively. The decrease in the net interest spread and net interest margin related primarily to lower average loan yields.

Net interest income totaled $10.4 million for the three months ended September 30, 2013, a decrease of $513,000, or 4.7%, compared to the three months ended September 30, 2012. For the nine months ended September 30, 2013, net interest income totaled $30.2 million, a decrease of $653,000, or 2.1%, compared to the nine months ended September 30, 2012. The decline in net interest income was due largely to a decline in loan interest income as a result of lower average yields earned on loans, reflecting the continuing low interest rate environment as well as the effect of significant competition for loans.

Interest income decreased $894,000, or 7.4%, in the third quarter of 2013, compared to the third quarter of 2012. For the nine months ended September 30, 2013, interest income decreased $1.7 million, or 4.8%, compared to the nine months ended September 30, 2012. The decline in interest income was due largely to a decline in loan interest income for the reasons described in the preceding paragraph.

Interest expense decreased $381,000, or 31.7%, in the third quarter of 2013 compared to the third quarter of 2012. For the nine months ended September 30, 2013, interest expense decreased $1.0 million, or 26.7%, compared to the nine months ended September 30, 2012. The decrease was primarily the result of reduced market rates and changes in the mix of customer deposits.

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

| | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | |
| *(dollars in thousands)* | Average Balance | Interest | Average Yield/ Rate[(1)] | Average Balance | Interest | Average Yield/ Rate[(1)] |
| Interest-earning assets: | | | | | | |
| Loans receivable[(1)] | $ 676,639 | $ 10,439 | 6.07% | $ 678,936 | $ 11,309 | 6.56% |
| Investment securities (TE) | 157,352 | 755 | 2.10 | 149,472 | 769 | 2.18 |
| Other interest-earning assets | 27,293 | 32 | 0.47 | 41,373 | 42 | 0.40 |
| Total interest-earning assets (TE) | 861,284 | 11,226 | 5.17 | 869,781 | 12,120 | 5.52 |
| Noninterest-earning assets | 97,276 | | | 104,980 | | |
| Total assets | $ 958,560 | | | $ 974,761 | | |
| Interest-bearing liabilities: | | | | | | |
| Deposits: | | | | | | |
| Savings, checking and money market | $ 389,773 | $ 240 | 0.24% | $ 355,107 | $ 302 | 0.34% |
| Certificates of deposit | 215,745 | 490 | 0.90 | 269,840 | 735 | 1.08 |
| Total interest-bearing deposits | 605,518 | 730 | 0.48 | 624,947 | 1,037 | 0.66 |
| FHLB advances | 41,083 | 93 | 0.90 | 48,175 | 167 | 1.39 |
| Total interest-bearing liabilities | 646,601 | 823 | 0.51 | 673,122 | 1,204 | 0.71 |
| Noninterest-bearing liabilities | 172,899 | | | 161,091 | | |
| Total liabilities | 819,500 | | | 834,213 | | |
| Shareholders equity | 139,060 | | | 140,548 | | |
| Total liabilities and shareholders equity | $ 958,560 | | | $ 974,761 | | |
| Net interest-earning assets | $ 214,683 | | | $ 196,659 | | |
| Net interest spread (TE) | | $ 10,403 | 4.66% | | $ 10,916 | 4.81% |

| | | |
|---|---|---|
| Net interest margin (TE) | 4.79% | 4.96% |

| | Nine Months Ended September 30, 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | Average Balance | Interest | Average Yield/ Rate(1) | Average Balance | Interest | Average Yield/ Rate(1) |
| Interest-earning assets: | | | | | | |
| Loans receivable(1) | $ 678,483 | $ 30,579 | 5.97% | $ 675,297 | $ 32,063 | 6.27% |
| Investment securities (TE) | 155,277 | 2,278 | 2.12 | 152,622 | 2,441 | 2.25 |
| Other interest-earning assets | 28,067 | 96 | 0.46 | 31,012 | 111 | 0.48 |
| Total interest-earning assets (TE) | 861,827 | 32,953 | 5.10 | 858,931 | 34,615 | 5.35 |
| Noninterest-earning assets | 100,767 | | | 108,974 | | |
| Total assets | $ 962,594 | | | $ 967,905 | | |
| Interest-bearing liabilities: | | | | | | |
| Deposits: | | | | | | |
| Savings, checking and money market | $ 377,326 | $ 749 | 0.27% | $ 333,494 | $ 974 | 0.39% |
| Certificates of deposit | 230,997 | 1,661 | 0.96 | 276,372 | 2,279 | 1.10 |
| Total interest-bearing deposits | 608,323 | 2,410 | 0.53 | 609,866 | 3,253 | 0.71 |
| FHLB advances | 44,354 | 359 | 1.08 | 74,379 | 526 | 0.94 |
| Total interest-bearing liabilities | 652,677 | 2,769 | 0.57 | 684,245 | 3,779 | 0.74 |
| Noninterest-bearing liabilities | 167,958 | | | 145,115 | | |
| Total liabilities | 820,635 | | | 829,360 | | |
| Shareholders equity | 141,959 | | | 138,545 | | |
| Total liabilities and shareholders equity | $ 962,594 | | | $ 967,905 | | |
| Net interest-earning assets | $ 209,150 | | | $ 174,686 | | |
| Net interest spread (TE) | | $ 30,184 | 4.53% | | $ 30,836 | 4.61% |
| Net interest margin (TE) | | | 4.67% | | | 4.76% |

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

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

| *(dollars in thousands)* | **For the Three Months Ended September 30, 2013 Compared to 2012 Change Attributable To** | | | **For the Nine Months Ended September 30, 2013 Compared to 2012 Change Attributable To** | | |
|---|---|---|---|---|---|---|
| | **Rate** | **Volume** | **Total Increase (Decrease)** | **Rate** | **Volume** | **Total Increase (Decrease)** |
| Interest income: | | | | | | |
| Loans receivable | $ (861) | $ (9) | $ (870) | $ (1,331) | $ (153) | $ (1,484) |
| Investment securities (TE) | (78) | 64 | (14) | (200) | 37 | (163) |
| Other interest-earning assets | 6 | (16) | (10) | (5) | (10) | (15) |
| Total interest income | (933) | 39 | (894) | (1,536) | (126) | (1,662) |
| Interest expense: | | | | | | |
| Savings, checking and money market accounts | (84) | 22 | (62) | (247) | 22 | (225) |
| Certificates of deposit | (111) | (134) | (245) | (281) | (337) | (618) |
| FHLB advances | 95 | (169) | (74) | 66 | (233) | (167) |
| Total interest expense | (100) | (281) | (381) | (462) | (548) | (1,010) |
| Increase (decrease) in net interest income | $ (833) | $ 320 | $ (513) | $ (1,074) | $ 422 | $ (652) |

**Provision for Loan Losses** For the quarter ended September 30, 2013, the Company recorded a provision for loan losses of $453,000, 713% higher than the $56,000 for the same period in 2012. The increase in provisions for loan losses was primarily the result of loan growth and deterioration in non-covered acquired loans. For the nine months ended September 30, 2013, the provision for loan losses totaled $3.2 million, an increase of $1.3 million, or 67.1%, compared to the nine months ended September 30, 2012. The increase in provisions for loan losses was primarily the result of loan growth.

As of September 30, 2013, the Company s ratio of allowance for loan losses to total loans was 0.95%, compared to 0.79% and 0.73% at December 31, 2012 and September 30, 2012, respectively. Excluding acquired loans, the ratio of the allowance for loan losses to total loans was 1.09% at September 30, 2013, compared to 1.01% at December 31, 2012 and 1.01% at September 30, 2012.

**Noninterest Income** The Company s noninterest income was $1.7 million for the three months ended September 30, 2013, $421,000, or 20.2%, lower than the $2.1 million earned for the same period in 2012. Noninterest income was $5.6 million for the nine months ended September 30, 2012, $44,000, or 0.8%, lower than the $5.7 million earned for the same period of 2012.

The decrease in noninterest income in the third quarter of 2013 compared to the third quarter of 2012 resulted primarily from lower gains on the sale of mortgage loans (down $337,000) and the absence of gains on the sale of securities (down $163,000).

The decrease in noninterest income for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012 resulted primarily from higher gains on the sale of securities (up $206,000), which were offset by decreases in discount accretion on the FDIC loss sharing receivable (down $127,000) and gain on sale of mortgage loans (down $106,000).

**Noninterest Expense** The Company s noninterest expense was $7.9 million for the three months ended September 30, 2013, $499,000, or 6.0%, lower than the $8.4 million recorded for the same period in 2012. Noninterest expense was $24.2 million for the nine months ended September 30, 2013, $41,000, or 0.2%, lower than the $24.2 million for the same period of 2012.

The decrease in noninterest expense in the third quarter of 2013 compared to the third quarter of 2012 resulted primarily from lower foreclosed asset expenses (down $157,000), other expenses (down $155,000), data processing and communication expenses (down $120,000) and marketing and advertising expenses (down $50,000).

The decrease in noninterest expense for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012 resulted primarily from lower foreclosed asset expenses (down $522,000), data processing and communications (down $192,000) and professional services (down $77,000), which were partially offset by higher compensation and benefits expenses (up $425,000), Louisiana shares tax (up $162,000) and occupancy expenses (up $129,000).

**Income Taxes** For the quarters ended September 30, 2013 and September 30, 2012, the Company incurred income tax expense of $1.2 and $1.5 million, respectively. The Company s effective tax rate amounted to 33.4% and 33.0% during the third quarters of 2013 and 2012, respectively. For the nine months ended September 30, 2013 and September 30, 2012, the Company incurred income tax expense of $2.8 million and $3.5 million, respectively. The Company s effective tax rate amounted to 33.5% and 33.7% during the nine months ended September 30, 2013 and September 30, 2012, respectively. Differences between the effective tax rate and the statutory tax rate primarily relate to variances in items that are non-taxable or non-deductible (e.g., state tax, tax-exempt income, tax credits, etc.).

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

Quantitative and qualitative disclosures about market risk are presented in the Company s Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2012, under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations Asset/ Liability Management and Market Risk . Additional information at September 30, 2013 is included herein under Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Asset/Liability Management .

**Item 4. Controls and Procedures.**

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

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Securities Exchange Act of 1934) occurred during the third quarter of 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

Not applicable.

**Item 1A. Risk Factors.**

There have been no material changes from the risk factors previously disclosed in the Company s Annual Report on Form 10-K for December 31, 2012 filed with the Securities and Exchange Commission.

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

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

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet be Purchased Under the Plan or Programs[1] |
|---|---|---|---|---|
| July 1 - July 30, 2013 | 34,555 | $ 18.55 | 34,555 | 177,745 |
| August 1 - August 31, 2013 | 9,500 | 18.20 | 9,500 | 168,245 |
| | 122 | 17.38 | 122 | 168,123 |

| | | | | | |
|---|---|---|---|---|---|
| September 1 - September 30, 2013 | | | | | |
| Total | 44,177 | $ | 18.47 | 44,177 | 168,123 |

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

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

None.

**Item 4. Mine Safety Disclosure.**

None.

**Item 5. Other Information.**

None.

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

| No. | Description |
|---|---|
| 2.1 | Agreement and Plan of Merger, dated as of November 4, 2013, between Home Bancorp, Inc. and Britton & Koontz Capital Corp.* |
| 31.1 | Rule 13(a)-14(a) Certification of the Chief Executive Officer |
| 31.2 | Rule 13(a)-14(a) Certification of the Chief Financial Officer |
| 32.0 | Section 1350 Certification |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definitions Linkbase Document |

* Incorporated by reference from the like-numbered exhibit to the registrant s current report on Form 8-K (dated November 4, 2013 and filed on November 5, 2013, SEC File No. 001-34190).

## SIGNATURES

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

| | | |
|---|---|---|
| | | **HOME BANCORP, INC.** |
| November 8, 2013 | By: | /s/ John W. Bordelon<br>John W. Bordelon<br>*President, Chief Executive Officer and Director* |
| November 8, 2013 | By: | /s/ Joseph B. Zanco<br>Joseph B. Zanco<br>*Executive Vice President and Chief Financial Officer* |
| November 8, 2013 | By: | /s/ Mary H. Hopkins<br>Mary H. Hopkins<br>*Home Bank First Vice President and Director of Financial Reporting* |