

HOME BANCORP, INC.  
Form 10-K  
March 14, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-K**

(Mark One)

**Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the fiscal year ended: December 31, 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**  
**(State or Other Jurisdiction of**  
**Incorporation or Organization)**

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

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

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

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

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
<b>Common Stock, \$0.01 par value per share</b>	<b>The Nasdaq Stock Market, LLC</b>

**Securities registered pursuant to Section 12(g) of the Act: none**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES  NO

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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   
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

The aggregate market value of the 5,477,681 shares of the Registrant's common stock held by non-affiliates, based upon the closing price of \$18.50 for the common stock on June 30, 2013, as reported by the Nasdaq Stock Market, was approximately \$101.3 million. Shares of common stock held by the registrant's executive officers, directors and certain benefit plans have been excluded since such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Number of shares of common stock outstanding as of March 7, 2014: 7,099,614

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Set forth below are the documents incorporated by reference and the part of the Form 10-K into which the document is incorporated:

Portions of the definitive Proxy Statement for the 2014 Annual Meeting of Shareholders are incorporated by reference into Part III, Items 10-14 of this Form 10-K.

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**HOME BANCORP, INC.**

**2013 ANNUAL REPORT ON FORM 10-K**

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*This Annual Report on Form 10-K contains certain forward looking statements (as defined in the Securities Exchange Act of 1934 and the regulations hereunder). Forward looking statements are not historical facts but instead represent only the beliefs, expectations or opinions of Home Bancorp, Inc. and its management regarding future events, many of which, by their nature, are inherently uncertain. Forward looking statements may be identified by the use of such words as: believe , expect , anticipate , intend , plan , estimate , or words of similar meaning or future or conditional terms such as will , would , should , could , may , likely , probably , or possibly. Forward looking statements include, but are not limited to, financial projections and estimates and their underlying assumptions; statements regarding plans, objectives and expectations with respect to future operations, products and services; and statements regarding future performance. Such statements are subject to certain risks, uncertainties and assumptions, many of which are difficult to predict and generally are beyond the control of Home Bancorp, Inc. and its management, that could cause actual results to differ materially from those expressed in, or implied or projected by, forward looking statements. The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward looking statements: (1) economic and competitive conditions which could affect the volume of loan originations, deposit flows and real estate values; (2) the levels of noninterest income and expense and the amount of loan losses; (3) competitive pressure among depository institutions increasing significantly; (4) the low interest rate environment causing reduced interest margins; (5) general economic conditions, either nationally or in the markets in which Home Bancorp, Inc. is or will be doing business, being less favorable than expected; (6) political and social unrest, including acts of war or terrorism; (7) we may not fully realize all the benefits we anticipated in connection with our acquisitions of other institutions or our assumptions made in connection therewith may prove to be inaccurate; or (8) legislation or changes in regulatory requirements adversely affecting the business of Home Bancorp, Inc. Home Bancorp, Inc. 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.*

As used in this report, unless the context otherwise requires, the terms we, our, us, or the Company refer to Home Bancorp, Inc., a Louisiana corporation, and the term Bank refers to Home Bank, a federally chartered savings bank and wholly owned subsidiary of the Company. In addition, unless the context otherwise requires, references to the operations of the Company include the operations of the Bank.

**PART I****Item 1. Business.**

**General.** Home Bancorp, Inc. (the Company ) is a Louisiana corporation that became the holding company for Home Bank in October 2008 upon the Bank's mutual to stock conversion. Home Bank (the Bank ) is a federally chartered community-oriented savings bank which was originally organized in 1908 and is headquartered in Lafayette, Louisiana. The Bank, which is a wholly owned subsidiary of the Company, currently conducts business through 22 banking offices in the Greater Lafayette, Baton Rouge, Greater New Orleans and Northshore (of Lake Ponchartrain) regions of south Louisiana. In February 2014, the Bank added seven additional banking offices in Mississippi through the Company's acquisition of Britton & Koontz Capital Corporation ( Britton & Koontz ), the holding company of the 147-year-old Britton & Koontz Bank, N.A. ( Britton & Koontz Bank ) (two of the offices acquired from Britton & Koontz Bank in Baton Rouge, Louisiana, have since been closed or consolidated).

The Bank is primarily engaged in attracting deposits from the general public and using those funds to invest in loans and securities. Our principal sources of funds are customer deposits, repayments of loans, repayments of investments

and funds borrowed from outside sources such as the Federal Home Loan Bank ( FHLB ) of Dallas. These funds are primarily used for the origination of loans, including one-to-four-family first mortgage loans, home equity loans and lines, commercial real estate loans, construction and land loans, multi-family residential loans, commercial and industrial loans and consumer loans. The Bank derives its income principally from interest earned on loans and investment securities and, to a lesser extent, from fees received in connection with the origination of loans, service charges on deposit accounts and for other services. The Bank's primary expenses are interest expense on deposits and borrowings and general operating expenses.

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We are an active originator of residential home mortgage loans in our market areas. Historically, Home Bank was a traditional thrift institution with an emphasis on fixed-rate long-term single-family residential first mortgage loans. Over the course of the last decade plus, we have shifted our emphasis in the loan products we offer and increased our efforts to originate commercial real estate loans and commercial and industrial loans. Commercial real estate loans and commercial and industrial loans are deemed attractive due to their generally higher yields and shorter anticipated lives compared to single-family residential mortgage loans. In addition, the Bank views commercial real estate and commercial and industrial loans as attractive lending products because the Bank's commercial borrowers typically maintain deposit accounts at the Bank, increasing the Bank's core deposits.

The Company's headquarters office is located at 503 Kaliste Saloom Road, Lafayette, Louisiana, and our telephone number is (337) 237-1960. We maintain a website at [www.home24bank.com](http://www.home24bank.com), and we provide our customers with online banking services. Information on our website should not be considered a part of this Annual Report on Form 10-K.

## **Market Area and Competition**

The Bank has four primary market areas across south Louisiana: Greater Lafayette, Baton Rouge, Greater New Orleans and the Northshore (of Lake Ponchartrain) and two primary market areas in west Mississippi: Natchez and Vicksburg. In 2007, the Company expanded its operations into Baton Rouge, Louisiana, and currently operates three banking offices in Baton Rouge. In 2010, the Company expanded into the Northshore (of Lake Ponchartrain) through a Federal Deposit Insurance Corporation ( FDIC ) assisted transaction of the former Statewide Bank ( Statewide ). The Bank currently operates six banking offices in the Northshore region. In 2011, the Company expanded into the Greater New Orleans area through its acquisition of GS Financial Corporation ( GSFC ) and its subsidiary, Guaranty Savings Bank ( Guaranty ). The Bank currently operates four banking offices in the Greater New Orleans area. In February 2014, the Company expanded into Natchez and Vicksburg, Mississippi through its acquisition of Britton & Koontz and its subsidiary, Britton & Koontz Bank. The Bank currently operates three banking offices in Natchez and two banking offices in Vicksburg. For additional information on our acquisition activity, see Part II, Item 7 in this Annual Report on Form 10-K, Management's Discussion and Analysis of Financial Condition and Results of Operations Acquisition Activity.

We face significant competition in originating loans and attracting deposits. This competition stems primarily from commercial banks, other savings banks and savings associations, credit unions and mortgage-banking companies. Many of the financial service providers operating in our market areas are significantly larger and have greater financial resources than us. We face additional competition for deposits from short-term money market funds and other corporate and government securities funds, mutual funds and from other non-depository financial institutions such as brokerage firms and insurance companies.

## **Supervision and Regulation**

Set forth below is a brief description of certain laws relating to the regulation of Home Bancorp, Inc. and Home Bank. This description does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations.

**General.** Home Bank is subject to federal regulation and oversight by the Office of the Comptroller of the Currency ( OCC ). The Bank is also subject to regulation and examination by the FDIC, which insures the deposits of the Bank to the maximum extent permitted by law, and requirements established by the Federal Reserve Board ( FRB ). Federally chartered savings institutions are required to file periodic reports with the OCC and are subject to periodic examinations by the OCC and the FDIC. The investment and lending authority of savings institutions are prescribed

by federal laws and regulations, and such institutions are prohibited from engaging in any activities not permitted by such laws and regulations. Such regulation and supervision primarily is intended for the protection of depositors and not for the purpose of protecting shareholders.

Federal law provides the federal banking regulators with substantial enforcement powers. The OCC's enforcement authority over all savings institutions includes, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to initiate injunctive actions. In general, these



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enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with the OCC. The FRB has comparable enforcement authority over the Company. Any change in such regulations could have a material adverse impact on the Company and the Bank.

### **The Dodd-Frank Act**

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ). This act imposes additional restrictions and an expanded framework of regulatory oversight for financial institutions, including depository institutions. Many of the regulations implementing these changes have not been promulgated, so we cannot determine the full impact on our business and operations at this time.

The following aspects of the Dodd-Frank Act are related to the operations of the Bank:

A new independent Consumer Financial Protection Bureau ( CFPB ) was established within the FRB, empowered to exercise broad regulatory, supervisory and enforcement authority with respect to both new and existing consumer financial protection laws. However, smaller financial institutions, like the Bank, continue to be subject to the supervision and enforcement of their primary federal banking regulator with respect to federal consumer financial protection laws.

Tier 1 capital treatment for hybrid capital items like trust preferred securities was eliminated subject to various grandfathering and transition rules.

The prohibition on payment of interest on demand deposits was repealed.

Deposit insurance was permanently increased to \$250,000.

The deposit insurance assessment base calculation now equals the depository institution s total assets minus the sum of its average tangible equity during the assessment period.

The minimum reserve ratio of the Deposit Insurance Fund increased to 1.35% of estimated annual insured deposits or assessment base; however, the FDIC is directed to offset the effect of the increased reserve ratio for insured depository institutions with total consolidated assets of less than \$10 billion.

The following aspects of the Dodd-Frank Act are related to the operations of the Company:

Authority over savings and loan holding companies was transferred to the FRB on July 21, 2011.

Leverage capital requirements and risk based capital requirements applicable to depository institutions and bank holding companies will be extended to thrift holding companies. However, the FRB has not yet issued regulations that address the levels of these capital requirements or when they will apply to the Company.

The Federal Deposit Insurance Act was amended to direct federal regulators to require depository institution holding companies to serve as a source of strength for their depository institution subsidiaries.

Public companies are now required to provide their shareholders with a non-binding vote: (i) at least once every three years on the compensation paid to executive officers, and (ii) at least once every six years on whether they should have a say on pay vote every one, two or three years.

A separate, non-binding shareholder vote is now required regarding golden parachutes for named executive officers when a shareholder vote takes place on mergers, acquisitions, dispositions or other transactions that would trigger the parachute payments.

Securities exchanges are required to prohibit brokers from using their own discretion to vote shares not beneficially owned by them for certain significant matters, which include votes on the election of directors, executive compensation matters, and any other matter determined to be significant.

Stock exchanges, which include the Nasdaq, are prohibited from listing the securities of any issuer that does not have a policy providing for (i) disclosure of its policy on incentive compensation payable on the basis of financial information reportable under the securities laws, and (ii) the recovery from current or former executive officers, following an accounting restatement triggered by material noncompliance with securities law reporting requirements, of any incentive compensation paid erroneously during the three-year period preceding the date on which the restatement was required that exceeds the amount that would have been paid on the basis of the restated financial information.

Disclosure in annual proxy materials is required concerning the relationship between the executive compensation paid and the financial performance of the issuer.

Item 402 of Regulation S-K will be amended to require companies to disclose the ratio of the Chief Executive Officer's annual total compensation to the median annual total compensation of all other employees.

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Regulations were recently adopted by the federal banking agencies to implement the provisions of the Dodd Frank Act commonly referred to as the Volcker Rule. The regulations contain prohibitions and restrictions on the ability of financial institution holding companies and their affiliates to engage in proprietary trading and to hold certain interests in, or to have certain relationships with, various types of investment funds, including hedge funds and private equity funds. The regulations will become effective on April 1, 2014 with full compliance being phased in over a period ending on July 21, 2015. The Company is currently reviewing its investment portfolio to ensure compliance as the various provisions of the Volcker Rule regulations become effective.

### **Regulation of Home Bancorp, Inc.**

**Holding Company Acquisitions.** Federal law generally prohibits a savings and loan holding company, without prior FRB approval, from acquiring the ownership or control of any other savings institution or savings and loan holding company, or all, or substantially all, of the assets or more than 5% of the voting shares of the savings institution or savings and loan holding company. These provisions also prohibit, among other things, any director or officer of a savings and loan holding company, or any individual who owns or controls more than 25% of the voting shares of such holding company, from acquiring control of any savings institution not a subsidiary of such savings and loan holding company, unless the acquisition is approved by the FRB.

The FRB may not approve any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions: (1) the approval of interstate supervisory acquisitions by savings and loan holding companies; and (2) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

**Holding Company Activities.** The Company is a unitary savings and loan holding company and is permitted to engage only in the activities permitted for financial holding companies under FRB regulations or for multiple savings and loan holding companies. Multiple savings and loan holding companies are permitted to engage in the following activities: (i) activities permitted for a bank holding company under section 4(c) of the Bank Holding Company Act (unless the FRB prohibits or limits such 4(c) activities); (ii) furnishing or performing management services for a subsidiary savings association; (iii) conducting any insurance agency or escrow business; (iv) holding, managing, or liquidating assets owned by or acquired from a subsidiary savings association; (v) holding or managing properties used or occupied by a subsidiary savings association; (vi) acting as trustee under deeds of trust; or (vii) activities authorized by regulation as of March 5, 1987, to be engaged in by multiple savings and loan holding companies. Although savings and loan holding companies are not currently subject to specific capital requirements, recent legislation authorized the FRB to establish capital requirements for savings and loan holding companies. That legislation also authorized federal regulators to require depository institution holding companies to serve as a source of strength to their depository institution subsidiaries. In addition, the financial impact of a holding company on its subsidiary institution is a matter that is evaluated by the FRB and the agency has authority to order cessation of activities or divestiture of subsidiaries deemed to pose a threat to the safety and soundness of the institution.

**Declaration of Dividends.** A savings institution, such as Home Bank, that is part of a savings and loan holding company structure must file a notice of declaration of a dividend with the FRB not less than 30 days prior to the proposed declaration of dividend by its board of directors.

**Federal Securities Laws.** We have registered our common stock with the Securities and Exchange Commission ( SEC ) under Section 12(b) of the Securities Exchange Act of 1934. Accordingly, the Company is subject to the proxy and tender offer rules, insider trading reporting requirements and restrictions and certain other requirements under the Securities Exchange Act of 1934.

**The Sarbanes-Oxley Act.** As a public company, the Company is subject to the Sarbanes-Oxley Act of 2002 which addresses, among other issues, corporate governance, auditing and accounting, executive compensation,

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and enhanced and timely disclosure of corporate information. As directed by the Sarbanes-Oxley Act, our principal executive officer and principal financial officer are required to certify that our quarterly and annual reports do not contain any untrue statement of a material fact. The rules adopted by the SEC under the Sarbanes-Oxley Act have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal control over financial reporting; they have made certain disclosures to our independent auditors and the Audit Committee of the Board of Directors about our internal control over financial reporting; and they have included information in our quarterly and annual reports about their evaluation and whether there have been changes in our internal control over financial reporting or in other factors that could materially affect internal control over financial reporting.

## **Regulation of Home Bank**

**General.** As the primary federal regulator of Home Bank, the OCC has extensive authority over the operations of federally-chartered savings institutions. As part of this authority, Home Bank is required to file periodic reports with the OCC and is subject to periodic examinations by the OCC and the FDIC. The investment and lending authorities of savings institutions are prescribed by federal laws and regulations, and such institutions are prohibited from engaging in any activities not permitted by such laws and regulations. Such regulation and supervision is primarily intended for the protection of depositors and the Deposit Insurance Fund.

The OCC's enforcement authority over all savings institutions includes, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with the OCC.

**Insurance of Accounts.** The deposits of Home Bank are insured to the maximum extent permitted by the Deposit Insurance Fund and are backed by the full faith and credit of the U.S. government. The Dodd-Frank Act permanently increased deposit insurance on most accounts to \$250,000. As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, insured institutions. It also may prohibit any insured institution from engaging in any activity determined by regulation or order to pose a serious threat to the FDIC. The FDIC also has the authority to initiate enforcement actions against savings institutions.

The FDIC's risk-based premium system provides for quarterly assessments. Each insured institution is placed in one of four risk categories depending on supervisory and capital considerations. Within its risk category, an institution is assigned to an initial base assessment rate which is then adjusted to determine its final assessment rate based on its brokered deposits, secured liabilities and unsecured debt. Following the Dodd-Frank Act, the FDIC amended its deposit insurance regulations (1) to change the assessment base for insurance from domestic deposits to average assets minus average tangible equity and (2) to lower overall assessment rates. The revised assessment rates are between 2.5 to 9 basis points for banks in the lowest risk category and between 30 to 45 basis points for banks in the highest risk category.

In addition, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established to recapitalize the predecessor to the Deposit Insurance Fund. The annual assessment rate set for the fourth quarter of 2013 was 0.00160% of insured deposits and is adjusted quarterly. These assessments will continue until the Financing Corporation bonds mature in 2019.

The FDIC may terminate the deposit insurance of any insured depository institution if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is aware of no existing circumstances which would result in termination of Home Bank's deposit insurance.

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**Regulatory Capital Requirements.** Federally insured savings institutions are required to maintain minimum levels of regulatory capital. The OCC has established capital standards consisting of a tangible capital requirement, a leverage capital requirement and a risk-based capital requirement. The OCC also is authorized to impose capital requirements in excess of these standards on individual institutions on a case-by-case basis.

OCC capital standards require savings institutions to satisfy the following capital requirements:

tangible capital requirement      tangible capital equal to at least 1.5% of adjusted total assets;

leverage capital requirement      core capital equal to at least 3.0% of adjusted total assets; an additional cushion of at least 100 basis points of core capital for all but the most highly rated savings associations, effectively increasing their minimum Tier 1 leverage ratio to 4.0% or more; and

risk-based capital requirement      total capital (a combination of core and supplementary capital) equal to at least 8.0% of risk-weighted assets.

Core capital generally consists of common shareholders equity (including retained earnings). Tangible capital generally equals core capital minus intangible assets, with only a limited exception for purchased mortgage servicing rights. Both core and tangible capital are further reduced by an amount equal to a savings institution's debt and equity investments in subsidiaries engaged in activities not permissible to national banks (other than subsidiaries engaged in activities undertaken as agent for customers or in mortgage banking activities and subsidiary depository institutions or their holding companies). These adjustments do not affect Home Bank's regulatory capital.

In determining compliance with the risk-based capital requirement, a savings institution is allowed to include both core capital and supplementary capital in its total capital, provided that the amount of supplementary capital included does not exceed the savings institution's core capital. Supplementary capital generally consists of general allowances for loan losses up to a maximum of 1.25% of risk-weighted assets, together with certain other items. In determining the required amount of risk-based capital, total assets, including certain off-balance sheet items, are multiplied by a risk weight based on the risks inherent in the type of assets. The risk weights range from 0% for cash and securities issued by the U.S. Government or unconditionally backed by the full faith and credit of the U.S. Government to 100% for loans (other than qualifying residential loans weighted at 80%) and repossessed assets.

Savings institutions must value securities available for sale at amortized cost for regulatory capital purposes. This means that in computing regulatory capital, savings institutions should add back any unrealized losses and deduct any unrealized gains, net of income taxes, on debt securities reported as a separate component of capital as defined by generally accepted accounting principles in the United States ( GAAP ).

As of December 31, 2013, Home Bank exceeded all of its regulatory capital requirements, with total risk-based, tier 1 risk-based capital and leverage capital ratios of 21.88%, 20.84% and 14.17%, respectively.

Any savings institution that fails any of the capital requirements is subject to possible enforcement actions by the OCC or the FDIC. Such actions could include a capital directive, a cease and desist order, civil money penalties, the establishment of restrictions on the institution's operations, termination of federal deposit insurance and the appointment of a conservator or receiver. The OCC's capital regulation provides that such actions, through enforcement proceedings or otherwise, could require one or more of a variety of corrective actions.





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**Prompt Corrective Action.** The following table shows the amount of capital associated with the different capital categories set forth in the prompt corrective action regulations.

<b>Capital Category</b>	<b>Total Risk-based Capital</b>	<b>Tier 1 Risk-based Capital</b>	<b>Tier 1 Leverage Capital</b>
Well capitalized	10% or more	6% or more	5% or more
Adequately capitalized	8% or more	4% or more	4% or more
Undercapitalized	Less than 8%	Less than 4%	Less than 4%
Significantly undercapitalized	Less than 6%	Less than 3%	Less than 3%

In addition, an institution is critically undercapitalized if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. Under specified circumstances, a federal banking agency may reclassify a well capitalized institution as adequately capitalized and may require an adequately capitalized institution or an undercapitalized institution to comply with supervisory actions as if it were in the next lower category (except that the FDIC may not reclassify a significantly undercapitalized institution as critically undercapitalized).

An institution generally must file a written capital restoration plan which meets specified requirements within 45 days of the date that the institution receives notice or is deemed to have notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized. A federal banking agency must provide the institution with written notice of approval or disapproval within 60 days after receiving a capital restoration plan, subject to extensions by the agency. An institution which is required to submit a capital restoration plan must concurrently submit a performance guaranty by each company that controls the institution. In addition, undercapitalized institutions are subject to various regulatory restrictions, and the appropriate federal banking agency also may take any number of discretionary supervisory actions.

As of December 31, 2013, Home Bank was deemed a well capitalized institution for purposes of the above regulations and as such is not subject to the above mentioned restrictions.

The Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, adopted Basel III in September 2010, which constitutes a strengthened set of capital requirements for banking organizations in the United States and around the world. In July of 2013 the respective U.S. federal banking agencies issued final rules implementing Basel III and the Dodd-Frank Act capital requirements to be fully-phased in on a global basis on January 1, 2019. The new regulations establish a new tangible common equity capital requirement, increase the minimum requirement for the current Tier 1 risk-weighted asset ( RWA ) ratio, phase out certain kinds of intangibles treated as capital and certain types of instruments and change the risk weightings of certain assets used to determine required capital ratios. The new common equity Tier 1 capital component requires capital of the highest quality predominantly composed of retained earnings and common stock instruments. For community banks such as the Bank, a common equity Tier 1 capital ratio of 4.5% will become effective on January 1, 2015. The new capital rules will also increase the current minimum Tier 1 capital ratio from 4.0% to 6.0% beginning on January 1, 2015. In addition, institutions that seek the freedom to make capital distributions and pay discretionary bonuses to executive officers without restriction must also maintain greater than 2.5% in common equity attributable to a capital conservation buffer to be phased in from January 1, 2016 until January 1, 2019. The new rules also increase the risk weights for several categories of assets, including an increase from 100% to 150% for certain acquisition, development and construction loans and more than 90-day past due exposures. The new capital rules maintain the general structure of the prompt corrective action rules, but incorporate the new common equity Tier 1 capital requirement and the increased Tier 1 RWA requirement into the prompt corrective action framework.

**Capital Distributions.** OCC regulations govern capital distributions by savings institutions, which include cash dividends, stock repurchases and other transactions charged to the capital account of a savings institution to make capital distributions. A savings institution must file an application for OCC approval of the capital distribution if either (1) the total capital distributions for the applicable calendar year exceed the sum of the institution's net income for that year to date plus the institution's retained net income for the preceding two years, (2) the institution would not be at least adequately capitalized following the distribution, (3) the distribution would violate any applicable statute, regulation, agreement or OCC-imposed condition, or (4) the institution is not eligible for expedited treatment of its filings. If an application is not required to be filed, savings institutions

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must still file a notice with the OCC at least 30 days before the board of directors declares a dividend or approves a capital distribution if: (1) the institution would not be well-capitalized following the distribution; or (2) the proposed distribution would reduce the amount or retire any part of its common or preferred stock or retire any part of a debt instrument included in its regulatory capital.

If a savings institution, such as Home Bank, that is the subsidiary of a stock savings and loan holding company, has filed a notice with the FRB for a cash dividend and it is not required to file an application or notice with the OCC for any of the reasons described above, then the savings institution must provide an informational copy to the OCC of the notice filed with the FRB, at the same time that it is filed with the FRB.

**Qualified Thrift Lender Test.** All savings institutions are required to meet a qualified thrift lender ( QTL ) test to avoid certain restrictions on their operations. A savings institution can comply with the QTL test by either qualifying as a domestic building and loan association as defined in the Internal Revenue Code or meeting the OCC QTL test.

Currently, the OCC QTL test requires that 65% of an institution's portfolio assets (as defined) consist of certain housing and consumer-related assets on a monthly average basis in nine out of every 12 months. To be a QTL under the IRS test, the savings institution must meet a business operations test and a 60 percent assets test, each defined in the Internal Revenue Code.

If the savings institution fails to maintain its QTL status, the holding company's activities are restricted. In addition, it must discontinue any non-permissible business, although the OCC may grant a grace period up to two years for good cause. Nonetheless, any company that controls a savings institution that is not a QTL must register as a bank holding company within one year of the savings institution's failure to meet the QTL test.

Statutory penalty provisions require an institution that fails to remain a QTL to either become a national bank or be prohibited from the following:

- making any new investments or engaging in any new activity not allowed for both a national bank and a savings association;

- establishing any new branch office unless allowable for a national bank; and

- paying dividends unless allowable for a national bank, are necessary to meet obligations of its holding company and are approved by the OCC and FRB.

Three years from the date a savings association should have become or ceases to be a QTL, by failing to meet either QTL test, the institution must dispose of any investment or not engage in any activity unless the investment or activity is allowed for both a national bank and a savings association.

A savings institution not in compliance with the QTL test also is subject to an enforcement action for violation of the Home Owners' Loan Act, as amended.

As of December 31, 2013, Home Bank met the requirements to be deemed a QTL.

**Limitations on Transactions with Affiliates.** Transactions between savings associations and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act as made applicable to savings associations by Section 11 of the Home Owners Loan Act. An affiliate of a savings association includes any company or entity which controls the savings institution or that is controlled by a company that controls the savings association. In a holding company context, the holding company of a savings association (such as Home Bancorp, Inc.) and any companies which are controlled by such holding company are affiliates of the savings association. Generally, Section 23A limits the extent to which the savings association or its subsidiaries may engage in covered transactions with any one affiliate to an amount equal to 10% of such association's capital stock and surplus, and contain an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus. Section 23B applies to covered transactions as well as certain other transactions and requires that all transactions be on terms substantially the same, or at least as favorable, to the savings association as those provided to a non-affiliate. The term covered transaction includes the making of loans to, purchase of assets from and issuance of a guarantee to an affiliate and similar transactions. Section 23B transactions also include

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the provision of services and the sale of assets by a savings association to an affiliate. In addition to the restrictions imposed by Sections 23A and 23B, Section 11 of the Home Owners Loan Act prohibits a savings association from (i) making a loan or other extension of credit to an affiliate, except for any affiliate which engages only in certain activities which are permissible for bank holding companies, or (ii) purchasing or investing in any stocks, bonds, debentures, notes or similar obligations of any affiliate, except for affiliates which are subsidiaries of the savings association.

In addition, Sections 22(g) and (h) of the Federal Reserve Act as made applicable to savings associations by Section 11 of the Home Owners Loan Act, place restrictions on loans to executive officers, directors and principal shareholders of the savings association and its affiliates. Under Section 22(h), loans to a director, an executive officer and to a greater than 10% shareholder of a savings association, and certain affiliated interests of either, may not exceed, together with all other outstanding loans to such person and affiliated interests, the savings association's loans to one borrower limit (generally equal to 15% of the association's unimpaired capital and surplus). Section 22(h) also requires that loans to directors, executive officers and principal shareholders be made on terms substantially the same as offered in comparable transactions to other persons unless the loans are made pursuant to a benefit or compensation program that (i) is widely available to employees of the association and (ii) does not give preference to any director, executive officer or principal shareholder, or certain affiliated interests of either, over other employees of the savings association. Section 22(h) also requires prior board approval for certain loans. In addition, the aggregate amount of extensions of credit by a savings association to all insiders cannot exceed the association's unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers. Home Bank currently is subject to Sections 22(g) and (h) of the Federal Reserve Act, and as of December 31, 2013 was in compliance with the above restrictions.

**Anti-money Laundering.** All financial institutions, including savings associations, are subject to federal laws that are designed to prevent the use of the U.S. financial system to fund terrorist activities. Financial institutions operating in the United States must develop anti-money laundering compliance programs, due diligence policies and controls to ensure the detection and reporting of money laundering. Such compliance programs are intended to supplement compliance requirements, also applicable to financial institutions, under the Bank Secrecy Act and the Office of Foreign Assets Control Regulations. Home Bank has established policies and procedures to ensure compliance with these provisions.

**Federal Home Loan Bank System.** Home Bank is a member of the FHLB of Dallas, which is one of 12 regional FHLBs that administer the home financing credit function of savings institutions. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the board of directors of the FHLB. As of December 31, 2013, Home Bank had \$97.0 million of FHLB advances and \$262.3 million available on its line of credit with the FHLB.

As a member, Home Bank is required to purchase and maintain stock in the FHLB of Dallas in an amount equal to at least 1.0% of its aggregate unpaid residential mortgage loans or similar obligations at the beginning of each year. As of December 31, 2013, Home Bank had \$4.4 million in FHLB stock, which was in compliance with this requirement.

The FHLBs are required to provide funds for the resolution of troubled savings institutions and to contribute to affordable housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have adversely affected the level of FHLB dividends paid in the past and could do so in the future. These contributions also could have an adverse effect on the value of FHLB stock in the future.

**Federal Reserve System.** The FRB requires all depository institutions to maintain reserves against their transaction accounts and non-personal time deposits. The required reserves must be maintained in the form of vault cash or an account at the FRB. As of December 31, 2013, Home Bank had met its reserve requirement.

**Privacy.** Financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing personal financial information with nonaffiliated third parties except for third parties that market the institutions' own products and services.

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Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing through electronic mail to consumers. The Bank has established policies and procedures designed to safeguard its customers' personal financial information and to ensure compliance with applicable privacy laws.

## **Federal Taxation**

**General.** Home Bancorp, Inc. and Home Bank are subject to federal income taxation in the same general manner as other corporations with some exceptions listed below. The following discussion of federal, state and local income taxation is only intended to summarize certain pertinent income tax matters and is not a comprehensive description of the applicable tax rules. The Company's federal and state income tax returns for taxable years through December 31, 2009 have been closed for purposes of examination by the Internal Revenue Service.

The Company will file a consolidated federal income tax return with the Bank. Accordingly, it is anticipated that any cash distributions made by Home Bancorp to its shareholders would be treated as cash dividends and not as a non-taxable return of capital to shareholders for federal and state tax purposes.

**Method of Accounting.** For federal income tax purposes, we report income and expenses on the accrual method of accounting and file our federal income tax return on a fiscal year basis.

**Bad Debt Reserves.** The Small Business Job Protection Act of 1996 eliminated the use of the reserve method of accounting for bad debt reserves by savings institutions, effective for taxable years beginning after 1995. Prior to that time, Home Bank was permitted to establish a reserve for bad debts and to make additions to the reserve. These additions could, within specified formula limits, be deducted in arriving at taxable income. As a result of the Small Business Job Protection Act of 1996, savings associations must use the specific charge-off method in computing their bad debt deduction beginning with their 1996 federal tax return. In addition, federal legislation required the recapture over a six year period of the excess of tax bad debt reserves as of December 31, 1995 over those established as of December 31, 1987.

**Taxable Distributions and Recapture.** Prior to the Small Business Job Protection Act of 1996, bad debt reserves created prior to January 1, 1988 were subject to recapture into taxable income if Home Bank failed to meet certain thrift asset and definitional tests. Federal legislation eliminated these savings association related recapture rules. However, under current law, pre-1988 reserves remain subject to recapture should Home Bank make certain non-dividend distributions or cease to maintain a bank charter.

As of December 31, 2013, the total federal pre-1988 reserve was approximately \$1.2 million. The reserve reflects the cumulative effect of federal tax deductions by Home Bank for which no federal income tax provisions have been made.

**Alternative Minimum Tax.** The Internal Revenue Code imposes an alternative minimum tax at a rate of 20% on a base of regular taxable income plus certain tax preferences. The alternative minimum tax is payable to the extent that the tax computed on such alternative minimum taxable income is in excess of the regular income tax. Net operating losses, of which the Company has none, can offset no more than 90% of alternative minimum taxable income. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. The Company has not been subject to the alternative minimum tax or any such amounts available as credits for carryover.

**Net Operating Loss Carryovers.** For net operating losses in tax years beginning before August 6, 1997, the Company may carry back net operating losses to the three years preceding the loss year and then forward to fifteen

years following the loss years. For net operating losses in years beginning after August 5, 1997, net operating losses can be carried back to the two years preceding the loss year and forward to the 20 years following the loss year. As of December 31, 2013, the Company had no net operating loss carry forwards for federal income tax purposes.



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**Corporate Dividends-Received Deduction.** The Company may exclude from its income 100% of dividends received from the Bank as a member of the same affiliated group of corporations. The corporate dividends received deduction is 80% in the case of dividends received from corporations which a corporate recipient owns less than 80%, but at least 20% of the distribution corporation. Corporations which own less than 20% of the stock of a corporation distributing a dividend may deduct only 70% of dividends received.

## **Item 1A. Risk Factors.**

*In analyzing whether to make or to continue an investment in our securities, investors should consider, among other factors, the following risk factors.*

### **Risks Related to Our Business**

**There are increased risks involved with commercial real estate, including multi-family residential, commercial and industrial and construction and land lending activities.**

Our lending activities include loans secured by commercial real estate and commercial and industrial loans. Our commercial real estate loans increased by 176.7% over the past four years. During the same period, our commercial and industrial loans increased by 102.2%. Commercial real estate lending and commercial and industrial lending generally are considered to involve a higher degree of risk than single-family residential lending due to a variety of factors. As a result of the larger loan balances typically involved in these loans, an adverse development with respect to one loan or one credit relationship can expose us to greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan. As of December 31, 2013, the largest outstanding balances of our commercial real estate loans and commercial and industrial loans were \$9.4 million and \$3.0 million, respectively. If a large loan were to become non-performing, as we experienced in 2012 and 2013, it can have a significant impact on our results of operations. Because we intend to continue our growth in commercial real estate and commercial and industrial loans, our credit risk exposure may increase and we may need to make additional provisions to our allowance for loan losses, which could adversely affect our future results of operations.

In addition to commercial real estate and commercial and industrial loans, Home Bank holds a significant portfolio of construction and land loans. As of December 31, 2013, Home Bank's construction and land loans amounted to \$83.3 million, or 11.8% of our loan portfolio. Construction and land loans generally have a higher risk of loss than single-family residential mortgage loans due primarily to the critical nature of the initial estimates of a property's value upon completion of construction compared to the estimated costs, including interest, of construction as well as other assumptions. If the estimates upon which construction loans are made prove to be inaccurate, we may be confronted with projects that, upon completion, have values which are below the loan amounts. If the Bank is forced to liquidate the collateral associated with such loans at values less than the remaining loan balance, it could have a significant impact on our results of operations.

**Our allowance for loan losses may not be adequate to cover probable losses.**

We have established an allowance for loan losses based upon various assumptions and judgments about the collectability of our loan portfolio which we believe is adequate to offset probable losses on our existing loans. While we are not aware of any specific factors indicating a deficiency in the amount of our allowance for loan losses, in light of the current economic environment, one of the most pressing issues faced by financial institutions is the adequacy of their allowance for loan losses. Federal bank regulators have increased their scrutiny of the level of the allowance for losses maintained by regulated institutions. In the event that we have to increase our allowance for loan losses beyond

current levels, it would have an adverse effect on our results in future periods. As of December 31, 2013, our allowance for loan losses amounted to \$6.9 million, or 1.0% of total loans.

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**Our decisions regarding the fair value of assets acquired could be inaccurate and our estimated loss sharing receivable in our FDIC-assisted acquisition may be inadequate, which could materially and adversely affect our business, financial condition, results of operations and future prospects.**

Management makes various assumptions and judgments about the collectability of acquired loan portfolios, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of secured loans. In our FDIC-assisted acquisition of Statewide, which included loss sharing agreements, we recorded a loss sharing receivable that we consider adequate to absorb future losses which may occur in the acquired Statewide loan portfolio. In determining the size of the loss sharing receivable, we analyzed the loan portfolio based on historical loss experience, volume and classification of loans, volume and trends in delinquencies and nonaccruals, economic conditions and other pertinent information. If our assumptions are incorrect, our current receivable may be insufficient to cover future loan losses, and increased loss reserves may be needed to respond to different economic conditions or adverse developments in the acquired loan portfolio. Any increase in future loan losses would have a negative effect on our operating results.

**Our ability to obtain reimbursement on loans ( Covered Loans ) and repossessed assets (collectively Covered Assets ) covered under loss sharing agreements with the FDIC depends on our compliance with the terms of the loss sharing agreements.**

Management must certify to the FDIC on a quarterly basis our compliance with the terms of the FDIC loss sharing agreements as a prerequisite to obtaining reimbursement from the FDIC for realized losses on Covered Assets. The required terms of the agreements are extensive and failure to comply with any of the guidelines could result in a specific asset or group of assets permanently losing their loss sharing coverage. Additionally, management may decide to forgo loss sharing coverage on certain assets to allow greater flexibility over the management of certain assets. As of December 31, 2013, \$24.9 million, or 2.5%, of the Company's assets were covered by FDIC loss sharing agreements. At such date, the loss sharing agreement with respect to \$22.4 million of covered commercial assets will expire in March 2015 (five years from the date of the acquisition), with the remaining loss sharing agreement on \$2.5 million of covered residential assets expiring in March 2020 (10 years from the date of the acquisition).

Under the terms of the FDIC loss sharing agreements, the assignment or transfer of the loss sharing agreements to another entity generally requires the written consent of the FDIC. In addition, the Bank may not assign or otherwise transfer the loss sharing agreements during their terms without the prior written consent of the FDIC.

We are subject to periodic examinations by the FDIC with respect to our compliance with the provisions of the FDIC loss sharing agreements. The required terms of the agreements are extensive and failure to comply with any of the provisions could result in a specific asset or group of assets losing their loss sharing coverage. No assurances can be given that we will manage the Covered Assets in such a way as to always maintain loss sharing coverage on all such assets.

**Future adjustments to the carrying value of our FDIC loss sharing receivable ( FDIC Asset ) could adversely affect our future results of operations.**

In connection with our March 2010 acquisition from the FDIC of certain assets and liabilities of Statewide, we recorded an FDIC Asset, representing the portion of estimated losses covered by two loss sharing agreements between the Bank and the FDIC. The initial amount of the FDIC Asset was \$34.4 million. The carrying value of the FDIC Asset is reviewed and adjusted quarterly based upon, among other factors, our estimates of the amount and timing of anticipated cash flows received from the loss share agreements. As of December 31, 2013, the Company had an FDIC Asset in the amount of \$12.7 million. The Company's remaining FDIC Asset consists of two primary components:

Schedule A (single family residential mortgage and home equity loans) and Schedule B (all other Covered Loans). The FDIC Asset related to Schedule A loans totaled \$4.2 million at December 31, 2013. Schedule A loss share protection will expire in March 2020. The FDIC Asset related to Schedule B loans totaled \$8.5 million at December 31, 2013. Schedule B loss share protection will expire in March 2015. In the event that we revise our cash flow estimations on the FDIC Asset, we could be required to record additional asset amortization expense. At the end of each of the loss share coverage periods, any remaining amount of the FDIC Asset will be charged-off, which will reduce income for that period.

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### **Other than temporary declines in the value of our investment securities may require us to take additional charges to earnings.**

We evaluate our securities portfolio for other-than-temporary impairment ( OTTI ) throughout the year. Each investment with a fair value less than book value is reviewed quarterly. An impairment charge is recorded against individual securities if management s review concludes that the decline in value is other than temporary. As of December 31, 2013, our investment securities portfolio included 14 non-agency mortgage-backed securities with an aggregate amortized cost of \$9.8 million, an aggregate fair value of \$9.7 million and a net unrealized loss of \$16,000. Delinquencies and defaults in the mortgage loans underlying these securities may adversely affect the cash flows received by us and may result in a conclusion in future periods that the securities are other-than-temporarily impaired. Such a conclusion of OTTI would require us to take additional charges to earnings to write down the value of these securities.

### **We may not succeed in our plan to grow, which could reduce future profitability.**

Over the past several years, we have grown our branch system by opening additional offices and through acquisitions of other financial institutions. Typically, it takes several years for a new banking office to become profitable, and this could adversely affect our earnings in future periods. There also is a risk that, as we geographically expand our lending area, we may not be as successful in assessing the credit risks which are inherent in different markets.

Our ability to successfully acquire other institutions depends on our ability to identify, acquire and integrate such institutions into our franchise. Our experience in mergers and acquisitions consists of an acquisition in 2006 of a building and loan association located in Crowley, Louisiana, an FDIC-assisted acquisition in 2010 of a bank with branches located in the Northshore (of Lake Ponchartrain) region of Louisiana, an acquisition in 2011 of a savings bank with branches located in Greater New Orleans and an acquisition in February 2014 of a national bank headquartered in Natchez, Mississippi with branches located in Natchez and Vicksburg, Mississippi and Baton Rouge, Louisiana. Failure to successfully integrate the systems and operations of our most recent acquisition, Britton & Koontz Capital Corporation, acquired in February 2014, could have an adverse effect on our future results of operations. If we were to acquire another institution in the future, our results of operations could be adversely affected if our analysis of the acquisition of such institution was not complete and correct or our integration efforts were not successful. Currently, we have no agreements or understandings with anyone regarding a future acquisition.

### **Our business is geographically concentrated in south Louisiana and west Mississippi, which makes us vulnerable to downturns in the local economy.**

Most of our loans are to individuals and businesses located in south Louisiana and west Mississippi. Regional economic conditions affect the demand for our products and services as well as the ability of our customers to repay loans. While economic conditions in most of our market areas have been stronger than many areas of the United States in recent years, the concentration of our business operations makes us vulnerable to economic downturns in the market areas in which we operate. Declines in local real estate values could adversely affect the value of property used as collateral for the loans we make. Historically, the oil and gas industry has constituted a significant component of the economy in south Louisiana. The oil and gas industry remains an important factor in the local economy in most of the markets that we operate in and downturns in the oil and gas industry could adversely affect our operations.

### **A natural disaster, especially one affecting our market areas, could adversely affect the Company s financial condition and results of operations.**

Since a considerable portion of our business is conducted in south Louisiana, most of our credit exposure is in that area. Historically, south Louisiana has been vulnerable to natural disasters, including hurricanes, floods and tornadoes. Natural disasters could harm our operations directly through interference with communications, which would prevent us from gathering deposits, originating loans and processing and controlling our flow of business, as well as through the destruction of facilities and our operational, financial and management information

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systems. A natural disaster or recurring power outages may also impair the value of our loan portfolio, as uninsured or underinsured losses, including losses from business disruption, may reduce our borrowers' ability to repay their loans. Disasters may also reduce the value of the real estate securing our loans, impairing our ability to recover on defaulted loans through foreclosure and making it more likely that we would suffer losses on defaulted loans. Although we have implemented several back-up systems and protections (and maintain business interruption insurance), these measures may not protect us fully from the effects of a natural disaster. The occurrence of natural disasters in our market areas could have a material adverse effect on our business, prospects, financial condition and results of operations.

### **The current economic environment poses significant challenges and could adversely affect the Company's financial condition and results of operations.**

Although the economy in most of our markets continues to be stronger in comparison to many other areas of the country and the United States as a whole, challenging conditions in the broader economy could adversely affect the financial capacity of businesses and individuals in the Company's market areas. In particular, adverse developments in the national or international markets in the oil and gas industry could have an adverse impact on economic conditions in the Company's market areas. The impact of current economic conditions on the Company's financial results could also include increased levels of nonperforming loans, provisions for loan losses and expense associated with loan collection efforts.

### **Changes in interest rates could have a material adverse effect on our operations.**

The operations of financial institutions are dependent to a large extent on net interest income, which 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. Changes in the general level of interest rates can affect our net interest income by affecting the difference between the weighted average yield earned on our interest-earning assets and the weighted average rate paid on our interest-bearing liabilities, or interest rate spread, and the average life of our interest-earning assets and interest-bearing liabilities. If general market rates of interest increase, our interest expense on deposits and borrowings would likely increase which could adversely affect our interest rate spread and net interest income. Changes in interest rates also can affect our ability to originate loans; the value of our interest-earning assets and our ability to realize gains from the sale of such assets; our ability to obtain and retain deposits in competition with other available investment alternatives; and the ability of our borrowers to repay adjustable or variable rate loans. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control.

### **We face strong competition which adversely affects our profitability.**

We are subject to vigorous competition in all aspects and areas of our business from banks and other financial institutions, including savings and loan associations, savings banks, finance companies, credit unions and other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies and insurance companies. We are significantly smaller than the larger depository institutions operating in our market areas. The financial resources of these larger competitors may permit them to pay higher interest rates on their deposits and to be more aggressive in new loan originations. We also compete with non-financial institutions, including retail stores that maintain their own credit programs and governmental agencies that make available low cost or guaranteed loans to certain borrowers. Some of our competitors are larger financial institutions with substantially greater resources, more advanced technological capabilities, lending limits, larger branch systems and a wider array of commercial banking services. Vigorous competition from both bank and non-bank organizations is expected to continue.

**We operate in a highly regulated environment, and we may be adversely affected by changes in laws and regulations.**

We are subject to extensive regulation, supervision and examination by the FRB, the OCC and the FDIC. Such regulation and supervision governs the activities in which an institution and its holding company may engage and are intended primarily for the protection of the insurance fund and the depositors and borrowers of the Bank



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rather than for holders of our common stock. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations.

### **Historically low interest rates are expected to adversely affect our net interest income and profitability.**

During the past several years, it has been the policy of the FRB to maintain interest rates at historically low levels through its targeted federal funds rate and the purchase of mortgage-backed securities. As a result, market rates on the loans we have originated and the yields on securities we have purchased have been at historically lower levels. As a general matter, our interest-bearing liabilities reprice or mature more quickly than our interest-earning assets, which has been a contributing factor to increases in net interest income in the short term. Our ability to further lower our interest expense is limited as these interest rate levels already are at very low levels, while the average yield on our interest-earning assets are expected to continue to decrease. The FRB has indicated its intention to maintain low interest rates in the future. Accordingly, our net interest income (the difference between interest income earned on assets and interest expense paid on liabilities) is likely to decrease, which is expected to have an adverse effect on our profitability.

### **Government responses to economic conditions may adversely affect our operations, financial condition and earnings.**

The Dodd-Frank Act has changed the bank regulatory framework, created an independent consumer protection bureau that has assumed the consumer protection responsibilities of the various federal banking agencies, and established more stringent capital as standards for banks and bank holding companies. Bank regulatory agencies also have been responding aggressively to concerns and adverse trends identified in examinations. Ongoing uncertainty and adverse developments in the financial services industry and the domestic and international credit markets, and the effect of the Dodd-Frank Act and regulatory actions, may adversely affect our operations by restricting our business activities, including our ability to originate or sell loans, modify loan terms or foreclose on property securing loans. These risks could affect the performance and value of our loan and investment securities portfolios, which also would negatively affect our financial performance.

### **Our goodwill may be determined to be impaired at a future date depending on the results of periodic impairment tests.**

We test goodwill for impairment annually, or more frequently if necessary. According to applicable accounting requirements, acceptable valuation methods include present-value measurements based on multiples of earnings or revenues, or similar performance measures. If the quoted market price of our common stock were to decline significantly, or if it was determined that the carrying amount of our goodwill exceeded its implied fair value, we would be required to write down the asset recorded for goodwill. This, in turn, would result in a charge to earnings and, thus, a reduction in shareholders' equity. See Notes 2 and 8 to the Consolidated Financial Statements for additional information concerning our goodwill and the required impairment test.

### **A failure in our operational systems or infrastructure, or those of third parties, could impair our liquidity, disrupt our businesses, result in the unauthorized disclosure of confidential information, damage our reputation and cause financial losses.**

Our ability to adequately conduct and grow our business is dependent on our ability to create and maintain an appropriate operational and organizational control infrastructure. Operational risk can arise in numerous ways including employee fraud, customer fraud, and control lapses in bank operations and information technology. Our dependence on our employees and automated systems, including the automated systems used by acquired entities and third parties, to record and process transactions may further increase the risk that technical failures or tampering of those systems will result in losses that are difficult to detect. We are also subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control. Failure to maintain an appropriate operational infrastructure can lead to loss of service to customers, legal actions, and noncompliance with various laws and regulations.

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We continuously monitor our operational and technological capabilities and make modifications and improvements when we believe it will be cost effective to do so. In some instances, we may build and maintain these capabilities ourselves. We also outsource some of these functions to third parties. These third parties may experience errors or disruptions that could adversely impact us and over which we may have limited control. We also face risk from the integration of new infrastructure platforms and/or new third party providers of such platforms into its existing businesses.

### **Changes in accounting policies or in accounting standards could materially affect how we report our financial condition and results of operations.**

Our accounting policies are fundamental to the understanding of our financial condition and results of operations. The preparation of consolidated financial statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the financial statements by affecting the value of our assets or liabilities and results of operations. Some of our accounting policies are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain and because materially different amounts may be reported if different estimates or assumptions were used. If such estimates or assumptions underlying the financial statements are incorrect, we could experience material losses. From time to time, Financial Accounting Standards Board ( FASB ) and the SEC change the financial accounting and reporting standards or the interpretation of such standards that govern the preparation of our external financial statements. These changes are beyond our control, can be difficult to predict and could materially impact how we report our financial condition and results of operations. Additionally, it is possible, if unlikely, we could be required to apply a new or revised standard retrospectively, resulting in the restatement of prior period financial statements in material amounts.

### **We may be subject to losses due to fraudulent and negligent conduct of our loan customers, third party service providers and employees.**

When we make loans to individuals or entities, we rely upon information supplied by borrowers and other third parties, including information contained in the applicant's loan application, property appraisal reports, title information and the borrower's net worth, liquidity and cash flow information. While we attempt to verify information provided through available sources, we cannot be certain all such information is correct or complete. Our reliance on incorrect or incomplete information could have a material adverse effect on our financial condition or results of operations.

### **System failure or cybersecurity breaches of our network security could subject us to increased operating costs as well as litigation and other potential losses.**

We rely heavily on communications and information systems to conduct our business. The computer systems and network infrastructure we use could be vulnerable to unforeseen hardware and cybersecurity issues. Our operations are dependent upon our ability to protect our computer equipment against damage from fire, power loss, telecommunications failure or a similar catastrophic event. Any damage or failure that causes an interruption in our operations could have an adverse effect on our financial condition and results of operations. In addition, our operations are dependent upon our ability to protect the computer systems and network infrastructure we use, including our Internet banking activities, against damage from physical break-ins, cybersecurity breaches and other disruptive problems caused by the Internet or users. Such problems could jeopardize the security of our customers personal information and other information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us, subject us to additional regulatory scrutiny, damage our reputation, result in a loss of customers, or inhibit current and potential customers from our Internet banking services, any of all of which could have a material adverse effect on our results of operations and financial condition. Although we have security measures designed to mitigate the possibility of break-ins, breaches and other disruptive problems,

including firewalls and penetration testing, there can be no assurance that such security measures will be effective in preventing such problems.

**Item 1B. Unresolved Staff Comments.**

Not applicable.

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We currently conduct business from nine banking offices in Greater Lafayette, three banking offices in Baton Rouge, four banking offices in Greater New Orleans, six banking offices in the Northshore (of Lake Ponchartrain) region of Louisiana, three offices in Natchez, Mississippi and two offices in Vicksburg, Mississippi. The Bank owns 26 of its 27 banking offices. The Bank leases the land for one banking office in Covington and leases one banking office in Greater New Orleans.

**Item 3. Legal Proceedings.**

The Bank has been named as a defendant in various legal actions arising from normal business activities in which damages of various amounts are claimed. While the amount, if any, of ultimate liability with respect to such matters cannot be currently determined, management believes, after consulting with legal counsel, that any such liability will not have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**PART II****Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

(a) Home Bancorp, Inc.'s common stock is listed on the Nasdaq Global Select Market under the symbol "HBCP". The common stock commenced trading on the Nasdaq Stock Market on October 3, 2008. As of the close of business on December 31, 2013, there were 7,099,314 shares of common stock outstanding, held by approximately 838 shareholders of record, not including the number of persons or entities whose stock is held in nominee or "street" name through various brokerage firms and banks.

The following table sets forth the high and low prices of the Company's common stock as reported by the Nasdaq Stock Market and cash dividends declared per share for the periods indicated.

<b>For The Quarter Ended</b>	<b>High</b>	<b>Low</b>	<b>Cash Dividends Declared</b>
March 31, 2012	\$ 17.70	\$ 15.00	\$
June 30, 2012	\$ 17.50	\$ 16.00	\$
September 30, 2012	\$ 18.40	\$ 15.51	\$
December 31, 2012	\$ 19.95	\$ 16.76	\$
March 31, 2013	\$ 19.45	\$ 17.76	\$
June 30, 2013	\$ 18.92	\$ 16.90	\$
September 30, 2013	\$ 18.73	\$ 16.86	\$

December 31, 2013

\$ 19.26

\$ 17.27

\$

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The following graph demonstrates comparison of the cumulative total returns for the common stock of Home Bancorp, Inc., the NASDAQ Composite Index and the SNL Securities Bank and Thrift Index for the periods indicated. The graph assumes that an investor originally purchased shares on December 31, 2008, the first day that our shares were traded. The graph below represents \$100 invested in our common stock at its closing price on December 31, 2008.

Index	Period Ending					
	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13
Home Bancorp, Inc.	100.00	125.03	141.74	158.97	187.18	193.33
NASDAQ Composite	100.00	145.36	171.74	170.38	200.63	281.22
SNL Bank and Thrift	100.00	98.66	110.14	85.64	115.00	157.46

The stock price information shown above is not necessarily indicative of future price performance. Information used was obtained from SNL Financial LC, Charlottesville, Virginia. The Company assumes no responsibility for any errors or omissions in such information.

The Company did not sell any of its equity securities during 2013 that were not registered under the Securities Act of 1933.

For information regarding the Company's equity compensation plans, see Item 12.

(b) Not applicable.

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(c) On June 7, 2013, the Company's Board of Directors approved a share repurchase program authorizing management to repurchase up to 370,000 shares, or approximately 5%, of its common stock outstanding through open market or privately negotiated transactions. The Company's purchases of its common stock made during the fourth quarter of 2013 under the plan are set forth in the following table.

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet be Purchased Under the Plan or Programs</b>
October 1 - October 31, 2013		\$		168,123
November 1 - November 30, 2013	274	18.86	274	167,849
December 1 - December 31, 2013	126	18.52	126	167,723
<b>Total</b>	<b>400</b>	<b>\$ 18.75</b>	<b>400</b>	<b>167,723</b>

**Item 6. Selected Financial Data.**

Set forth below is selected summary historical financial and other data of the Company. When you read this summary historical financial data, it is important that you also read the historical financial statements and related notes contained in Item 8 of this Form 10-K, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations.

<i>(dollars in thousands)</i>	<b>As of December 31,</b>				
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Selected Financial Condition Data:</b>					
Total assets	\$ 984,241	\$ 962,926	\$ 963,789	\$ 700,423	\$ 524,636
Cash and cash equivalents	32,639	39,539	31,769	36,971	25,710
Interest-bearing deposits in banks	2,940	3,529	5,583	7,867	3,529
Investment securities:					
Available for sale	149,632	157,256	155,260	111,962	106,752
Held to maturity	9,405	1,665	3,462	15,220	13,099
Loans receivable, net	700,538	667,809	661,267	435,992	333,296
Deposits	741,312	771,429	730,734	553,218	371,593
FHLB advances	97,000	46,257	93,623	13,000	16,774
Shareholders' equity	141,910	141,574	134,285	131,530	132,749





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<i>(dollars in thousands, except per share data)</i>	<b>For the Years Ended December 31,</b>				
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Selected Operating Data:</b>					
Interest income	\$ 43,721	\$ 46,122	\$ 38,435	\$ 33,659	\$ 29,897
Interest expense	3,503	4,914	5,217	5,881	6,337
Net interest income	40,218	41,208	33,218	27,778	23,560
Provision for loan losses	3,653	2,411	1,460	865	865
Net interest income after provision for loan losses	36,565	38,797	31,758	26,913	22,695
Noninterest income	7,670	7,761	7,000	4,470	2,264
Noninterest expense	33,205	32,763	31,003	24,351	17,970
Income before income taxes	11,030	13,795	7,755	7,032	6,989
Income taxes	3,736	4,605	2,635	2,344	2,309
Net income	\$ 7,294	\$ 9,190	\$ 5,120	\$ 4,688	\$ 4,680
Earnings per share - basic	\$ 1.11	\$ 1.33	\$ 0.72	\$ 0.62	\$ 0.58
Earnings per share - diluted	\$ 1.06	\$ 1.28	\$ 0.71	\$ 0.62	\$ 0.58
Cash dividends per share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

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	As of or For the Years Ended December 31,				
	2013	2012	2011	2010	2009
<b>Selected Operating Ratios: <sup>(1)</sup></b>					
Average yield on interest-earnings assets (TE)	5.06%	5.36%	5.37%	5.62%	6.00%
Average rate on interest-bearing liabilities	0.54	0.72	0.90	1.29	1.93
Average interest rate spread (TE) <sup>(2)</sup>	4.52	4.64	4.47	4.33	4.07
Net interest margin (TE) <sup>(3)</sup>	4.65	4.79	4.64	4.64	4.73
Average interest-earning assets to average interest-bearing liabilities	132.63	126.81	124.18	131.52	152.02
Noninterest expense to average assets	3.45	3.38	3.77	3.55	3.40
Efficiency ratio <sup>(4)</sup>	69.34	66.91	77.09	75.51	69.59
Return on average assets	0.76	0.95	0.62	0.68	0.88
Return on average equity	5.14	6.60	3.88	3.56	3.58
Average equity to average assets	14.74	14.38	16.01	19.44	24.68
<b>Asset Quality Ratios: <sup>(5)</sup> <sup>(6)</sup></b>					
Non-performing loans as a percent of total loans receivable	2.87%	1.97%	1.82%	0.29%	0.38%
Non-performing assets as a percent of total assets	2.20	1.76	1.55	0.19	0.32
Allowance for loan losses as a percent of non-performing loans as of end of period	35.16	43.01	45.92	371.2	262.2
Allowance for loan losses as a percent of net loans as of end of period	1.01	0.85	0.83	1.09	1.00
<b>Capital Ratios: <sup>(5)</sup> <sup>(7)</sup></b>					
Tier 1 risk-based capital ratio	20.84%	20.97%	20.34%	22.85%	29.86%
Leverage capital ratio	14.17	13.67	12.53	15.46	20.24
Total risk-based capital ratio	21.88	21.83	21.13	23.65	30.74

- (1) With the exception of end-of-period ratios, all ratios are based on average monthly balances during the respective periods.
- (2) Average interest rate spread represents the difference between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities.
- (3) Net interest margin represents net interest income as a percentage of average interest-earning assets. Taxable equivalent yields are calculated using a marginal tax rate of 35%.
- (4) The efficiency ratio represents noninterest expense as a percentage of total revenues. Total revenues is the sum of net interest income and noninterest income.
- (5) Asset quality and capital ratios are end of period ratios.
- (6) Asset quality ratios exclude assets covered under FDIC loss sharing agreements. At December 31, 2013, Covered Loans and Assets totaled \$21.7 million and \$24.9 million, respectively, compared to \$45.8 million and \$48.4 million, respectively, of Covered Loans and Covered Assets at December 31, 2012, \$61.1 million and \$67.1 million, respectively, of Covered Loans and Covered Assets at December 31, 2011 and \$80.4 million and \$86.1 million, respectively, of Covered Loans and Covered Assets at December 31, 2010. At December 31, 2013, 2012, 2011 and 2010, \$5.1 million, \$9.6 million, \$10.5 million and \$16.0 million, respectively, of Covered Loans were contractually not performing. In addition, we had \$3.2 million, \$2.7 million, \$6.1 million and \$5.7 million, respectively, in Covered Assets which were repossessed assets at December 31, 2013, 2012, 2011 and 2010, respectively, and which are excluded from the asset quality ratios above. Nonperforming loans consist of nonaccruing loans and loans 90 days or more past due. Nonperforming assets consist of nonperforming loans and

repossessed assets. It is our policy to cease accruing interest on all loans 90 days or more past due. Repossessed assets consist of assets acquired through foreclosure or acceptance of title in-lieu of foreclosure. For information on our asset quality ratios including Covered Assets, see pages 28 and 29.

(7) Capital ratios are for Home Bank only.

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**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following is an analysis and discussion of the financial condition and results of operations of Home Bancorp, Inc. (the Company), and its wholly owned subsidiary, Home Bank (the Bank). This discussion and analysis should be read in conjunction with our Consolidated Financial Statements and related notes included herein in Part II, Item 8, Financial Statements and Supplementary Data and the description of our business included herein in Part 1, Item 1 Business.

**EXECUTIVE OVERVIEW**

Net income for 2013 totaled \$7.3 million, a decrease of 20.6% from the \$9.2 million earned in 2012. Diluted earnings per share for 2013 were \$1.06, a decrease of 17.2% from the \$1.28 earned in 2012. Key components of the Company's performance in 2013 are summarized below.

Loans as of December 31, 2013 were \$707.5 million, an increase of \$34.3 million, or 5.1%, from December 31, 2012. Loan growth during the year was primarily related to commercial real estate loans (up \$17.0 million), construction and land loans (up \$7.7 million), consumer loans (up \$5.5 million) and commercial and industrial loans (up \$5.3 million). As of December 31, 2013, Covered Loans totaled \$21.7 million, a decrease of \$24.1 million, or 52.6%, from December 31, 2012.

Total customer deposits as of December 31, 2013 were \$741.3 million, a decrease of \$30.1 million, or 3.9%, from December 31, 2012. The decrease in deposits was driven primarily by certificates of deposit (down \$60.5 million), which was partially offset by growth in demand deposit (up \$22.0 million) and savings (up \$5.2 million) accounts.

Interest income decreased \$2.4 million, or 5.2%, in 2013 compared to 2012. The decrease was primarily due to decreases in the average yield on loans.

Interest expense decreased \$1.4 million, or 28.7%, in 2013 compared to 2012. The decrease was primarily due to lower rates paid on interest-bearing liabilities as the result of reduced market rates and an improved mix of interest-bearing liabilities.

The Company purchased 347,713 shares of its common stock during 2013 at an average price per share of \$18.09. As of December 31, 2013, an additional 167,723 shares remain eligible for purchase under the share repurchase plan announced in June 2013.

The provision for loan losses totaled \$3.7 million in 2013, 51.5% higher than the \$2.4 million recorded in 2012. The elevated level of provision resulted primarily from a \$1.7 million charge-off on a \$1.9 million accounts receivable line of credit. At December 31, 2013, the Company's ratio of allowance for loan losses to total loans

was 0.98%, compared to 0.79% at December 31, 2012. Excluding acquired loans, the ratio of the allowance for loan losses to total organic loans was 1.12% at December 31, 2013 compared to 1.01% at December 31, 2012. Net charge-offs for 2013 were \$2.1 million, or 0.29% of total loans, compared to \$2.2 million, or 0.33%, in 2012.

Noninterest income decreased \$91,000, or 1.2%, in 2013 compared to 2012. The decrease was primarily the result of lower gains on the sale of mortgage loans (down \$410,000) and less accretion on the FDIC Asset (down \$148,000), which were partially offset by increases in service fees and charges (up \$236,000), higher gains on sale of securities (up \$206,000) and other income (up \$140,000 primarily as a result of recoveries on the acquired GSFC loan portfolio).

Noninterest expense increased \$442,000, or 1.3%, in 2013 compared to 2012. Noninterest expense for 2013 includes merger-related expenses of \$307,000. Excluding merger-related expenses, the increase in noninterest expense was primarily the result of higher compensation and benefits (up \$642,000), occupancy expenses (up \$248,000), other expenses (up \$161,000 primarily due to penalties incurred in prepaying long-term FHLB borrowings) and which were offset by decreases in expenses on foreclosed assets (down \$528,000), data processing and communications (down \$359,000) and professional services (down \$115,000).

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**Table of Contents****ACQUISITION ACTIVITY**

On February 14, 2014, the Company completed its acquisition of Britton & Koontz Capital Corporation ( Britton & Koontz ), the former holding company of Britton & Koontz Bank, N.A. ( Britton & Koontz Bank ) of Natchez, Mississippi. Shareholders of Britton & Koontz received \$16.14 per share in cash, yielding an aggregate purchase price of \$34,500,000. As a result of the acquisition, five former Britton & Koontz branches in west Mississippi were added to the Bank's branch office network, net of two former Britton & Koontz banking offices that were closed or consolidated in March 2014. The combined company has total assets of approximately \$1.2 billion, \$870 million in loans and \$960 million in deposits. See Note 22 to the Consolidated Financial Statements for additional information concerning our recent acquisition.

On July 15, 2011, the Company acquired GSFC, the former holding company of Guaranty of Metairie, Louisiana. Shareholders of GSFC received \$21.00 per share in cash, yielding an aggregate purchase price of \$26,417,000. As a result of the acquisition, the four former Guaranty branches in the Greater New Orleans area were added to the Bank's branch office network. Assets acquired from GSFC totaled \$256.7 million, which included loans of \$182.4 million, investment securities of \$46.5 million and cash of \$9.3 million. The Bank also recorded a core deposit intangible asset of \$859,000 and goodwill of \$354,000 relating to the acquisition of GSFC, and assumed liabilities of \$230.6 million, which included \$193.5 million in deposits and \$34.7 million in FHLB advances.

On March 12, 2010, the Bank acquired certain assets and liabilities of the former Statewide Bank, a full-service community bank formerly headquartered in Covington, Louisiana, from the FDIC. As a result of the Statewide acquisition, the Bank's branch office network was expanded to include six branches in the Northshore (of Lake Pontchartrain) region of Louisiana. Assets acquired in the Statewide transaction totaled \$188.0 million, which included loans of \$110.4 million, investment securities of \$24.8 million and cash of \$11.6 million. In addition, the Bank recorded a FDIC Asset, representing the portion of estimated losses covered by loss sharing agreements between the Bank and the FDIC, of \$34.4 million. The loss sharing agreements between the Bank and the FDIC afford us significant protection against future losses in the loan portfolio ( Covered Loans ) and repossessed assets (collectively referred to as Covered Assets ) acquired in the Statewide transaction. The Bank also recorded a core deposit intangible asset of \$1.4 million and goodwill of \$560,000 relating to the Statewide acquisition, and assumed liabilities of \$223.9 million, which included \$206.9 million in deposits and \$16.8 million in FHLB advances.

**CRITICAL ACCOUNTING POLICIES**

The accounting and financial reporting policies of the Company conform GAAP and to general practices within the banking industry. Accordingly, the financial statements require certain estimates, judgments and assumptions, which are believed to be reasonable, based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses during the periods presented. The following accounting policies comprise those that management believes are the most critical to aid in fully understanding and evaluating our reported financial results. These policies require numerous estimates or economic assumptions that may prove inaccurate or may be subject to variations which may significantly affect our reported results and financial condition for the period or in future periods.

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*Allowance for Loan Losses.* The allowance for loan losses on loans in our portfolio is maintained at an amount which management determines covers the reasonably estimable and probable losses on such portfolio. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. Subsequent recoveries are added to the allowance. The allowance is an amount that represents the amount of probable and reasonably estimable known and inherent losses in the loan portfolio, based on evaluations of the collectability of loans. The evaluations take into consideration such factors as changes in the types and amount of loans in the loan portfolio, historical loss experience, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, estimated losses relating to specifically identified loans and current economic conditions. This evaluation is inherently subjective as it requires material estimates including, among others, exposure to default, the amount and timing of expected future cash flows on loans, value of collateral, estimated losses on our commercial and residential loan portfolios as well as consideration of general loss experience. All of these estimates may be susceptible to significant change.

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

Acquired loans from the Statewide and GSFC transactions were recorded at fair value at the date of acquisition with no carryover of the allowance for loan losses. As of December 31, 2013, our allowance for loan losses included \$248,000 allocated to acquired loans with deteriorated credit quality. Our accounting policy for acquired loans is described below.

*Accounting for Loans.* 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 at December 31, 2013 and 2012 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

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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 Bank's 2010 acquisition of certain assets and liabilities of Statewide Bank are covered by loss share agreements between the FDIC and the Bank that afford the Bank 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.

*Income Taxes.* We make estimates and judgments to calculate some of our tax liabilities and determine the recoverability of some of our deferred tax assets, which arise from temporary differences between the tax and financial statement recognition of revenues and expenses. We also estimate a valuation allowance for deferred tax assets if, based on the available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. These estimates and judgments are inherently subjective. Historically, our estimates and judgments to calculate our deferred tax accounts have not required significant revision to our initial estimates.

In evaluating our ability to recover deferred tax assets, we consider all available positive and negative evidence, including our past operating results, recent cumulative losses and our forecast of future taxable income. In

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determining future taxable income, we make assumptions for the amount of taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require us to make judgments about our future taxable income and are consistent with the plans and estimates we use to manage our business. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in the period and could have a significant impact on our future earnings.

*Other-than-temporary Impairment of Investment Securities.* Securities are evaluated periodically to determine whether a decline in their fair value is other-than-temporary. The term *other-than-temporary* is not intended to indicate a permanent decline in value. Rather, it means that the prospects for near term recovery of value are not necessarily favorable, or that there is a lack of evidence to support fair values equal to, or greater than, the carrying value of the investment. Management reviews criteria such as the magnitude and duration of the decline, the reasons for the decline and the performance and valuation of the underlying collateral, when applicable, to predict whether the loss in value is other-than-temporary and the intent and ability of the Company to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value. Once a decline in value is determined to be other-than-temporary, the carrying value of the security is reduced to its fair value and a corresponding charge to earnings is recognized for the decline in value determined to be credit related. The decline in value attributable to noncredit factors is recognized in other comprehensive income.

*Stock-based Compensation.* The Company accounts for its stock options in accordance with ASC Topic 718, *Compensation - Stock Compensation*. ASC 718 requires companies to expense the fair value of employee stock options and other forms of stock-based compensation. Management utilizes the Black-Scholes option valuation model to estimate the fair value of stock options. The option valuation model requires the input of highly subjective assumptions, including expected stock price volatility and option life. These subjective input assumptions materially affect the fair value estimate.

**FINANCIAL CONDITION****Loans, Loan Quality and Allowance for Loan Losses**

**Loans** The types of loans originated by the Company are subject to federal and state laws and regulations. Interest rates charged on loans are affected principally by the demand for such loans and the supply of money available for lending purposes and the rates offered by our competitors. These factors are, in turn, affected by general and economic conditions, the monetary policy of the federal government, including the FRB, legislative tax policies and governmental budgetary matters.

The Company's lending activities are subject to underwriting standards and loan origination procedures established by our Board of Directors and management. Loan originations are obtained through a variety of sources, primarily existing customers as well as new customers obtained from referrals and local advertising and promotional efforts. Single-family residential mortgage loan applications and consumer loan applications are taken at any of the Bank's branch offices. Applications for other loans typically are taken personally by one of our loan officers, although they may be received by a branch office initially and then referred to a loan officer. All loan applications are processed and underwritten centrally at the Bank's main office.

The loans and repossessed assets that were acquired from Statewide are covered by loss sharing agreements between the FDIC and the Bank, which affords the Bank significant loss protection. As a result of the loss coverage provided by the FDIC, the risk of loss on the Covered Assets is significantly different from those assets not covered under the loss share agreements. As of their acquisition date, Covered Assets were recorded at their fair value, which included

an estimate of credit losses. Asset quality information on Covered Assets is reported before consideration of applied loan discounts, as these discounts were recorded based on the estimated cash flow of the total loan pool and not on a specific loan basis. Because of the loss share agreements, balances disclosed below are for general comparative purposes only and do not represent the Company's risk of loss on Covered Assets. Because these assets are covered by the loss share agreements with the FDIC during the periods specified in the loss sharing agreements, the FDIC will 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. Losses on non-residential Covered Loans are covered during the five-year period subsequent to the acquisition date; while residential Covered Loans are covered for 10 years.

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The following table summarizes the changes in the carrying amount of Covered Loans, net of the allowance for losses on Covered Loans, and accretable yield on those loans for the years ended December 31, 2013, 2012, 2011 and 2010.

<i>(dollars in thousands)</i>	December 31,							
	2013		2012		2011		2010	
	Carrying Amount, Net	Accretable Yield	Carrying Amount, Net	Accretable Yield	Carrying Amount, Net	Accretable Yield	Carrying Amount, Net	Accretable Yield
Balance beginning of year	\$ 45,764	\$ (3,973)	\$ 61,020	\$ (8,550)	\$ 80,447	\$ (5,505)	\$	\$
Addition from FDIC-assisted transactions							110,418	(11,110)
Accretion	(5,417)	5,417	(4,613)	4,613	(5,170)	5,170	(5,605)	5,605
Payments received	(18,720)		(6,885)		(14,354)		(13,623)	
Other principal reduction	(1,241)		(2,355)		(4,135)		(5,686)	
Net increase in expected cash flows	3,578	(3,578)	36	(36)	8,215	(8,215)		
Transfers to repossessed assets	(2,290)		(1,489)		(3,933)		(5,057)	
Provision for losses on Covered Loans			50		(50)			
Balance end of year	\$ 21,674	\$ (2,134)	\$ 45,764	\$ (3,973)	\$ 61,020	\$ (8,550)	\$ 80,447	\$ (5,505)

In addition to Covered Loans, our Covered Assets included \$3.2 million, \$2.7 million, \$6.1 million and \$5.7 million, respectively, of repossessed assets at December 31, 2013, 2012, 2011 and 2010.

The following tables show the composition of the Company's loan portfolio as of the dates indicated.

<i>(dollars in thousands)</i>	December 31,				
	2013	2012	2011	2010	2009
Real estate loans:					
One- to four-family first mortgage	\$ 179,506	\$ 177,816	\$ 182,817	\$ 122,614	\$ 120,044
Home equity loans and lines	40,561	40,425	43,665	30,915	24,678
Commercial real estate	269,849	252,805	226,999	150,824	97,513
Construction and land	83,271	75,529	78,994	57,538	35,364
Multi-family residential	16,578	19,659	20,125	5,718	4,089
Total real estate loans	589,765	566,234	552,600	367,609	281,688

## Other loans:

Commercial and industrial	77,533	72,253	82,980	48,410	38,340
Consumer	40,158	34,641	30,791	23,892	16,619
<b>Total other loans</b>	<b>117,691</b>	<b>106,894</b>	<b>113,771</b>	<b>72,302</b>	<b>54,959</b>
<b>Total loans</b>	<b>\$ 707,456</b>	<b>\$ 673,128</b>	<b>\$ 666,371</b>	<b>\$ 439,911</b>	<b>\$ 336,647</b>

Loan growth in 2013 was related primarily to commercial real estate and construction and land loans, which were up \$17.0 million and \$7.7 million, respectively, during the year. Other loans, which include consumer and commercial and industrial loans, were up \$5.5 million and \$5.3 million in 2013. This growth was partially offset by a decrease of \$3.1 million in multi-family residential loans. Covered Loans totaled \$21.7 million as of December 31, 2013, a decrease of \$24.1 million, or 52.6%, compared to December 31, 2012. The decrease in the Covered Loan portfolio was primarily the result of principal repayments.

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The following table reflects contractual loan maturities as of December 31, 2013, unadjusted for scheduled principal reductions, prepayments or repricing opportunities. Of the \$541.8 million in loans which have contractual maturity dates subsequent to December 31, 2014, \$464.6 million have fixed interest rates and \$77.1 million have floating or adjustable interest rates.

<i>(dollars in thousands)</i>	<b>Due In</b>			<b>Total</b>
	<b>One year or less</b>	<b>One through five years</b>	<b>More than five years</b>	
One- to four-family first mortgage	\$ 20,768	\$ 41,299	\$ 117,439	\$ 179,506
Home equity loans and lines	7,406	11,221	21,934	40,561
Commercial real estate	34,182	151,415	84,252	269,849
Construction and land	56,111	22,647	4,513	83,271
Multi-family residential	5,169	7,405	4,004	16,578
Commercial and industrial	38,909	32,750	5,874	77,533
Consumer	3,140	6,095	30,923	40,158
Total	\$ 165,685	\$ 272,832	\$ 268,939	\$ 707,456

**Loan 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.

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 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 December 31, 2013 and 2012, impaired loans, loans individually evaluated for impairment, excluding Acquired Loans, amounted to \$2.6 million and \$5.5 million, respectively. As of December 31, 2013 and 2012, substandard loans, excluding Acquired Loans, amounted to \$13.5



million and \$7.2 million, respectively. The amount of the allowance for loan losses allocated to originated impaired or substandard loans totaled \$482,000 and \$183,000 as of December 31, 2013 and 2012, respectively. There were no assets classified as doubtful or loss as of December 31, 2013 and 2012.

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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 analyze all significant factors that affect the collectability of the portfolio in a reasonable manner; and that management establish 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 allowances for loan losses may become necessary.

The following table sets forth the composition of the Company's total nonperforming assets, including Covered Assets, and troubled debt restructurings as of the dates indicated.

<i>(dollars in thousands)</i>	<b>December 31,</b>				
	<b>2013<sup>(1)</sup></b>	<b>2012<sup>(2)</sup></b>	<b>2011<sup>(3)</sup></b>	<b>2010<sup>(4)</sup></b>	<b>2009</b>
Nonaccrual loans:					
Real estate loans:					
One- to four-family first mortgage	\$ 7,617	\$ 7,260	\$ 8,526	\$ 5,734	\$ 864
Home equity loans and lines	723	284	857	271	362
Commercial real estate	7,117	6,984	7,891	3,287	
Construction and land	1,831	4,113	2,624	4,234	
Multi-family residential	2,248	1,327			
Other loans:					
Commercial and industrial	4,835	1,916	1,382	3,359	38
Consumer	388	63	187	159	15
Total nonaccrual loans	24,759	21,947	21,467	17,044	1,279
Accruing loans 90 days or more past due					
Total nonperforming loans	24,759	21,947	21,467	17,044	1,279

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Foreclosed property	4,566	6,454	8,964	5,753	417
Total nonperforming assets	29,325	28,401	30,431	22,797	1,696
Performing troubled debt restructurings	430	1,114	598	721	556
Total nonperforming assets and troubled debt restructurings	\$ 29,755	\$ 29,515	\$ 31,029	\$ 23,518	\$ 2,252
Nonperforming loans to total loans	3.50%	3.26%	3.22%	3.87%	0.38%
Nonperforming loans to total assets	2.52%	2.28%	2.23%	2.43%	0.24%
Nonperforming assets to total assets	2.98%	2.95%	3.16%	3.25%	0.32%

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- 1) Includes \$8.2 million in Covered Assets acquired from Statewide and \$14.1 million of assets acquired from GSFC. Excluding acquired loans and assets, ratios for nonperforming loans to total loans, nonperforming loans to total assets and nonperforming assets to total assets were 1.17%, 0.80% and 0.81%, respectively, at December 31, 2013.
- 2) Includes \$12.3 million in Covered Assets acquired from Statewide and \$11.2 million of assets acquired from GSFC. Excluding acquired loans and assets, ratios for nonperforming loans to total loans, nonperforming loans to total assets and nonperforming assets to total assets were 0.43%, 0.28% and 0.62%, respectively, at December 31, 2012.
- 3) Includes \$16.6 million in Covered Assets acquired from Statewide and \$9.9 million of assets acquired from GSFC. Excluding acquired loans and assets, ratios for nonperforming loans to total loans, nonperforming loans to total assets and nonperforming assets to total assets were 0.85%, 0.51% and 0.54%, respectively, at December 31, 2011.
- 4) Includes \$21.6 million in Covered Assets acquired from Statewide. Excluding Covered Loans and Covered Assets, ratios for nonperforming loans to total loans, nonperforming loans to total assets and nonperforming assets to total assets were 0.29%, 0.17% and 0.19%, respectively, at December 31, 2010.

Net charge-offs for 2013 were \$2.1 million, or 0.29% of total loans, compared to \$2.2 million, or 0.33%, in 2012. The elevated level of charge-offs during 2013 resulted primarily from a \$1.7 million partial charge-off on a \$2.0 million accounts receivable line of credit. In 2012, our charge-offs were due primarily to a \$1.7 million partial charge-off on a \$5.4 million commercial real estate loan.

Repossession 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.

**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. Our 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 rankings to segments of the loan portfolio. Such risk ratings are periodically reviewed by management and revised as deemed appropriate. These efforts are supplemented by independent reviews and validations performed by an independent loan reviewer. The results of the reviews are reported directly to the Audit Committee of the Board of Directors. The establishment of the allowance for loan losses is significantly affected by management judgment and uncertainties and there is a 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

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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.

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 for loan losses. As of December 31, 2013, \$248,000 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 dictate. 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 for the years indicated.

<i>(dollars in thousands)</i>	<b>For the Years Ended December 31,</b>				
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Balance, beginning of year	\$ 5,319	\$ 5,104	\$ 3,920	\$ 3,352	\$ 2,606
Provision charged to operations	3,653	2,411	1,460	865	865
Loans charged off:					
One- to four-family first mortgage	112				
Home equity loans and lines		32		174	66
Commercial real estate		1,980		65	
Construction and land	44	215			
Multi-family residential					
Commercial and industrial	1,990	60	281	106	21
Consumer	9	38	53	24	54
Recoveries on charged off loans	101	129	58	72	22
Balance, end of year	\$ 6,918	\$ 5,319	\$ 5,104	\$ 3,920	\$ 3,352

At December 31, 2013, the Company's ratio of allowance for loan losses to total loans was 0.98%, compared to 0.79% at December 31, 2012. Excluding acquired loans, the ratio of allowance for loan losses to total organic loans was 1.12% at December 31, 2013, compared to 1.01% at December 31, 2012. Expected cash flows related to the acquired GSFC one- to four-family first mortgage loans, home equity loans and lines and commercial real estate decreased; therefore, an allowance for loan losses of \$248,000 was recorded to cover additional expected losses in this portfolio. Ongoing evaluations of the acquired loan portfolios may result in additional provisions for acquired loans.

The following table presents the allocation of the allowance for loan losses as of December 31 of the years indicated.

<i>(dollars in thousands)</i>	<b>2013</b>		<b>2012</b>		<b>December 31, 2011</b>		<b>2010</b>		<b>2009</b>	
	<b>Amount</b>	<b>% Loans</b>	<b>Amount</b>	<b>% Loans</b>	<b>Amount</b>	<b>% Loans</b>	<b>Amount</b>	<b>% Loans</b>	<b>Amount</b>	<b>% Loans</b>

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One- to four-family first mortgage	\$ 1,088	25.4%	\$ 982	26.4%	\$ 778	27.4%	\$ 641	27.9%	\$ 383	35.7%
Home equity loans and lines	424	5.7	343	6.0	336	6.6	296	7.0	351	7.3
Commercial real estate	2,528	38.1	2,040	37.6	1,755	34.1	1,258	34.3	961	29.0
Construction and land	977	11.8	785	11.2	904	11.9	666	13.1	670	10.5
Multi-family	90	2.3	86	2.9	64	3.0	46	1.3	38	1.2
Commercial and industrial	1,338	11.0	683	10.7	922	12.4	746	11.0	738	11.4
Consumer	473	5.7	400	5.2	345	4.6	267	5.4	211	4.9
Total	\$ 6,918	100.0%	\$ 5,319	100.0%	\$ 5,104	100.0%	\$ 3,920	100.0%	\$ 3,352	100.0%

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The Company invests in securities pursuant to our Investment Policy, which has been approved by our Board of Directors. The Investment Policy is designed primarily to manage the interest rate sensitivity of our assets and liabilities, to generate a favorable return without incurring undue interest rate or credit risk and to provide and maintain liquidity. The Asset-Liability Committee (ALCO), comprised of the Chief Executive Officer, Chief Financial Officer, Chief Banking Officer, Chief Credit Officer, Chief Operations Officer, Director of Financial Reporting and Treasurer, monitors investment activity and ensures that investments are consistent with the Investment Policy. The Board of Directors of the Company reviews investment activity monthly.

The investment securities portfolio increased by an aggregate of \$116,000, or 0.1%, during 2013. Securities available for sale made up 94.0% of the investment securities portfolio as of December 31, 2013. The following table sets forth the amortized cost and market value of our investment securities portfolio as of the dates indicated.

<i>(dollars in thousands)</i>	2013		December 31, 2012		2011	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
<b>Available for sale:</b>						
U.S. agency mortgage-backed	\$ 96,145	\$ 96,785	\$ 99,137	\$ 102,513	\$ 113,692	\$ 116,529
Non-U.S. agency mortgage-backed	9,765	9,749	12,426	12,668	14,833	13,679
Municipal bonds	19,879	19,799	16,843	17,585	11,598	12,221
U.S. government agency	23,543	23,299	23,944	24,490	12,521	12,831
<b>Total available for sale</b>	<b>149,332</b>	<b>149,632</b>	<b>152,350</b>	<b>157,256</b>	<b>152,644</b>	<b>155,260</b>
<b>Held to maturity:</b>						
U.S. agency mortgage-backed	132	133	693	706	2,289	2,338
Municipal bonds	9,273	9,142	972	1,040	1,173	1,237
<b>Total held to maturity</b>	<b>9,405</b>	<b>9,275</b>	<b>1,665</b>	<b>1,746</b>	<b>3,462</b>	<b>3,575</b>
<b>Total investment securities</b>	<b>\$ 158,737</b>	<b>\$ 158,907</b>	<b>\$ 154,015</b>	<b>\$ 159,002</b>	<b>\$ 156,106</b>	<b>\$ 158,835</b>

The following table sets forth the fixed versus adjustable rate profile of the investment securities portfolio as of the dates indicated. All amounts are shown at amortized cost.

<i>(dollars in thousands)</i>	December 31,		
	2013	2012	2011
<b>Fixed rate:</b>			
Available for sale	\$ 87,974	\$ 64,757	\$ 55,633
Held to maturity	9,405	1,665	3,462



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Total fixed rate	97,379	66,422	59,095
<b>Adjustable rate:</b>			
Available for sale	61,358	87,593	97,011
Held to maturity			
Total adjustable rate	61,358	87,593	97,011
Total investment securities	\$ 158,737	\$ 154,015	\$ 156,106

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The following table sets forth the amount of investment securities which mature during each of the periods indicated and the weighted average yields for each range of maturities as of December 31, 2013. No tax-exempt yields have been adjusted to a tax-equivalent basis. All amounts are shown at amortized cost.

<i>(dollars in thousands)</i>	<b>Amounts as of December 31, 2013 which mature in:</b>				
	<b>One Year or Less</b>	<b>One Year to Five Years</b>	<b>Five to Ten Years</b>	<b>Over Ten Years</b>	<b>Total</b>
<b>Available for sale:</b>					
U.S. agency mortgage-backed	\$ 108	\$ 214	\$ 15,696	\$ 80,127	\$ 96,145
Non-U.S. agency mortgage-backed				9,765	9,765
Municipal bonds	503	4,743	11,761	2,872	19,879
U.S. government agency	2,500	5,225	10,990	4,828	23,543
<b>Total available for sale</b>	<b>3,111</b>	<b>10,182</b>	<b>38,447</b>	<b>97,592</b>	<b>149,332</b>
<b>Weighted average yield</b>	<b>1.55%</b>	<b>1.86%</b>	<b>1.68%</b>	<b>2.19%</b>	<b>2.02%</b>
<b>Held to maturity:</b>					
U.S. agency mortgage-backed	132				132
Municipal bonds	215	756	7,041	1,261	9,273
<b>Total held to maturity</b>	<b>347</b>	<b>756</b>	<b>7,041</b>	<b>1,261</b>	<b>9,405</b>
<b>Weighted average yield</b>	<b>3.23%</b>	<b>3.85%</b>	<b>1.72%</b>	<b>2.07%</b>	<b>2.00%</b>
<b>Total investment securities</b>	<b>\$ 3,458</b>	<b>\$ 10,938</b>	<b>\$ 45,488</b>	<b>\$ 98,853</b>	<b>\$ 158,737</b>

The following table summarizes activity in the Company's investment securities portfolio during 2013.

<i>(dollars in thousands)</i>	<b>Available for Sale</b>	<b>Held to Maturity</b>
Balance, December 31, 2012	\$ 157,256	\$ 1,665
Purchases	34,548	8,383
Sales	(7,277)	
Principal maturities, prepayments and calls	(29,285)	(562)
Amortization of premiums and accretion of discounts	(1,004)	(81)
Decrease in market value	(4,606)	
<b>Balance, December 31, 2013</b>	<b>\$ 149,632</b>	<b>\$ 9,405</b>

As of December 31, 2013, the Company had a net unrealized gain on its available for sale investment securities portfolio of \$300,000, compared to \$4.9 million as of December 31, 2012. During 2013, the Company sold an

aggregate of \$7.3 million of mortgage-backed securities at gains totaling \$428,000.

The Company maintains a portfolio of non-agency mortgage-backed securities, which had an amortized cost of \$9.8 million and \$12.4 million as of December 31, 2013 and 2012, respectively. The portfolio consists of 14 securities with a net unrealized loss of \$16,000 and \$242,000 as of December 31, 2013 and 2012, respectively.

The Company holds no Federal National Mortgage Association ( Fannie Mae ) or Federal Home Loan Mortgage Corporation ( Freddie Mac ) preferred stock, equity securities, corporate bonds, trust preferred securities, hedge fund investments, collateralized debt obligations or structured investment vehicles.

**Funding Sources**

**General** Deposits, loan repayments and prepayments, proceeds from investment securities sales, calls, maturities and paydowns, cash flows generated from operations and FHLB advances are our primary, ongoing sources of funds for use in lending, investing and for other general purposes.

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**Deposits** The Company offers a variety of deposit accounts with a range of interest rates and terms. Our deposits consist of checking, both interest-bearing and noninterest-bearing, money market, savings and certificate of deposit accounts.

The flow of deposits is influenced significantly by general economic conditions, changes in market interest rates and competition. Our deposits are obtained predominantly from the areas where our branch offices are located. We have historically relied primarily on a high level of customer service and long-standing relationships with customers to attract and retain deposits; however, market interest rates and rates offered by competitors significantly affect our ability to attract and retain deposits. The Company uses traditional means of advertising its deposit products, including broadcast and print media. The Company generally does not solicit deposits from outside our market area.

Total deposits were \$741.3 million as of December 31, 2013, a decrease of \$30.1 million, or 3.9%, compared to \$771.4 million as of December 31, 2012.

The Company experienced strong core deposit (i.e., checking, savings, money market and accounts) growth during 2013. Core deposits totaled \$548.9 million as of December 31, 2013, an increase of \$30.4 million, or 5.9%, compared to December 31, 2012. Certificate of deposits ( CD ) declined as higher-priced CDs matured. The following table sets forth the composition of the Company's deposits as of the dates indicated.

<i>(dollars in thousands)</i>	December 31,		Increase/(Decrease)	
	2013	2012	Amount	Percent
Demand deposit	\$ 174,475	\$ 152,462	\$ 22,013	14.4%
Savings	56,694	51,515	5,179	10.1
Money market	192,303	191,191	1,112	0.6
NOW	125,391	123,294	2,097	1.7
Certificates of deposit	192,449	252,967	(60,518)	(23.9)
Total deposits	\$ 741,312	\$ 771,429	\$ (30,117)	(3.9)%

The following table shows the average balance and average rate paid for each type of deposit for the periods indicated.

<i>(dollars in thousands)</i>	For the Years Ended December 31,								
	2013			2012			2011		
	Average Balance	Interest Expense	Average Rate Paid	Average Balance	Interest Expense	Average Rate Paid	Average Balance	Interest Expense	Average Rate Paid
Savings, checking and money market	\$ 376,205	\$ 967	0.26%	\$ 340,586	\$ 1,277	0.37%	\$ 272,513	\$ 1,372	0.50%
Certificates of deposit	225,464	2,077	0.92	271,717	2,951	1.09	239,583	3,254	1.36
Total interest -bearing deposits	\$ 601,669	\$ 3,044	0.51%	\$ 612,303	\$ 4,228	0.69%	\$ 512,096	\$ 4,626	0.90%

Certificates of deposit in the amount of \$100,000 and over decreased \$35.9 million, or 30.0%, from \$119.8 million as of December 31, 2012 to \$83.9 million as of December 31, 2013. The following table details the remaining maturity of large-denomination certificates of deposit of \$100,000 and over.

<i>(dollars in thousands)</i>	<b>December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
3 months or less	\$ 16,768	\$ 17,045	\$ 28,366
3 - 6 months	14,287	26,812	20,236
6 - 12 months	17,115	42,649	33,410
12 - 36 months	25,187	22,347	38,254
More than 36 months	10,506	10,913	10,151
Total certificates of deposit greater than \$100,000	\$ 83,863	\$ 119,766	\$ 130,417

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**Federal Home Loan Bank Advances** Advances from the FHLB may be obtained by the Company upon the security of the common stock it owns in the FHLB and certain of its real estate loans and investment securities, provided certain standards related to creditworthiness have been met. Such advances are made pursuant to several credit programs, each of which has its own interest rate and range of maturities. Advances from the FHLB may be either short-term, maturities of one year or less, or long-term, maturities in excess of one year.

Short-term FHLB advances totaled \$87.0 million as of December 31, 2013, an increase of \$77.0 million, or 770.0%, compared to \$10.0 million as of December 31, 2012.

Long-term FHLB advances totaled \$10.0 million as of December 31, 2013, a decrease of \$26.3 million, or 72.4%, compared to December 31, 2012.

**Shareholders Equity** Shareholders equity provides a source of permanent funding, allows for future growth and provides the Company with a cushion to withstand unforeseen adverse developments. As of December 31, 2013, shareholders equity totaled \$141.9 million, an increase of \$336,000, or 0.2%, compared to \$141.6 million as of December 31, 2012. The increase was primarily the result of a \$7.3 million increase in retained earnings, and an aggregate \$1.2 million increase in unearned common stock held by the employee stock ownership plan ( ESOP ) and 2009 Recognition and Retention Plan ( RRP ) as a result of shares vesting in the plans, which were offset by treasury stock purchases of \$6.3 million and a \$3.0 million decrease in other comprehensive income in 2013.

**RESULTS OF OPERATIONS**

The Company earned net income of \$7.3 million in 2013, a decrease of \$1.9 million compared to the \$9.2 million earned in 2012 and an increase of \$2.2 million compared to the \$5.1 million reported in 2011. Diluted earnings per share were \$1.06, \$1.28 and \$0.71 in 2013, 2012 and 2011, respectively.

**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. Our 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.

Net interest income totaled \$40.2 million in 2013, a decrease of \$1.0 million, or 2.4%, compared to the \$41.2 million earned in 2012. The decline was primarily due to a decrease in the average yield earned on loans. Interest expense decreased \$1.4 million, or 28.7%, over the same period. The decrease was primarily due to lower average rates paid on interest-bearing liabilities as the result of reduced market rates and an improved mix of interest-bearing liabilities.

In 2012, net interest income increased \$8.0 million, or 24.1%, compared to the \$33.2 million earned in 2011. This growth was due to a \$7.7 million, or 20.0%, increase in interest income resulting primarily from the full year impact of GSFC's earning assets (the Company acquired GSFC in July 2011) and an increase in the average yield earned on Covered Loans. Interest expense decreased \$303,000, or 5.8%, over the same period as the average rate paid on deposit accounts declined 21 basis points year over year. The decrease was primarily due to lower rates paid on interest-bearing liabilities as the result of reduced market rates and an improved mix of interest-bearing liabilities.

The Company's net interest spread was 4.52%, 4.66% and 4.47% for the years ended December 31, 2013, 2012 and 2011, respectively. The Company's net interest margin, which is net interest income as a percentage of average interest-earning assets, was 4.65%, 4.81% and 4.64% during the years ended December 31, 2013, 2012 and 2011, respectively.

In accordance with ASC 310, *Receivables*, the Company evaluates the expected cash flows of acquired loans throughout the year. As cash flow expectations related to Covered Loans change, the Company adjusts the accretable yield recognized on Covered Loans. These same cash flow expectations affect the level of FDIC Asset amortization recorded, which also impacts the yield recognized on Covered Loans. As a result of improved estimated cash flows on Covered Loans, which are expected to result in lower payments from the FDIC, the Company amortized \$1,817,000 of the FDIC Asset during 2013.

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The Covered Loan portfolio yielded 11.08%, 9.40% and 7.31% for the years ended December 31, 2013, 2012 and 2011, respectively. Excluding Covered Loans, the yield on loans would have been 5.65% at December 31, 2013, compared to 6.09% and 6.27% for the years ended December 31, 2012 and 2011, respectively. As of December 31, 2013, the Company had an FDIC Asset in the amount of \$12.7 million. The Company's remaining FDIC Asset consists of two primary components: Schedule A (single family residential mortgage and home equity loans) and Schedule B (all other Covered Loans). The FDIC Asset related to Schedule A loans totaled \$4.2 million at December 31, 2013. Schedule A loss share protection will expire in March 2020. The FDIC Asset related to Schedule B loans totaled \$8.5 million at December 31, 2013. Schedule B loss share protection will expire in March 2015. The level of FDIC Asset amortization recorded in future periods will depend on the level of cash payments received from the FDIC during the respective loss share periods. At the end of each loss share protection period, any portion of the FDIC Asset relating to that portion of our Covered Loans will be charged-off, which could have an adverse impact on our future reported earnings.

The following table sets forth, for the periods indicated, information regarding (i) the total dollar amount of interest income to 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%.

<i>(dollars in thousands)</i>	For the Years Ended December 31,								
	2013			2012			2011		
	Average Balance	Average Interest	Average Yield/ Rate	Average Balance	Average Interest	Average Yield/ Rate	Average Balance	Average Interest	Average Yield/ Rate
Interest-earning assets:									
Loans receivable <sup>(1)</sup>	\$ 679,593	\$ 40,536	5.91%	\$ 674,830	\$ 42,798	6.34%	\$ 539,956	\$ 34,605	6.41%
Investment securities (TE)	155,505	3,061	2.14	151,790	3,169	2.21	153,175	3,686	2.47
Other interest-earning assets	27,539	124	0.45	33,523	155	0.46	25,072	144	0.58
Total interest-earning assets (TE)	862,637	43,721	5.06	860,143	46,122	5.38	718,203	38,435	5.37
Noninterest-earning assets	99,998			108,081			105,154		
Total assets	\$ 962,635			\$ 968,224			\$ 823,357		
Interest-bearing liabilities:									
Deposits:									
Savings, checking and money market	\$ 376,205	\$ 967	0.26%	\$ 340,586	\$ 1,277	0.37%	\$ 272,513	\$ 1,372	0.50%
Certificates of deposit	225,464	2,077	0.92	271,717	2,951	1.09	239,583	3,254	1.36



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Total interest-bearing deposits	601,669	3,044	0.51	612,303	4,228	0.69	512,096	4,626	0.90
FHLB advances	48,738	459	0.94	65,983	686	1.04	66,264	591	0.89
Total interest-bearing liabilities	650,407	3,503	0.54	678,286	4,914	0.72	578,360	5,217	0.90
Noninterest-bearing liabilities	170,353			150,665			113,194		
Total liabilities	820,760			828,951			691,554		
Shareholders equity	141,875			139,273			131,803		
Total liabilities and shareholders equity	\$ 962,635			\$ 968,224			\$ 823,357		
Net interest-earning assets	\$ 212,230			\$ 181,857			\$ 139,843		
Net interest income; net interest spread (TE)		\$ 40,218	4.52%		\$ 41,208	4.66%		\$ 33,218	4.47%
Net interest margin (TE)			4.65%			4.81%			4.64%

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

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

<i>(dollars in thousands)</i>	<b>2013 Compared to 2012 Change Attributable To</b>			<b>2012 Compared to 2011 Change Attributable To</b>		
	<b>Rate</b>	<b>Volume</b>	<b>Total Increase (Decrease)</b>	<b>Rate</b>	<b>Volume</b>	<b>Total Increase (Decrease)</b>
<b>Interest income:</b>						
Loans receivable	\$ (2,840)	\$ 578	\$ (2,262)	\$ (326)	\$ 8,519	\$ 8,193
Investment securities	(254)	146	(108)	(582)	65	(517)
Other interest-earning assets	(3)	(28)	(31)	(33)	44	11
<b>Total interest income</b>	<b>(3,097)</b>	<b>696</b>	<b>(2,401)</b>	<b>(941)</b>	<b>8,628</b>	<b>7,687</b>
<b>Interest expense:</b>						
Savings, checking and money market accounts	(407)	97	(310)	(445)	350	(95)
Certificates of deposit	(410)	(464)	(874)	(696)	393	(303)
FHLB advances	169	(396)	(227)	(114)	209	95
<b>Total interest expense</b>	<b>(648)</b>	<b>(763)</b>	<b>(1,411)</b>	<b>(1,255)</b>	<b>952</b>	<b>(303)</b>
<b>Increase (decrease) in net interest income</b>	<b>\$ (2,449)</b>	<b>\$ 1,459</b>	<b>\$ (990)</b>	<b>\$ 314</b>	<b>\$ 7,676</b>	<b>\$ 7,990</b>

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

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

are reported to the Audit Committee of the Board of Directors.

For the year ended December 31, 2013, the Company recorded a provision for loan losses of \$3.7 million, compared to provisions of \$2.4 million and \$1.5 million for 2012 and 2011, respectively. The higher level of provision for loan losses recorded during 2013 resulted primarily from a \$1.7 million partial charge-off on a \$2.0 million accounts receivable line of credit, modest downgrades of certain other loans in the Company's organic loan portfolio and decreased cash flow expectations in the acquired GSFC one- to four-family first mortgage loan portfolio. The increased level of provision for loan losses in 2012 was primarily the result of a \$1.7 million partial charge-off on a \$5.4 million commercial real estate loan.

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Net charge-offs were \$2.1 million for 2013, compared to \$2.2 million and \$276,000 for 2012 and 2011, respectively. The elevated level of charge-offs during 2013 resulted primarily from a \$1.7 million partial charge-off on a \$2.0 million accounts receivable line of credit. In 2012, our charge-offs were due primarily to a \$1.7 million charge-off on one commercial real estate loan which was transferred to real estate owned. At December 31, 2013, the Company's ratio of allowance for loan losses to total loans was 0.98%, compared to 0.79% at December 31, 2012. Excluding acquired loans, the ratio of allowance for loan losses to total organic loans was 1.12% at December 31, 2013, compared to 1.01% at December 31, 2012.

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

<i>(dollars in thousands)</i>	<b>2013</b>	<b>2012</b>	<b>2013 vs 2012 Percent Increase (Decrease)</b>	<b>2011</b>	<b>2012 vs 2011 Percent Increase (Decrease)</b>
<b>Noninterest income:</b>					
Service fees and charges	\$ 2,729	\$ 2,493	9.5%	\$ 2,380	4.8%
Bank card fees	1,731	1,796	(3.6)	1,738	3.4
Gain on sale of loans, net	1,554	1,964	(20.9)	910	115.7
Income from bank-owned life insurance	464	515	(9.9)	578	(10.9)
Gain (loss) on sale of securities, net	428	222	93.1	(171)	229.9
Accretion of FDIC loss sharing receivable	433	581	(25.5)	851	(31.7)
Settlement of litigation				525	(100.0)
Other income	331	190	73.7	189	0.8
<b>Total noninterest income</b>	<b>\$ 7,670</b>	<b>\$ 7,761</b>	<b>(1.2)%</b>	<b>\$ 7,000</b>	<b>10.9%</b>

*2013 compared to 2012*

Noninterest income for 2013 totaled \$7.7 million, a decrease of \$91,000, or 1.2%, compared to 2012. The decrease was primarily the result of a decrease of \$410,000 in gains on the sale of mortgage loans and a decrease of \$148,000 in the accretion of the FDIC Asset, which amounts were partially offset by increases in service fees and charges (up \$236,000), gains on the sale of securities (up \$206,000) and other income (up \$140,000 primarily due to recoveries on GSFC charge-off loans).

Accretion of the discount on the FDIC Asset totaled \$433,000, \$581,000 and \$851,000 for the years ended December 31, 2013, 2012 and 2011, respectively. We expect the amount of accretion to continue to decline in future periods because our projected cash flows from Covered Loans have continued to increase, and as a result, we expect to collect less from the FDIC. Additionally, as we continue to submit claims under the loss sharing agreements, the remaining balance of the indemnification asset will continue to decline.

A summary of activity for the FDIC Asset account from March 12, 2010 to December 31, 2013 follows:

<i>(dollars in thousands)</i>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
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Balance, beginning of period <sup>(1)</sup>	\$ 15,546	\$ 24,222	\$ 32,012	\$ 34,422
Accretion	433	581	851	738
Reduction for claims filed	(1,464)	(3,135)	(4,108)	(3,148)
Change in estimated cash flow assumptions	(1,817)	(6,122)	(4,533)	
Balance, end of period	\$ 12,698	\$ 15,546	\$ 24,222	\$ 32,012

(1) For 2010, reflects the balance at March 12, 2010, the date of acquisition.

**Table of Contents***2012 compared to 2011*

Noninterest income for 2012 totaled \$7.8 million, an increase of \$761,000, or 10.9%, compared to 2011. The increase was primarily the result of an increase of \$1.1 million in gains on the sale of mortgage loans due to favorable refinance rates and a \$393,000 difference in gains/losses on the sale of securities, which was partially offset by the absence of a \$525,000 payment received in settlement of a lawsuit during 2011 and a decrease of \$270,000 in the accretion of the FDIC Asset, which represents the indemnification asset related to the Statewide loss sharing agreements.

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

<i>(dollars in thousands)</i>	<b>2013</b>	<b>2012</b>	<b>2013 vs 2012 Percent Increase (Decrease)</b>	<b>2011</b>	<b>2013 vs 2012 Percent Increase (Decrease)</b>
<b>Noninterest expense:</b>					
Compensation and benefits	\$ 20,330	\$ 19,688	3.3%	\$ 17,821	10.5%
Occupancy	3,524	3,276	7.6	3,042	7.7
Marketing and advertising	766	744	3.0	980	(24.1)
Data processing and communication	2,442	2,801	(12.8)	3,142	(10.8)
Professional services	1,061	890	19.1	1,378	(35.4)
Forms, printing and supplies	430	478	(10.1)	542	(11.8)
Franchise and shares tax	711	614	15.8	676	(9.2)
Regulatory fees	890	854	4.2	858	(0.5)
Foreclosed assets, net	523	1,051	(50.3)	472	122.9
Other expenses	2,528	2,367	6.8	2,091	13.2
<b>Total noninterest expense</b>	<b>\$ 33,205</b>	<b>\$ 32,763</b>	<b>1.3%</b>	<b>\$ 31,002</b>	<b>5.7%</b>

*2013 compared to 2012*

Noninterest expense for 2013 totaled \$33.2 million, an increase of \$442,000, or 1.3%, from 2012. The increase in noninterest expense was primarily the result of increases in compensation and benefits (up \$642,000), occupancy (up \$248,000), professional services (up \$170,000 primarily due to costs related to the acquisition of Britton & Koontz) and other expenses (up \$161,000 primarily due to penalties incurred in prepaying long-term FHLB borrowings) expenses, which were offset by reductions in foreclosed assets expense (down \$528,000) and data processing and communication expense (down \$359,000).

*2012 compared to 2011*

Noninterest expense for 2012 totaled \$32.8 million, an increase of \$1.8 million, or 5.7%, from 2011. Noninterest expense for 2011 includes merger-related expenses of \$2.1 million related to the acquisition of GSFC in July 2011. Excluding merger-related expenses, noninterest expense increased \$3.8 million, or 13.2%, from 2011. The increase in noninterest expense was primarily the result of the addition of GSFC employees, its operations and facilities and higher costs associated with foreclosed assets.

**Income Taxes** For the years ended December 31, 2013, 2012 and 2011, the Company incurred income tax expense of \$3.7 million, \$4.6 million and \$2.6 million, respectively. The Company's effective tax rate amounted to 33.9%, 33.4% and 34.0% during 2013, 2012 and 2011, respectively. The difference between the effective tax rate and the statutory tax rate primarily related to variances in items that are non-taxable or non-deductible, primarily the effect of tax-exempt income and various tax credits taken. See Note 12 to the Consolidated Financial Statements for additional information concerning our income taxes.

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**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES**

Our primary sources of funds are from deposits, amortization of loans, loan prepayments and the maturity of loans, investment securities and other investments and other funds provided from operations. While scheduled payments from the amortization of loans and investment securities and maturing investment securities are relatively predictable sources of funds, deposit flows and loan prepayments can be greatly influenced by general interest rates, economic conditions and competition. We also maintain excess funds in short-term, interest-bearing assets that provide additional liquidity. As of December 31, 2013, our cash and cash equivalents totaled \$32.6 million. In addition, as of such date, our available for sale investment securities totaled \$149.6 million.

We use our liquidity to fund existing and future loan commitments, to fund maturing certificates of deposit and demand deposit withdrawals, to invest in other interest-earning assets, and to meet operating expenses. As of December 31, 2013, we had certificates of deposit maturing within the next 12 months totaling \$115.2 million. Based upon historical experience, we anticipate that the majority of the maturing certificates of deposit will be redeposited with us in certificates of deposit or other deposit accounts.

In addition to cash flows from loan and securities payments and prepayments as well as from sales of available for sale securities, we have significant borrowing capacity available to fund liquidity needs. In recent years, we have utilized borrowings as a cost efficient addition to deposits as a source of funds. Our borrowings consist of advances from the FHLB, of which we are a member. Under terms of the collateral agreement with the FHLB, we may pledge residential mortgage loans and mortgage-backed securities as well as our stock in the FHLB as collateral for such advances. For the year ended December 31, 2013, the average balance of our outstanding FHLB advances was \$48.7 million. As of December 31, 2013, we had \$97.0 million in outstanding FHLB advances and \$262.3 million in additional FHLB advances available to us.

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

**ASSET/ LIABILITY MANAGEMENT AND MARKET RISK**

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

Our interest rate sensitivity is also monitored by management through the use of models which generate estimates of the change in its net interest income over a range of interest rate scenarios. Based on the Company's interest rate risk model, the table below sets forth the results of immediate and sustained changes in interest rates as of December 31, 2013.

**Shift in Interest Rates (in bps)**



	<b>% Change in Projected Net Interest Income</b>
+300	(3.7)%
+200	(2.2)
+100	(0.9)

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

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

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

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

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

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

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

**OFF-BALANCE SHEET ACTIVITIES**

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

The following table summarizes our outstanding commitments to originate loans and to advance additional amounts pursuant to outstanding letters of credit, lines of credit and the undisbursed portion of construction loans as of December 31 of the years indicated.

<i>(dollars in thousands)</i>	<b>Contract Amount</b>	
	<b>2013</b>	<b>2012</b>

Standby letters of credit	\$ 1,253	\$ 2,907
Available portion of lines of credit	60,755	59,124
Undisbursed portion of loans in process	72,333	47,678
Commitments to originate loans	48,854	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.

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

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

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

<i>(dollars in thousands)</i>	<b>Less Than One Year</b>	<b>One to Three Years</b>	<b>Three to Five Years</b>	<b>Over Five Years</b>	<b>Total</b>
Unused commercial lines of credit	\$ 31,905	\$ 3,033	\$ 509	\$ 5	\$ 35,452
Unused personal lines of credit	4,780	5,575	3,403	11,545	25,303
Undisbursed portion of loans in process	72,333				72,333
Commitments to originate loans	48,854				48,854
Standby letters of credit	1,247	6			1,253
<b>Total</b>	<b>\$ 159,119</b>	<b>\$ 8,614</b>	<b>\$ 3,912</b>	<b>\$ 11,550</b>	<b>\$ 183,195</b>

The Company has utilized leasing arrangements to support the ongoing activities of the Company. The required payments under such commitments and other contractual cash commitments as of December 31, 2013 are shown in the following table.

<i>(dollars in thousands)</i>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Thereafter</b>	<b>Total</b>
Operating leases	\$ 126	\$ 129	\$ 129	\$ 129	\$ 129	\$	\$ 642
Certificates of deposit	115,188	49,692	7,618	4,529	1,164	14,258	192,449
Long-term FHLB advances				10,000			10,000
<b>Total</b>	<b>\$ 115,314</b>	<b>\$ 49,821</b>	<b>\$ 7,747</b>	<b>\$ 14,658</b>	<b>\$ 1,293</b>	<b>\$ 14,258</b>	<b>\$ 203,091</b>

**IMPACT OF INFLATION AND CHANGING PRICES**

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

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk.**

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

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**Item 8. Financial Statements and Supplementary Data.**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors

Home Bancorp, Inc.

Lafayette, Louisiana

We have audited the accompanying consolidated statement of financial condition of Home Bancorp, Inc. and subsidiary ( the Company ) as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Home Bancorp, Inc. and subsidiary's internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992 and our report dated March 14, 2014, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Porter Keadle Moore, LLC

Atlanta, Georgia

March 14, 2014

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors

Home Bancorp, Inc.

Lafayette, Louisiana

We have audited Home Bancorp, Inc. and subsidiary s (the Company ) internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992 ( COSO ). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Controls over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, the Company maintained effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control-Integrated Framework* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of the Company as of December 31, 2013 and 2012, and the related statements of income, comprehensive income, changes in shareholders equity and cash flows for each of the three years in the period ended December 31 2013, and our report dated March 14, 2014, expressed an unqualified opinion.

/s/ Porter Keadle Moore, LLC

Atlanta, Georgia

March 14, 2014



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

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 32,638,900	\$ 39,539,366
Interest-bearing deposits in banks	2,940,000	3,529,000
Investment securities available for sale, at fair value	149,632,153	157,255,828
Investment securities held to maturity (fair values of \$9,275,158 and \$1,746,375, respectively)	9,404,790	1,665,184
Mortgage loans held for sale	1,951,345	5,627,104
Loans covered by loss sharing agreements	21,673,808	45,764,397
Noncovered loans, net of unearned income	685,782,309	627,363,937
<b>Total loans, net of unearned income</b>	<b>707,456,117</b>	<b>673,128,334</b>
Allowance for loan losses	(6,918,009)	(5,319,235)
<b>Total loans, net of unearned income and allowance for loan losses</b>	<b>700,538,108</b>	<b>667,809,099</b>
Office properties and equipment, net	30,702,635	30,777,184
Cash surrender value of bank-owned life insurance	17,750,604	17,286,434
FDIC loss sharing receivable	12,698,077	15,545,893
Accrued interest receivable and other assets	25,984,346	23,891,172
<b>Total Assets</b>	<b>\$ 984,240,958</b>	<b>\$ 962,926,264</b>
<b>Liabilities</b>		
Deposits:		
Noninterest-bearing	\$ 174,475,044	\$ 152,461,606
Interest-bearing	566,837,372	618,967,729
<b>Total deposits</b>	<b>741,312,416</b>	<b>771,429,335</b>
Short-term Federal Home Loan Bank advances	87,000,000	10,000,000
Long-term Federal Home Loan Bank advances	10,000,000	36,256,805
Accrued interest payable and other liabilities	4,019,013	3,666,264
<b>Total Liabilities</b>	<b>842,331,429</b>	<b>821,352,404</b>
<b>Shareholders Equity</b>		
Preferred stock, \$0.01 par value - 10,000,000 shares authorized; none issued		
Common stock, \$0.01 par value - 40,000,000 shares authorized; 8,958,395 and 8,950,495 shares issued; 7,099,314 and 7,439,127 shares outstanding, respectively	89,585	89,506
Additional paid-in capital	92,192,410	90,986,820

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Treasury stock at cost - 1,859,081 and 1,511,368 shares, respectively	(28,011,398)	(21,719,954)
Unallocated common stock held by:		
Employee Stock Ownership Plan (ESOP)	(5,266,830)	(5,623,910)
Recognition and Retention Plan (RRP)	(1,018,497)	(1,831,759)
Retained earnings	83,729,144	76,435,222
Accumulated other comprehensive income	195,115	3,237,935
<b>Total Shareholders Equity</b>	<b>141,909,529</b>	<b>141,573,860</b>
<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 984,240,958</b>	<b>\$ 962,926,264</b>

**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**

	<b>Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Interest Income</b>			
Loans, including fees	\$ 40,535,633	\$ 42,797,878	\$ 34,604,712
Investment securities	3,060,521	3,169,429	3,686,134
Other investments and deposits	124,355	154,820	144,346
<b>Total interest income</b>	<b>43,720,509</b>	<b>46,122,127</b>	<b>38,435,192</b>
<b>Interest Expense</b>			
Deposits	3,043,982	4,227,495	4,626,198
Short-term Federal Home Loan Bank advances	46,716	39,592	47,163
Long-term Federal Home Loan Bank advances	412,210	646,782	543,809
<b>Total interest expense</b>	<b>3,502,908</b>	<b>4,913,869</b>	<b>5,217,170</b>
<b>Net interest income</b>	<b>40,217,601</b>	<b>41,208,258</b>	<b>33,218,022</b>
Provision for loan losses	3,652,694	2,411,214	1,460,427
<b>Net interest income after provision for loan losses</b>	<b>36,564,907</b>	<b>38,797,044</b>	<b>31,757,595</b>
<b>Noninterest Income</b>			
Service fees and charges	2,729,469	2,493,177	2,379,683
Bank card fees	1,730,960	1,795,960	1,737,554
Gain on sale of loans, net	1,553,598	1,963,365	910,165
Income from bank-owned life insurance	464,170	515,260	578,529
Gain (loss) on sale of securities, net	428,200	221,781	(170,788)
Accretion of FDIC loss sharing receivable	432,929	580,980	851,080
Settlement of litigation			525,000
Other income	330,523	190,292	188,749
<b>Total noninterest income</b>	<b>7,669,849</b>	<b>7,760,815</b>	<b>6,999,972</b>
<b>Noninterest Expense</b>			
Compensation and benefits	20,329,834	19,687,444	17,821,501
Occupancy	3,524,567	3,276,166	3,041,892
Marketing and advertising	766,388	743,814	980,557
Data processing and communication	2,441,796	2,801,124	3,141,776
Professional services	1,060,656	890,205	1,378,504
Forms, printing and supplies	429,888	477,924	542,079

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Franchise and shares tax	710,775	613,733	675,801
Regulatory fees	889,967	854,041	857,990
Foreclosed assets, net	522,903	1,051,397	471,637
Other expenses	2,527,922	2,367,210	2,090,638
<b>Total noninterest expense</b>	<b>33,204,696</b>	<b>32,763,058</b>	<b>31,002,375</b>
Income before income tax expense	11,030,060	13,794,801	7,755,192
Income tax expense	3,736,138	4,604,930	2,635,411
<b>Net Income</b>	<b>\$ 7,293,922</b>	<b>\$ 9,189,871</b>	<b>\$ 5,119,781</b>
<b>Earnings per share:</b>			
Basic	\$ 1.11	\$ 1.33	\$ 0.72
Diluted	\$ 1.06	\$ 1.28	\$ 0.71

**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**

	<b>For the Years Ended</b>		
	<b>December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Net Income</b>	\$ 7,293,922	\$ 9,189,871	\$ 5,119,781
<b>Other Comprehensive (Loss) Income</b>			
Unrealized (losses) gains on investment securities	\$ (4,177,585)	\$ 2,511,726	\$ 1,395,951
Reclassification adjustment for (gains) losses included in net income	(428,200)	(221,781)	170,788
Tax effect	1,562,965	(778,581)	(532,691)
Other comprehensive (loss) income, net of taxes	\$ (3,042,820)	\$ 1,511,364	\$ 1,034,048
<b>Comprehensive Income</b>	<b>\$ 4,251,102</b>	<b>\$ 10,701,235</b>	<b>\$ 6,153,829</b>

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

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

	Common Stock	Additional Paid-in Capital	Treasury Stock	Unallocated Common Stock Held by ESOP	Unallocated Common Stock Held by RRP	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance, December 31, 2010</b>	\$ 89,270	\$ 88,818,862	\$ (10,425,725)	\$ (6,338,070)	\$ (3,432,486)	\$ 62,125,570	\$ 692,523	\$ 131,529,944
Net income						5,119,781		5,119,781
Other comprehensive income							1,034,048	1,034,048
Treasury stock acquired at cost, 377,608 shares			(5,466,590)					(5,466,590)
Exercise of stock options	65	75,045						75,110
RRP shares released for allocation		(711,562)			787,963			76,401
ESOP shares released for allocation		162,558		357,080				519,638
Share-based compensation cost		1,396,503						1,396,503
<b>Balance, December 31, 2011</b>	\$ 89,335	\$ 89,741,406	\$ (15,892,315)	\$ (5,980,990)	\$ (2,644,523)	\$ 67,245,351	\$ 1,726,571	\$ 134,284,835
Net income						9,189,871		9,189,871
Other comprehensive income							1,511,364	1,511,364
Treasury stock acquired at cost, 337,887 shares			(5,827,639)					(5,827,639)

Exercise of stock options	171	206,355							206,526
RRP shares released for allocation		(680,600)			812,764				132,164
ESOP shares released for allocation		254,951		357,080					612,031
Share-based compensation cost		1,464,708							1,464,708
<b>Balance, December 31, 2012</b>	\$ 89,506	\$ 90,986,820	\$ (21,719,954)	\$ (5,623,910)	\$ (1,831,759)	\$ 76,435,222	\$ 3,237,935	\$ 141,573,860	
Net income						7,293,922			7,293,922
Other comprehensive income							(3,042,820)		(3,042,820)
Treasury stock acquired at cost, 347,713 shares			(6,291,444)						(6,291,444)
Exercise of stock options	79	91,026							91,105
RRP shares released for allocation		(655,173)			813,262				158,089
ESOP shares released for allocation		295,680		357,080					652,760
Share-based compensation cost		1,474,057							1,474,057
<b>Balance, December 31, 2013</b>	\$ 89,585	\$ 92,192,410	\$ (28,011,398)	\$ (5,266,830)	\$ (1,018,497)	\$ 83,729,144	\$ 195,115	\$ 141,909,529	

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

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

	<b>Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities, net of effects of acquisition:</b>			
Net income	\$ 7,293,922	\$ 9,189,871	\$ 5,119,781
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	3,652,694	2,411,214	1,460,427
Depreciation	1,420,986	1,452,244	1,299,370
Amortization of purchase accounting valuations and intangibles	1,500,774	(470,654)	8,714,974
Net amortization of mortgage servicing asset	195,938	195,337	128,692
Federal Home Loan Bank stock dividends	(9,300)	(16,400)	(11,000)
Net amortization of discount on investments	1,085,587	1,167,661	834,634
(Gain) loss on sale of investment securities, net	(428,200)	(221,781)	170,788
Gain on loans sold, net	(1,553,598)	(1,963,365)	(910,165)
Proceeds, including principal payments, from loans held for sale	83,134,006	80,132,706	33,096,508
Originations of loans held for sale	(78,005,929)	(82,385,735)	(32,797,756)
Non-cash compensation	2,126,817	2,076,739	1,916,141
Deferred income tax expense	(1,265,038)	324,101	1,647,022
Decrease (increase) in interest receivable and other assets	2,187,267	1,394,971	(2,700,366)
Increase in cash surrender value of bank-owned life insurance	(464,170)	(515,260)	(578,529)
Increase (decrease) in accrued interest payable and other liabilities	403,640	(1,430,418)	130,561
<b>Net cash provided by operating activities</b>	<b>21,275,396</b>	<b>11,341,231</b>	<b>17,521,082</b>
<b>Cash flows from investing activities, net of effects of acquisition:</b>			
Purchases of securities available for sale	(34,548,121)	(48,295,723)	(61,021,376)
Purchases of securities held to maturity	(8,383,189)		(3,000,000)
Proceeds from maturities, prepayments and calls on securities available for sale	29,285,461	32,380,480	60,196,560
Proceeds from maturities, prepayments and calls on securities held to maturity	561,882	1,795,877	14,757,281
Proceeds from sales on securities available for sale	7,704,863	15,264,114	4,570,239
Increase in loans, net	(42,046,336)	(8,022,909)	(51,704,628)
Reimbursement from FDIC for covered assets	1,463,468	3,135,373	4,108,337
Decrease in interest-bearing deposits in banks	589,000	2,054,000	2,284,000
Proceeds from sale of repossessed assets	5,926,909	6,988,434	2,286,722



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Purchases of office properties and equipment	(1,346,437)	(1,451,819)	(1,183,278)
Proceeds from sale of properties and equipment		1,048,771	
Net cash disbursed in business combinations			(17,154,724)
Purchases of Federal Home Loan Bank stock	(4,007,100)	(66,500)	(2,668,900)
Proceeds from redemption of Federal Home Loan Bank stock	1,926,300	3,010,400	373,200
Net cash provided (used in) by investing activities	(42,873,300)	7,840,498	(48,156,567)

**Cash flows from financing activities, net of effects of acquisition:**

Decrease (increase) in deposits	(30,043,203)	41,134,716	(15,396,207)
Increase (decrease) in Federal Home Loan Bank advances	50,940,980	(46,925,404)	46,221,972
Proceeds from exercise of stock options	91,105	206,526	75,110
Purchase of treasury stock	(6,291,444)	(5,827,639)	(5,466,590)
Net cash provided by (used in) financing activities	14,697,438	(11,411,801)	25,434,285

Net change in cash and cash equivalents	(6,900,466)	7,769,928	(5,201,200)
Cash and cash equivalents at beginning of year	39,539,366	31,769,438	36,970,638
Cash and cash equivalents at end of year	\$ 32,638,900	\$ 39,539,366	\$ 31,769,438

**Supplementary cash flow information:**

Interest paid on deposits and borrowed funds	\$ 3,377,227	\$ 5,794,525	\$ 5,169,506
Income taxes paid	3,025,000	5,450,000	1,428,034

**Noncash investing and financing activities:**

Transfer of loans to repossessed assets	\$ 4,824,784	\$ 6,829,932	\$ 6,701,569
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**The accompanying Notes are an integral part of these Consolidated Financial Statements.**

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**HOME BANCORP, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Description of Business**

Home Bancorp, Inc., a Louisiana Corporation ( Company ), was organized by Home Bank ( Bank ) in May 2008 to facilitate the conversion of the Bank from the mutual to the stock form ( Conversion ) of ownership. The Conversion was completed on October 2, 2008, at which time the Company became the holding company for the Bank, with the Company owning all of the issued and outstanding shares of the Bank's common stock. Shares of the Company's common stock were issued and sold in an offering to certain depositors of the Bank. The Company and Bank are headquartered in Lafayette, Louisiana.

Home Bank is a federally chartered stock savings bank. The Bank was originally chartered in 1908 as a Louisiana state chartered savings association. The Bank converted to a federal mutual savings bank charter in 1993. In 2010, the Bank expanded into the Northshore (of Lake Ponchartrain) through a Federal Deposit Insurance Corporation ( FDIC ) assisted acquisition of certain assets and liabilities of the former Statewide Bank ( Statewide ). In July 2011, the Bank expanded into the Greater New Orleans region through its acquisition of GS Financial Corporation ( GSFC ), the former holding company of Guaranty Savings Bank ( Guaranty ). As of December 31, 2013, the Bank conducts business from 22 banking offices in the Greater Lafayette, Northshore, Baton Rouge and Greater New Orleans regions of south Louisiana.

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

The Bank is regulated by the Office of the Comptroller of the Currency ( OCC ) and its deposits are insured to the maximum amount permissible under federal law by the FDIC. In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act ( Dodd-Frank Act ) was passed by Congress. The act, among other things, imposed new restrictions and an expanded framework of regulatory oversight for financial institutions and their holding companies, including the Bank and the Company. Under the new law, the Company's and the Bank's former primary regulator, the Office of Thrift Supervision ( OTS ), was eliminated. Federal thrifts are now subject to regulation and supervision by the OCC, which also currently supervises and regulates all national banks. Savings and loan holding companies are now regulated by the Federal Reserve Board ( FRB ), which has the authority to promulgate new regulations governing the Company that will impose additional capital requirements and may result in additional restrictions on investments and other holding company activities. The law also created a new Consumer Financial Protection Bureau ( CFPB ) that has the authority to promulgate rules intended to protect consumers in the financial products and services market. Because many of the regulations under the new law have not been promulgated, we cannot determine the full impact on our business and operations at this time.

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### **2. Summary of Significant Accounting Policies**

#### **Principles of Consolidation**

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

#### **Use of Estimates**

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

#### **Cash and Cash Equivalents**

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

The Bank is required to maintain cash reserves with the FRB. The requirement is dependent upon the Bank's cash on hand or noninterest-bearing balances. The reserve requirements as of December 31, 2013 and 2012 were \$13,601,000 and \$16,466,000, respectively, and the Bank was in compliance with such requirements at such dates.

#### **Investment Securities**

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

Investment securities that are acquired with the intention of being resold in the near term are classified as trading securities under ASC 320 and are carried at fair value, with unrealized holding gains and losses recognized in current earnings. The Company did not hold any securities for trading purposes at, or during the years ended, December 31, 2013 or 2012.

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

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

identification method for determining the cost of the securities sold, is computed with reference to its amortized cost and is also included in current earnings.

The Company reviews investment securities for other-than-temporary impairment quarterly. Impairment is considered to be other-than-temporary if it is likely that all amounts contractually due will not be received for debt securities and when there is no positive evidence indicating that an investment's carrying amount is recoverable in the near term for equity securities. When a decline in the fair value of available for sale and held to maturity securities below cost is deemed to be credit related, a charge for other-than-temporary impairment is included in earnings as

Other-than-temporary impairment of securities. The decline in fair value attributed to non-credit related factors is recognized in other comprehensive income and a new cost basis for the security is

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established. The new cost basis is not changed for subsequent recoveries in fair value. Increases and decreases between fair value and cost on available for sale securities are reflected in the Consolidated Statements of Comprehensive Income. In evaluating whether impairment is temporary or other-than-temporary, the Company considers, among other things, the time period the security has been in an unrealized loss position; the financial condition of the issuer and its industry; recommendations of investment advisors; economic forecasts; market or industry trends; changes in tax laws, regulations, or other governmental policies significantly affecting the issuer; any downgrades from rating agencies; and any reduction or elimination of dividends. The Company's intent and ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value is also considered.

**Loans Held for Sale**

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

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

For financial reporting purposes, the Company classifies a portion of its loan portfolio as Mortgage loans held for sale. Included in this category are loans which the Company has the current intent to sell and loans which are available to be sold in the event that the Company determines that loans should be sold to support the Company's investment and liquidity objectives, as well as to support its overall asset and liability management strategies. Loans included in this category for which the Company has the current intention to sell are recorded at the lower of aggregate cost or fair value. As of December 31, 2013 and 2012, the Company had \$1,951,000 and \$5,627,000, respectively, in loans classified as Mortgage loans held for sale.

As of December 31, 2013 and 2012, the Company had \$119,922,000 and \$133,107,000, respectively, outstanding in loans sold to government agencies that it was servicing through a third party.

**Loans**

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

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

Third party property valuations are obtained at the time of origination for real estate secured loans. When a determination is made that a loan has deteriorated to the point of becoming a problem loan, updated valuations

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may be ordered to help determine if there is impairment, which may lead to a recommendation for partial charge off or appropriate allowance allocation. Property valuations are ordered through, and reviewed by, the Company's Appraisal and Review Department. The Company typically orders an as is valuation for collateral property if the loan is in a criticized loan classification.

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

***Non-covered Acquired Loans***

Non-covered acquired loans at December 31, 2013 and 2012 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.



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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.

**Allowance for Loan Losses**

The allowance for loan losses on loans in our portfolio is maintained at an amount which management believes covers the reasonably estimable and probable losses on such portfolio. The allowance for loan losses is comprised of specific and general reserves. The Company determines specific reserves based on the provisions of ASC 310, *Receivables*. The Company's allowance for loan losses includes a measure of impairment related to those loans specifically identified for evaluation under the topic. This measurement is based on a comparison of the recorded investment in the loan with either the expected cash flows discounted using the loan's original effective interest rate, observable market price for the loan or the fair value of the collateral underlying certain collateral-dependent loans. General reserves are based on management's evaluation of many factors, including current economic trends, industry experience, historical loss experience (generally three years), industry loan concentrations, the borrowers' abilities to repay and repayment performance, probability of foreclosure and estimated collateral values. As these factors change, adjustments to the loan loss reserve are charged to current operations. Loans that are determined to be uncollectible are charged-off against the allowance for loan losses once that determination is made.

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

**Reposessed Assets**

Reposessed assets are recorded at the lesser of the balance of the loan or fair value less estimated selling costs at the date acquired or upon receiving new property valuations. Costs relating to the development and improvement of foreclosed property are capitalized, and costs relating to holding and maintaining the property are expensed. Write-downs from cost to fair value at the dates of foreclosure are charged against the allowance for loan losses. Valuations are performed periodically and a charge to operations is recorded if the carrying value of a property exceeds its fair value less selling costs. Generally, the Company appraises the property at the time of foreclosure and at least every 12 months following the foreclosure. Excluding Covered Assets, the Company had \$1,406,000 and \$3,771,000 of reposessed assets as of December 31, 2013 and 2012, respectively. Including Covered Assets, the Company had \$4,566,000 and \$6,454,000 of reposessed assets as of December 31, 2013 and 2012, respectively. Reposessed Assets are recorded in accrued interest receivable and other assets on the Consolidated Statements of Financial Condition.

**Federal Home Loan Bank Stock**

As a member of the FHLB, the Bank is required to maintain a minimum investment in its stock that varies with the level of FHLB advances outstanding. The stock is bought from and sold to the FHLB based upon its \$100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock,

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carried at cost and evaluated for impairment in accordance with GAAP. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted, (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance, (c) the impact of legislative and regulatory changes on the customer base of the FHLB and (d) the liquidity position of the FHLB.

## **Office Properties and Equipment**

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

## **Cash Surrender Value of Bank-owned Life Insurance**

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

## **Intangible Assets**

Intangible assets consist of goodwill, core deposit intangibles and mortgage servicing rights. These assets are recorded in accrued interest receivable and other assets on the Consolidated Statements of Financial Condition. Goodwill represents the excess purchase price over the fair value of net assets acquired in business acquisitions. Goodwill is not amortized but rather is evaluated for impairment at least annually. Core deposit intangibles represent the estimated value related to customer deposit relationships assumed in the Company's acquisitions. Core deposit intangibles are being amortized over nine or 10 years using an accelerated method. The mortgage servicing rights represent servicing assets related to mortgage loans sold and serviced at fair value. Mortgage servicing rights are being amortized over a maximum of 10 years using an accelerated method.

## **Transfer of Financial Assets**

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

## **Salary Continuation Agreements**

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

## **Income Taxes**

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

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

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

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

The Company recognizes interest and penalties accrued related to unrecognized tax benefits, if applicable, in noninterest expense. During the years ended December 31, 2013, 2012, and 2011, the Company did not recognize any interest or penalties in its financial statements, nor has it recorded an accrued liability for interest or penalty payments.

## **Stock-based Compensation Plans**

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

The Company issues restricted stock under the 2009 Recognition and Retention Plan ( RRP ) for directors, officers and other key employees. The RRP allows for the issuance of restricted stock awards that may not be sold or otherwise transferred until certain restrictions have lapsed. The holders of the restricted stock have the right to vote the shares as awards are earned. The unearned compensation related to these awards is amortized to compensation expense over the service period, which is usually the vesting period. The total share-based compensation expense for these awards is determined based on the market price of the Company's common stock as of the date of grant applied to the total number of shares granted and is amortized over the vesting period.

## **Earnings Per Share**

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

## **Comprehensive Income**

GAAP generally requires that recognized revenues, expenses, gains and losses be included in net earnings. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheets, such items, along with net earnings, are components of comprehensive income. The tax effect for unrealized gains on investment securities was (\$1,413,095), \$853,987 and \$474,623 for the periods ending December 31, 2013, 2012 and 2011, respectively. The reclassification adjustment for (gains) losses included in net income had a tax effect of (\$149,870), (\$75,406) and \$58,068 for the periods ending December 31, 2013, 2012 and 2011. Comprehensive income is reflected in the Consolidated Statements of Comprehensive Income.

## **Reclassifications**

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

**Recent Accounting Pronouncements**

In 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

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and to indemnification assets existing as of the date of adoption. The Company adopted ASU 2012-06, and as a result of the adoption, amortized \$1.8 million of the indemnification asset in 2013. The Company continues to assess the carrying value of this asset at least quarterly.

In February 2013, the FASB issued 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 lending arrangements that are either (1) offset on the balance sheet or (2) subject to an enforceable master netting arrangement or similar agreement. 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.

In January 2014, the FASB issued ASU No. 2014-04, Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40) – Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure, which clarifies when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate recognized. 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 the Company's financial position, results of operations or cash flows.

**3. Acquisition Activity**

*GS Financial Corp.* On July 15, 2011, the Company acquired GSFC, the former holding company of Guaranty of Metairie, Louisiana. On the acquisition date, Home Bancorp Acquisition Corp., a newly created wholly owned subsidiary of the Company, was merged with and into GSFC, and immediately thereafter, GSFC was merged with and into the Company, with the Company as the surviving corporation, and Guaranty, the former subsidiary of GSFC, was merged with and into Home Bank, with Home Bank as the surviving institution. Shareholders of GSFC received \$21.00 per share in cash, yielding an aggregate purchase price of \$26,417,000. As a result of the acquisition, the four former Guaranty branches in the Greater New Orleans area were added to the Bank's branch office network. Assets

acquired from GSFC totaled \$256,677,000, which included loans of \$182,440,000, investment securities of \$46,481,000 and cash of \$9,262,000. The Bank also recorded a core deposit intangible asset of \$859,000 and goodwill of \$296,000 relating to the acquisition of GSFC, and assumed liabilities of \$230,614,000, which included \$193,518,000 in deposits and \$34,707,000 in FHLB advances.



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Acquired loans which are impaired as of the date of acquisition are accounted for under ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. In accordance with ASC 310-30 and in estimating the fair value of the acquired loans with deteriorated credit quality as of the acquisition date, we (a) calculated the contractual amount and timing of undiscounted principal and interest payments (the undiscounted contractual cash flows) and (b) estimated the amount and timing of undiscounted expected principal and interest payments (the undiscounted expected cash flows). The difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is the nonaccretable difference. The nonaccretable difference totaled \$5,490,000 as of July 15, 2011 and represented an estimate of the undiscounted loss exposure in the acquired loans with deteriorated credit quality as of the acquisition date.

The following table summarizes the accretable yield on the loans acquired from GSFC with deteriorated credit quality as of July 15, 2011 and the changes therein through December 31, 2013.

<i>(dollars in thousands)</i>	2013	2012	2011
Balance, beginning of period	\$ (839)	\$ (644)	\$
Acquisition accretable yield			(1,169)
Accretion	133	966	525
Net transfers from nonaccretable difference to accretable yield	(575)	(1,161)	
Balance, end of period	\$ (1,281)	\$ (839)	\$ (644)

As of December 31, 2013, the weighted average remaining contractual life of the loan portfolio acquired with deteriorated credit quality from GSFC was 8.2 years.

*Statewide Bank*

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

The following table summarizes the accretable yield on the Covered Loans as of March 12, 2010 and the changes therein through December 31, 2013.

<i>(dollars in thousands)</i>	2013	2012	2011	2010
Balance, beginning of period	\$ (3,973)	\$ (8,550)	\$ (5,505)	\$

Acquisition accretable yield				(11,110)
Accretion	5,417	4,613	5,170	5,605
Net transfers from nonaccretable difference to accretable yield	(3,578)	(36)	(8,215)	
Balance, end of period	\$ (2,134)	\$ (3,973)	\$ (8,550)	\$ (5,505)

As of December 31, 2013, the weighted average remaining contractual life of the Covered Loan portfolio was 3.8 years.

Over the life of the Covered Loans, the Company will continue to estimate cash flows expected to be collected on pools of loans sharing common risk characteristics. The Company will evaluate whether the present value of Covered Loans has decreased and if so, a provision for loan loss will be recognized. For any increases in cash flows expected to be collected, the Company will adjust the amount of accretable yield recognized on a prospective basis

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over the remaining life of the applicable loan or pool of loans. During the year ended December 31, 2013, there was an aggregate \$3,578,000 increase in expected cash flows from the Covered Loans acquired from Statewide over the amounts originally estimated. Such amount was recorded as an increase in the accretable yield to be recognized in interest income in future periods and a decrease to the nonaccretable yield.

The FDIC loss sharing receivable ( FDIC Asset ) is measured separately from the related Covered Assets. Deterioration in the credit quality of the loans (immediately recorded as a provision to the allowance for loan losses) would immediately increase the basis of the FDIC Asset, with the offset recorded through the consolidated statement of income. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the remaining life of the loans) decrease the basis of the FDIC Asset, with such decrease being accreted into income over 1) the same period or 2) the life of the loss sharing agreements, whichever is shorter.

**4. Investment Securities**

Summary information regarding investment securities classified as available for sale and held to maturity as of December 31, 2013 and 2012 follows.

<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value
			Less Than 1 Year	Over 1 Year	
<b>December 31, 2013</b>					
Available for sale:					
U.S. agency mortgage-backed	\$ 96,145	\$ 1,765	\$ 909	\$ 216	\$ 96,785
Non-U.S. agency mortgage-backed	9,765	58	31	43	9,749
Municipal bonds	19,879	318	279	119	19,799
U.S. government agency	23,543	236	480		23,299
<b>Total available for sale</b>	<b>\$ 149,332</b>	<b>\$ 2,377</b>	<b>\$ 1,699</b>	<b>\$ 378</b>	<b>\$ 149,632</b>
Held to maturity:					
U.S. agency mortgage-backed	\$ 132	\$ 1	\$	\$	\$ 133
Municipal bonds	9,273	67	198		9,142
<b>Total held to maturity</b>	<b>\$ 9,405</b>	<b>\$ 68</b>	<b>\$ 198</b>	<b>\$</b>	<b>\$ 9,275</b>

<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value
			Less Than 1 Year	Over 1 Year	
<b>December 31, 2012</b>					

## 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
<b>Total available for sale</b>	<b>\$ 152,350</b>	<b>\$ 4,998</b>	<b>\$ 53</b>	<b>\$ 39</b>	<b>\$ 157,256</b>

## Held to maturity:

U.S. agency mortgage-backed	\$ 693	\$ 13	\$	\$	\$ 706
Municipal bonds	972	68			1,040
<b>Total held to maturity</b>	<b>\$ 1,665</b>	<b>\$ 81</b>	<b>\$</b>	<b>\$</b>	<b>\$ 1,746</b>

Management evaluates securities for other-than-temporary impairment at least quarterly, and more frequently when economic and market conditions warrant such evaluations. Consideration is given to (1) the extent and length of

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time the fair value has been below cost; (2) the reasons for the decline in value; (3) the Company's intent to sell a security or whether it is more likely than not we will be required to sell the security before the recovery of its amortized cost, which may extend to maturity and our ability and intent to hold the security for a period of time that allows for the recovery in value in the case of equity securities.

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

As of December 31, 2013, 64 debt securities had unrealized losses totaling 3.3% of the individual securities' amortized cost basis and 1.4% of the Company's total amortized cost basis of the investment securities portfolio. Nine of the 64 securities had been in a continuous loss position for over 12 months at such date. The nine securities had an aggregate amortized cost basis and unrealized loss of \$7,478,000 and \$378,000, respectively, at December 31, 2013. Management has the intent and ability to hold these debt securities until maturity, or until anticipated recovery. No declines in these 64 securities were deemed to be other-than-temporary.

As of December 31, 2012, 16 debt securities had unrealized losses totaling 0.7% of the individual securities' amortized cost basis and 0.1% of the Company's total amortized cost basis of the investment securities portfolio. Five of the 16 securities had been in a continuous loss position for over 12 months at such date. The five securities had an aggregate amortized cost basis and unrealized loss of \$2,653,000 and \$39,000, respectively, at December 31, 2012. Management has the intent and ability to hold these debt securities until maturity, or until anticipated recovery. No declines in these five securities were deemed to be other-than-temporary.

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

<i>(dollars in thousands)</i>	<b>One Year or Less</b>	<b>After One Year through Five Years</b>	<b>After Five Years through Ten Years</b>	<b>After Ten Years</b>	<b>Total</b>
<b>Fair Value</b>					
Securities available for sale:					
U.S. agency mortgage-backed	\$ 113	\$ 231	\$ 15,665	\$ 80,776	\$ 96,785
Non-U.S. agency mortgage-backed				9,749	9,749
Municipal bonds	503	4,858	11,574	2,864	19,799
U.S. government agency	2,512	5,293	10,510	4,984	23,299
<b>Total securities available for sale</b>	<b>\$ 3,128</b>	<b>\$ 10,382</b>	<b>\$ 37,749</b>	<b>\$ 98,373</b>	<b>\$ 149,632</b>

Securities held to maturity:

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U.S. agency mortgage-backed	\$	133	\$		\$		\$	133
Municipal bonds		216		797		6,886		1,243
Total securities held to maturity	\$	349	\$	797	\$	6,886	\$	1,243
								\$ 9,275

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<i>(dollars in thousands)</i>	<b>One Year or Less</b>	<b>After One Year through Five Years</b>	<b>After Five Years through Ten Years</b>	<b>After Ten Years</b>	<b>Total</b>
<b>Amortized Cost</b>					
Securities available for sale:					
U.S. agency mortgage-backed	\$ 108	\$ 214	\$ 15,696	\$ 80,127	\$ 96,145
Non-U.S. agency mortgage-backed				9,765	9,765
Municipal bonds	503	4,743	11,761	2,872	19,879
U.S. government agency	2,500	5,225	10,990	4,828	23,543
<b>Total securities available for sale</b>	<b>\$ 3,111</b>	<b>\$ 10,182</b>	<b>\$ 38,447</b>	<b>\$ 97,592</b>	<b>\$ 149,332</b>
Securities held to maturity:					
U.S. agency mortgage-backed	\$ 132	\$	\$	\$	\$ 132
Municipal bonds	215	756	7,041	1,261	9,273
<b>Total securities held to maturity</b>	<b>\$ 347</b>	<b>\$ 756</b>	<b>\$ 7,041</b>	<b>\$ 1,261</b>	<b>\$ 9,405</b>

For the year ended December 31, 2013, the Company recorded gross gains of \$428,000 and no gross losses related to the sale of investment securities. For the year ended December 31, 2012, the Company recorded gross gains of \$230,000 and gross losses of \$8,000 related to the sale of investment securities.

As of December 31, 2013 and 2012, the Company had accrued interest receivable for investment securities of \$679,000 and \$565,000, respectively.

As of December 31, 2013 and 2012, the Company had \$43,977,000 and \$41,462,000, respectively, of securities pledged to secure public deposits.

**5. Loans**

Loans, including Covered Loans and net of unearned income, consisted of the following as of December 31 of the years indicated.

<i>(dollars in thousands)</i>	<b>2013</b>	<b>2012</b>
<b>Real estate loans:</b>		
One- to four-family first mortgage	\$ 179,506	\$ 177,816
Home equity loans and lines	40,561	40,425
Commercial real estate	269,849	252,805
Construction and land	83,271	75,529
Multi-family residential	16,578	19,659
<b>Total real estate loans</b>	<b>589,765</b>	<b>566,234</b>
<b>Other loans:</b>		
Commercial and industrial	77,533	72,253

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Consumer	40,158	34,641
Total other loans	117,691	106,894
Total loans	\$ 707,456	\$ 673,128



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A summary of activity in the allowance for loan losses for the years ended December 31, 2013, 2012 and 2011 is as follows.

**For the Year Ended December 31, 2013**

<i>(dollars in thousands)</i>	<b>Beginning Balance</b>	<b>Charge-offs</b>	<b>Recoveries</b>	<b>Provision</b>	<b>Ending Balance</b>
<b>Originated loans:</b>					
Allowance for loan losses:					
One- to four-family first mortgage	\$ 798	\$ (76)	\$	\$ 182	\$ 904
Home equity loans and lines	322		10	34	366
Commercial real estate	2,040			487	2,528
Construction and land	785	(44)	10	226	977
Multi-family residential	86			4	90
Commercial and industrial	683	(1,990)	57	2,582	1,332
Consumer	400	(9)	24	58	473
<b>Total allowance for loan losses</b>	<b>\$ 5,114</b>	<b>\$ (2,119)</b>	<b>\$ 101</b>	<b>\$ 3,574</b>	<b>\$ 6,670</b>
<b>Non-covered acquired loans:</b>					
Allowance for loan losses:					
One- to four-family first mortgage	\$ 184	\$ (36)	\$	\$ 36	\$ 184
Home equity loans and lines	21			37	58
Commercial real estate					
Construction and land					
Multi-family residential					
Commercial and industrial				6	6
Consumer					
<b>Total allowance for loan losses</b>	<b>\$ 205</b>	<b>\$ (36)</b>	<b>\$</b>	<b>\$ 79</b>	<b>\$ 248</b>
<b>Covered loans:</b>					
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					
<b>Total allowance for loan losses</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Total loans:</b>					
Allowance for loan losses:					

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One- to four-family first mortgage	\$ 982	\$ (112)	\$	\$ 218	\$ 1,088
Home equity loans and lines	343		10	71	424
Commercial real estate	2,040			488	2,528
Construction and land	785	(44)	10	226	977
Multi-family residential	86			4	90
Commercial and industrial	683	(1,990)	57	2,588	1,338
Consumer	400	(9)	24	58	473
Total allowance for loan losses	\$ 5,319	\$ (2,155)	\$ 101	\$ 3,653	\$ 6,918

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	<b>For the Year Ended December 31, 2012</b>				
<i>(dollars in thousands)</i>	<b>Beginning</b>				<b>Ending</b>
	<b>Balance</b>	<b>Charge-offs</b>	<b>Recoveries</b>	<b>Provision</b>	<b>Balance</b>
<b>Originated loans:</b>					
Allowance for loan losses:					
One- to four-family first mortgage	\$ 778	\$	\$	\$ 20	\$ 798
Home equity loans and lines	336	(32)	15	3	322
Commercial real estate	1,755	(1,980)	94	2,171	2,040
Construction and land	904	(215)		96	785
Multi-family residential	64			22	86
Commercial and industrial	872	(60)	6	(135)	683
Consumer	345	(38)	14	79	400
<b>Total allowance for loan losses</b>	<b>\$ 5,054</b>	<b>\$ (2,325)</b>	<b>\$ 129</b>	<b>\$ 2,256</b>	<b>\$ 5,114</b>
<b>Non-covered acquired loans:</b>					
Allowance for loan losses:					
One- to four-family first mortgage	\$	\$	\$	\$ 184	\$ 184
Home equity loans and lines				21	21
Commercial real estate					
Construction and land					
Multi-family residential					
Commercial and industrial					
Consumer					
<b>Total allowance for loan losses</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 205</b>	<b>\$ 205</b>
<b>Covered loans:</b>					
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					
<b>Total allowance for loan losses</b>	<b>\$ 50</b>	<b>\$</b>	<b>\$</b>	<b>\$ (50)</b>	<b>\$</b>
<b>Total loans:</b>					
Allowance for loan losses:					
One- to four-family first mortgage	\$ 778	\$	\$	\$ 204	\$ 982
Home equity loans and lines	336	(32)	15	24	343
Commercial real estate	1,755	(1,980)	94	2,171	2,040
Construction and land	904	(215)		96	785
Multi-family residential	64			22	86

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Commercial and industrial	922	(60)	6	(185)	683
Consumer	345	(38)	14	79	400
Total allowance for loan losses	\$ 5,104	\$ (2,325)	\$ 129	\$ 2,411	\$ 5,319

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<i>(dollars in thousands)</i>	<b>Beginning Balance</b>	<b>Charge-offs</b>	<b>Recoveries</b>	<b>Provision</b>	<b>Ending Balance</b>
<b>Originated loans:</b>					
Allowance for loan losses:					
One- to four-family first mortgage	\$ 641	\$	\$ 16	\$ 121	\$ 778
Home equity loans and lines	296			40	336
Commercial real estate	1,258		6	491	1,755
Construction and land	666			238	904
Multi-family residential	46			18	64
Commercial and industrial	746	(281)	25	382	872
Consumer	267	(53)	11	120	345
<b>Total allowance for loan losses</b>	<b>\$ 3,920</b>	<b>\$ (334)</b>	<b>\$ 58</b>	<b>\$ 1,410</b>	<b>\$ 5,054</b>
<b>Non-covered acquired loans:</b>					
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					
<b>Total allowance for loan losses</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Covered loans:</b>					
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					
<b>Total allowance for loan losses</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 50</b>	<b>\$ 50</b>
<b>Total loans:</b>					
Allowance for loan losses:					
One- to four-family first mortgage	\$ 641	\$	\$ 16	\$ 121	\$ 778
Home equity loans and lines	296			40	336
Commercial real estate	1,258		6	491	1,755
Construction and land	666			238	904
Multi-family residential	46			18	64

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Commercial and industrial	746	(281)	25	432	922
Consumer	267	(53)	11	120	345
Total allowance for loan losses	\$ 3,920	\$ (334)	\$ 58	\$ 1,460	\$ 5,104

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

<i>(dollars in thousands)</i>	As of December 31, 2013				
	Originated Loans		Acquired Loans		Total
	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Non-covered Acquired Loans <sup>(1)</sup>	Covered Loans	
Allowance for loan losses:					
One- to four-family first mortgage	\$ 904	\$	\$ 184	\$	\$ 1,088
Home equity loans and lines	366		58		424
Commercial real estate	2,528				2,528
Construction and land	977				977
Multi-family residential	90				90
Commercial and industrial	850	482	6		1,338
Consumer	473				473
Total allowance for loan losses	\$ 6,188	\$ 482	\$ 248	\$	\$ 6,918

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As of December 31, 2013

<i>(dollars in thousands)</i>	Originated Loans		Acquired Loans		Total
	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Non-covered Acquired Loans <sup>(1)</sup>	Covered Loans	
Loans:					
One- to four-family first mortgage	\$ 137,685	\$ 386	\$ 37,084	\$ 4,351	\$ 179,506
Home equity loans and lines	30,422	3	7,798	2,338	40,561
Commercial real estate	225,356	360	32,945	11,188	269,849
Construction and land	79,771		2,096	1,404	83,271
Multi-family residential	7,778		7,678	1,122	16,578
Commercial and industrial	72,003	1,831	2,428	1,271	77,533
Consumer	39,661		497		40,158
Total loans	\$ 592,676	\$ 2,580	\$ 90,526	\$ 21,674	\$ 707,456

As of December 31, 2012

<i>(dollars in thousands)</i>	Originated Loans		Acquired Loans		Total
	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Non-covered Acquired Loans <sup>(1)</sup>	Covered Loans	
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

As of December 31, 2012

<i>(dollars in thousands)</i>	Originated Loans		Acquired Loans		Total
	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Non-covered Acquired Loans <sup>(1)</sup>	Covered Loans	
Loans:					
One- to four-family first mortgage	\$ 115,278	\$ 1,464	\$ 49,943	\$ 11,131	\$ 177,816
Home equity loans and lines	26,937	56	10,123	3,309	40,426
Commercial real estate	182,376	3,428	44,132	22,869	252,805

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Construction and land	66,815	60	3,650	5,004	75,529
Multi-family residential	7,930	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
<b>Total loans</b>	<b>\$ 498,998</b>	<b>\$ 5,536</b>	<b>\$ 122,830</b>	<b>\$ 45,764</b>	<b>\$ 673,128</b>

(1) \$4.6 million and \$5.3 million in GSFC loans were accounted for under ASC 310-30 at December 31, 2013 and 2012, respectively.

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



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

<i>(dollars in thousands)</i>	<b>December 31, 2013</b>				<b>Total</b>
	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Doubtful</b>	
<b>Originated loans:</b>					
One- to four-family first mortgage	\$ 136,274	\$ 265	\$ 1,532	\$	\$ 138,071
Home equity loans and lines	29,962	149	314		30,425
Commercial real estate	218,779	800	6,137		225,716
Construction and land	78,297	147	1,327		79,771
Multi-family residential	6,902	876			7,778
Commercial and industrial	65,271	4,682	3,881		73,834
Consumer	39,336	48	277		39,661
<b>Total originated loans</b>	<b>\$ 574,821</b>	<b>\$ 6,967</b>	<b>\$ 13,468</b>	<b>\$</b>	<b>\$ 595,256</b>
<b>Non-covered acquired loans:</b>					
One- to four-family first mortgage	\$ 31,467	\$ 119	\$ 5,498	\$	\$ 37,084
Home equity loans and lines	7,226	198	374		7,798
Commercial real estate	30,192		2,753		32,945
Construction and land	1,044		1,052		2,096
Multi-family residential	5,397	33	2,248		7,678
Commercial and industrial	2,428				2,428
Consumer	497				497
<b>Total non-covered acquired loans</b>	<b>\$ 78,251</b>	<b>\$ 350</b>	<b>\$ 11,925</b>	<b>\$</b>	<b>\$ 90,526</b>
<b>Covered:</b>					
One- to four-family first mortgage	\$ 3,108	\$ 151	\$ 1,092	\$	\$ 4,351
Home equity loans and lines	2,084	21	233		2,338
Commercial real estate	9,702	249	1,237		11,188
Construction and land	1,247	64	93		1,404
Multi-family residential	206	916			1,122
Commercial and industrial	451	5	815		1,271
Consumer					
<b>Total covered loans</b>	<b>\$ 16,798</b>	<b>\$ 1,406</b>	<b>\$ 3,470</b>	<b>\$</b>	<b>\$ 21,674</b>
<b>Total:</b>					
One- to four-family first mortgage	\$ 170,849	\$ 535	\$ 8,122	\$	\$ 179,506
Home equity loans and lines	39,272	368	921		40,561
Commercial real estate	258,673	1,049	10,127		269,849
Construction and land	80,588	211	2,472		83,271
Multi-family residential	12,505	1,825	2,248		16,578

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Commercial and industrial	68,150	4,687	4,696	77,533
Consumer	39,833	48	277	40,158
Total loans	\$ 669,870	\$ 8,723	\$ 28,863	\$ 707,456

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<i>(dollars in thousands)</i>	December 31, 2012				
	Pass	Special Mention	Substandard	Doubtful	Total
<b>Originated loans:</b>					
One- to four-family first mortgage	\$ 114,278	\$ 690	\$ 1,774	\$	\$ 116,742
Home equity loans and lines	26,870	56	67		26,993
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	529		8,458
Commercial and industrial	63,561	2,590	170		66,321
Consumer	33,280	60	1		33,341
<b>Total originated loans</b>	<b>\$ 487,870</b>	<b>\$ 9,513</b>	<b>\$ 7,151</b>	<b>\$</b>	<b>\$ 504,534</b>
<b>Non-covered acquired loans:</b>					
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
<b>Total non-covered acquired loans</b>	<b>\$ 107,159</b>	<b>\$ 2,186</b>	<b>\$ 13,485</b>	<b>\$</b>	<b>\$ 122,830</b>
<b>Covered:</b>					
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
<b>Total covered loans</b>	<b>\$ 37,263</b>	<b>\$ 1,273</b>	<b>\$ 7,228</b>	<b>\$</b>	<b>\$ 45,764</b>
<b>Total:</b>					
One- to four-family first mortgage	\$ 166,506	\$ 1,896	\$ 9,414	\$	\$ 177,816
Home equity loans and lines	39,419	166	840		40,425
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	1,327		19,659
Commercial and industrial	68,562	2,595	1,096		72,253
Consumer	34,540	83	18		34,641
<b>Total loans</b>	<b>\$ 632,292</b>	<b>\$ 12,972</b>	<b>\$ 27,864</b>	<b>\$</b>	<b>\$ 673,128</b>

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

Pass loans are of satisfactory quality.

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

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

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

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In addition, residential loans are classified using an inter-regulatory agency methodology that incorporates, among other factors, the extent of delinquencies and loan-to-value ratios. These classifications were the most current available as of December 31, 2013 and were generally updated within the last three months. Loans acquired with deteriorated credit quality are excluded from the schedule of credit quality indicators.

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

	December 31, 2013					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current Loans	Total Loans
<i>(dollars in thousands)</i>						
<b>Originated loans:</b>						
Real estate loans:						
One- to four-family first mortgage	\$ 1,726	\$ 272	\$ 290	\$ 2,288	\$ 135,783	\$ 138,071
Home equity loans and lines	36	111	66	213	30,212	30,425
Commercial real estate	571		1,257	1,828	223,888	225,716
Construction and land	406	1	83	490	79,281	79,771
Multi-family residential					7,778	7,778
Total real estate loans	2,739	384	1,696	4,819	476,942	481,761
Other loans:						
Commercial and industrial	2,026	3,243	182	5,451	68,383	73,834
Consumer	514	262	277	1,053	38,608	39,661
Total other loans	2,540	3,505	459	6,504	106,991	113,495
Total originated loans	\$ 5,279	\$ 3,889	\$ 2,155	\$ 11,323	\$ 583,933	\$ 595,256
<b>Non-covered acquired loans:</b>						
Real estate loans:						
One- to four-family first mortgage	\$ 884	\$ 658	\$ 3,457	\$ 4,999	\$ 32,085	\$ 37,084
Home equity loans and lines	50		174	224	7,574	7,798
Commercial real estate	239	241	2,753	3,233	29,712	32,945
Construction and land	8		1,052	1,060	1,036	2,096
Multi-family residential	879		987	1,866	5,812	7,678
Total real estate loans	2,060	899	8,423	11,382	76,219	87,601
Other loans:						
Commercial and industrial					2,428	2,428
Consumer					497	497

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Total other loans					2,925	2,925
Total non-covered acquired loans	\$ 2,060	\$ 899	\$ 8,423	\$ 11,382	\$ 79,144	\$ 90,526
<b>Covered loans:</b>						
Real estate loans:						
One- to four-family first mortgage	\$ 588	\$ 319	\$ 864	\$ 1,771	\$ 2,580	\$ 4,351
Home equity loans and lines	161	51	146	358	1,980	2,338
Commercial real estate	459		701	1,160	10,028	11,188
Construction and land	11	27	10	48	1,356	1,404
Multi-family residential					1,122	1,122
Total real estate loans	1,219	397	1,721	3,337	17,066	20,403
Other loans:						
Commercial and industrial	5	109	62	176	1,095	1,271
Consumer						
Total other loans	5	109	62	176	1,095	1,271
Total covered loans	\$ 1,224	\$ 506	\$ 1,783	\$ 3,513	\$ 18,161	\$ 21,674
<b>Total loans:</b>						
Real estate loans:						
One- to four-family first mortgage	\$ 3,198	\$ 1,249	\$ 4,611	\$ 9,058	\$ 170,448	\$ 179,506
Home equity loans and lines	247	162	386	795	39,766	40,561
Commercial real estate	1,269	241	4,711	6,221	263,628	269,849
Construction and land	425	28	1,145	1,598	81,673	83,271
Multi-family residential	879		987	1,866	14,712	16,578
Total real estate loans	6,018	1,680	11,840	19,538	570,227	589,765
Other loans:						
Commercial and industrial	2,031	3,352	244	5,627	71,906	77,533
Consumer	514	262	277	1,053	39,105	40,158
Total other loans	2,545	3,614	521	6,680	111,011	117,691
Total loans	\$ 8,563	\$ 5,294	\$ 12,361	\$ 26,218	\$ 681,238	\$ 707,456

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<i>(dollars in thousands)</i>	December 31, 2012					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current Loans	Total Loans
<b>Originated loans:</b>						
Real estate loans:						
One- to four-family first mortgage	\$ 2,241	\$ 236	\$ 20	\$ 2,497	\$ 114,245	\$ 116,742
Home equity loans and lines	62	17		79	26,914	26,993
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		529	749	7,709	8,458
Total real estate loans	3,816	1,010	1,227	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 originated loans	\$ 4,355	\$ 1,494	\$ 1,398	\$ 7,247	\$ 497,287	\$ 504,534
<b>Non-covered acquired loans:</b>						
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 non-covered acquired loans	\$ 2,064	\$ 495	\$ 5,587	\$ 8,146	\$ 114,684	\$ 122,830
<b>Covered loans:</b>						
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

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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
<b>Other loans:</b>						
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 covered 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	410	115	282	807	39,618	40,425
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		1,207	1,738	17,921	19,659
Total real estate loans	\$ 7,729	2,529	11,113	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	\$ 8,360	\$ 3,157	\$ 11,663	\$ 23,180	\$ 649,948	\$ 673,128



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As of December 31, 2013 and 2012, the Company did not have any loans greater than 90 days past due which were accruing interest.

The following is a summary of information pertaining to impaired loans, excluding acquired loans, as of the dates indicated.

<i>(dollars in thousands)</i>	<b>For the Year Ended December 31, 2013</b>				
	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
<b>With no related allowance recorded:</b>					
One- to four-family first mortgage	\$ 386	\$ 386	\$	\$ 782	\$ 12
Home equity loans and lines	3	3		26	
Commercial real estate	360	360		1,336	
Construction and land				80	
Multi-family residential				325	
Commercial and industrial	584	584		743	17
Consumer					
<b>Total</b>	<b>\$ 1,333</b>	<b>\$ 1,333</b>	<b>\$</b>	<b>\$ 3,292</b>	<b>\$ 29</b>
<b>With an allowance recorded:</b>					
One- to four-family first mortgage	\$	\$	\$	\$ 126	\$
Home equity loans and lines					
Commercial real estate				102	
Construction and land				5	
Multi-family residential					
Commercial and industrial	1,247	1,247	482	987	38
Consumer					
<b>Total</b>	<b>\$ 1,247</b>	<b>\$ 1,247</b>	<b>\$ 482</b>	<b>\$ 1,220</b>	<b>\$ 38</b>
<b>Total impaired loans:</b>					
One- to four-family first mortgage	\$ 386	\$ 386	\$	\$ 908	\$ 12
Home equity loans and lines	3	3		26	
Commercial real estate	360	360		1,438	
Construction and land				85	
Multi-family residential				325	
Commercial and industrial	1,831	1,831	482	1,730	55
Consumer					
<b>Total</b>	<b>\$ 2,580</b>	<b>\$ 2,580</b>	<b>\$ 482</b>	<b>\$ 4,512</b>	<b>\$ 67</b>



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<i>(dollars in thousands)</i>	For the Year Ended December 31, 2012				
	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					
<b>Total</b>	<b>\$ 4,746</b>	<b>\$ 4,746</b>	<b>\$</b>	<b>\$ 5,685</b>	<b>\$ 164</b>
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					
<b>Total</b>	<b>\$ 790</b>	<b>\$ 790</b>	<b>\$ 183</b>	<b>\$ 1,723</b>	<b>\$ 53</b>
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					
<b>Total</b>	<b>\$ 5,536</b>	<b>\$ 5,536</b>	<b>\$ 183</b>	<b>\$ 7,408</b>	<b>\$ 217</b>

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A summary of information pertaining to nonaccrual loans as of December 31, 2013 and 2012 is as follows.

<i>(dollars in thousands)</i>	December 31, 2013				December 31, 2012			
	Originated	Non-covered Acquired <sup>(1)</sup>	Covered	Total	Originated	Non-covered Acquired <sup>(1)</sup>	Covered	Total
Nonaccrual loans:								
One- to four-family first mortgage	\$ 689	\$ 4,744	\$ 2,184	\$ 7,617	\$ 126	\$ 4,518	\$ 2,616	\$ 7,260
Home equity loans and lines	66	487	170	723		149	135	284
Commercial real estate	1,939	3,957	1,221	7,117	1,187	4,180	1,617	6,984
Construction and land	84	1,307	440	1,831	166	543	3,404	4,113
Multi-family residential		2,248		2,248	529	798		1,327
Commercial and industrial	3,881		954	4,835	170		1,746	1,916
Consumer	277		111	388	1		62	63
<b>Total</b>	<b>\$ 6,936</b>	<b>\$ 12,743</b>	<b>\$ 5,080</b>	<b>\$ 24,759</b>	<b>\$ 2,179</b>	<b>\$ 10,188</b>	<b>\$ 9,580</b>	<b>\$ 21,947</b>

<sup>(1)</sup> Nonaccrual non-covered acquired loans accounted for under ASC 310-30 at the time of acquisition totaled \$5.5 million and \$3.4 million as of December 31, 2013 and 2012, respectively.

As of December 31, 2013, the Company was not committed to lend additional funds to any customer whose loan was classified as impaired.

As of December 31, 2013 and 2012, the Company had accrued interest receivable for loans of \$2,553,000 and \$2,708,000, respectively.

**Troubled Debt Restructurings**

During the course of its lending operations, the Company periodically grants concessions to its customers in an attempt to protect as much of its investment as possible and to minimize risk of loss. These concessions may include restructuring the terms of a customer loan to alleviate the burden of the customer's near-term cash requirements. 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.

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

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

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

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

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

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

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

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

<i>(dollars in thousands)</i>	As of December 31, 2013			
	Current	Past Due Greater Than 30 Days	Nonaccrual TDRs	Total TDRs <sup>(1)</sup>
<b>Originated loans:</b>				
Real estate loans:				
One- to four-family first mortgage	\$	\$	\$ 296	\$ 296
Home equity loans and lines				
Commercial real estate	275		111	386
Construction and land	147			147
Multi-family residential				
Total real estate loans	422		407	829

<b>Other loans:</b>			
Commercial and industrial			
Consumer	3		3
Total other loans	3		3
Total loans	\$ 425	\$	\$ 407 \$ 832

**Non-covered acquired loans:**

<b>Real estate loans:</b>			
One- to four-family first mortgage			
	\$	\$	\$ 586 \$ 586
Home equity loans and lines			
Commercial real estate			1,046 1,046
Construction and land			
Multi-family residential			676 676
Total real estate loans			2,308 2,308

**Other loans:**

Commercial and industrial			
Consumer			
Total other loans			
Total loans	\$	\$	\$ 2,308 \$ 2,308

**Covered loans:**

<b>Real estate loans:</b>			
One- to four-family first mortgage			
	\$	\$	\$ \$
Home equity loans and lines			
Commercial real estate			
Construction and land			392 392
Multi-family residential			
Total real estate loans			392 392

<b>Other loans:</b>			
Commercial and industrial			
Consumer	5		830 830
			31 36
Total other loans	5		861 866
Total loans	\$ 5	\$	\$ 1,253 \$ 1,258

**Total loans:**

<b>Real estate loans:</b>			
One- to four-family first mortgage			
	\$	\$	\$ 882 \$ 882
Home equity loans and lines			

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Commercial real estate	275		1,157	1,432
Construction and land	147		392	539
Multi-family residential			676	676
<b>Total real estate loans</b>	<b>422</b>		<b>3,107</b>	<b>3,529</b>
Other loans:				
Commercial and industrial			830	830
Consumer	8		31	39
<b>Total other loans</b>	<b>8</b>		<b>861</b>	<b>869</b>
<b>Total loans</b>	<b>\$ 430</b>	<b>\$</b>	<b>\$ 3,968</b>	<b>\$ 4,398</b>



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<i>(dollars in thousands)</i>	As of December 31, 2012			
	Current	Past Due Greater Than 30 Days	Nonaccrual TDRs	Total TDRs <sup>(1)</sup>
<b>Originated loans:</b>				
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
<b>Non-covered acquired loans:</b>				
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
<b>Covered loans:</b>				
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
<b>Other loans:</b>				
Commercial and industrial			896	896
Consumer	17			17
Total other loans	17		896	913
Total loans	\$ 306	\$	\$ 896	\$ 1,202
<b>Total loans:</b>				
<b>Real estate loans:</b>				
One- to four-family first mortgage	\$	\$ 310	\$ 52	\$ 362
<b>Home equity loans and lines</b>				
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
<b>Other loans:</b>				
Commercial and industrial	5		896	901
Consumer	29			29
Total other loans	34		896	930
Total loans	\$ 505	\$ 609	\$ 2,864	\$ 3,978

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A summary of information pertaining to modified terms of loans, as of the date indicated is as follows.

	As of December 31, 2013			As of December 31, 2012		
	Pre- modification Number Outstanding of Contracts	Pre- modification Recorded Investment	Post- modification Outstanding Recorded Investment	Pre- modification Number Outstanding of Contracts	Pre- modification Recorded Investment	Post- modification Outstanding Recorded Investment
<i>(dollars in thousands)</i>						
Troubled debt restructurings:						
One- to four-family first mortgage	5	\$ 1,036	\$ 882	2	\$ 365	\$ 361
Home equity loans and lines						
Commercial real estate	3	1,452	1,432	3	1,556	1,537
Construction and land	4	1,299	539	3	936	471
Multi-family residential	1	784	676	1	787	679
Commercial and industrial	1	1,174	830	2	1,250	901
Other consumer	5	66	39	3	41	29
<b>Total</b>	<b>19</b>	<b>\$ 5,811</b>	<b>\$ 4,398</b>	<b>14</b>	<b>\$ 4,935</b>	<b>\$ 3,978</b>

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None of the other performing troubled debt restructurings as of December 31, 2013 has defaulted subsequent to the restructuring through the date the financial statements were available to be issued. The Company restructured, as a TDR, four loans totaling \$707,000 during 2013.

**6. Loan Servicing**

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

<i>(dollars in thousands)</i>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Mortgage loans sold to Federal Home Loan Mortgage Corporation without recourse	\$ 13,325	\$ 16,755	\$ 23,832
Mortgage loans sold to Federal National Mortgage Association without recourse	106,597	116,352	112,693
Balance, end of period	\$ 119,922	\$ 133,107	\$ 136,525

The Company records servicing assets related to mortgage loans sold and serviced at fair value and will amortize these servicing assets over the period of estimated net servicing income associated with each loan. Management assesses servicing assets for potential impairment annually. Activity related to servicing assets for the years ended December 31, 2013, 2012 and 2011 is summarized as follows.

<i>(dollars in thousands)</i>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Balance at the beginning of the year	\$ 611	\$ 545	\$ 145
Recognition of servicing assets from the transfer of financial assets <sup>(1)</sup>	101	261	529
Amortization	(196)	(195)	(129)
Balance, end of period	\$ 516	\$ 611	\$ 545
Fair value, end of period	\$ 1,009	\$ 1,995	\$ 1,811

(2) Includes \$404,000 acquired in 2011 from the acquisition of GSFC.

Custodial and escrow account balances maintained in connection with the foregoing loan servicing arrangements were \$1,064,000 and \$1,313,000 as of December 31, 2013 and 2012, respectively.

**7. Office Properties and Equipment**

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

<i>(dollars in thousands)</i>	<b>2013</b>	<b>2012</b>
Land	\$ 10,330	\$ 10,330
Buildings and improvements	23,170	22,809
Furniture and equipment	10,419	9,433
Total office properties and equipment	43,919	42,572
Less accumulated depreciation	13,216	11,795
Total office properties and equipment, net	\$ 30,703	\$ 30,777

Depreciation expense for the years ended December 31, 2013, 2012 and 2011 was \$1,421,000, \$1,452,000 and \$1,299,000, respectively.

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The carrying amount of goodwill was \$856,000 as of December 31, 2013 and 2012.

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

<i>(dollars in thousands)</i>	<b>2013</b>	<b>2012</b>
Gross carrying amount	\$ 1,385	\$ 1,762
Core deposit intangibles acquired during the year		
Less amortization	(332)	(377)
Total core deposit intangible asset	\$ 1,053	\$ 1,385

Amortization expense on the core deposit intangible assets for the years ended December 31, 2013, 2012 and 2011 was \$332,000, \$377,000 and \$318,000, respectively.

The carrying amount of the mortgage servicing asset as of December 31, 2013, 2012 and 2011 was \$516,000, \$611,000 and \$545,000, respectively.

**9. Deposits**

Deposits consisted of the following major classifications as of December 31 of the years indicated.

<i>(dollars in thousands)</i>	<b>2013</b>	<b>2012</b>
Demand deposit accounts	\$ 174,475	\$ 152,462
Savings	56,694	51,515
Money market accounts	192,303	191,191
NOW accounts	125,391	123,294
Certificates of deposit	192,449	252,967
Total deposits	\$ 741,312	\$ 771,429

As of December 31, 2013, the scheduled maturities of certificates of deposit are as follows.

<i>(dollars in thousands)</i>	<b>Amount</b>
2014	\$ 115,188
2015	49,692
2016	7,618
2017	4,529
2018	1,164
Thereafter	14,258

Total certificates of deposit	\$ 192,449
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As of December 31, 2013 and 2012, the aggregate amount of certificates of deposit with balances of \$100,000 or more was \$83,863,000 and \$119,766,000, respectively.

#### **10. Short-term FHLB Advances**

As of December 31, 2013, short-term FHLB advances totaled \$87,000,000, compared to \$10,000,000 as of December 31, 2012. For the years ended December 31, 2013 and 2012, the average volume of short-term FHLB advances carried by the Company was \$30,110,000 and \$26,467,000, respectively.

Collateral for short and long-term FHLB advances is secured through a blanket lien evidenced by the Bank's pledge of first mortgage collateral, demand deposit accounts, capital stock and certain other assets pursuant to the

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Advances, Collateral Pledge and Security Agreement. Under this collateral pledge agreement, the Bank must meet all statutory and regulatory capital standards and must meet all FHLB credit underwriting standards. Management believes that the Bank was in compliance with all such requirements as of December 31, 2013 and 2012.

As of December 31, 2013 and 2012, the Bank had \$262,345,000 and \$320,892,000, respectively, of additional FHLB advances available.

**11. Long-term FHLB Advances**

As of December 31, 2013 and 2012, long-term FHLB advances totaled \$10,000,000 and \$36,257,000, respectively. The Company has one fixed rate long-term advance outstanding as of December 31, 2013 in the amount of \$10,000,000. It matures in 2017 with a rate of 3.22%.

**12. Income Taxes**

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

<i>(dollars in thousands)</i>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Current	\$ 5,001	\$ 4,281	\$ 988
Deferred	(1,265)	324	1,647
<b>Total income tax expense</b>	<b>\$ 3,736</b>	<b>\$ 4,605</b>	<b>\$ 2,635</b>

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

<i>(dollars in thousands)</i>	<b>2013</b>	<b>2012</b>
Deferred tax assets (liabilities):		
FHLB stock dividends	\$ (7)	\$ 10
Provision for loan losses	2,421	1,809
Accumulated depreciation	(1,166)	(1,204)
Intangible assets	311	203
Unrealized gain on securities available for sale	(105)	(1,668)
Discount on purchased loans	(372)	(435)
Borrowings		67
Premium on purchased deposits	9	34
Mortgage servicing rights	(181)	(208)
Deferred compensation	763	284
Stock-based compensation	790	623
Other	1,060	1,116
<b>Deferred tax asset</b>	<b>\$ 3,523</b>	<b>\$ 631</b>



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For the years ended December 31, 2013, 2012 and 2011, the provision for federal income taxes differed from the amount computed by applying the federal income tax statutory rate of 35% for the year 2013 and 34% for previous years on income from operations as indicated in the following analysis:

<i>(dollars in thousands)</i>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Federal tax based on statutory rate	\$ 3,857	\$ 4,686	\$ 2,637
State tax based on statutory rate	10	13	16
(Decrease) increase resulting from:			
Effect of tax-exempt income	(294)	(160)	(76)
Other	163	66	58
Income tax expense	\$ 3,736	\$ 4,605	\$ 2,635
Effective tax rate	33.9%	33.4%	34.0%

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Retained earnings as of December 31, 2013, 2012 and 2011, included \$5,837,000 for which no deferred federal income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions for tax purposes only. Reductions of amounts so allocated for purposes other than bad debt losses would create income for tax purposes only, which would be subject to the then-current federal statutory income tax rate. The unrecorded deferred income tax liability on the above amount was \$1,985,000 as of December 31, 2013, 2012 and 2011. Current accounting standards do not require the accrual of this deferred tax amount to be recorded unless it is probable that the reserve (for tax purposes) will be significantly depleted by loan losses deductible for tax purposes in the future. Based on current estimates of losses within the Company's loan portfolio, accrual of the deferred tax liability associated with this reserve was not required as of December 31, 2013, 2012 and 2011.

**13. Commitments and Contingencies**

Standby letters of credit represent commitments by the Bank to meet the obligations of certain customers if called upon. The Bank normally secures its outstanding standby letters of credit with deposits from the customer. Additionally, in the normal course of business, there were various other commitments and contingent liabilities which are not reflected in the financial statements. Loan commitments are single-purpose commitments to lend which will be funded and reduced according to specified repayment schedules. Most of these commitments have maturities of less than one year. The following table summarizes our outstanding commitments to originate loans and to advance additional amounts pursuant to outstanding letters of credit, lines of credit and the undisbursed portion of construction loans as of December 31 of the years indicated.

<i>(dollars in thousands)</i>	<b>Contract Amount</b>	
	<b>2013</b>	<b>2012</b>
Standby letters of credit	\$ 1,253	\$ 2,907
Available portion of lines of credit	60,755	59,124
Undisbursed portion of loans in process	72,333	47,678
Commitments to originate loans	48,854	77,857

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

**14. Regulatory Matters**

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

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

Bank are based on the level of regulatory classified assets, prior earnings, and the ratio of equity capital to total assets. The Bank may not declare dividends without prior regulatory approval.

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Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined) to average assets and risk-weighted assets (as defined). Management believes, as of December 31, 2013, that the Bank met all capital adequacy requirements to which it was subject.

As of December 31, 2013, the most recent notification from the OCC categorized the Bank as well capitalized under the OCC regulatory classification framework. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, Tier 1 leverage and tangible capital ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios are also presented in the following table.

<i>(dollars in thousands)</i>	<b>Actual</b>		<b>Minimum For Capital Adequacy Purposes</b>		<b>To Be Well Capitalized Under Prompt Corrective Action Provisions</b>	
<b>December 31, 2013</b>						
Tier 1 risk-based capital:	\$ 139,182	20.84%	\$ 26,712	4.0%	\$ 40,068	6.0%
Total risk-based capital:	146,100	21.88%	53,424	8.0%	66,780	10.0%
Tier 1 leverage capital:	139,182	14.17%	14,730	4.0%	49,100	5.0%
<b>December 31, 2012</b>						
Tier 1 risk-based capital:	\$ 130,002	20.97%	\$ 24,796	4.0%	\$ 37,195	6.0%
Total risk-based capital:	135,322	21.83%	49,593	8.0%	61,991	10.0%
Tier 1 leverage capital:	130,002	13.67%	38,050	4.0%	47,562	5.0%

**15. Benefit Plans****401(k) Match and Profit Sharing Plan**

The Company's 401(k) defined contribution plan allows its participants to contribute up to 75% of their pretax earnings on a tax-deferred basis up to the statutory limit, and the Company contributes a matching contribution on behalf of plan participants limited to 4% of the employees' salaries. For the years ended December 31, 2013, 2012 and 2011, the Company made contributions of \$335,000, \$386,000 and \$358,000, respectively, in connection with the plans, which is included in compensation and benefits expense in the accompanying statements of income.

**Employee Stock Ownership Plan**

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

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

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

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Compensation cost related to the ESOP was \$653,000, \$612,000 and \$520,000 for the years ended December 31, 2013, 2012 and 2011, respectively. The fair value of the unearned ESOP shares, using the closing quoted market price per share as of year-end, was approximately \$9,928,000 and \$10,264,000 as of December 31, 2013 and 2012, respectively. A summary of the ESOP share allocation as of December 31, 2013 follows.

Shares allocated, beginning of year	143,578
Shares allocated during the year	35,710
Shares distributed during the year	(7,341)
Allocated shares held by ESOP trust as of year end	171,947
Unallocated shares	526,683
Total ESOP shares	698,630

**Salary Continuation Agreements**

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

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

The Bank s nonqualified salary continuation agreement with its Chief Credit Officer provides that the executive will be entitled to a stated annual benefit for a period of ten years upon retirement from the Bank after attaining age 65, distributed monthly. In the event of early retirement, the Bank shall pay the executive his vested benefits in 120 equal monthly installments upon attaining age 65. Upon death during active service, the Bank shall distribute the fully vested normal retirement benefit to the executive s beneficiary in 120 monthly installments. In the event of a separation from service within 24 months following a change in control but prior to normal retirement age, the Bank shall distribute to the executive the vested portion of the annual benefit in a lump sum on the first day of the month following the separation from service. Benefits are subject to a six-month delay to the extent required by applicable law. The Company had an outstanding liability totaling \$958,000 and \$835,000 as of December 31, 2013 and 2012, respectively, in connection with the agreements.

**16. Stock-based Payment Arrangements**

The Company s shareholders approved the 2009 Stock Option Plan ( SOP ) and the 2009 Recognition and Retention Plan ( RRP ) on May 12, 2009 to provide incentives and awards for directors, officers and other key employees of the Company and its subsidiary. These plans are administered by a committee appointed by the Board of Directors, which selects persons eligible to receive awards and determines the number of shares and/or options subject to each award,

the terms, conditions and other provisions of the awards. In accordance with ASC 718, the Company adopted a fair value based method of accounting for employee stock compensation plans, whereby compensation cost is measured as of the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period.

**Table of Contents****Stock Option Plan**

The Company issues stock options under the SOP to directors, officers and other key employees. The option exercise price cannot be less than the fair value of the underlying common stock as of the date of the option grant and the maximum option term cannot exceed ten years. The stock options granted were issued with vesting periods of five years. The maximum number of shares issuable under the SOP is 892,687, subject to adjustment. As of December 31, 2013, options to acquire 850,020 shares were outstanding under the SOP.

The fair value of each option granted is estimated on the grant date using the Black-Scholes option pricing model. This model requires management to make certain assumptions, including the expected life of the option, the risk-free rate of interest, the expected volatility and the expected dividend yield. The following assumptions were made in estimating 2013 fair values:

Expected dividends	1.5%
Expected volatility	32.42%
Risk-free interest rate	1.7%
Expected term (in years)	6.5

As of December 31, 2013, there was \$497,000 of unrecognized compensation cost related to stock options which is expected to be recognized over a period of 2.2 years.

For the years ended December 31, 2013, 2012 and 2011, the Company recognized \$681,000, \$663,000 and \$626,000, respectively, in compensation cost related to stock options, which is included in compensation and benefits expense in the accompanying consolidated statements of income.

The following table represents stock option activity for the year ended December 31, 2013.

<b>Options</b>	<b>Number of Options</b>	<b>Weighted- Average Exercise Price</b>	<b>Weighted- Average Grant Date Fair Value</b>	<b>Weighted- Average Remaining Contractual Term (Years)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding as of January 1, 2013	850,520	\$ 11.84	\$ 3.89		
Granted	17,500	17.67	5.18		
Exercised	(7,900)	11.53	3.79		
Forfeited	(10,100)	15.25	5.23		
Outstanding as of December 31, 2013	850,020	\$ 11.92	\$ 3.90	5.7	\$ 5,889,000
Exercisable as of December 31, 2013	631,484	\$ 11.58	\$ 3.79	5.4	\$ 4,593,000

**Recognition and Retention Plan**

The Company issues restricted stock under the RRP to directors, officers and other key employees. A total of 357,075 shares of the Company's outstanding common stock, or 4% of total shares outstanding at the time the RRP was



implemented, were approved for restricted stock awards under the RRP. During 2009, the Company purchased in the open market all shares required to fund the RRP at an average cost of \$11.81 per share. As of December 31, 2013, the cost of such shares held by the RRP totaled \$1,018,000, which is included in the Company's unallocated common stock held by the RRP in the consolidated statements of financial condition.

The RRP allows for the issuance of restricted stock awards that may not be sold or otherwise transferred until certain restrictions have lapsed. The holders of the restricted stock provide instructions to the trustees of the RRP as to how their restricted stock shall be voted. The unearned compensation related to these awards is amortized to compensation expense over the five-year vesting period. The total share-based compensation expense for these awards is determined based on the market price of the Company's common stock as of the date of grant applied to the total number of shares granted and is amortized over the vesting period. As of December 31, 2013, unearned share-based compensation associated with these awards totaled \$493,000.

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For the years ended December 31, 2013, 2012 and 2011, the Company recognized \$793,000, \$802,000 and \$771,000, respectively, in compensation cost related to restricted stock grants, which is included in compensation and benefits expense in the accompanying consolidated statements of income.

The following table represents unvested restricted stock activity in the RRP for the year ended December 31, 2013.

	Number of Shares	Weighted- Average Grant Date Fair Value
Balance, beginning of year	144,840	\$ 11.83
Granted	8,000	17.54
Forfeited	(3,900)	15.50
Released	(68,920)	11.63
Balance, end of period	80,020	\$ 12.39

**17. Earnings Per Share**

Earnings per common share was computed based on the following:

<i>(in thousands, except per share data)</i>	Years Ended December 31,		
	2013	2012	2011
<b>Numerator:</b>			
Income applicable to common shares	\$ 7,294	\$ 9,190	\$ 5,120
<b>Denominator:</b>			
Weighted average common shares outstanding	6,591	6,912	7,106
<b>Effect of dilutive securities:</b>			
Restricted stock	317	271	125
Weighted average common shares outstanding - assuming dilution	6,908	7,183	7,231
Earnings per common share	\$ 1.11	\$ 1.33	\$ 0.72
Earnings per common share - assuming dilution	\$ 1.06	\$ 1.28	\$ 0.71

Options on 850,020, 850,520 and 833,180 shares of common stock were not included in computing diluted earnings per share for the years ended December 31, 2013, 2012 and 2011, respectively, because the effect of these shares were anti-dilutive.

**18. Related Party Transactions**

Certain directors and officers of the Company are customers of the Company. Loan transactions with directors, officers and employees are made on the same terms as those prevailing at the time for comparable loans to other persons. Loans outstanding to directors, executive officers and their affiliates totaled \$7,277,000 and \$7,858,000 as of December 31, 2013 and 2012, respectively. A summary of related party loan activity during 2013 follows.

*(dollars in thousands)*

Balance, beginning of year	\$ 7,858
New loans	1,700
Repayments, net	(2,281)
Balance, end of year	\$ 7,277

None of the related party loans were identified as impaired or exceeded 5% of shareholders' equity for the years ended 2013 or 2012.

Related party deposits totaled \$12,155,000 and \$11,552,000 as of December 31, 2013 and 2012, respectively.

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**Table of Contents****19. 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 on a quarterly basis.

***Recurring Basis******Investment Securities Available for Sale***

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

Management primarily identifies investment securities which may have traded in illiquid or inactive markets by identifying instances of a significant decrease in the volume and frequency of trades, relative to historical levels, as well as instances of a significant widening of the bid-ask spread in the brokered markets. Investment securities that are deemed to have been trading in illiquid or inactive markets may require the use of significant unobservable inputs. For example, management may use quoted prices for similar investment securities in the absence of a liquid and active market for the investment securities being valued. As of December 31, 2013, management did not make adjustments

to prices provided by the third-party pricing service as a result of illiquid or inactive markets.

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The following tables present the balances of assets and liabilities measured on a recurring basis as of December 31, 2013 and 2012 aggregated by the level in the fair value hierarchy in which these measurements fall.

<i>(dollars in thousands)</i>	December 31, 2013	Level 1	Level 2	Level 3
Available for sale securities:				
U.S. agency mortgage-backed	\$ 96,785	\$	\$ 96,785	\$
Non-U.S. agency mortgage-backed	9,749		9,749	
Municipal bonds	19,799		19,799	
U.S. government agency	23,299		23,299	
Total	\$ 149,632	\$	\$ 149,632	\$

<i>(dollars in thousands)</i>	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 their fair value. A loan is considered impaired if it is probable the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Fair value is measured at the fair value of the collateral for collateral-dependent loans. For non-collateral-dependent loans, fair value is measured by present valuing expected future cash flows. Impaired loans are classified as Level 3 assets when measured using appraisals from external parties of the collateral less any prior liens. Repossessed assets are initially recorded at fair value less estimated costs to sell. The fair value of repossessed assets is based on property appraisals and an analysis of similar properties available. As such, the Company classifies repossessed assets as Level 3 assets.

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

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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.

<i>(dollars in thousands)</i>	Fair Value Measurements Using			
	December 31, 2013	Level 1	Level 2	Level 3
<b>Assets</b>				
Acquired loans with deteriorated credit quality	\$ 26,220	\$	\$	\$ 26,220
Acquired loans without deteriorated credit quality	85,732			85,732
Impaired loans excluding acquired loans	2,099			2,099
Reposessed assets	4,566			4,566
FDIC loss sharing receivable	12,698			12,698
<b>Total</b>	<b>\$ 131,315</b>	<b>\$</b>	<b>\$</b>	<b>\$ 131,315</b>
<b>Liabilities</b>				
Deposits acquired through business combinations	\$ 39,010	\$	\$	\$ 39,010
FHLB advances acquired through business combinations				
<b>Total</b>	<b>\$ 39,010</b>	<b>\$</b>	<b>\$</b>	<b>\$ 39,010</b>

<i>(dollars in thousands)</i>	Fair Value Measurements Using			
	December 31, 2012	Level 1	Level 2	Level 3
<b>Assets</b>				
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
Reposessed assets	6,454			6,454
FDIC loss sharing receivable	15,546			15,546
<b>Total</b>	<b>\$ 195,743</b>	<b>\$</b>	<b>\$</b>	<b>\$ 195,743</b>
<b>Liabilities</b>				
Deposits acquired through business combinations	\$ 81,948	\$	\$	\$ 81,948
FHLB advances acquired through business combinations	18,257			18,257
<b>Total</b>	<b>\$ 100,205</b>	<b>\$</b>	<b>\$</b>	<b>\$ 100,205</b>

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.



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

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

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

The carrying amount of the FHLB advances is estimated using the rates currently offered for advances of similar maturities.

The fair value of off-balance sheet financial instruments as of December 31, 2013 and 2012 was immaterial.

<i>(dollars in thousands)</i>	Carrying Amount	Fair Value Measurements at December 31, 2013			
		Total	Level 1	Level 2	Level 3
<b>Financial Assets</b>					

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Cash and cash equivalents	\$ 32,639	\$ 32,639	\$ 32,639	\$	\$
Interest-bearing deposits in banks	2,940	2,940	2,940		
Investment securities available for sale	149,632	149,632		149,632	
Investment securities held to maturity	9,405	9,275		9,275	
Mortgage loans held for sale	1,951	1,951		1,951	
Loans, net	700,538	708,863			708,863
Cash surrender value of BOLI	17,751	17,751	17,751		
FDIC loss sharing receivable	12,698	12,698			12,698
<b>Financial Liabilities</b>					
Deposits	\$ 741,312	\$ 702,168	\$	\$ 663,158	\$ 39,010
Short-term FHLB advances	87,000	87,000	87,000		
Long-term FHLB advances	10,000	10,613		10,613	

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<i>(dollars in thousands)</i>	Carrying Amount	Fair Value Measurements at December 31, 2012			
		Total	Level 1	Level 2	Level 3
<b>Financial Assets</b>					
Cash and cash equivalents	\$ 39,539	\$ 39,539	\$ 39,529	\$	\$
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
<b>Financial Liabilities</b>					
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

**20. Condensed Parent Company Only Financial Statements**

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

**Condensed Balance Sheets****December 31, 2013 and 2012**

<i>(dollars in thousands)</i>	2013	2012
<b>Assets</b>		
Cash in bank	\$ 313	\$ 2,088
Investment securities		4,182
Investment in subsidiary	141,286	135,298
Other assets	650	629
<b>Total assets</b>	<b>\$ 142,249</b>	<b>\$ 142,197</b>
<b>Liabilities</b>		
Shareholders' equity	\$ 340	\$ 623
	141,909	141,574
<b>Total liabilities and shareholders' equity</b>	<b>\$ 142,249</b>	<b>\$ 142,197</b>

**Table of Contents****Condensed Statements of Operations****For the Years Ended December 31, 2013, 2012 and 2011**

<i>(dollars in thousands)</i>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Operating income</b>			
Interest income	\$ 44	\$ 160	\$ 397
Gain on sale of investment	241	163	
Dividend from subsidiary			18,000
<b>Total operating income</b>	<b>285</b>	<b>323</b>	<b>18,397</b>
<b>Operating expenses</b>			
Other expenses	155	163	203
<b>Total operating expenses</b>	<b>155</b>	<b>163</b>	<b>203</b>
<b>Income before income tax expense and equity in undistributed earnings of subsidiary</b>	<b>130</b>	<b>160</b>	<b>18,194</b>
Income tax expense	52	63	76
<b>Income before equity in undistributed earnings of subsidiary</b>	<b>78</b>	<b>97</b>	<b>18,118</b>
Increase (decrease) in equity in undistributed earnings of subsidiary	7,216	9,093	(12,998)
<b>Net income</b>	<b>\$ 7,294</b>	<b>\$ 9,190</b>	<b>\$ 5,120</b>

**Condensed Statements of Cash Flows****For the Years Ended December 31, 2013, 2012 and 2011**

<i>(dollars in thousands)</i>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 7,294	\$ 9,190	\$ 5,120
Adjustments to reconcile net income to net cash provided by operating activities:			
Net amortization of premium/discount on investments	(3)	(6)	(20)
Gain on sale of investment securities	(241)	(163)	
Non-cash compensation	652	612	520
(Increase) decrease in accrued interest and other assets	(21)	(558)	669
Decrease in equity in net income of subsidiary	(7,216)	(9,093)	(5,002)
Dividend from subsidiary			18,000

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(Decrease) increase in accrued expenses and other liabilities	(189)	788	(456)
<b>Net Cash Provided by Operating Activities</b>	<b>276</b>	<b>770</b>	<b>18,831</b>
<b>Cash Flows from Investing Activities</b>			
Proceeds from prepayment on available for sale securities	312	2,437	6,332
Proceeds from sale of available for sale securities	3,837	2,527	
<b>Net cash paid in acquisitions</b>			<b>(26,417)</b>
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>4,149</b>	<b>4,964</b>	<b>(20,085)</b>
<b>Cash Flows from Financing Activities</b>			
Proceeds from exercise of stock options	91	207	75
Purchase of treasury stock	(6,291)	(5,828)	(5,467)
<b>Net Cash Used in Financing Activities</b>	<b>(6,200)</b>	<b>(5,621)</b>	<b>(5,392)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(1,775)</b>	<b>113</b>	<b>(6,646)</b>
<b>Cash and Cash Equivalents as of Beginning of Period</b>	<b>2,088</b>	<b>1,975</b>	<b>8,621</b>
<b>Cash and Cash Equivalents as of End of Period</b>	<b>\$ 313</b>	<b>\$ 2,088</b>	<b>\$ 1,975</b>

**Table of Contents****21. Consolidated Quarterly Results of Operations (unaudited)**

<i>(dollars in thousands, except per share data)</i>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
<b>Year Ended December 31, 2013</b>				
Total interest income	\$ 10,875	\$ 10,852	\$ 11,226	\$ 10,767
Total interest expense	1,025	922	823	733
Net interest income	9,850	9,930	10,403	10,034
Provision for loan losses	520	2,248	453	431
Net interest income after provision for loan losses	9,330	7,682	9,950	9,603
Noninterest income	1,816	2,276	1,780	1,797
Noninterest expense	8,333	8,094	8,003	8,774
Income before income taxes	2,813	1,864	3,727	2,626
Income tax expense	952	621	1,244	919
<b>Net income</b>	<b>\$ 1,861</b>	<b>\$ 1,243</b>	<b>\$ 2,483</b>	<b>\$ 1,707</b>
Earnings per share basic	\$ 0.28	\$ 0.19	\$ 0.38	\$ 0.26
Earnings per share diluted	\$ 0.26	\$ 0.18	\$ 0.37	\$ 0.25

<i>(dollars in thousands, except per share data)</i>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
<b>Year Ended December 31, 2012</b>				
Total interest income	\$ 11,265	\$ 11,230	\$ 12,120	\$ 11,507
Total interest expense	1,313	1,262	1,204	1,135
Net interest income	9,952	9,968	10,916	10,372
Provision for loan losses	712	1,160	56	483
Net interest income after provision for loan losses	9,240	8,808	10,860	9,889
Noninterest income	1,763	1,970	2,160	1,868
Noninterest expense	7,872	8,113	8,462	8,316
Income before income taxes	3,131	2,665	4,558	3,441
Income tax expense	1,071	912	1,506	1,116
<b>Net income</b>	<b>\$ 2,060</b>	<b>\$ 1,753</b>	<b>\$ 3,052</b>	<b>\$ 2,325</b>
Earnings per share basic	\$ 0.30	\$ 0.25	\$ 0.44	\$ 0.34

Earnings per share	diluted	\$	0.29	\$	0.24	\$	0.42	\$	0.33
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## 22. Subsequent Events

On February 14, 2014, Home Bancorp, Inc. (the Company) completed its acquisition of Britton & Koontz Capital Corporation (Britton & Koontz) in accordance with the terms of the Agreement and Plan of Merger, dated as of November 4, 2013, by and between the Company and Britton & Koontz (the Merger Agreement). Immediately after closing and in accordance with the terms of the Merger Agreement, Britton & Koontz Bank, N.A. (Britton & Koontz Bank), which had been the wholly owned subsidiary of Britton & Koontz, was merged with and into Home Bank, the Company's wholly owned subsidiary, with Home Bank as the surviving institution.

As a result of the transaction, Home Bank expanded its market area with three banking offices located in Natchez, Mississippi and two banking offices located in Vicksburg, Mississippi. The combined company has total assets of approximately \$1.2 billion, \$870 million in loans and \$960 million in deposits.

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

Not applicable.

**Item 9A. Controls and Procedures.**

*Evaluation of Disclosure Controls and Procedures*

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of December 31, 2013. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and are operating in an effective manner.

*Management's Report on Internal Control over Financial Reporting*

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

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013 based on the criteria for effective internal control established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2013. Our independent registered public accountants have issued an audit report on the company's internal control over financial reporting. This report appears on page 44.

*Changes in Internal Control over Financial Reporting*

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Securities Exchange Act of 1934) occurred during the fourth fiscal quarter of 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information.**

Not applicable.





**Table of Contents****PART III****Item 10. Directors, Executive Officers and Corporate Governance.**

The information required herein is incorporated by reference from the information contained in the sections captioned Information with Respect to Nominees for Director, Continuing Directors and Executive Officers and Beneficial Ownership of Common Stock by Certain Beneficial Owners and Management Section 16(a) Beneficial Ownership Reporting Compliance in the Company's definitive proxy statement to be filed with the SEC for the 2014 Annual Meeting of Shareholders to be held in May 2014 (the Proxy Statement).

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

**Item 11. Executive Compensation.**

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

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

*Equity Compensation Plan Information.* The following table provides information as of December 31, 2013 with respect to shares of common stock that may be issued under our existing equity compensation plans, which consist of the 2009 Stock Option Plan and 2009 Recognition and Retention Plan, both of which were approved by our shareholders.

Plan Category	Number of securities issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average price of outstanding options, warrants and rights (b)	Number of securities remaining available for
			future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	930,040 <sup>(1)</sup>	\$ 11.92 <sup>(1)</sup>	17,222
Equity compensation plans not approved by security holders			

Total	930,040	\$	11.92	17,222
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- (1) Includes 80,020 shares subject to restricted stock grants which were not vested as of December 31, 2013. The weighted-average exercise price excludes such restricted stock grants.

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

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

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

**Item 14. Principal Accounting Fees and Services.**

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

**PART IV****Item 15. Exhibits and Financial Statement Schedules.**

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

<u>Report of Independent Registered Public Accounting Firm</u>	43
<u>Consolidated Statements of Financial Condition</u>	45
<u>Consolidated Statements of Income</u>	46
<u>Consolidated Statements of Comprehensive Income</u>	47
<u>Consolidated Statements of Changes in Shareholders' Equity</u>	48
<u>Consolidated Statements of Cash Flows</u>	49
<u>Notes to Consolidated Financial Statements</u>	50

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

(3) Exhibits

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

No.	Description	Location
2.1	Purchase and Assumption Agreement, Whole Banks, All Deposits, Among the Federal Deposit Insurance Corporation, Receiver of Statewide Bank, Covington, Louisiana, the Federal Deposit	(1)

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Insurance Corporation and Home Bank, dated as of March 12, 2010

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

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No.	Description	Location
10.6	Amended and Restated Employment Agreement by and between Home Bank and John W. Bordelon*	(5)
10.7	Amended and Restated Employment Agreement by and between Home Bancorp, Inc. and John W. Bordelon*	(5)
10.8	Amended and Restated Employment Agreement by and between Home Bank and Darren E. Guidry*	(5)
10.9	Amended and Restated Employment Agreement by and between Home Bank and Scott T. Sutton*	(5)
10.10	Amended and Restated Employment Agreement by and between Home Bank and Joseph B. Zanco*	(5)
10.11	Home Bancorp, Inc. 2009 Stock Option Plan*	(6)
10.12	Home Bancorp, Inc. 2009 Recognition and Retention Plan and Trust Agreement*	(7)
10.13	Employment Agreement by and between Home Bank and Scott A. Ridley*	(8)
23.1	Consent of Porter Keadle Moore, LLC	Filed herewith
31.1	Rule 13(a)-14(a) Certification of the Chief Executive Officer	Filed herewith
31.2	Rule 13(a)-14(a) Certification of the Chief Financial Officer	Filed herewith
32	Section 1350 Certification	Filed herewith
101.INS	XBRL Instance Document	
101.SCH	XBRL Taxonomy Extension Schema Document	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document	

\* Denotes a management contract or compensatory plan or arrangement.

- (1) Incorporated by reference from the like-numbered exhibit included in the Company's Current Report on Form 8-K, dated as of March 12, 2010, filed March 18, 2010 (SEC File No. 001-34190).
- (2) Incorporated by reference from the like-numbered exhibit included in Home Bancorp's registration statement on Form S-1, filed June 6, 2008 (SEC File No. 333-151492).
- (3) Incorporated by reference from the exhibit included in the Company's Current Report on Form 8-K, dated as of March 23, 2009 and filed March 27, 2009 (SEC File No. 001-34190).
- (4) Incorporated by reference from the exhibit included in the Company's Current Report on Form 8-K, dated as of December 22, 2008 and filed December 29, 2008 (SEC File No. 001-34190).
- (5) Incorporated by reference from the exhibit included in the Company's Current Report on Form 8-K, dated as of March 28, 2011 and filed March 30, 2011 (SEC File No. 001-34190).
- (6) Incorporated by reference from Appendix A to Home Bancorp's definitive proxy statement filed April 1, 2009 (SEC File No. 001-34190) and included in Form S-8, filed June 23, 2009 (SEC File No. 333-160155).

- (7) Incorporated by reference from Appendix B to Home Bancorp's definitive proxy statement filed April 1, 2009 (SEC File No. 001-34190).
- (8) Incorporated by reference from the exhibit included in the Company's Current Report on Form 8-K, dated as of January 27, 2014 and filed January 31, 2014 (SEC File No. 001-34190).
- (b) Exhibits

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

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

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**HOME BANCORP, INC.**

March 14, 2014

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

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

Name	Title	Date
/s/ John W. Bordelon	President, Chief Executive Officer and Director	March 14, 2014
John W. Bordelon		
/s/ Michael P. Maraist	Chairman of the Board	March 14, 2014
Michael P. Maraist		
/s/ Paul J. Blanchet, III	Director	March 14, 2014
Paul J. Blanchet, III		
/s/ Richard J. Bourgeois	Director	March 14, 2014
Richard J. Bourgeois		
/s/ John A. Hendry	Director	March 14, 2014
John A. Hendry		
/s/ Marc W. Judice	Director	March 14, 2014
Marc W. Judice		
/s/ Joseph B. Zanco	Executive Vice President and Chief Financial Officer	March 14, 2014
Joseph B. Zanco		
/s/ Mary H. Hopkins		March 14, 2014



Mary H. Hopkins

Home Bank First Vice President and Director of  
Financial Reporting