HOME BANCORP, INC.
Form 10-K
March 13, 2019
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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, 2018

or

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

Commission File Number: 001-34190

HOME BANCORP, INC.

(Exact name of Registrant as specified in its charter)

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

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

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

Title of each class	**Name of each exchange on which registered**
Common Stock, $0.01 par value per share	**The Nasdaq Stock Market, LLC**

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company

Emerging growth company

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

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

The aggregate market value of the 8,014,907 shares of the Registrant s common stock held by non-affiliates, based upon the closing price of $46.55 for the common stock on June 30, 2018, as reported by the Nasdaq Stock Market, was approximately $373.1 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 4, 2019: 9,495,745

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 2019 Annual Meeting of Shareholders are incorporated by reference into Part III, Items 10-14 of this Form 10-K.

HOME BANCORP, INC.

2018 ANNUAL REPORT ON FORM 10-K

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Forward-Looking Statements

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 or 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) changes in the 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, National Association, a national bank and wholly-owned subsidiary of the Company (for periods prior to March 2, 2015, the term Bank refers to the predecessor federal savings bank, Home Bank). 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 and the holding company for Home Bank, N.A. (the Bank). The Bank, which is headquartered in Lafayette, Louisiana and is a wholly-owned subsidiary of the Company, currently conducts business through 39 banking offices in the Acadiana, Baton Rouge, Greater New Orleans and Northshore (of Lake Pontchartrain) regions of south Louisiana and the Natchez and Vicksburg regions of west Mississippi.

As of March 2, 2015, the Bank converted from a federal savings bank to a national bank with the title Home Bank, National Association. As a result of the Bank s conversion to a national bank, the Company is now subject to regulation as a bank holding company by the Board of Governors of the Federal Reserve System (the FRB or the Federal Reserve). Prior to the Bank s charter conversion, the Company was regulated by the FRB as a savings and loan holding company. In September 2018, the Bank established HB Investment Fund I, LLC, a wholly-owned subsidiary

of the Bank to invest in New Market Tax Credits (NMTC) in our market areas.

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.

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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 general operating expenses, the most significant of which is compensation and benefits.

Although we continue to be an active originator of residential home mortgage loans and other consumer loans in our market areas, our efforts are focused on originating 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 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*, 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: Acadiana, Baton Rouge, Greater New Orleans, and the Northshore (of Lake Pontchartrain) and two primary market areas in west Mississippi: Natchez and Vicksburg. Since completing its initial public offering of stock in October 2008, the Company has acquired five other financial institutions. In 2010, the Company expanded into the Northshore (of Lake Pontchartrain) through a Federal Deposit Insurance Corporation (FDIC) assisted transaction of certain assets and liabilities 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 the acquisition of GS Financial Corporation (GSFC) and its subsidiary, Guaranty Savings Bank (Guaranty). In February 2014, the Company expanded into Natchez and Vicksburg, Mississippi through the acquisition of Britton & Koontz Capital Corporation (Britton & Koontz) and its subsidiary, Britton & Koontz Bank, N.A. (Britton & Koontz Bank). The Bank currently operates three banking offices in Natchez and one banking office in Vicksburg. In September 2015, the Company increased its presence in Greater New Orleans through the acquisition of Louisiana Bancorp, Inc. (LABC) and its subsidiary, Bank of New Orleans. The Bank currently operates six banking offices in the Greater New Orleans area. In December 2017, the Company increased its presence in the Acadiana region through its acquisition of St. Martin Bancshares (SMB) and its subsidiary, St. Martin Bank & Trust Company (St. Martin Bank). The Company now operates 20 banking offices in the Acadiana region. The Bank currently operates three banking offices in Baton Rouge. 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 other banks, 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. 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. More recently, innovations in loan and deposit products brought about by financial technology companies have added to the level of competition for originating loans and attracting deposits.

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, N.A. 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. In the last several years, the Company has experienced heightened regulatory requirements and scrutiny following the global financial crisis and the enactment in 2010 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). Resulting reforms have caused the Company s compliance and risk management processes, and the costs thereof, to increase. The legislation enacted in 2018 and summarized below may reduce some of the burdens associated with implementation of the Dodd-Frank Act, but the actual impact of this administration s policies regarding the Dodd-Frank reforms and the 2018 regulatory reforms is impossible to predict with any certainty.

Federal law provides the federal banking regulators with substantial enforcement powers. The OCC s enforcement authority 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. The FRB has comparable enforcement authority over the Company. In addition, the FDIC, as the insurer of the Bank s deposits, can initiate enforcement proceedings, remove Bank officials and suspend or terminate deposit insurance. Any change in such regulations could have a material adverse impact on the Company and the Bank.

In May 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the Act), was enacted to modify or remove certain financial reform rules and regulations, including some of those implemented under the Dodd-Frank Act. While the Act maintains most of the regulatory structure established by the Dodd-Frank Act, it amends certain aspects of the regulatory framework for small depository institutions with assets of less than $10 billion and for large banks with assets of more than $50 billion. Many of these changes could result in meaningful regulatory relief for community banks such as the Bank

The Act, among other matters, expands the definition of qualified mortgages which may be held by a financial institution and simplifies the regulatory capital rules for financial institutions and their holding companies with total consolidated assets of less than $10 billion by instructing the federal banking regulators to establish a single Community Bank Leverage Ratio of between 8 and 10 percent to replace the leverage and risk-based regulatory capital ratios. The Act also expands the category of holding companies that may rely on the Small Bank Holding Company and Savings and Loan Holding Company Policy Statement by raising the maximum amount of assets a qualifying holding company may have from $1 billion to $3 billion. This expansion also excludes such holding companies from the minimum capital requirements of the Dodd-Frank Act. In addition, the Act includes regulatory relief for community banks regarding regulatory examination cycles, call reports, the Volcker Rule (proprietary trading prohibitions), mortgage disclosures and risk weights for certain high-risk commercial real estate loans.

It is difficult at this time to predict when or how any new standards under the Act will ultimately be applied to us or what specific impact the Act and the final implementing rules and regulations will have on community banks.

Regulation of Home Bancorp, Inc.

The Company was a savings and loan holding company until March 2, 2015, and it is now a bank holding company, subject to regulation, supervision and examination by the Federal Reserve. The Federal Reserve has enforcement authority with respect to the Company similar to that of the OCC over the Bank. Applicable federal law and regulations limit the activities of the Company and require the approval of the Federal Reserve for any acquisition of a subsidiary, including another financial institution or holding company thereof, or a merger or acquisition of the Company. The Company must serve as a source of strength for the Bank, maintaining the ability to provide financial

assistance if the Bank suffers financial distress. These and other Federal Reserve policies may restrict the Company s ability to pay dividends. In addition, dividends from the Company may depend, in part, upon its receipt of dividends from the Bank. If the Company does not have the required capital conservation buffer or otherwise meet its new capital requirements, its ability to pay dividends to its stockholders will be limited.

A bank holding company is required to give the Federal Reserve prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when

combined with the net consideration paid for all such purchases or redemption during the preceding 12 months, is equal to 10% or more of the company s consolidated net worth. The Federal Reserve may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, Federal Reserve order, or any condition imposed by, or written agreement with the Federal Reserve. This notification requirement does not apply to any company that meets the well-capitalized standard for bank holding companies, is well-managed and is not subject to any unresolved supervisory issues.

Permissible Activities. The business activities of the Company are generally limited to those activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act and certain additional activities authorized by the Federal Reserve regulations. The Bank Holding Company Act generally prohibits a bank holding company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank or bank holding company. A bank holding company must obtain Federal Reserve Board approval before acquiring directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, it would own or control more than 5% of such shares (unless it already owns or controls the majority of such shares).

Capital Requirements. Prior to January 1, 2015, there were no Federal Reserve regulations establishing minimum regulatory capital requirements for savings and loan holding companies. On January 1, 2015, new capital requirements generally applicable to both bank holding companies and savings and loan holding companies became effective. The new regulatory capital requirements applicable to the Company are the same as the new capital requirements for the Bank. For a description of these capital requirements, see Regulation of Home Bank, N.A. - Recent Regulatory Capital Regulations.

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 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.

Volcker Rule Regulations. Regulations have been 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 were phased in over a period ending on July 21, 2015. The Company s investment portfolio is in compliance with the various provisions of the Volcker Rule regulations as of December 31, 2018. However, a provision in the Act enacted in May 2018 exempts banks with assets less than $10 billion from the Volcker Rule.

Regulation of Home Bank, N.A.

General. The Bank is subject to regulation and oversight by the OCC extending to all aspects of its operations. As part of this authority, the 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 national banks 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 national banks 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 the 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 insured institutions.

The Dodd Frank Act raises the minimum reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% and requires the FDIC to offset the effect of this increase on insured institutions with assets of less than $10 billion (small institutions). In March 2016, the FDIC adopted a rule to accomplish this by imposing a surcharge on larger institutions commencing when the reserve ratio reaches 1.15% and ending when it reaches 1.35%. The reserve ratio reached 1.15% effective as of June 30, 2016. The surcharge period began effective July 1, 2016 and ended on September 30, 2018 when the reserve ratio reached 1.36%. Small institutions will receive credits for the portion of their regular assessments that contributed to growth in the reserve ratio between 1.15% and 1.35%. The credits will apply to reduce regular assessments by 2.0 basis points for quarters when the reserve ratio is at least 1.38%.

Effective July 1, 2016, the FDIC adopted changes that eliminated its risk-based premium system. Under the new premium system, the FDIC assesses deposit insurance premiums on the assessment base of a depository institution, which is its average total assets reduced by the amount of its average tangible equity. For a small institution (one with assets of less than $10 billion) that has been federally insured for at least five years, effective July 1, 2016, the initial base assessment rate ranges from 3 to 30 basis points, based on the institution s CAMELS composite and component ratings and certain financial ratios; its leverage ratio; its ratio of net income before taxes to total assets; its ratio of nonperforming loans and leases to gross assets; its ratio of other real estate owned to gross assets; its brokered deposits ratio (excluding reciprocal deposits if the institution is well capitalized and has a CAMELS composite rating of 1 or 2); its one year asset growth ratio (which penalizes growth adjusted for mergers in excess of 10%); and its loan mix index (which penalizes higher risk loans based on historical industry charge off rates). The initial base assessment rate is subject to downward adjustment (not below 1.5%) based on the ratio of unsecured debt the institution has issued to its assessment base, and to upward adjustment (which can cause the rate to exceed 30 basis points) based on its holdings of unsecured debt issued by other insured institutions. Institutions with assets of $10 billion or more are assessed using a scorecard method.

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 2018 was 0.000014% 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 the Bank s deposit insurance.

Basel III and Dodd-Frank Act Regulatory Capital Regulations. In July of 2013, the respective U.S. federal banking agencies issued final rules implementing Basel III and the Dodd-Frank Act capital requirements which

became fully phased in on a global basis on January 1, 2019. The 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 Home Bank, a common equity Tier 1 capital ratio of 4.5% became effective on January 1, 2015. The new capital rules also increased the current minimum Tier 1 capital ratio from 4.0% to 6.0% beginning on January 1, 2015. In addition, in order to make capital distributions and pay discretionary bonuses to executive officers without restriction, an institution must also maintain greater than 2.5% in common equity attributable to a capital conservation buffer which became fully phased in on 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 (described below), but incorporate the new common equity Tier 1 capital requirement and the increased Tier 1 RWA requirement into the prompt corrective action framework.

Regulatory Capital Requirements. National banks are required to maintain minimum levels of regulatory capital. Current OCC capital standards require these institutions to satisfy a common equity Tier 1 capital requirement, a leverage capital requirement and a risk-based capital requirement. The common equity Tier 1 capital component generally consists of retained earnings and common stock instruments and must equal at least 4.5% of risk-weighted assets. Leverage capital, also known as core capital, must equal at least 3.0% of adjusted total assets for the most highly rated national banks. Core capital generally consists of common stockholders equity (including retained earnings). An additional cushion of at least 100 basis points is required for all other institutions, which effectively increases their minimum Tier 1 leverage ratio to 4.0% or more. Under the OCC s regulations, the most highly-rated national banks are those that the OCC determines are strong banking organization and are rated composite 1 under the Uniform Financial Institutions Rating System. Under the risk-based capital requested, total capital (a combination of core and supplementary capital) must equal at least 8.0% of risk-weighted assets. The OCC also is authorized to impose capital requirements in excess of these standards on individual institutions on a case-by-case basis.

In determining compliance with the risk-based capital requirement, a national bank 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 national bank 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 ranging from 0% to 1250% based on the risks inherent in the type of assets. The Bank does not have any assets assigned to a risk category over 400%.

National banks must value securities available for sale at amortized cost for regulatory capital purposes. This means that in computing regulatory capital, national banks 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.

At December 31, 2018, the Bank exceeded all of its regulatory capital requirements, with Tier 1, Tier 1 common equity, Tier 1 common equity (to risk-weighted assets) and total risk-based capital ratios of 11.15%, 14.55%, 14.55% and 15.59%, respectively.

As summarized above, in May 2018 the Act amended certain aspects of the Dodd-Frank Act to ease the regulatory burden for small- to medium-sized U. S. banks. The new legislation, among other things, raised the systemically important financial institution (SIFI) threshold which dictates capital requirements and imposed new rules aimed at

simplifying the calculation of regulatory capital ratios.

Any national bank that fails any of the capital requirements is subject to possible enforcement action by the OCC or the FDIC. Such action 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 regulations provide that such actions, through enforcement proceedings or otherwise, could require one or more of a variety of corrective actions.

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.

Capital Category	Total Risk-Based Capital	Tier 1 Risk-Based Capital	Tier 1 Common Equity Capital	Tier 1 Leverage Capital
Well capitalized	10% or more	8% or more	6.5% or more	5% or more
Adequately capitalized	8% or more	6% or more	4.5% or more	4% or more
Undercapitalized	Less than 8%	Less than 6%	Less than 4.5%	Less than 4%
Significantly undercapitalized	Less than 6%	Less than 4%	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 OCC 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, 2018, the Bank was deemed a well-capitalized institution for purposes of the above regulations and as such is not subject to the above mentioned restrictions.

Limitations on Dividends. OCC regulations impose various restrictions on the ability of the Bank to pay dividends. The Bank generally may pay dividends during any calendar year in an amount up to 100% of net income for the year-to-date plus retained net income for the two preceding years, so long as it is well-capitalized after the distribution. If the Bank proposes to pay a dividend when it does not meet its capital requirements or that will exceed these limitations, it must obtain the OCC s prior approval. The OCC may object to a proposed dividend based on safety and soundness concerns. No insured depository institution may pay a dividend if, after paying the dividend, the institution would be undercapitalized. In addition, as noted above, beginning in 2016, if Home Bank does not have the required capital conservation buffer, its ability to pay dividends to the Company will be limited.

Limitations on Transactions with Affiliates. Transactions between a national bank and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a national bank includes any company or entity which controls the national bank or that is controlled by a company that controls the national bank. In a holding company context, the holding company of a national bank (such as the Company) and any companies which are controlled by such holding company are affiliates of the national bank. Generally, Section 23A limits the extent to

which the national bank or its subsidiaries may engage in covered transactions with any one affiliate to an amount equal to 10% of such bank 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 national bank 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 the provision of services and the sale of assets by a national bank to an affiliate.

In addition, Sections 22(g) and (h) of the Federal Reserve Act, place restrictions on loans to executive officers, directors and principal shareholders of a national bank and its affiliates. Under Section 22(h), loans to a director, an executive officer, a greater than 10% shareholder of a national bank and certain affiliated interests of either, may not exceed, together with all other outstanding loans to such person and affiliated interests, a national bank s loans to one borrower limit (generally equal to 15% of the bank 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 bank 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 national bank. Section 22(h) also requires prior board approval for certain loans. In addition, the aggregate amount of extensions of credit by a national bank to all insiders cannot exceed the bank s unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers. The Bank currently is subject to Sections 22(g) and (h) of the Federal Reserve Act, and as of December 31, 2018 was in compliance with the above restrictions.

Consumer Financial Services. The historical structure of federal consumer protection regulation applicable to all providers of consumer financial products and services changed significantly with the establishment of the Consumer Financial Protection Bureau (CFPB) as part of the Dodd-Frank Act reforms. On July 21, 2011, the CFPB commenced operations to supervise and enforce consumer protection laws. The CFPB has broad rulemaking authority for a wide range of consumer protection laws that apply to all providers of consumer products and services, including the Bank, as well as the authority to prohibit unfair, deceptive or abusive acts and practices. CFPB has examination and enforcement authority over providers with more than $10 billion in assets. FDIC-insured institutions with $10 billion or less in assets, like the Bank, continue to be examined by their applicable bank regulators.

Anti-money Laundering. All financial institutions, including national banks, 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. The Bank has established policies and procedures to ensure compliance with these provisions.

Federal Home Loan Bank System. The Bank is a member of the FHLB of Dallas, which is one of 11 regional FHLBs that administer the home financing credit function of various financial 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, 2018, the Bank had $58.7 million of FHLB advances and $726 million available on its line of credit with the FHLB.

As a member, the Bank is required to purchase and maintain stock in the FHLB of Dallas in an amount equal to at least 0.4% of its total assets in Class B-1 stock and activity-based investment of Class B-2 stock equal to 4.1% of its advances outstanding and 2.0% of acquired members advances currently on the Bank s balance sheet. As of December 31, 2018, the Bank had $5.6 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, 2018, the Bank had met its reserve requirement.

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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.

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.

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 multi-family residential, commercial real estate and commercial and industrial loans increased by an aggregate of 98.9%, 81.5% and 65.6%, respectively, from December 31, 2014 through December 31, 2018. Generally, multi-family residential lending, commercial real estate lending and commercial and industrial lending involve a higher degree of risk than single-family residential lending due to a variety of factors. Due to the larger loan balances typically involved in these loans, an adverse development with respect to one loan or one borrower 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, 2018, the largest outstanding balances of our commercial real estate loans, multi-family residential loans, and commercial and industrial loans were $14.6 million, $9.0 million and $8.8 million, respectively. If a large loan were to become non-performing, as we have experienced in the past, 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 multi-family residential, commercial real estate and commercial and industrial loans, the Bank holds a significant portfolio of construction and land loans. As of December 31, 2018, the Bank s construction and land loans amounted to $193.6 million, or 11.7% 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.

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.

Fluctuations in interest rates due to economic conditions and governmental or regulatory policies may adversely affect our net interest income and profitability.

Interest rates are highly sensitive to many factors beyond the Company s control, including general economic conditions and the policies of the FRB and other governmental and regulatory agencies. Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the prepayment of loans, the fair value of existing assets and liabilities, the purchase of investments, the retention and generation of deposits and the rates received on loans and investment securities and paid on deposits or other sources of funding. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our earnings could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. We have adopted asset and liability management policies to mitigate the potential adverse effects of changes in interest rates on net interest income or earnings. However, even with these policies in place, a change in interest rates can impact our results of operations or financial condition.

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 and floods. 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 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.

Economic conditions could result in increases in our level of non-performing loans and/or reduce demand for our products and services, which could have an adverse effect on our results of operations.

Prolonged deteriorating economic conditions could significantly affect the markets in which we do business, the value of our loans and investment securities and our ongoing operations, costs and profitability. Further, declines in real estate values and sales volumes and elevated unemployment levels may result in higher loan delinquencies, increases in our non-performing and classified assets and a decline in demand for our products and services. These events may cause us to incur losses and may adversely affect our financial condition and results of operations. Reduction in problem assets can be slow, and the process can be exacerbated by the condition of the properties securing non-performing loans and the length of time involved in the foreclosure process. To the extent that we must work through the resolution of assets, economic problems may cause us to incur losses and adversely affect our capital, liquidity and financial condition.

Our financial performance and future growth may be negatively affected if we are unable to successfully execute our growth plans, which may include acquisitions.

Over the past several years, we have grown our branch system primarily through acquisitions of other financial institutions. Our ability to successfully acquire other institutions depends on our ability to identify, acquire, and

integrate such institutions into our franchise. Our results of operations could be adversely affected if our analysis of past or future acquisitions 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 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 routinely scrutinize 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, 2018, our allowance for loan losses amounted to $16.3 million, or 0.99% of total loans. Excluding acquired loans, our allowance for loan losses amounted to 1.36% of total loans as of December 31, 2018.

We are subject to certain risks in connection with our strategy of growing through mergers and acquisitions.

Mergers and acquisitions are currently a component of our business model and growth strategy. Accordingly, it is possible that we could acquire other banking institutions, other financial services companies or branches of banks in the future. Acquisitions typically involve the payment of a premium over book and trading values and, therefore, may result in the dilution of our tangible book value per share. Our ability to engage in future mergers and acquisitions depends on various factors, including: (1) our ability to identify suitable merger partners and acquisition opportunities; (2) our ability to finance and complete transactions on acceptable terms and at acceptable prices; and (3) our ability to receive the necessary regulatory and, when required, shareholder approvals. Our inability to engage in an acquisition or merger for any of these reasons could have an adverse impact on the implementation of our business strategies. Furthermore, mergers and acquisitions involve a number of risks and challenges, including: (1) our ability to achieve planned synergies and to integrate the branches and operations we acquire and the internal controls and regulatory functions into our current operations and (2) the diversion of management s attention from existing operations, which may adversely affect our ability to successfully conduct our business and negatively impact our financial results.

Our business is geographically concentrated in south Louisiana and west Mississippi, which are areas where the oil and gas industry has a significant presence. Low prices in crude oil and gas, among other factors, could cause a downturn in the local economy, which could adversely affect the Company s financial condition and results of operations.

Most of our loans are to individuals and businesses located in south Louisiana and west Mississippi. The oil and gas industry has a significant presence in the market areas in which we operate. Regional economic conditions affect the demand for our products and services as well as the ability of our customers to repay loans. While crude oil prices have rebounded somewhat in the past three years, they have declined considerably since mid-2014. Continued fluctuations in crude oil prices could adversely affect our operations and economic conditions in some of our markets during 2019 and future periods, which could adversely affect our future results of operations. Although the Company attempts to mitigate risk by diversifying its borrower base, approximately $45.6 million, or 2.8%, of the Company s loan portfolio at December 31, 2018 was comprised of loans to borrowers in the oil and gas industry (which is also referred to as the energy sector). We had an additional $10.1 million in unfunded loan commitments to companies in the energy sector at such date. At December 31, 2018, $1.5 million of our loans in the energy sector were on nonaccrual status, and $623,000 of our total allowance for loan losses was attributable to energy sector loans. Historically, the oil and gas industry has been an important factor in the local economy in our Acadiana and Natchez

markets. If oil prices continue to remain low, it could have an adverse effect on our customers resulting in increased levels of nonperforming loans, provisions for loan losses and expense associated with loan collection efforts.

Our decisions regarding the fair value of assets acquired could be inaccurate, 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. If our assumptions are incorrect, 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.

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. We record an impairment charge against individual securities if management s review concludes that the decline in value is other than temporary. 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.

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 amount 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.

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 generally accepted accounting principles in the United States (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, the Financial Accounting Standards Board (FASB) and the Securities and Exchange Commission (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 expect that the implementation of a new accounting standard could require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations.

The Financial Accounting Standards Board (FASB) has adopted a new accounting standard that will be effective for the Company and the Bank for our first fiscal year after December 15, 2019. This standard, referred

to as Current Expected Credit Loss (CECL), will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and provide for the expected credit losses as allowances for loan losses. This will change the current method of providing allowances for loan losses that are probable, which we expect to require us to increase our allowance for loan losses, and will likely greatly increase the data we need to collect and review to determine the appropriate level of the allowance for loan losses. Any increase in our allowance for loan losses, or expenses incurred to determine the appropriate level of the allowance for loan losses, may have a material adverse effect on our financial condition and results of operations.

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. 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, governmental agencies that make available low cost or guaranteed loans to certain borrowers and non-traditional financial technology firms that are offering an increasing array of online loan, deposit and treasury management products. Some of our larger competitors have substantially greater resources, technological capabilities, lending limits, 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 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.

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.

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.

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 or all of these problems could have a material adverse effect on our results of operations and financial condition. Although we have security measures, including firewalls and penetration tests, designed to mitigate the possibility of break-ins, breaches and other disruptive problems, there can be no assurance that such security measures will be effective in preventing such problems.

We are dependent on our information technology and telecommunications systems and third-party service providers; systems failures, interruptions and cybersecurity breaches could have a material adverse effect on us.

Our business is dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party service providers. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If significant, sustained or repeated, a system failure or service denial could compromise our ability to operate effectively, damage our reputation, result in a loss of customer business and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on us.

Our third-party service providers may be vulnerable to unauthorized access, computer viruses, phishing schemes and other security breaches. We likely will expend additional resources to protect against the threat of such security breaches and computer viruses, or to alleviate problems caused by such security breaches or viruses. To the extent that the activities of our third-party service providers or the activities of our customers involve the storage and transmission of confidential information, security breaches and viruses could expose us to claims, regulatory scrutiny, litigation costs and other possible liabilities.

The occurrence of fraudulent activity, breaches or failures of our information security controls or cybersecurity-related incidents could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

As a bank, we are susceptible to fraudulent activity, information security breaches and cybersecurity-related incidents that may be committed against us or our customers, which may result in financial losses or increased costs to us or our customers, disclosure or misuse of our information or our customer information, misappropriation of assets, privacy breaches against our customers, litigation or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. Information security breaches and cybersecurity-related incidents may include fraudulent or unauthorized access to systems used by us or our customers, denial or degradation of service attacks and malware or other cyber-attacks. In recent periods, there continues to be a rise in electronic fraudulent activity, security breaches and cyber-attacks within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting commercial bank

accounts. Moreover, in recent periods, several large corporations, including financial institutions and retail companies, have suffered major data breaches, in some cases exposing not only confidential and proprietary corporate information, but also sensitive financial and other personal information of their customers and employees and subjecting them to potential fraudulent activity. Some of our customers may have been affected by these breaches, which could increase their risks of identity theft and other fraudulent activity that could involve their accounts with us.

Information pertaining to us and our customers is maintained, and transactions are executed, on networks and systems maintained by us and certain third-party partners, such as our online banking, mobile banking or accounting

systems. The secure maintenance and transmission of confidential information, as well as execution of transactions over these systems, are essential to protect us and our customers against fraud and security breaches and to maintain the confidence of our customers. Breaches of information security also may occur through intentional or unintentional acts by those having access to our systems or the confidential information of our customers, including employees. In addition, increases in criminal activity levels and sophistication, advances in computer capabilities, new discoveries, vulnerabilities in third-party technologies (including browsers and operating systems) or other developments could result in a compromise or breach of the technology, processes and controls that we use to prevent fraudulent transactions and protect data about us, our customers and underlying transactions, as well as the technology used by our customers to access our systems. Our third-party partners inability to anticipate, or failure to adequately mitigate, breaches of security could result in a number of negative events, including losses to us or our customers, loss of business or customers, damage to our reputation, the incurrence of additional expenses, disruption to our business, additional regulatory scrutiny, penalties or exposure to civil litigation and possible financial liability, any of which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We may be adversely affected by recent changes in U.S. tax laws and regulations.

Changes in tax laws contained in the Tax Cuts and Jobs Act, which was enacted in December 2017, include a number of provisions that have an impact on the banking industry, borrowers and the market for residential real estate. Included in this legislation was a reduction of the corporate income tax rate from 35% to 21%. In addition, other changes included: (i) a lower limit on the deductibility of mortgage interest on single-family residential mortgage loans, (ii) the elimination of interest deductions for home equity loans, (iii) a limitation on the deductibility of business interest expense and (iv) a limitation on the deductibility of property taxes and state and local income taxes.

The recent changes in the tax laws may have an adverse effect on the market for, and valuation of, residential properties, and on the demand for such loans in the future, and could make it harder for borrowers to make their loan payments. If home ownership becomes less attractive, demand for mortgage loans could decrease. The value of the properties securing loans in our loan portfolio may be adversely impacted as a result of the changing economics of home ownership, which could require an increase in our provision for loan losses, which would reduce our profitability and could materially adversely affect our business, financial condition and results of operations.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

We currently conduct business from 20 banking offices in Acadiana, three banking offices in Baton Rouge, six banking offices in Greater New Orleans, six banking offices in the Northshore (of Lake Pontchartrain) region of Louisiana, three banking offices in Natchez, Mississippi, and one banking office in Vicksburg, Mississippi. The Bank owns 37 of its 39 banking offices. The Bank leases the land for one banking office in our Northshore market, and leases one banking office in Acadiana and Greater New Orleans, respectively.

Item 3. Legal Proceedings.

From time-to-time, the Bank is named as a defendant in various legal actions arising from the normal course of business in which damages of various amounts may be claimed. While the amount, if any, of ultimate liability with respect to any 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.

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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, 2018, there were 9,459,050 shares of common stock outstanding, held by approximately 716 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 graph shows a 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 period beginning December 31, 2013 and ending December 2018. The graph below represents $100 invested in our common stock at its closing price on December 31, 2013.

	Period Ending					
Index	**12/31/13**	**12/31/14**	**12/31/15**	**12/31/16**	**12/31/17**	**12/31/18**
Home Bancorp, Inc.	100.00	122.07	140.01	211.19	239.87	199.79
NASDAQ Composite	100.00	113.40	119.89	128.89	165.29	158.87
SNL Bank and Thrift	100.00	111.63	113.89	143.78	169.07	140.45

The stock price information shown above is not necessarily indicative of future price performance. Information used was obtained from S&P Global Market Intelligence, Charlottesville, Virginia. The Company assumes no responsibility for any errors or omissions in such information.

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The Company did not sell any of its equity securities during 2018 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.

(c) On April 26, 2016, the Company announced an additional stock repurchase program (the 2016 Repurchase Program). Under the 2016 Repurchase Program, the Company can repurchase up to 365,000 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 2018 (which were made pursuant to the 2016 Repurchase Program) are set forth in the following table.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
October 1 - October 31, 2018	471	$ 40.77	471	358,215
November 1 - November 30, 2018	17	38.89	17	358,198
December 1 - December 31, 2018	22,116	35.93	22,116	336,082
Total	22,604	$ 36.03	22,604	336,082

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.

	As of December 31,				
(dollars in thousands)	**2018**	**2017**	**2016**	**2015**	**2014**
Selected Financial Condition Data:					
Total assets	$ 2,153,658	$ 2,228,121	$ 1,556,732	$ 1,551,912	$ 1,221,415
Cash and cash equivalents	59,618	150,418	29,315	24,798	29,078
Interest-bearing deposits in banks	939	2,421	1,884	5,144	5,526
Investment securities:					
Available for sale	260,131	234,993	183,730	176,762	174,801
Held to maturity	10,872	13,034	13,365	13,927	11,705
Loans receivable, net	1,633,406	1,642,988	1,215,323	1,214,818	901,208

Intangible assets	66,055	68,033	12,762	15,304	4,266
Deposits	1,773,217	1,866,227	1,248,072	1,244,217	993,573
Federal Home Loan Bank advances	58,698	71,825	118,533	125,153	47,500
Securities sold under repurchase agreements					20,371
Shareholders equity	304,040	277,871	179,843	165,046	154,144

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(dollars in thousands, except per share data)	For the Years Ended December 31, 2018	2017	2016	2015	2014
Selected Operating Data:					
Interest income	$ 102,312	$ 74,398	$ 67,684	$ 58,410	$ 54,323
Interest expense	10,306	6,549	5,268	3,866	3,284
Net interest income	92,006	67,849	62,416	54,544	51,039
Provision for loan losses	3,943	2,317	3,200	2,071	2,364
Net interest income after provision for loan losses	88,063	65,532	59,216	52,473	48,675
Noninterest income	13,447	9,962	11,157	8,770	8,175
Noninterest expense	63,225	46,177	46,797	42,022	41,772
Income before income taxes	38,285	29,317	23,576	19,221	15,078
Income taxes	6,695	12,493	7,568	6,671	5,206
Net income	$ 31,590	$ 16,824	$ 16,008	$ 12,550	$ 9,872
Earnings per share - basic	$ 3.48	$ 2.36	$ 2.34	$ 1.87	$ 1.51
Earnings per share - diluted	$ 3.40	$ 2.28	$ 2.25	$ 1.79	$ 1.42
Cash dividends per share	$ 0.71	$ 0.55	$ 0.41	$ 0.30	$ 0.07

	As of or For the Years Ended December 31, 2018	2017	2016	2015	2014
Selected Operating Ratios: [(1)]					
Average yield on interest-earning assets (TE)	5.15%	4.91%	4.71%	4.75%	4.84%
Average rate on interest-bearing liabilities	0.73	0.59	0.49	0.43	0.39
Average interest rate spread (TE) [(2)]	4.42	4.32	4.22	4.32	4.45
Net interest margin (TE) [(3)]	4.62	4.48	4.34	4.43	4.54
Average interest-earning assets to average interest-bearing liabilities	139.72	135.70	134.34	136.76	133.91
Noninterest expense to average assets	2.93	2.86	3.04	3.14	3.38
Efficiency ratio [(4)]	59.96	59.35	63.61	66.37	70.54
Return on average assets	1.46	1.04	1.04	0.94	0.80
Return on average common equity	10.88	8.63	9.19	7.83	6.65
Return on average tangible common equity (Non-GAAP) [(8)]	14.80	9.66	10.32	8.53	7.16
Common stock dividend payout ratio	20.88	24.12	18.22	16.76	4.93
Average equity to average assets	13.43	12.06	11.30	11.99	12.02
Book value per common share	$ 32.14	$ 29.57	$ 24.47	$ 22.80	$ 21.64
Tangible book value per common share (Non-GAAP) [(9)]	25.16	22.33	22.73	20.68	21.04
Asset Quality Ratios: [(5)] [(6)]					
	1.40%	2.38%	1.39%	0.71%	0.55%

Non-performing loans as a percent of total loans receivable					
Non-performing assets as a percent of total assets	0.97	1.49	1.07	0.51	0.56
Allowance for loan losses as a percent of non-performing loans as of end of period	96.6	63.9	99.4	162.35	191.03
Allowance for loan losses as a percent of net loans as of end of period	1.36	1.52	1.38	1.15	1.04
Capital Ratios: [5] [7]					
Tier 1 risk-based capital ratio	14.55%	12.54%	12.91%	11.61%	16.94%
Leverage capital ratio	11.15	11.66	9.94	8.74	11.96
Total risk-based capital ratio	15.59	13.48	13.96	12.43	17.85

(1) With the exception of end-of-period ratios, all ratios are based on average monthly balances during the respective periods.

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(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 21% for the year ended December 31, 2018 and 35% for the years ended December 31, 2017, 2016, 2015 and 2014.

(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 represent legacy non-performing assets. At December 31, 2018, 2017, 2016, 2015 and 2014, we also had $9.0 million, $2.7 million, $1.5 million, $2.6 million and $4.3 million, respectively, of acquired nonimpaired loans, which were on nonaccrual or 90 days or more past due which are not included in the table above. In addition, not included in the table above are $1.4 million, $584,000, $2.2 million, $3.0 million and $3.4 million, respectively, in acquired assets which were repossessed assets at December 31, 2018, 2017, 2016, 2015 and 2014, respectively, and which are excluded from the asset quality ratios above. See page 26 for the asset quality ratios including acquired nonimpaired loans and acquired repossessed assets. Nonperforming loans consist of nonaccruing loans and loans 90 days or more past due excluding acquired loans. 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, see page 26.

(7) Capital ratios are for Home Bank only.

(8) Tangible calculation eliminates goodwill, core deposit intangible and the corresponding amortization expense, net of tax.

(9) Tangible calculation eliminates goodwill and core deposit intangible.

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

Non-GAAP Reconciliation

	As of or For the Years Ended December 31,				
(dollars in thousands, except per share data)	**2018**	**2017**	**2016**	**2015**	**2014**
Book value per common share	$ 32.14	$ 29.57	$ 24.47	$ 22.80	$ 21.64
Less: Intangibles	6.98	7.24	1.74	2.12	0.60
Tangible book value per common share	25.16	22.33	22.73	20.68	21.04
Net Income	31,590	16,824	16,008	12,550	9,872
Add: CDI amortization, net of tax	1,458	496	521	483	715
Non-GAAP tangible income	33,048	17,320	16,529	13,033	10,587
Return on common equity	10.88%	8.63%	9.19%	7.83%	6.65%

Add: Intangibles	3.92	1.03	1.13	0.70	0.51
Return on average tangible common equity	14.80	9.66	10.32	8.53	7.16

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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, N.A. (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

The Company earned record net income for 2018 of $31.6 million, an increase of 87.8% from the $16.8 million earned in 2017. Diluted earnings per share for 2018 were $3.40, an increase of 49.1% from the $2.28 earned in 2017. The Company s income for the year ended December 31, 2018 was positively impacted by the acquisition St. Martin Bancshares, Inc. (SMB), the holding company for St. Martin Bank & Trust Company (St. Martin Bank) of St. Martinville, Louisiana, on December 6, 2017. Key components of the Company s performance in 2018 are summarized below.

Total assets as of December 31, 2018 were $2.2 billion, a decrease of $74.5 million, or 3.3%, from December 31, 2017. The decrease was primarily due to a reduction in cash and cash equivalents, which was partially offset by an increase in investment securities.

Total loans as of December 31, 2018 were $1.6 billion, a decrease of $8.0 million, or 0.5%, from December 31, 2017. Growth in originated loans was offset by a decrease in the acquired loan portfolio.

Total customer deposits as of December 31, 2018 were $1.8 billion, a decrease of $93.0 million, or 5.0%, from December 31, 2017. Core deposits (i.e., checking, savings, and money market accounts) totaled $1.4 billion as of December 31, 2018, a decrease of $54.8 million, or 3.7%, compared to December 31, 2017. Certificates of deposit (CDs) totaled $351.0 million as of December 31, 2018, a decrease of $38.2 million, or 9.8%, compared to December 31, 2017.

Interest income increased $27.9 million, or 37.5%, in 2018 compared to 2017 primarily due to the impact of SMB s interest-earning assets for a full year period.

Interest expense increased $3.8 million, or 57.4%, in 2018 compared to 2017 primarily due to an increase in the cost of deposits and the addition of SMB s interest-bearing liabilities for the full year. The average cost of deposits increased by 17 basis points during 2018.

The provision for loan losses totaled $3.9 million in 2018, 70.2% higher than the $2.3 million recorded in 2017. The higher provision was primarily due to organic loan growth and further downgrades in certain previously

identified problem credits. The Company s ratio of allowance for loan losses to total loans was 0.99% at December 31, 2018, compared to 0.89% at December 31, 2017. The ratio of the allowance for loan losses to total originated loans decreased to 1.36% at December 31, 2018, compared to 1.52% at December 31, 2017.

Noninterest income increased $3.5 million, or 35.0%, in 2018 compared to 2017 primarily due to the increase in customer accounts as a result of the SMB acquisition.

Noninterest expense increased $17.0 million, or 36.9%, in 2018 compared to 2017 primarily due to growth of the Company s employee base and higher data processing and occupancy costs as a result of the SMB acquisition. The Company incurred $2.0 million and $1.1 million in merger-related expenses during 2018 and 2017, respectively.

Income tax expense decreased by $5.8 million, or 46.4%, to $6.7 million in 2018 compared to $12.5 million in 2017. An updated analysis of the Company s depreciation of certain assets, the recognition of certain tax credits and the absence of a re-measurement charge related to the 2017 Tax Cuts and Jobs Act were the primary drivers for the decrease in income tax expense.

For the year ended December 31, 2018, return on average assets, return on average equity and return on average tangible common equity were 1.46%, 10.88% and 14.80%, respectively, compared to 1.04%, 8.63%, and 9.66% in 2017.

ACQUISITION ACTIVITY

The Company has completed five acquisitions since 2010. The following table is a summary of the Company s acquisition activity as recorded.

SUMMARY OF ACQUISITION ACTIVITY

(dollars in thousands)

Acquisition	Acquisition Date	Total Assets	Total Loans	Goodwill	Core Deposit Intangible	Total Deposits
Statewide Bank	03/12/2010	$ 188,026	$ 110,415	$ 560	$ 1,429	$ 206,925
GS Financial Corporation	07/15/2011	256,677	182,440	296	859	193,518
Britton & Koontz Capital Corporation	02/14/2014	298,930	161,581	43	3,030	216,600
Louisiana Bancorp, Inc.	09/15/2015	352,897	281,583	8,454	1,586	208,670
St. Martin Bancshares, Inc.	12/06/2017	592,852	439,872	49,135	6,766	533,497
Total Acquisitions		$ 1,689,382	$ 1,175,891	$ 58,488	$ 13,670	$ 1,359,210

CRITICAL ACCOUNTING POLICIES

The accounting and financial reporting policies of the Company conform to generally accepted accounting principles in the United States (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.

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 were recorded at fair value at the date of acquisition with no carryover of the allowance for loan losses. As of December 31, 2018, our allowance for loan losses included $1.5 million allocated to Acquired Loans since the date of acquisition. Our accounting policy for Acquired Loans is described below.

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

Originated Loans

Loans originated for investment are reported at the principal balance outstanding net of unearned income. Interest on loans and accretion of unearned income are computed in a manner that approximates a level yield on recorded principal. Interest on loans is recorded as income 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.

Acquired Loans

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

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.

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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.

Business Combinations. Assets and liabilities acquired in business combinations are recorded at their fair value. In accordance with ASC Topic 805, *Business Combinations*, the Company generally records provisional amounts at the time of acquisition based on the information available to the Company. The provisional estimates of fair values may be adjusted for a period of up to one year (measurement period) from the date of acquisition if new information is obtained. Subsequently, adjustments recorded during the measurement period are recognized in the current reporting period.

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 (DTA), which arise from temporary differences between the tax and financial statement recognition of revenues and expenses and enacted changes in tax rates and laws are recognized in the period in which they occur. 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 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 following table shows the composition of the Company s loan portfolio as of the dates indicated.

			December 31,		
(dollars in thousands)	2018	2017	2016	2015	2014
Real estate loans:					
One- to four-family first mortgage	$ 450,363	$ 477,211	$ 341,883	$ 371,238	$ 222,157
Home equity loans and lines	83,976	94,445	88,821	94,060	56,000
Commercial real estate	640,575	611,358	427,515	405,379	352,863
Construction and land	193,597	177,263	141,167	136,803	100,246
Multi-family residential	54,455	50,978	46,369	43,863	27,375
Total real estate loans	1,422,966	1,411,255	1,045,755	1,051,343	758,641
Other loans:					
Commercial and industrial	172,934	185,284	139,810	125,108	104,446
Consumer	53,854	61,256	42,268	47,915	45,881
Total other loans	226,788	246,540	182,078	173,023	150,327
Total loans	$ 1,649,754	$ 1,657,795	$ 1,227,833	$ 1,224,366	$ 908,968

The loan portfolio decreased $8.0 million, or 0.5%, during 2018. Organic loan growth of $153.2 million was offset by paydowns in the Acquired Loan portfolios of $161.3 million. The balance of loans to companies in the energy sector totaled $45.6 million, or 2.8%, of our outstanding loan portfolio at December 31, 2018. In addition to outstanding loans at December 31, 2018, we also had unfunded loan commitments to companies in the energy sector amounting to $10.1 million at such date.

The following table reflects contractual loan maturities as of December 31, 2018, unadjusted for scheduled principal reductions, prepayments, or repricing opportunities. Of the $1.3 billion in loans which have contractual maturity dates subsequent to December 31, 2019, $993.9 million have fixed interest rates and $289.1 million have floating or adjustable interest rates.

	Due In			
(dollars in thousands)	**One year or less**	**One through five years**	**More than five years**	**Total**
One- to four-family first mortgage	$ 32,501	$ 117,422	$ 300,440	$ 450,363
Home equity loans and lines	3,207	13,527	67,242	83,976
Commercial real estate	104,742	337,592	198,241	640,575
Construction and land	123,704	50,548	19,345	193,597
Multi-family residential	17,825	25,123	11,507	54,455
Commercial and industrial	79,984	75,319	17,631	172,934
Consumer	4,877	20,199	28,778	53,854
Total	$ 366,840	$ 639,730	$ 643,184	$ 1,649,754

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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 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, 2018 and 2017, loans identified as impaired and individually evaluated for impairment, excluding Acquired Loans, amounted to $9.9 million and $3.5 million, respectively. As of December 31, 2018 and 2017, acquired impaired loans, which are loans considered to have had deteriorated credit quality at the time of acquisition, amounted to $10.0 million and $14.2 million, respectively. As of December 31, 2018 and 2017, substandard loans, excluding Acquired Loans, amounted to $21.7 million and $27.0 million, respectively. As of December 31, 2018 and 2017, Acquired Loans considered substandard amounted to $24.5 million and $20.3 million, respectively. The rise in acquired substandard loans during 2018 was due primarily to the acquired SMB loan portfolio. The amount of the allowance for loan losses allocated to originated impaired loans totaled $1.2 million and $2.0 million as of December 31, 2018 and 2017, respectively. The amount of allowance for loan losses allocated to Acquired Loans totaled $1.5 million and $504,000, respectively, at such dates. There were no assets classified as doubtful or loss as of December 31, 2018 or 2017.

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. As of December 31, 2018 and 2017, we had a total of $46.2 million and $47.3 million, respectively, in assets classified as substandard. We had no assets classified as doubtful or loss at either date. For additional information, see Note 5 to the Consolidated Financial Statements.

A bank s determination as to the classification of its assets and the amount of its valuation allowances is subject to review by Federal bank regulators which can order the establishment of additional general or specific loss allowances. The Federal banking agencies have adopted an interagency policy statement on the allowance for loan and lease losses. The policy statement provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of allowances and guidance for banking agency examiners to use in determining the adequacy of general valuation guidelines. Generally, the policy statement recommends that institutions have effective systems and controls to identify, monitor and address asset quality problems; that management 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 and troubled debt restructurings, excluding acquired impaired loans, as of the dates indicated.

			December 31,		
(dollars in thousands)	**2018**	**2017**	**2016**	**2015**	**2014**
Nonaccrual loans [1]:					
Real estate loans:					
One-to four-family first mortgage	$ 5,172	$ 3,173	$ 1,724	$ 1,458	$ 2,894
Home equity loans and lines	1,699	1,542	1,088	260	136
Commercial real estate	11,343	8,757	1,963	2,684	1,291
Construction and land	1,594	449	75	156	742
Multi-family residential				763	1,560
Other loans:					
Commercial and industrial	3,988	10,610	8,542	2,458	1,210
Consumer	616	502	361	476	359
Total nonaccrual loans	24,412	25,033	13,753	8,255	8,192
Accruing loans 90 days or more past due					
Total nonperforming loans	24,412	25,033	13,753	8,255	8,192
Foreclosed property	1,558	728	2,893	3,128	5,215
Total nonperforming assets	25,970	25,761	16,646	11,383	13,407
Performing troubled debt restructurings	1,406	2,536	4,650	2,549	1,860
Total nonperforming assets and troubled debt restructurings	$ 27,376	$ 28,297	$ 21,296	$ 13,932	$ 15,267

Nonperforming loans to total loans	1.48%	1.51%	1.12%	0.67%	0.90%
Nonperforming loans to total assets	1.13%	1.12%	0.88%	0.53%	0.67%
Nonperforming assets to total assets	1.21%	1.16%	1.07%	0.73%	1.10%

(1) Table excludes Acquired Loans which were being accounted for under ASC 310-30 because they continue to earn interest from accretable yield regardless of their status as past due or otherwise not in compliance with their contractual terms. Acquired Loans with deteriorated credit quality, which were being accounting for under ASC 310-30 and which were 90 days or more past due, totaled $1.7 million, $4.3 million, $2.7 million, $4.0 million and $5.4 million as of December 31, 2018, 2017, 2016, 2015 and 2014, respectively.

Total nonaccrual loans decreased by $621,000, or 2.5%, to $24.4 million at December 31, 2018, compared to $25.0 million at December 31, 2017. The ratio of non-performing loans to total assets was 1.13% at December 31, 2018, compared to 1.12% at December 31, 2017. A $7.0 million decrease in nonaccrual originated loans was partially offset by a $6.4 million increase in nonaccrual acquired loans. The increase in nonaccrual acquired loans was primarily due to the SMB loan portfolio. Management believes it has sufficient fair-value discounts recorded on the SMB loan portfolio to absorb loan losses associated with these loans without the need for additional provision to the allowance for loan losses.

Net loan charge-offs for 2018 were $2.4 million, compared to $21,000 in 2017. The increase in net loan charge-offs resulted primarily from further deterioration in three commercial loan relationships.

Repossessed assets which are acquired as a result of foreclosure are classified as repossessed assets until sold. Third party property valuations are obtained at the time the asset is repossessed and periodically until the property is liquidated. Repossessed assets are recorded at 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. At December 31, 2018, repossessed assets totaled $1.6 million, an increase of $830,000, or 114.0%, compared to $728,000 at December 31, 2017.

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 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, 2018, $100,000 of the allowance for loan losses was allocated to Acquired Loans accounted for under ASC 310-30.

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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.

	For the Years Ended December 31,				
(dollars in thousands)	**2018**	**2017**	**2016**	**2015**	**2014**
Balance, beginning of year	$ 14,807	$ 12,511	$ 9,547	$ 7,760	$ 6,918
Provision charged to operations	3,943	2,317	3,200	2,071	2,364
Loans charged off:					
One- to four-family first mortgage	(1)	(29)	(33)	(104)	(213)
Home equity loans and lines		(10)	(9)	(27)	(2)
Commercial real estate		(3)			(41)
Construction and land				(111)	(19)
Multi-family residential					
Commercial and industrial	(2,506)	(358)	(242)	(190)	(1,407)
Consumer	(74)	(64)	(162)	(130)	(32)
Recoveries on charged off loans	179	443	210	278	192
Balance, end of year	$ 16,348	$ 14,807	$ 12,511	$ 9,547	$ 7,760

At December 31, 2018, the ratio of allowance for loan losses to total loans was 0.99%, compared to 0.89% at December 31, 2017. Excluding Acquired Loans, the ratio of allowance for loan losses to total originated loans was 1.36% at December 31, 2018, compared to 1.52% at December 31, 2017. The balance of loans to companies in the energy sector totaled $45.6 million, or 2.8%, of outstanding loans at December 31, 2018. In addition to outstanding loans at December 31, 2018, we also had unfunded loan commitments to companies in the energy sector amounting to $10.1 million at such date. The Company remains in close contact with our energy sector borrowers, and continues to monitor economic data to assess the potential indirect impact of low energy prices on our loan portfolio.

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

	December 31,									
	2018		**2017**		**2016**		**2015**		**2014**	
(dollars in thousands)	**Amount**	**% Loans**	**Amount**	**% Loans**	**Amount**	**% Loans**	**Amount**	**% Loans**	**Amount**	**% Loans**
One-to four-family first mortgage	$ 2,136	27.3%	$ 1,663	28.7%	$ 1,511	27.9%	$ 1,464	30.3%	$ 1,310	24.5%
Home equity loans and	1,079	5.1	1,102	5.7	728	7.2	760	7.7	553	6.2

lines										
Commercial real estate	6,125	38.8	4,906	36.9	4,177	34.8	3,152	33.1	2,922	38.8
Construction and land	2,285	11.7	1,749	10.7	1,782	11.5	1,417	11.2	1,101	11.0
Multi-family residential	550	3.3	355	3.1	361	3.8	173	3.6	192	3.0
Commercial and industrial	3,228	10.5	4,530	11.2	3,439	11.4	2,010	10.2	1,161	11.5
Consumer	945	3.3	502	3.7	513	3.4	571	3.9	521	5.0
Total	$ 16,348	100.0%	$ 14,807	100.0%	$ 12,511	100.0%	$ 9,547	100.0%	$ 7,760	100.0%

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Investment Securities

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 Operations Officer, Chief Banking Officer, Chief Credit Officer, Director of Financial Management 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 $23.0 million, or 9.3%, during 2018. Securities available for sale made up 96.0% of the investment securities portfolio as of December 31, 2018. The following table sets forth the amortized cost and market value of our investment securities portfolio as of the dates indicated.

	December 31,					
	2018		2017		2016	
(dollars in thousands)	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
Available for sale:						
U.S. agency mortgage-backed	$ 86,487	$ 85,909	$ 84,639	$ 84,690	$ 78,361	$ 78,931
Collateralized mortgage obligations	145,814	143,591	115,435	113,735	75,193	74,330
Municipal bonds	21,453	21,477	25,362	25,521	21,212	21,428
U.S. government agency	9,169	9,154	11,026	11,047	8,946	9,041
Total available for sale	262,923	260,131	236,462	234,993	183,712	183,730
Held to maturity:						
Municipal bonds	10,872	10,841	13,034	13,055	13,365	13,362
Total held to maturity	10,872	10,841	13,034	13,055	13,365	13,362
Total investment securities	$ 273,795	$ 270,972	$ 249,496	$ 248,048	$ 197,077	$ 197,092

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.

	December 31,		
(dollars in thousands)	2018	2017	2016
Fixed rate:			
Available for sale	$ 234,694	$ 204,143	$ 151,074
Held to maturity	10,872	13,034	13,365
Total fixed rate	245,566	217,177	164,439

Adjustable rate:			
Available for sale	28,229	32,319	32,638
Total adjustable rate	28,229	32,319	32,638
Total investment securities	$ 273,795	$ 249,496	$ 197,077

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, 2018. No tax-exempt yields have been adjusted to a tax-equivalent basis. All amounts are shown at amortized cost.

(dollars in thousands)	Amounts as of December 31, 2018 which mature in: One Year or Less	One Year to Five Years	Five to Ten Years	Over Ten Years	Total
Available for sale:					
U.S. agency mortgage-backed	$ 1,711	$ 15,422	$ 34,182	$ 35,172	$ 86,487
Collateralized mortgage obligations		5,589	18,102	122,123	145,814
Municipal bonds	3,167	9,726	4,929	3,631	21,453
U.S. government agency	3,999		3,802	1,368	9,169
Total available for sale	8,877	30,737	61,015	162,294	262,923
Weighted average yield	2.00%	2.32%	2.45%	2.78%	2.62%
Held to maturity:					
Municipal bonds		5,737	4,087	1,048	10,872
Total held to maturity		5,737	4,087	1,048	10,872
Weighted average yield	%	1.71%	1.86%	1.24%	1.74%
Total investment securities	$ 8,877	$ 36,474	$ 65,102	$ 163,342	$ 273,795
Weighted average yield	2.0%	2.22%	2.41%	2.77%	2.58%

The following table summarizes activity in the Company s investment securities portfolio during 2018.

(dollars in thousands)	Available for Sale	Held to Maturity
Balance, December 31, 2017	$ 234,993	$ 13,034
Purchases	78,462	
Sales		
Principal maturities, prepayments and calls	(50,280)	(1,855)
Amortization of premiums and accretion of discounts	(1,721)	(307)
Decrease in market value	(1,323)	
Balance, December 31, 2018	$ 260,131	$ 10,872

As of December 31, 2018, the Company had a net unrealized loss on its available for sale investment securities portfolio of $2.8 million, compared to a net unrealized loss of $1.5 million as of December 31, 2017.

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.

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.

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Total deposits were $1.8 billion as of December 31, 2018, a decrease of $93.0 million, or 5.0%, compared to $1.9 billion as of December 31, 2017. Core deposits (i.e., checking, savings, and money market accounts) totaled $1.4 billion as of December 31, 2018, a decrease of $54.8 million, or 3.7%, compared to December 31, 2017. Certificates of deposit (CDs) totaled $351.0 million as of December 31, 2018, a decrease of $38.2 million, or 9.8%, compared to December 31, 2017. The following table sets forth the composition of the Company s deposits as of the dates indicated.

	December 31,		Increase/(Decrease)	
(dollars in thousands)	2018	2017	Amount	Percent
Demand deposit	$ 438,146	$ 461,999	$ (23,853)	(5.2)%
Savings	201,393	217,639	(16,246)	(7.5)
Money market	295,705	306,509	(10,804)	(3.5)
NOW	486,979	490,924	(3,945)	(0.8)
Certificates of deposit	350,994	389,156	(38,162)	(9.8)
Total deposits	$ 1,773,217	$ 1,866,227	$ (93,010)	(5.0)%

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

	For the Years Ended December 31,								
(dollars in thousands)	2018			2017			2016		
	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	$ 990,733	$ 5,287	0.53%	$ 731,660	$ 2,422	0.33%	$ 672,444	$ 1,577	0.23%
Certificates of deposit	356,296	3,789	1.06	295,929	2,739	0.93	267,878	2,124	0.79
Total interest-bearing deposits	$ 1,347,029	$ 9,076	0.67%	$ 1,027,589	$ 5,161	0.50%	$ 940,322	$ 3,701	0.39%

Certificates of deposit in the amount of $100,000 and over decreased $26.0 million, or 12.7%, from $204.9 million as of December 31, 2017 to $178.9 million as of December 31, 2018. The following table details the remaining maturity of large-denomination certificates of deposit of $100,000 and over as of the dates indicated.

	December 31,		
(dollars in thousands)	2018	2017	2016
3 months or less	$ 26,512	$ 59,087	$ 19,795
3 - 6 months	31,720	31,649	20,175
6 - 12 months	43,507	51,813	25,405
12 - 36 months	71,550	50,753	51,376
More than 36 months	5,561	11,556	11,212

Total certificates of deposit greater than $100,000	$ 178,850	$ 204,858	$ 127,963

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.

The Company had no short-term FHLB advances as of December 31, 2018, compared to $3.6 million as of December 31, 2017.

Long-term FHLB advances totaled $58.7 million as of December 31, 2018, a decrease of $9.5 million, or 13.9%, compared to $68.2 million as of December 31, 2017.

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, 2018, shareholders equity totaled $304.0 million, an increase of $26.2 million, or 9.4%, compared to $277.9 million as of December 31, 2017. The increase was primarily due to the Company s earnings for the year ended December 31, 2018.

RESULTS OF OPERATIONS

The Company earned net income of $31.6 million in 2018, an increase of $14.8 million, or 87.8%, compared to 2017. The Company s net income of $16.8 million in 2017 was an increase of $816,000, or 5.1%, compared to 2016. Diluted earnings per share for 2018 were $3.40, an increase of 49.1% from 2017. Diluted earnings per share for 2017 were $2.28, an increase of 1.3% from 2016.

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 $92.0 million in 2018, an increase of $24.2 million, or 35.6%, compared to $67.8 million in 2017. The increase was due to a $27.9 million, or 37.5%, increase in interest income, which was partially offset by a $3.8 million, or 57.4%, increase in interest expense. The increases in 2018 compared to 2017 were primarily due to the addition of SMB s interest-earning assets and interest-bearing liabilities for the full year.

In 2017, net interest income totaled $67.8 million, an increase of $5.4 million, or 8.7%, compared to $62.4 million in 2016. The increase was due to a $6.7 million, or 9.9%, increase in interest income, which was partially offset by a $1.3 million, or 24.3%, increase in interest expense. The increases in 2017 compared to 2016 were primarily due to an increase in accretion income of $3.1 million and a higher volume of average interest-earning assets.

The Company s net interest spread was 4.42%, 4.32%, and 4.22% for the years ended December 31, 2018, 2017, and 2016, respectively. The Company s net interest margin, which is net interest income as a percentage of average interest-earning assets, was 4.62%, 4.48%, and 4.34% during the years ended December 31, 2018, 2017, and 2016, respectively.

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 have been calculated using marginal tax rates of 21% for 2018 and 35% for 2017 and 2016.

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(dollars in thousands)	For the Years Ended December 31, 2018			2017			2016		
	Average Balance	**Interest**	**Average Yield/ Rate**	**Average Balance**	**Interest**	**Average Yield/ Rate**	**Average Balance**	**Interest**	**Average Yield/ Rate**
Interest-earning assets:									
Loans receivable[1]	$ 1,636,844	$ 94,303	5.71%	$ 1,253,576	$ 69,167	5.47%	$ 1,225,690	$ 63,731	5.15%
Investment securities (TE)									
Taxable	240,334	5,948	2.47	180,208	3,894	2.16	152,426	3,002	1.97
Tax-exempt	33,971	708	2.64	31,908	637	3.07	34,168	675	3.04
Total investment securities	274,305	6,656	2.50	212,116	4,531	2.30	186,594	3,677	2.17
Other interest-earning assets	65,008	1,353	2.08	43,316	700	1.61	19,695	276	1.40
Total interest-earning assets (TE)	1,976,157	102,312	5.15	1,509,008	74,398	4.91	1,431,979	67,684	4.71
Noninterest-earning assets	184,785			106,730			109,761		
Total assets	$ 2,160,942			$ 1,615,738			$ 1,541,740		
Interest-bearing liabilities:									
Deposits:									
Savings, checking and money market	$ 990,733	$ 5,287	0.53%	$ 731,660	$ 2,422	0.33%	$ 672,444	$ 1,577	0.23%
Certificates of deposit	356,296	3,789	1.06	295,929	2,739	0.93	267,878	2,124	0.79
Total interest-bearing deposits	1,347,029	9,076	0.67	1,027,589	5,161	0.50	940,322	3,701	0.39
Other borrowings	1,229	46	3.79						
FHLB advances	66,138	1,184	1.79	84,404	1,388	1.64	125,653	1,567	1.24
Total interest-bearing liabilities	1,414,396	10,306	0.73	1,111,993	6,549	0.59	1,065,975	5,268	0.49
Noninterest-bearing liabilities	456,229			308,872			301,515		
Total liabilities	1,870,625			1,420,865			1,367,490		
Shareholders equity	290,317			194,873			174,250		

Total liabilities and shareholders equity	$ 2,160,942			$ 1,615,738			$ 1,541,740		
Net interest-earning assets	$ 561,761			$ 397,015			$ 366,004		
Net interest income; net interest spread (TE)		$ 92,006	4.42%		$ 67,849	4.32%		$ 62,416	4.22%
Net interest margin (TE)			4.62%			4.48%			4.34%

(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.

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).

	2018 Compared to 2017 Change Attributable To			**2017 Compared to 2016 Change Attributable To**		
(dollars in thousands)	**Rate**	**Volume**	**Total Increase (Decrease)**	**Rate**	**Volume**	**Total Increase (Decrease)**
Interest income:						
Loans receivable	$ 3,505	$ 21,631	$ 25,136	$ 4,017	$ 1,419	$ 5,436
Investment securities	595	1,530	2,125	339	515	854
Other interest-earning assets	253	400	653	67	357	424
Total interest income	4,353	23,561	27,914	4,423	2,291	6,714
Interest expense:						

	2018 Compared to 2017 Change Attributable To			2017 Compared to 2016 Change Attributable To		
(dollars in thousands)	Rate	Volume	Total Increase (Decrease)	Rate	Volume	Total Increase (Decrease)
Savings, checking and money market accounts	1,842	1,023	2,865	657	188	845
Certificates of deposit	450	600	1,050	374	241	615
Other borrowings		46	46			
FHLB advances	64	(268)	(204)	187	(366)	(179)
Total interest expense	2,356	1,401	3,757	1,218	63	1,281
Increase (decrease) in net interest income	$ 1,997	$ 22,160	$ 24,157	$ 3,205	$ 2,228	$ 5,433

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, 2018, the Company recorded a provision for loan losses of $3.9 million, compared to $2.3 million and $3.2 million for 2017 and 2016, respectively. The provision for 2018 was primarily due to organic loan growth and downgrades in two organic loan relationships. Similarly, the provision for 2017 and 2016 primarily related to downgrades recorded on certain loans as a result of our internal loan review and classification policy, as well as organic loan growth.

Net charge-offs were $2.4 million for 2018, compared to $21,000 and $237,000 for 2017 and 2016, respectively. The increase in net charge-offs in 2018 was primarily due to the deterioration of three previously recognized non-performing commercial and industrial loan relationships.

At December 31, 2018, the Company s ratio of allowance for loan losses to total loans was 0.99%, compared to 0.89% at December 31, 2017. Excluding Acquired Loans, the ratio of allowance for loan losses to total originated loans was

1.36% at December 31, 2018, compared to 1.52% at December 31, 2017.

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

(dollars in thousands)	**2018**	**2017**	**2018 vs 2017 Percent Increase (Decrease)**	**2016**	**2017 vs 2016 Percent Increase (Decrease)**
Noninterest income:					
Service fees and charges	$ 6,370	$ 4,229	50.6%	$ 4,061	4.1%
Bank card fees	4,494	3,003	49.7	2,603	15.4
Gain on sale of loans, net	872	1,196	(27.1)	1,770	(32.4)
Income from bank-owned life insurance	656	494	32.8	483	2.3
(Loss) gain on sale of assets, net	(52)	(162)	67.9	595	(127.2)
Other income	1,107	1,202	(7.9)	1,645	(26.9)
Total noninterest income	$ 13,447	$ 9,962	35.0%	$ 11,157	(10.7)%

2018 compared to 2017

Noninterest income for 2018 totaled $13.4 million, an increase of $3.5 million, or 35.0%, compared to 2017. The increase was primarily due to the increase in customer accounts primarily as a result of the SMB acquisition, which led to an increase in service fees and charges (up $2.1 million) and bank card fees (up $1.5 million).

2017 compared to 2016

Noninterest income for 2017 totaled $10.0 million, a decrease of $1.2 million, or 10.7%, compared to 2016. The decrease in 2017 was primarily the result of decreases in gains on the sale of assets (down $758,000 due to a write down taken on the closure of a banking center in Vicksburg, Mississippi in 2017 compared to a gain on the sale of a banking center in 2016), gains on the sale of mortgage loans (down $574,000) and other income (down $442,000 primarily due to fewer recoveries on previously charged off Acquired Loans), which were partially offset by increases in bank card fees (up $400,000) and service fees and charges (up $168,000).

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

(dollars in thousands)	**2018**	**2017**	**2018 vs 2017 Percent Increase (Decrease)**	**2016**	**2017 vs 2016 Percent Increase (Decrease)**
Noninterest expense:					
Compensation and benefits	$ 36,796	$ 28,162	30.7%	$ 27,634	1.9%
Occupancy	6,658	5,065	31.5	5,255	(3.6)
Marketing and advertising	1,162	1,008	15.3	1,063	(5.2)
Data processing and communication	7,646	4,329	76.6	4,967	(12.8)
Professional services	1,119	1,590	(29.6)	983	61.7
Forms, printing and supplies	973	594	63.8	623	(4.7)
Franchise and shares tax	1,030	948	8.6	821	15.4
Regulatory fees	1,559	1,264	23.3	1,317	(4.0)
Foreclosed assets, net	397	(298)	233.2	140	(313.4)

Amortization of acquisition intangible	1,845	763	141.8	801	(4.7)
Other expenses	4,040	2,752	46.8	3,193	(13.8)
Total noninterest expense	$ 63,225	$ 46,177	36.9%	$ 46,797	(1.3)%

2018 compared to 2017

Noninterest expense for 2018 totaled $63.2 million, an increase of $17.0 million, or 36.9%, from 2017. Noninterest expense included merger-related expenses of $2.0 million and $1.1 million for the years ended December 31, 2018 and 2017, respectively. The increase in noninterest expense in 2018 primarily reflects the

overall growth of the Company due to the SMB acquisition. An increase in the Company s employee and customer base resulted in higher compensation expense (up $8.6 million), higher data processing costs (up $3.3 million) and occupancy expense (up $1.6 million).

2017 compared to 2016

Noninterest expense for 2017 totaled $46.2 million, a decrease of $620,000, or 1.3%, from 2016. Noninterest expense includes merger-related expenses of $1.1 million and $856,000 for the years ended December 31, 2017 and 2016, respectively. Excluding merger-related expenses, noninterest expense decreased $849,000, or 1.8%, during 2017. The decrease was primarily the result of lower foreclosed assets expenses (down $437,000), other expenses (down $342,000), data processing and communications (down $239,000), occupancy (down $176,000) and professional services (down $168,000), which were partially offset by higher compensation and benefits (up $458,000).

Income Taxes For the years ended December 31, 2018, 2017 and 2016, the Company incurred income tax expense of $6.7 million, $12.5 million and $7.6 million, respectively. The reduction in income tax expense in 2018 compared to 2017 reflects, in part, the effects of the change in the federal corporate statutory tax rate from 35% to 21% as a result of the Tax Cuts and Jobs Act (the 2017 Tax Act). The Company s effective tax rate amounted to 17.5%, 42.6% and 32.1% during 2018, 2017 and 2016, respectively. The reduced effective tax rate recorded for the year ended December 31, 2018 was partially the result of two federal income tax related items. An updated analysis of the Company s depreciation of certain assets as a result of a cost segregation study reduced 2018 income tax expense by $819,000, and the recognition of certain tax credits and benefits upon the Company s new investment in a New Market Tax Credit (NMTC) project reduced 2018 income tax expense by an additional $400,000. The benefit of the cost segregation study is not expected to be recurring, while the savings related to the NMTC are expected to be achieved annually for the next six years.

The higher effective tax rate recorded for the year ended 2017 was the result of the 2017 Tax Act. The 2017 Tax Act reduced the federal corporate statutory tax rate from 35% to 21%, which required a re-measurement charge of the Company s deferred tax asset (DTA) of $2.7 million in the fourth quarter of 2017. The carrying value of our DTA was reduced reflecting lower future tax benefits due to the lower corporate tax rate. The effective tax rate for the year ended 2016 was lower than the 2016 statutory tax rate due primarily to the adoption of ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.

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, 2018, our cash and cash equivalents totaled $59.6 million. In addition, as of such date, our available for sale investment securities totaled $260.1 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, 2018, we had certificates of deposit maturing within the next 12 months totaling $203.4 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, 2018, the average balance of our outstanding FHLB advances was $66.1 million. As of December 31, 2018, we had $58.7 million in outstanding FHLB advances and $726.0 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, 2018.

Shift in Interest Rates (in bps)	% Change in Projected Net Interest Income
+300	(1.5)%
+200	(0.6)
+100	0.0

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

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. ALCO is responsible for reviewing our asset/liability and investment policies and interest rate risk position. ALCO meets at least monthly. The extent of the movement of interest rates is an uncertainty that could have a negative impact on future earnings.

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

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

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

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

OFF-BALANCE SHEET ACTIVITIES

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

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

	Contract Amount	
(dollars in thousands)	**2018**	**2017**
Standby letters of credit	$ 4,288	$ 6,620
Available portion of lines of credit	186,446	203,367
Undisbursed portion of loans in process	108,307	78,578
Commitments to originate loans	92,656	96,183

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

Unfunded commitments under commercial lines-of-credit 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, 2018.

(dollars in thousands)	**Less Than One Year**	**One to Three Years**	**Three to Five Years**	**Over Five Years**	**Total**
Unused commercial lines of credit	$ 79,837	$ 29,337	$ 6,146	$ 590	$ 115,910
Unused personal lines of credit	3,400	4,509	8,886	53,741	70,536

Undisbursed portion of loans in process	70,699	33,279	2,049	2,280	108,307
Standby letters of credit	2,757	1,531			4,288
Commitments to originate loans	90,468	2,188			92,656
Total	$ 247,161	$ 70,844	$ 17,081	$ 56,611	$ 391,697

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, 2018 are shown in the following table.

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(dollars in thousands)	2019	2020	2021	2022	2023	Thereafter	Total
Operating leases	$ 576	$ 581	$ 581	$ 581	$ 581	$ 1,095	$ 3,995
Certificates of deposit	203,414	92,237	40,534	10,638	3,449	722	350,994
Long-term FHLB advances	15,120	30,475	1,617	6,788	156	4,542	58,698
Total	$ 219,110	$ 123,293	$ 42,732	$ 18,007	$ 4,186	$ 6,359	$ 413,687

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 and Shareholders

Home Bancorp, Inc.

Lafayette, Louisiana

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated statements of financial condition of Home Bancorp, Inc. and subsidiary (the Company) as of December 31, 2018 and 2017, 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, 2018, and the related notes (collectively, the consolidated financial statements). We also have audited the Company s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

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, 2018 and 2017, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

Basis for Opinions

The Company s management is responsible for these consolidated financial statements, 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 Report of Management. Our responsibility is to express an opinion on the Company s consolidated financial statements and an opinion on the Company s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

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Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

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 consolidated 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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated 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 (3) 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 consolidated 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.

We have served as the Company s auditor since 2009.

/s/ Porter Keadle Moore, LLC

Atlanta, Georgia
March 13, 2019

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HOME BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(dollars in thousands)	December 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$ 59,618	$ 150,418
Interest-bearing deposits in banks	939	2,421
Investment securities available for sale, at fair value	260,131	234,993
Investment securities held to maturity (fair values of $10,841 and $13,055, respectively)	10,872	13,034
Mortgage loans held for sale	2,086	5,873
Loans, net of unearned income	1,649,754	1,657,795
Allowance for loan losses	(16,348)	(14,807)
Total loans, net of unearned income and allowance for loan losses	1,633,406	1,642,988
Office properties and equipment, net	47,124	45,605
Cash surrender value of bank-owned life insurance	29,560	28,904
Goodwill and core deposit intangibles	66,055	68,033
Accrued interest receivable and other assets	43,867	35,852
Total Assets	$ 2,153,658	$ 2,228,121
Liabilities		
Deposits:		
Noninterest-bearing	$ 438,146	$ 461,999
Interest-bearing	1,335,071	1,404,228
Total deposits	1,773,217	1,866,227
Other borrowings	5,539	
Short-term Federal Home Loan Bank advances		3,642
Long-term Federal Home Loan Bank advances	58,698	68,183
Accrued interest payable and other liabilities	12,164	12,198
Total Liabilities	1,849,618	1,950,250
Shareholders Equity		
Preferred stock, $0.01 par value - 10,000,000 shares authorized; none issued		
Common stock, $0.01 par value - 40,000,000 shares authorized; 9,459,050 and 9,395,488 shares issued and outstanding, respectively	95	94
Additional paid-in capital	168,243	165,341
Unallocated common stock held by:		
Employee Stock Ownership Plan (ESOP)	(3,481)	(3,838)
Recognition and Retention Plan (RRP)	(58)	(84)

Retained earnings	141,447	117,313
Accumulated other comprehensive loss	(2,206)	(955)
Total Shareholders Equity	304,040	277,871
Total Liabilities and Shareholders Equity	$ 2,153,658	$ 2,228,121

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

(dollars in thousands except per share data)	Years Ended December 31, 2018	2017	2016
Interest Income			
Loans, including fees	$ 94,303	$ 69,168	$ 63,731
Investment securities:			
Taxable interest	5,948	3,894	3,002
Tax-exempt interest	708	637	675
Other investments and deposits	1,353	699	276
Total interest income	102,312	74,398	67,684
Interest Expense			
Deposits	9,076	5,161	3,701
Other borrowings expense	46		
Short-term Federal Home Loan Bank advances	40	99	188
Long-term Federal Home Loan Bank advances	1,144	1,289	1,379
Total interest expense	10,306	6,549	5,268
Net interest income	92,006	67,849	62,416
Provision for loan losses	3,943	2,317	3,200
Net interest income after provision for loan losses	88,063	65,532	59,216
Noninterest Income			
Service fees and charges	6,370	4,229	4,061
Bank card fees	4,494	3,003	2,603
Gain on sale of loans, net	872	1,196	1,770
Income from bank-owned life insurance	656	494	483
Gain (loss) on sale of assets, net	(52)	(162)	595
Other income	1,107	1,202	1,645
Total noninterest income	13,447	9,962	11,157
Noninterest Expense			
Compensation and benefits	36,796	28,162	27,634
Occupancy	6,658	5,065	5,255
Marketing and advertising	1,162	1,008	1,063
Data processing and communication	7,646	4,329	4,967
Professional services	1,119	1,590	983
Forms, printing and supplies	973	594	623
Franchise and shares tax	1,030	948	821

Regulatory fees	1,559	1,264	1,317
Foreclosed assets, net	397	(298)	140
Amortization of acquisition intangible	1,845	763	801
Other expenses	4,040	2,752	3,193
Total noninterest expense	63,225	46,177	46,797
Income before income tax expense	38,285	29,317	23,576
Income tax expense	6,695	12,493	7,568
Net Income	$ 31,590	$ 16,824	$ 16,008
Earnings per share:			
Basic	$ 3.48	$ 2.36	$ 2.34
Diluted	$ 3.40	$ 2.28	$ 2.25
Cash dividends declared per common share	$ 0.71	$ 0.55	$ 0.41

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

(dollars in thousands)	For the Years Ended December 31, 2018	2017	2016
Net Income	$ 31,590	$ 16,824	$ 16,008
Other Comprehensive Loss			
Unrealized losses on investment securities	(1,323)	(1,487)	(1,323)
Tax effect	278	520	463
Other comprehensive loss, net of taxes	(1,045)	(967)	(860)
Comprehensive Income	$ 30,545	$ 15,857	$ 15,148

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

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HOME BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(dollars in thousands except share and per share data)	Common Stock	Additional Paid-in Capital	Unallocated Common Stock Held by ESOP	Unallocated Common Stock Held by RRP	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2015	$ 72	$ 76,949	$ (4,553)	$ (159)	$ 91,865	$ 872	$ 165,046
Net income					16,008		16,008
Other comprehensive loss						(860)	(860)
Purchase of Company s common stock at cost, 12,826 shares		(128)			(229)		(357)
Cash dividends declared, $0.41 per share					(2,988)		(2,988)
Common Stock issued under incentive plans, net of shares surrendered in payment, including tax benefit, 3,877 shares	1	3			(9)		(5)
Exercise of stock options	1	1,415					1,416
RRP shares released for allocation		(26)		39			13
ESOP shares released for allocation		843	357				1,200
Share-based compensation cost		370					370
Balance, December 31, 2016	$ 74	$ 79,426	$ (4,196)	$ (120)	$ 104,647	$ 12	$ 179,843
Net income					16,824		16,824
Other comprehensive loss						(967)	(967)
Purchase of Company s common stock at cost, 1,776 shares		(17)			(53)		(70)
Cash dividends declared, $0.55 per share					(4,070)		(4,070)
Common Stock issued under incentive plans, net of shares surrendered in payment, including tax benefit, 8,485 shares		34			(35)		(1)
Exercise of stock options	1	1,192					1,193
RRP shares released for allocation		(12)		36			24
ESOP shares released for allocation		1,261	358				1,619
Share-based compensation cost		516					516
Common stock issued for acquisition, 1,936,117 shares	19	82,941					82,960
Balance, December 31, 2017	$ 94	$ 165,341	$ (3,838)	$ (84)	$ 117,313	$ (955)	$ 277,871

Net income					31,590		31,590
Other comprehensive loss						(1,045)	(1,045)
Reclassification of stranded tax effects in accumulated other comprehensive income[1]					206	(206)	
Purchase of Company s common stock at cost, 30,887 shares		(309)			(885)		(1,194)
Cash dividends declared, $0.71 per share					(6,706)		(6,706)
Common Stock issued under incentive plans, net of shares surrendered in payment, including tax benefit, 17,691 shares		141			(71)		70
Exercise of stock options	1	913					914
RRP shares released for allocation		(26)		26			
ESOP shares released for allocation		1,442	357				1,799
Share-based compensation cost		741					741
Balance, December 31, 2018	$ 95	$ 168,243	$ (3,481)	$ (58)	$ 141,447	$ (2,206)	$ 304,040

(1) See Note 2 - Recent Accounting Pronouncements

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

(dollars in thousands)	**Years Ended December 31, 2018**	**2017**	**2016**
Cash flows from operating activities, net of effects of acquisitions:			
Net income	$ 31,590	$ 16,824	$ 16,008
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	3,943	2,317	3,200
Depreciation	2,504	1,959	1,795
Amortization and accretion of purchase accounting valuations and intangibles	8,288	6,635	3,256
Net amortization of mortgage servicing asset	151	200	254
Federal Home Loan Bank stock dividends	(125)	(109)	(87)
Net amortization of premium on investments	2,027	1,717	1,653
Gain on loans sold, net	(872)	(1,196)	(1,770)
Proceeds, including principal payments, from loans held for sale	98,471	123,321	179,639
Originations of loans held for sale	(93,812)	(123,842)	(176,373)
Non-cash compensation	2,540	2,135	1,570
Deferred income tax expense (benefit)	2,137	2,512	(321)
Impact of Tax Cuts and Jobs Act on deferred taxes		2,721	
Increase in accrued interest receivable and other assets	(8,970)	(3,497)	(589)
Increase in cash surrender value of bank-owned life insurance	(656)	(494)	(483)
Decrease in accrued interest payable and other liabilities	(88)	(6,451)	(7,264)
Net cash provided by operating activities	47,128	24,752	20,488
Cash flows from investing activities, net of effects of acquisitions:			
Purchases of securities available for sale	(78,462)	(56,997)	(47,076)
Proceeds from maturities, prepayments and calls on securities available for sale	50,280	39,606	37,458
Proceeds from maturities, prepayments and calls on securities held to maturity	1,855		235
Proceeds from sales on securities available for sale		17,040	
(Increase) decrease in loans, net	(2,177)	4,040	(7,062)
Reimbursement from FDIC for covered assets	26	142	51
Decrease in interest-bearing deposits in banks	1,482	693	3,260
Proceeds from sale of repossessed assets	731	2,847	1,411
Purchases of office properties and equipment	(5,010)	(1,915)	(4,112)
Proceeds from sale of office properties and equipment	1,051	827	4,335
Cash received in excess of cash paid in business combination		68,212	
Proceeds from redemption of Federal Home Loan Bank stock		4,180	
Investment in new market tax credit	5,539		

Net cash (used in) provided by investing activities	(24,685)	78,675	(11,500)
Cash flows from financing activities, net of effects of acquisitions:			
(Decrease) increase in deposits, net	(93,106)	84,657	3,943
Borrowings on Federal Home Loan Bank advances	3,000	130,750	2,642,250
Repayments of Federal Home Loan Bank advances	(16,221)	(194,783)	(2,648,730)
Proceeds from exercise of stock options	914	1,193	1,416
Issuance of stock under incentive plans	70	(1)	(5)
Dividends paid to shareholders	(6,706)	(4,070)	(2,988)
Purchase of Company s common stock	(1,194)	(70)	(357)
Net cash (used in) provided by financing activities	(113,243)	17,676	(4,471)
Net change in cash and cash equivalents	(90,800)	121,103	4,517
Cash and cash equivalents at beginning of year	150,418	29,315	24,798
Cash and cash equivalents at end of year	$ 59,618	$ 150,418	$ 29,315
Supplementary cash flow information:			
Interest paid on deposits and borrowed funds	$ 10,391	$ 6,549	$ 5,207
Income taxes paid	5,075	10,053	7,913
Noncash investing and financing activities:			
Transfer of loans to repossessed assets	$ 1,816	$ 535	$ 1,885
Common stock issued in consideration of St. Martin Bancshares, Inc.		82,960	
Assets acquired and liabilities assumed in acquisitions:			
Assets acquired in acquisitions		592,896	
Liabilities assumed in acquisitions		559,202	

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

HOME BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

Home Bancorp, Inc., a Louisiana Corporation (the Company), was organized by Home Bank (a federally-chartered savings bank and the predecessor of Home Bank, N.A.) (the Bank) in May 2008 to facilitate the conversion of the Bank from the mutual to the stock form (the Conversion) of ownership. The Conversion was completed on October 2, 2008, at which time the Company became the holding company for the Bank, with the Company owning all of the issued and outstanding shares of the Bank s common stock. The Company and Bank are headquartered in Lafayette, Louisiana. As of December 31, 2018, the Company was a bank holding company.

As of December 31, 2018, Home Bank, N.A. was a nationally-chartered bank. The Bank was originally chartered in 1908 as a Louisiana state-chartered savings association. The Bank converted to a federal mutual savings bank charter in 1993, and, in May 2015, the Bank became a national bank. In September 2018, the Bank established HB Investment Fund I, LLC, a wholly-owned subsidiary of the Bank to invest in New Market Tax Credits (NMTC) in our market area.

In 2010, the Bank expanded into the Northshore (of Lake Pontchartrain) region through a Federal Deposit Insurance Corporation (FDIC) assisted acquisition of certain assets and liabilities of the former Statewide Bank (Statewide). In July 2011, the Bank expanded into the Greater New Orleans region through its acquisition of GS Financial Corporation (GSFC), the former holding company of Guaranty Savings Bank (Guaranty). In February 2014, the Bank expanded into west Mississippi through its acquisition of Britton & Koontz Capital Corporation (Britton & Koontz), the holding company for Britton & Koontz Bank, N.A. (Britton & Koontz Bank) of Natchez, Mississippi. In September 2015, the Bank expanded its presence in the Greater New Orleans region through the acquisition of Louisiana Bancorp, Inc. (Louisiana Bancorp), the former holding company of Bank of New Orleans (BNO) of Metairie, Louisiana. In December 2017, the Bank expanded its presence in the Acadiana market through the acquisition of St. Martin Bancshares (SMB), the former holding company of St. Martin Bank & Trust Company (St. Martin Bank) of St. Martinville, Louisiana. As of December 31, 2018, the Bank conducted business from 39 banking offices in the Acadiana, Northshore, Baton Rouge and Greater New Orleans regions of south Louisiana and west Mississippi.

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

The Company s primary banking regulator is the Board of Governors of the Federal Reserve Systems (the Federal Reserve). The Bank s primary regulator is the Office of the Comptroller of the Currency (OCC). Its deposits are insured to the maximum amount permissible under federal law by the FDIC.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, HB Investment Fund I, LLC and the Bank. All significant intercompany balances and transactions have been eliminated in consolidation.

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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 may be required to maintain cash reserves with the Federal Reserve Bank. The requirement is dependent upon the Bank s cash on hand or noninterest-bearing balances. There was no reserve requirement as of December 31, 2018 or 2017.

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, 2018 or 2017.

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

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

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

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

Loans Held for Sale

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

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

For financial reporting purposes, the Company classifies a portion of its loans as Mortgage loans held for sale . Included in this category are loans which the Company has the current intent to sell and loans which are available to be sold in the event that the Company determines that loans should be sold to support the Company s investment and liquidity objectives, as well as to support its overall asset and liability management strategies. Loans included in this category for which the Company has the current intention to sell are recorded at the lower of aggregate cost or fair value. As of December 31, 2018 and 2017, the Company had $2,086,000 and $5,873,000, respectively, in loans classified as Mortgage loans held for sale.

As of December 31, 2018 and 2017 the Company had $139,303,000 and $164,322,000, respectively, outstanding in loans sold to government agencies that it was servicing through a third party.

Loans

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

Originated Loans

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

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

Third party property valuations are obtained at the time of origination for real estate secured loans. When a determination is made that a loan has deteriorated to the point of being deemed a criticized or classified loan, updated valuations may be ordered to help determine if there is impairment, which may lead to a recommendation for partial charge off or appropriate allowance allocation. Property valuations are ordered through, and reviewed by, the Company s Appraisal and Review Department. The Company typically orders an as is valuation for collateral property if the loan is in a criticized loan classification.

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

Acquired Loans

Acquired Loans at December 31, 2018 and 2017 are those associated with our acquisitions of Statewide, GSFC, Britton & Koontz, Louisiana Bancorp and SMB. These loans were recorded at estimated fair value at the acquisition date with no carryover of the related allowance for loan losses. The Acquired Loans were segregated between those considered to be performing (acquired performing) and those with evidence of credit deterioration (acquired impaired), and then further segregated into loan pools designed to facilitate the development of expected cash flows. The fair value estimate for each pool of acquired performing and acquired impaired loans was based on the estimate of expected cash flows, both principal and interest, from that pool, discounted at prevailing market interest rates.

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

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

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

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

allowance for loan losses are charged to current operations. Loans that are determined to be uncollectible are charged-off against the allowance for loan losses once that determination is made.

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

Repossessed Assets

Repossessed assets are recorded at fair value less estimated selling costs at the date acquired or upon receiving new property valuations. Costs relating to the development and improvement of foreclosed property are capitalized, and costs relating to holding and maintaining the property are expensed. Write-downs from cost to fair value at the date of foreclosure are charged against the allowance for loan losses. Valuations are performed periodically and a charge to operations is recorded if the carrying value of a property exceeds its fair value less selling costs. Generally, the Company appraises the property at the time of foreclosure and at least every 12 months following the foreclosure. The Company had $1,558,000 and $728,000 of repossessed assets as of December 31, 2018 and 2017, respectively. Repossessed Assets are recorded in accrued interest receivable and other assets on the Consolidated Statements of Financial Condition.

Federal Home Loan Bank Stock

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

Office Properties and Equipment

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

Cash Surrender Value of Bank-Owned Life Insurance

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

Intangible Assets

Intangible assets consist of goodwill, core deposit intangibles and mortgage servicing rights. These assets are recorded in accrued interest receivable and other assets on the Consolidated Statements of Financial Condition. Goodwill represents the excess purchase price over the fair value of net assets acquired in business acquisitions. Goodwill is not amortized but rather is evaluated for impairment at least annually. Core deposit intangibles represent the estimated value related to customer deposit relationships assumed in the Company s acquisitions. Core deposit intangibles are being amortized over nine to 15 years. Mortgage servicing rights represent servicing assets related to mortgage loans sold and serviced at fair value. Mortgage servicing rights are being amortized over a maximum of 10 years using an accelerated method.

Shareholders Equity

Provisions of the Louisiana Business Corporation Act eliminate the concept of treasury stock and provide that shares reacquired by a company are to be treated as authorized but unissued shares. For the years ended December 31, 2018, 2017 and 2016, the cost of shares repurchased by the Company have been allocated to common stock, additional paid-in capital, and retained earnings.

Transfer of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the

Company, the transferee obtains the right, free of conditions that constrain it from taking advantage of that right, to pledge or exchange the transferred assets and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before maturity.

Salary Continuation Agreements

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

Income Taxes

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

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

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

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

The Company recognizes interest and penalties accrued related to unrecognized tax benefits, if applicable, in noninterest expense. During the years ended December 31, 2018, 2017 and 2016, 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.

Investments that generate investment tax credits are accounted for under the deferral method. Under the deferral method, the allowable investment credit is recognized as a reduction in income tax expense over the life of the acquired investment.

Stock-based Compensation Plans

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

recognized over the service period, which is usually the vesting period.

The Company may issue restricted stock under the 2009 Recognition and Retention Plan and restricted stock through May 12, 2019 or restricted stock units under the 2014 Equity Incentive Plan for directors, officers and other key employees. Awards under the plans may not be sold or otherwise transferred until certain restrictions have lapsed. The unearned compensation related to these awards is amortized to compensation expense over the service period, which is usually the vesting period. The total share-based compensation expense for these awards is determined based on the market price of the Company s common stock as of the date of grant applied to the total number of shares granted and is amortized over the vesting period.

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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 losses on investment securities was $(278,000), $(520,000) and $(463,000) for the periods ending December 31, 2018, 2017 and 2016, respectively. The reclassification adjustment for gains included in net income had no tax effect for the periods ending December 31, 2018, 2017 and 2016. 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 February 2016, the FASB issued ASU No. 2016-02, Conforming Amendments Related to Leases . This ASU amends the codification regarding leases in order to increase transparency and comparability. Under current GAAP, the recognition of lease assets and lease liabilities by lessees is not required if the terms of the lease qualify it as an operating lease. ASU No. 2016-02 requires companies to recognize lease assets and liabilities on the statement of condition and disclose key information about leasing arrangements, for both operating and capital or finance leases. Upon implementation, a lessee will recognize a liability to make lease payments and a right-of-use asset representing its right to use the leased asset for the lease term. The ASU is effective for annual and interim periods beginning after December 15, 2018. We will implement an accounting policy election to keep leases with an initial term of 12 months or less off the Company s consolidated balance sheet. The Company expects to recognize right-of-use assets and liabilities of approximately $2.3 million. We do not believe the standard will have a notable impact on the consolidated statement of income.

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments . The ASU requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The standard introduces a new impairment model known as CECL (Current Expected Credit Losses). The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net carrying value at the amount expected to be collected on the financial assets. The income statement reflects the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The allowance for credit losses for purchased financial assets with a more-than-insignificant amount of credit deterioration since origination that are measured at amortized cost basis is determined in a similar manner to other financial assets measured at amortized cost basis; however, the initial allowance for credit losses is added to the purchase price rather than being reported as a credit loss expense. Only subsequent changes in the allowance for credit losses are recorded as a credit loss expense for these assets. Off-balance-sheet arrangements such as commitments to

extend credit, guarantees and standby letters of credit that are not unconditionally cancellable are also within the scope of this amendment. Credit losses relating to debt securities should be recorded through an allowance for credit losses. This ASU is effective for fiscal years beginning after December 31, 2019. An entity will apply the amendments in this update on a modified retrospective basis, through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. Under current GAAP, credit losses are not recognized until the occurrence of the loss is *probable* and entities, in general, only consider past events and current conditions when measuring incurred losses. ASU No. 2016-13 will require entities to recognize a current estimate of *all* expected credit losses, known as the CECL model, thus eliminating the probable recognition threshold. To produce a current estimate of all expected credit losses, the standard will require entities to incorporate forecasted information along with relevant information about past events, including historical experience, and current conditions that affect the collectability of the reported amount of financial assets. The Company is in the process of implementing a new software application to assist in determining the impact to our Consolidated Financial Statements. The adoption of this ASU could result in material changes in our accounting

for credit losses. Currently, the Company expects the adoption of the ASU to increase the allowance for loan losses and the provision for loan losses. The extent of the impact upon adoption is not known and will depend on the characteristics of the Company s loan portfolio and economic conditions on that date as well as forecasted conditions thereafter.

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

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

In April 2017, FASB issued ASU No. 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities . This ASU shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. The accounting for purchased callable debt securities held at a discount does not change under the new guidance. This ASU is effective for fiscal and interim periods beginning after December 15, 2018. The adoption of the ASU did not have an impact on our Consolidated Financial Statements.

ASU No. 2018-02, Income Statement Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. ASU No. 2018-02 was issued to address the income tax accounting treatment of the stranded tax effects within accumulated other comprehensive income as a result of tax reform. This issue came about from the enactment of the Tax Cuts and Jobs Act of 2017 on December 22, 2017 that changed the Company s statutory federal income tax rate from 35% to 21%. The ASU changed current accounting whereby an entity may elect to reclassify the stranded tax effect from accumulated other comprehensive income to retained earnings. The ASU is effective for periods beginning after December 15, 2018 although early adoption is permitted. The Company adopted ASU No. 2018-02 in the first quarter of 2018 and reclassified its stranded tax credit of $206,000 from accumulated other comprehensive income to retained earnings.

In July 2018, the FASB issued ASU No. 2018-11, Leases Targeted Improvements to provide alternative transition methods to reduce the costs and complexities of implementing the new leases standard, ASU No. 2016-02. The amendments in the update allow entities to recognize a cumulative-effect adjustment in the opening balance of retained earnings in the period of adoption of ASU No. 2016-02, which eliminates the need to re-state amounts presented for prior-periods. In addition, under certain conditions, lessors are allowed to account for lease and non-lease components as a single component. The amendments have the same effective date as ASU No. 2016-02 (periods beginning after December 15, 2018). The Company expects to adopt the standard upon adoption of ASU No. 2016-02. The Company does not believe ASU No. 2018-11 will have an impact on our Consolidated Financial Statements, as the update only provides implementation guidance for ASU No. 2016-02.

In August 2018, the FASB issued ASU No. 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. The ASU removes, modifies and adds certain disclosure requirements for fair value measurements. For example, public entities will no longer be required to disclose the valuation processes for Level 3 fair value measurements, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU No. 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019. In addition, entities may early adopt the modified or eliminated disclosure requirements and delay adoption of the additional disclosure requirements until their effective date. The Company does not believe ASU No. 2018-13 will have a material impact on our Consolidated Financial Statements, as the update only revises disclosure requirements.

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3. Acquisition Activity

SUMMARY OF ACQUISITION ACTIVITY

(dollars in thousands)

Acquisition	Acquisition Date	Total Assets	Total Loans	Goodwill	Core Deposit Intangible	Total Deposits
Statewide Bank	03/12/2010	$ 188,026	$ 110,415	$ 560	$ 1,429	$ 206,925
GS Financial Corporation	07/15/2011	256,677	182,440	296	859	193,518
Britton & Koontz Capital Corporation	02/14/2014	298,930	161,581	43	3,030	216,600
Louisiana Bancorp, Inc.	09/15/2015	352,897	281,583	8,454	1,586	208,670
St. Martin Bancshares, Inc.	12/06/2017	592,852	439,872	49,135	6,766	533,497
Total Acquisitions		$ 1,689,382	$ 1,175,891	$ 58,488	$ 13,670	$ 1,359,210

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*. None of the loans acquired in the acquisition of Louisiana Bancorp were considered impaired as of the date of acquisition.

The nonaccretable discount on loans acquired from SMB totaled $3,760,000 as of December 6, 2017 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 changes in accretable yield on the loans acquired from SMB with deteriorated credit quality for the years ended December 31, 2018 and 2017, respectively.

(dollars in thousands)	**2018**	**2017**	
Balance, beginning of period	$ (1,947)	$	$
Acquisition accretable yield		(1,981)	
Accretion	646	34	
Net transfers from nonaccretable discount to accretable yield	(1,538)		
Balance, end of period	$ (2,839)	$ (1,947)	$

As of December 31, 2018, the weighted average remaining contractual life of the loan portfolio acquired with deteriorated credit quality from SMB was 6.5 years.

The nonaccretable discount on loans acquired from Britton & Koontz totaled $17,946,000 as of February 14, 2014 and represented an estimate of the undiscounted loss exposure in the acquired loans with deteriorated credit quality as of the acquisition date.

The following table summarizes the changes in accretable yield on the loans acquired from Britton & Koontz with deteriorated credit quality for the years ended December 31, 2018, 2017 and 2016, respectively.

(dollars in thousands)	**2018**	**2017**	**2016**
Balance, beginning of period	$ (140)	$ (1,782)	$ (1,682)
Accretion	244	2,926	1,072
Net transfers from nonaccretable discount to accretable yield	(154)	(1,284)	(1,172)
Balance, end of period	$ (50)	$ (140)	$ (1,782)

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As of December 31, 2018, the weighted average remaining contractual life of the loan portfolio acquired with deteriorated credit quality from Britton & Koontz was 1.6 years.

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

The following table summarizes the changes in accretable yield on the loans acquired from GSFC with deteriorated credit quality for the years ended December 31, 2018, 2017 and 2016, respectively.

(dollars in thousands)	**2018**	**2017**	**2016**
Balance, beginning of period	$ (236)	$ (298)	$ (1,240)
Accretion	174	118	942
Net transfers from nonaccretable discount to accretable yield	(11)	(56)	
Balance, end of period	$ (73)	$ (236)	$ (298)

As of December 31, 2018, the weighted average remaining contractual life of the loan portfolio acquired with deteriorated credit quality from GSFC was 13.1 years.

The nonaccretable discount on loans acquired from Statewide totaled $61,478,000 as of March 12, 2010 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 changes in accretable yield on the loans acquired from Statewide for the years ended December 31, 2018, 2017 and 2016, respectively.

(dollars in thousands)	**2018**	**2017**	**2016**
Balance, beginning of period	$ (6,980)	$ (9,011)	$ (13,870)
Accretion	1,361	2,031	4,859
Net transfers from nonaccretable discount to accretable yield	(566)		
Balance, end of period	$ (6,185)	$ (6,980)	$ (9,011)

As of December 31, 2018, the weighted average remaining contractual life the of loan portfolio acquired with deteriorated credit quality from Statewide was 4.0 years.

4. Investment Securities

Summary information regarding the Company s investment securities classified as available for sale and held to maturity as of December 31, 2018 and 2017 follows.

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value
			Less Than 1 Year	Over 1 Year	
December 31, 2018					
Available for sale:					
U.S. agency mortgage-backed	$ 86,487	$ 485	$ 171	$ 892	$ 85,909
Collateralized mortgage obligations	145,814	129	161	2,191	143,591
Municipal bonds	21,453	52	16	12	21,477
U.S. government agency	9,169	29	19	25	9,154
Total available for sale	$ 262,923	$ 695	$ 367	$ 3,120	$ 260,131
Held to maturity:					
Municipal bonds	$ 10,872	$ 11	$ 5	$ 37	$ 10,841
Total held to maturity					