

Home Financial Bancorp

Auditor's Report and Consolidated Financial Statements

June 30, 2015 and 2014

Home Financial Bancorp

June 30, 2015 and 2014

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Independent Auditor's Report

Audit Committee, Board of Directors and Stockholders
Home Financial Bancorp
Spencer, Indiana

We have audited the accompanying consolidated financial statements of Home Financial Bancorp and its subsidiaries, which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Home Financial Bancorp and its subsidiaries as of June 30, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Indianapolis, Indiana
September 11, 2015

Home Financial Bancorp
Consolidated Balance Sheets
June 30, 2015 and 2014

Assets

	2015	2014 (As Adjusted - Note 20)
Cash	\$ 928,259	\$ 650,287
Short-term interest-bearing deposits	<u>3,280,461</u>	<u>3,172,019</u>
Total cash and cash equivalents	4,208,720	3,822,306
Interest-bearing time deposits	2,922,000	3,489,000
Investment securities - available for sale	8,733,052	6,738,566
Loans, net of allowance for loan losses of \$525,657 and \$484,267	45,189,925	48,964,652
Premises and equipment	1,578,238	1,920,663
Federal Home Loan Bank of Indianapolis stock	567,600	1,032,500
Interest receivable	278,012	291,854
Other assets	<u>1,432,898</u>	<u>1,476,051</u>
Total assets	<u>\$ 64,910,445</u>	<u>\$ 67,735,592</u>

Liabilities

Deposits		
Noninterest-bearing deposits	\$ 6,299,582	\$ 5,952,300
Interest-bearing deposits	<u>38,306,635</u>	<u>42,734,104</u>
Total deposits	44,606,217	48,686,404
Borrowings	10,500,000	10,000,000
Other liabilities	<u>1,100,277</u>	<u>400,724</u>
Total liabilities	<u>56,206,494</u>	<u>59,087,128</u>

Commitments and Contingencies

Stockholders' Equity

Preferred stock, without par value		
Authorized and unissued - 2,000,000 shares		
Common stock, without par value		
Authorized - 5,000,000 shares		
Issued and outstanding - 2015 - 1,191,583 shares and 2014 - 1,196,083 shares	2,667,319	2,678,569
Additional paid-in capital	307,997	292,661
Retained earnings	5,772,534	5,759,932
Accumulated other comprehensive loss	<u>(43,899)</u>	<u>(82,698)</u>
Total stockholders' equity	<u>8,703,951</u>	<u>8,648,464</u>
Total liabilities and stockholders' equity	<u>\$ 64,910,445</u>	<u>\$ 67,735,592</u>

Home Financial Bancorp

Consolidated Statements of Income

Years Ended June 30, 2015 and 2014

	2015	2014 (As Adjusted - Note 20)
Interest Income		
Loans	\$ 3,126,181	\$ 3,459,777
Deposits with financial institutions	38,468	9,947
Investment securities	132,079	140,555
Federal Home Loan Bank stock	<u>36,013</u>	<u>42,579</u>
Total interest and dividend income	<u>3,332,741</u>	<u>3,652,858</u>
Interest Expense		
Deposits	294,892	327,013
Federal Home Loan Bank advances	<u>232,618</u>	<u>286,233</u>
Total interest expense	<u>527,510</u>	<u>613,246</u>
Net Interest Income	2,805,231	3,039,612
Provision for loan losses	<u>220,000</u>	<u>186,000</u>
Net Interest Income After Provision for Loan Losses	<u>2,585,231</u>	<u>2,853,612</u>
Other Income		
Service charges on deposit accounts	282,564	293,588
Loss on sale of real estate acquired for development	—	(72,240)
Net gain on sale of available-for-sale securities (includes \$0 and \$10,718, respectively, related to accumulated other comprehensive earnings reclassifications)	—	10,718
ATM service fees	194,068	180,358
Other income	<u>205,700</u>	<u>145,873</u>
Total other income	<u>682,332</u>	<u>558,297</u>
Other Expenses		
Salaries and employee benefits	1,283,486	1,408,344
Net occupancy expenses	457,551	155,736
Equipment expenses	54,002	52,917
Computer processing fees	373,548	327,955
ATM transaction fees	134,645	123,971
Printing and office supplies	47,943	41,748
Legal and professional fees	204,032	151,811
Director and committee fees	85,450	94,550
Advertising expense	116,983	102,600
Repossessed property expense	128,940	178,164
Other expenses	<u>310,956</u>	<u>333,303</u>
Total other expenses	<u>3,197,536</u>	<u>2,971,099</u>
Income Before Income Tax	70,027	440,810
Income tax expense (benefit) (includes \$0 and \$4,244, respectively, related to income tax expense from reclassification items)	<u>(106,903)</u>	<u>61,837</u>
Net Income	<u>\$ 176,930</u>	<u>\$ 378,973</u>
Net Income Per Share		
Basic	\$.15	\$.32
Diluted	.15	.32

Home Financial Bancorp
Consolidated Statements of Comprehensive Income
Years Ended June 30, 2015 and 2014

	2015	2014 (As Adjusted - Note 20)
Net Income	\$ <u>176,930</u>	\$ <u>378,973</u>
Other Comprehensive Income		
Unrealized appreciation on securities available for sale	64,237	182,710
Less: reclassification for realized gains included in net income	—	10,718
Income tax expense related to other comprehensive income	<u>(25,438)</u>	<u>(68,109)</u>
Total other comprehensive income	<u>38,799</u>	<u>103,883</u>
Comprehensive Income	\$ <u><u>215,729</u></u>	\$ <u><u>482,856</u></u>

Home Financial Bancorp
Consolidated Statements of Stockholders' Equity
Years Ended June 30, 2015 and 2014

	Common Stock Shares	Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balances, June 30, 2013	1,186,518	\$ 2,654,657	\$ 255,430	\$ 5,534,539	\$ (186,581)	\$ 8,258,045
Cumulative effect of change in accounting principal for low income housing tax credits, net of tax of \$15,713	_____	_____	_____	(29,181)	_____	(29,181)
Balances, beginning of period, as adjusted	1,186,518	2,654,657	255,430	5,505,358	(186,581)	8,228,864
Net income, as adjusted				378,973		378,973
Other comprehensive income					103,883	103,883
Cash dividends (\$.12 per share)				(143,530)		(143,530)
Recognition Retention Plan and Trust (RRP) shares earned			37,231			37,231
Stock contribution to Employee Stock Ownership Plan (ESOP)	<u>9,565</u>	<u>23,912</u>	_____	<u>19,131</u>	_____	<u>43,043</u>
Balances, June 30, 2014, as adjusted	1,196,083	2,678,569	292,661	5,759,932	(82,698)	8,648,464
Net income				176,930		176,930
Other comprehensive income					38,799	38,799
Cash dividends (.125 per share)				(149,068)		(149,068)
Stock repurchases	(4,500)	(11,250)		(15,260)		(26,510)
Recognition Retention Plan and Trust (RRP) shares earned	_____	_____	<u>15,336</u>	_____	_____	<u>15,336</u>
Balances, June 30, 2015	<u>1,191,583</u>	<u>\$ 2,667,319</u>	<u>\$ 307,997</u>	<u>\$ 5,772,534</u>	<u>\$ (43,899)</u>	<u>\$ 8,703,951</u>

Home Financial Bancorp

Consolidated Statements of Cash Flows

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u> <u>(As Adjusted -</u> <u>Note 20)</u>
Operating Activities		
Net income	\$ 176,930	\$ 378,973
Items not requiring (providing) cash		
Provision for loan losses	220,000	186,000
Investment securities amortization, net	9,751	18,806
RRP shares earned	15,336	37,231
Depreciation	400,407	107,470
Deferred income taxes	(199,818)	68,836
Loss on sale of real estate acquired for development	—	72,240
Foreclosed asset losses	37,105	52,314
Investment securities gains	—	(10,718)
Losses from partnership	77,250	94,346
Gain on sale of partnership interest	—	(12,568)
Net change in interest receivable	13,842	33,443
Other adjustments	<u>52,737</u>	<u>(505,274)</u>
Net cash provided by operating activities	<u>803,540</u>	<u>521,099</u>
Investing Activities		
Net change in interest-bearing deposits	567,000	(140,000)
Purchase of securities available for sale	(1,640,000)	(197,314)
Proceeds from sales of securities available for sale	—	217,670
Proceeds from maturities and paydowns of securities available for sale	440,000	1,205,000
Net changes in loans	3,330,037	2,974,016
Proceeds from sale of foreclosed assets	234,684	296,536
Purchase of premises and equipment	(57,982)	(78,371)
Purchase of and payments on limited partnership interests	—	(140,887)
Proceeds from sale of partnership interest	—	234,750
Proceeds from sale of FHLB stock	464,900	—
Other investing activities	<u>—</u>	<u>(1,380)</u>
Net cash provided by investing activities	<u>3,338,639</u>	<u>4,370,020</u>
Financing Activities		
Net change in		
Noninterest-bearing deposits	347,282	(754,583)
Interest-bearing deposits	(4,427,469)	(2,134,480)
Proceeds from other borrowings	2,500,000	1,000,000
Repayment of other borrowings	(2,000,000)	(3,000,000)
Purchase of stock	(26,510)	—
Dividends paid	<u>(149,068)</u>	<u>(143,530)</u>
Net cash used in financing activities	<u>(3,755,765)</u>	<u>(5,032,593)</u>
Net Change in Cash and Cash Equivalents	386,414	(141,474)
Cash and Cash Equivalents, Beginning of Year	<u>3,822,306</u>	<u>3,963,780</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,208,720</u>	<u>\$ 3,822,306</u>
Additional Cash Flows and Supplementary Information		
Interest paid	\$ 530,178	\$ 616,550
Income tax paid (refunds)	(20,134)	24,498
Transfers from loans to foreclosed assets	224,690	174,239
Due to broker for purchases of securities available for sale	740,000	—

Home Financial Bancorp
Notes to Consolidated Financial Statements
June 30, 2015 and 2014
(Table Dollar Amounts in Thousands, Except Share Data)

Note 1: Nature of Operations and Summary of Significant Accounting Policies

The accounting and reporting policies of Home Financial Bancorp (Company) and its wholly owned subsidiaries, Our Community Bank (Bank) and OCB Insurance Agency, Inc. (OCB Insurance) and the Bank's wholly owned subsidiary, BSF, Inc. (BSF), conform to accounting principles generally accepted in the United States of America and reporting practices followed by the banking industry. The more significant of the policies are described below.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at 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.

The Company is a bank holding company whose principal activity is the ownership and management of the Bank. The Bank operates under a state commercial bank charter and provides full banking services to its customers. The Bank is subject to regulation by the Indiana Department of Financial Institutions and the Federal Deposit Insurance Corporation.

The Bank generates mortgage and consumer loans and receives deposits from customers located primarily in Owen, Putnam and surrounding counties. The Bank's loans are generally secured by specific items of collateral including real property and consumer assets.

BSF previously engaged in purchasing and developing large tracts of real estate. After the land was purchased, BSF would subdivide the real estate into lots, makes improvements such as streets, and sells individual lots, usually on contract for deed. During the year ended June 30, 2014, BSF liquidated all properties held for development. OCB Insurance provides auto and hazard insurance primarily to customers of the Bank.

Consolidation - The consolidated financial statements include the accounts of the Company, Bank, BSF and OCB Insurance after elimination of all material intercompany transactions.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at 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 relate to the determination of the allowance for loan losses, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, valuation of deferred tax assets and fair values of financial instruments.

Cash and Cash Equivalents - The Company considers all liquid investments with original maturities of three months or less to be cash equivalents.

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Interest-Bearing Deposits in Banks - Interest-bearing deposits in banks are carried at cost.

Investment Securities - Debt securities are classified as held to maturity when the Company has the positive intent and ability to hold the securities to maturity. Securities held to maturity are carried at amortized cost. Debt securities not classified as held to maturity are classified as available for sale. Securities available for sale are carried at fair value with unrealized gains and losses reported separately in accumulated other comprehensive loss, net of tax.

When the Company does not intend to sell a debt security, and it is more likely than not, the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off are reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Discounts and premiums on purchased residential real estate loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments. Discounts and premiums on purchased consumer loans are recognized over the expected lives of the loans using methods that approximate the interest method.

Allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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Notes to Consolidated Financial Statements
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The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Premises and equipment are carried at cost, net of accumulated depreciation. Depreciation is computed using the accelerated and straight-line methods based principally on the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

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Federal Home Loan Bank (FHLB) stock is a required investment for institutions that are members of the FHLB system. The required investment in the common stock is based on a predetermined formula.

Pension plan costs are based on actuarial computations and charged to current operations. The funding policy is to pay at least the minimum amounts required by ERISA.

Income tax - The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to the management's judgment.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

Earnings per share have been computed based upon the weighted-average common shares and potential common shares outstanding during the period. RRP shares have been excluded from the computation of average common shares and potential common shares outstanding.

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were available to be issued.

Reclassifications have been made to the 2014 consolidated financial statements to conform to the 2015 consolidated financial statement presentation. These reclassifications had no effect on net income.

Change in Accounting Principle was adopted during the year ended June 30, 2015. The Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-01, "Accounting for Investments in Qualified Affordable Housing Projects". The ASU is required to be applied retrospectively to all periods presented. See Note 20 for additional information.

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Note 2: Restriction on Cash and Due From Banks

At June 30, 2015, the Company had approximately \$3,966,000 of cash, cash equivalents and interest-bearing time deposits exceeding federally insured limits. Included in this amount was approximately \$3,643,000 in short-term interest-bearing deposits and interest-bearing time deposits at the Federal Home Loan Bank, government-sponsored entity, which is not insured by the FDIC.

Note 3: Investment Securities

	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
Federal agencies	\$ 4,022	\$ 3	\$ (71)	\$ 3,954
Municipal bonds	<u>4,784</u>	<u>11</u>	<u>(16)</u>	<u>4,779</u>
Total investment securities	<u>\$ 8,806</u>	<u>\$ 14</u>	<u>\$ (87)</u>	<u>\$ 8,733</u>

	2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
Federal agencies	\$ 4,022	\$ —	\$ (126)	\$ 3,896
Municipal bonds	<u>2,854</u>	<u>8</u>	<u>(19)</u>	<u>2,843</u>
Total investment securities	<u>\$ 6,876</u>	<u>\$ 8</u>	<u>\$ (145)</u>	<u>\$ 6,739</u>

Maturities of available-for-sale investments at June 30, 2015:

	Amortized Cost	Approximate Fair Value
Within one year	\$ 360	\$ 360
One to five years	3,833	3,810
Five to ten years	3,903	3,869
After ten years	<u>710</u>	<u>694</u>
	<u>\$ 8,806</u>	<u>\$ 8,733</u>

No securities were pledged at June 30, 2015 and 2014.

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Proceeds from sales of securities available for sale during 2015 and 2014 were \$0 and \$218,000, respectively. Gains realized from sales of securities during 2015 and 2014 totaled \$0 and \$20,000, respectively. Losses realized from sales of securities during 2015 and 2014 totaled \$0 and \$9,000, respectively. Net gains on security transactions for 2015 and 2014 resulted in a tax expense of \$0 and \$4,000, respectively.

At June 30, 2015 and 2014, certain investments in agency and municipal bond securities are reported in the consolidated financial statements at an amount less than their historical cost. At June 30, 2015 and 2014, total fair value of these investments was \$5,865,000 and \$5,289,000, which is approximately 67.1 and 78.5 percent of the Company's investment portfolio, respectively. These declines primarily resulted from changes in market interest rates.

The following tables show investment totals of gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2015 and 2014.

Description of Securities	2015		2015		Total	
	Less Than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency bonds	\$ 1,020	\$ (17)	\$ 2,431	\$ (54)	\$ 3,451	\$ (71)
Municipal bonds	<u>2,116</u>	<u>(11)</u>	<u>298</u>	<u>(5)</u>	<u>2,414</u>	<u>(16)</u>
	<u>\$ 3,136</u>	<u>\$ (28)</u>	<u>\$ 2,729</u>	<u>\$ (59)</u>	<u>\$ 5,865</u>	<u>\$ (87)</u>

Description of Securities	2014		2014		Total	
	Less Than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency bonds	\$ —	\$ —	\$ 3,644	\$ (126)	\$ 3,644	\$ (126)
Municipal bonds	<u>507</u>	<u>(1)</u>	<u>1,138</u>	<u>(18)</u>	<u>1,645</u>	<u>(19)</u>
	<u>\$ 507</u>	<u>\$ (1)</u>	<u>\$ 4,782</u>	<u>\$ (144)</u>	<u>\$ 5,289</u>	<u>\$ (145)</u>

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Notes to Consolidated Financial Statements
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Note 4: Loans and Allowance

	<u>2015</u>	<u>2014</u>
Real estate mortgage loans		
Residential	\$ 36,440	\$ 39,556
Mobile home and land	3,117	3,902
Nonresidential	5,113	4,650
Mobile home loans	813	1,171
Consumer loans	<u>425</u>	<u>214</u>
	<u>45,908</u>	<u>49,493</u>
Undisbursed portion of loans	(186)	(36)
Deferred loan fees	(6)	(8)
Allowance for loan losses	<u>(526)</u>	<u>(484)</u>
	<u>(718)</u>	<u>(528)</u>
Total loans	<u>\$ 45,190</u>	<u>\$ 48,965</u>

The risk characteristics of each loan portfolio segment are as follows:

Commercial and industrial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may include a personal guarantee. Short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Nonresidential real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The characteristics of properties securing the Company's commercial real estate portfolio are diverse, but with geographic location almost entirely in the Company's market area. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. In general, the Company avoids financing single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate versus nonowner-occupied loans.

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Residential, mobile home and land, mobile home and consumer loans consist of two segments - residential mortgage loans and personal loans. For residential mortgage loans that are secured by 1-4 family residences or mobile homes with land and are generally owner-occupied, the Company generally establishes a maximum loan-to-value ratio. Home equity loans are typically secured by a subordinate interest in 1-4 family residences, and consumer personal loans are secured by consumer personal assets, such as automobiles, mobile homes or recreational vehicles. Some consumer personal loans are unsecured, such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas, such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

The following presents, by portfolio segment, the activity in the allowance for loan losses for the years ended June 30, 2015 and 2014:

	2015						
	Real Estate Mortgage Loans			Mobile Home Loans	Commercial	Consumer Loans	Total
	Residential	Mobile Home and Land	Nonresidential				
Beginning balance	\$ 279	\$ 31	\$ 64	\$ 94	\$ —	\$ 16	\$ 484
Provision	81	26	27	99	—	(13)	220
Loans charged off	(60)	(26)	—	(96)	—	(2)	(184)
Recoveries	<u>1</u>	<u>1</u>	<u>—</u>	<u>3</u>	<u>—</u>	<u>1</u>	<u>6</u>
Ending Balance	<u>\$ 301</u>	<u>\$ 32</u>	<u>\$ 91</u>	<u>\$ 100</u>	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ 526</u>

	2014						
	Real Estate Mortgage Loans			Mobile Home Loans	Commercial	Consumer Loans	Total
	Residential	Mobile Home and Land	Nonresidential				
Beginning balance	\$ 321	\$ 42	\$ 26	\$ 70	\$ 179	\$ 24	\$ 662
Provision	72	11	38	86	(13)	(8)	186
Loans charged off	(114)	(22)	—	(67)	(166)	—	(369)
Recoveries	<u>—</u>	<u>—</u>	<u>—</u>	<u>5</u>	<u>—</u>	<u>—</u>	<u>5</u>
Ending Balance	<u>\$ 279</u>	<u>\$ 31</u>	<u>\$ 64</u>	<u>\$ 94</u>	<u>\$ —</u>	<u>\$ 16</u>	<u>\$ 484</u>

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The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on the portfolio segment and impairment method as of June 30, 2015 and 2014:

		2015						
		Real Estate Mortgage Loans						
		Residential	Mobile Home and Land	Nonresidential	Mobile Home Loans	Commercial	Consumer Loans	Total
Allowance Balances:								
Individually evaluated for impairment	\$	156	—	—	—	—	—	156
Collectively evaluated for impairment		<u>145</u>	<u>32</u>	<u>91</u>	<u>100</u>	<u>—</u>	<u>2</u>	<u>370</u>
Total Allowance for Loan Losses	\$	<u>301</u>	<u>32</u>	<u>91</u>	<u>100</u>	<u>—</u>	<u>2</u>	<u>526</u>
Loan Balances:								
Individually evaluated for impairment	\$	2,498	385	21	64	—	11	2,979
Collectively evaluated for impairment		<u>33,942</u>	<u>2,732</u>	<u>5,092</u>	<u>749</u>	<u>—</u>	<u>414</u>	<u>42,929</u>
Total Loan Balances	\$	<u>36,440</u>	<u>3,117</u>	<u>5,113</u>	<u>813</u>	<u>—</u>	<u>425</u>	<u>45,908</u>
		2014						
		Real Estate Mortgage Loans						
		Residential	Mobile Home and Land	Nonresidential	Mobile Home Loans	Commercial	Consumer Loans	Total
Allowance Balances:								
Individually evaluated for impairment	\$	87	19	2	32	—	12	152
Collectively evaluated for impairment		<u>192</u>	<u>12</u>	<u>62</u>	<u>62</u>	<u>—</u>	<u>4</u>	<u>332</u>
Total Allowance for Loan Losses	\$	<u>279</u>	<u>31</u>	<u>64</u>	<u>94</u>	<u>—</u>	<u>16</u>	<u>484</u>
Loan Balances:								
Individually evaluated for impairment	\$	1,997	412	23	95	—	12	2,539
Collectively evaluated for impairment		<u>37,559</u>	<u>3,490</u>	<u>4,627</u>	<u>1,076</u>	<u>—</u>	<u>202</u>	<u>46,954</u>
Total Loan Balances	\$	<u>39,556</u>	<u>3,902</u>	<u>4,650</u>	<u>1,171</u>	<u>—</u>	<u>214</u>	<u>49,493</u>

Management's general practice is to charge down loans individually evaluated for impairment to the fair value of the underlying collateral.

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Consistent with regulatory guidance, charge-offs on all loan segments are taken when specific loans, or portions thereof, are considered uncollectible. The Company's policy is to promptly charge these loans off in the period the uncollectible loss is reasonably determined.

For all loan portfolio segments except 1-4 family residential properties and consumer, the Company promptly charges off loans, or portions thereof, when available information confirms that specific loans are uncollectible based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower's ability to adequately meet its obligations. For impaired loans that are considered to be solely collateral dependent, a partial charge-off is recorded when a loss has been confirmed by an updated appraisal or other appropriate valuation of the collateral.

The Company charges off residential, mobile home and land, mobile home, and consumer loans, or portions thereof, when the Company reasonably determines the amount of the loss. The Company adheres to timeframes established by applicable regulatory guidance which provides for the charge-down of 1-4 family first and junior lien mortgages to the net realizable value, less costs to sell when the loan is 180 days past due, charge-off of unsecured open-end loans when the loan is 180 days past due, and charge-down to the net realizable value when other secured loans are 120 days past due. Loans at these respective delinquency thresholds for which the Company can clearly document that the loan is both well-secured and in the process of collection, such that collection will occur regardless of delinquency status, need not be charged off.

The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the prior three years. Management believes the historical loss experience methodology is appropriate in the current economic environment, as it captures loss rates that are comparable to the current period being analyzed.

The following tables present the credit risk profile of the Company's loan portfolio based on rating category as of June 30, 2015 and 2014:

	2015					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate mortgage loans:						
Residential	\$ 34,142	\$ 294	\$ 1,004	\$ —	\$ —	\$ 36,440
Mobile home and land	2,968	64	85	—	—	3,117
Nonresidential	5,099	14	—	—	—	5,113
Mobile home	766	15	32	—	—	813
Consumer loans	<u>425</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>425</u>
Total	<u>\$ 44,400</u>	<u>\$ 387</u>	<u>\$ 1,121</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 45,908</u>

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	2014					Total
	Pass	Special Mention	Substandard	Doubtful	Loss	
Real estate mortgage loans:						
Residential	\$ 38,639	\$ 162	\$ 755	\$ —	\$ —	\$ 39,556
Mobile home and land	3,741	42	119	—	—	3,902
Nonresidential	4,627	—	23	—	—	4,650
Mobile home	1,108	12	51	—	—	1,171
Consumer loans	<u>202</u>	<u>—</u>	<u>12</u>	<u>—</u>	<u>—</u>	<u>214</u>
Total	<u>\$ 48,317</u>	<u>\$ 216</u>	<u>\$ 960</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 49,493</u>

Internal Risk Categories

The pass grade is considered satisfactory. The grade of Special Mention, represents loans of lower quality and is considered criticized. The grades of Substandard, and Doubtful, refer to assets that are classified. The use and application of these grades by the bank will be uniform and shall conform to the bank's policy.

Pass - Loans of reasonable credit strength and repayment ability proving an average credit risk due to one or more underlying weaknesses.

Special Mention - A special mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Ordinarily, special mention credits have characteristics which corrective management action would remedy.

Substandard - Loans classified as substandard are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current known facts, conditions and values, highly questionable and improbable.

Loss - Loans classified as loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off even though partial recovery may be affected in the future.

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The following tables present the Company's loan portfolio aging analysis as of June 30, 2015 and 2014:

	2015						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
Real estate mortgage loans:							
Residential	\$ 988	\$ 535	\$ 762	\$ 2,285	\$ 34,155	\$ 36,440	\$ —
Mobile home and land	369	73	76	518	2,599	3,117	—
Nonresidential	169	14	—	183	4,930	5,113	—
Mobile home loans	42	24	24	90	723	813	—
Consumer loans	—	—	—	—	425	425	—
Total	<u>\$ 1,568</u>	<u>\$ 646</u>	<u>\$ 862</u>	<u>\$ 3,076</u>	<u>\$ 42,832</u>	<u>\$ 45,908</u>	<u>\$ —</u>

	2014						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
Real estate mortgage loans:							
Residential	\$ 1,509	\$ 581	\$ 867	\$ 2,957	\$ 36,599	\$ 39,556	\$ —
Mobile home and land	325	103	161	589	3,313	3,902	—
Nonresidential	15	—	23	38	4,612	4,650	—
Mobile home loans	31	13	113	157	1,014	1,171	—
Consumer loans	12	—	—	12	202	214	—
Total	<u>\$ 1,892</u>	<u>\$ 697</u>	<u>\$ 1,164</u>	<u>\$ 3,753</u>	<u>\$ 45,740</u>	<u>\$ 49,493</u>	<u>\$ —</u>

The entire balance of a loan is considered delinquent if the minimum payment contractually required to be made is not received by the specified due date.

The following table presents the Company's nonaccrual loans at June 30:

	2015	2014
Real estate mortgage loans:		
Residential	\$ 762	\$ 867
Mobile home and land	76	161
Nonresidential	—	23
Mobile home loans	24	113
Consumer loans	—	—
Total	<u>\$ 862</u>	<u>\$ 1,164</u>

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The following tables present impaired loans for the years ended June 30, 2015 and 2014:

	2015				
	Recorded Balance	Unpaid Principal Balance	Related Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Impaired loans without a specific valuation allowance:					
Real estate mortgage loans:					
Residential	\$ 1,740	\$ 1,740	\$ —	\$ 1,669	\$ 95
Mobile home and land	385	385	—	416	28
Nonresidential	21	21	—	22	4
Mobile home loans	64	64	—	96	15
Consumer loans	<u>11</u>	<u>11</u>	<u>—</u>	<u>11</u>	<u>—</u>
Total	<u>2,221</u>	<u>2,221</u>	<u>—</u>	<u>2,214</u>	<u>142</u>
Impaired loans with a specific valuation allowance:					
Real estate mortgage loans:					
Residential	758	758	156	763	34
Mobile home and land	—	—	—	—	—
Nonresidential	—	—	—	—	—
Mobile home loans	—	—	—	—	—
Consumer loans	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u>758</u>	<u>758</u>	<u>156</u>	<u>763</u>	<u>34</u>
Total impaired loans	<u>\$ 2,979</u>	<u>\$ 2,979</u>	<u>\$ 156</u>	<u>\$ 2,977</u>	<u>\$ 176</u>

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	2014				
	Recorded Balance	Unpaid Principal Balance	Related Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Impaired loans without a specific valuation allowance:					
Real estate mortgage loans:					
Residential	\$ 1,386	\$ 1,386	\$ —	\$ 1,223	\$ 184
Mobile home and land	317	317	—	204	43
Nonresidential	—	—	—	51	11
Mobile home loans	12	12	—	68	17
Commercial and industrial	—	—	—	—	—
Consumer loans	—	—	—	—	—
Total	<u>1,715</u>	<u>1,715</u>	<u>—</u>	<u>1,546</u>	<u>255</u>
Impaired loans with a specific valuation allowance:					
Real estate mortgage loans:					
Residential	611	611	87	614	41
Mobile home and land	95	95	19	82	9
Nonresidential	23	23	2	23	2
Mobile home loans	83	83	32	67	10
Commercial and industrial	—	—	—	102	4
Consumer loans	<u>12</u>	<u>12</u>	<u>12</u>	<u>12</u>	<u>—</u>
Total	<u>824</u>	<u>824</u>	<u>152</u>	<u>900</u>	<u>66</u>
Total impaired loans	<u>\$ 2,539</u>	<u>\$ 2,539</u>	<u>\$ 152</u>	<u>\$ 2,446</u>	<u>\$ 321</u>

Interest income on the impaired loans is recognized on the cash basis.

Interest income on loans individually classified as impaired is recognized on a cash basis after all past due and current principal payments have been made. Subsequent payments on nonaccrual loans are recorded as a reduction of principal, and interest income is recorded only after principal recovery is reasonably assured.

Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal.

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The following tables present information regarding troubled debt restructurings by class for the years ended June 30, 2015 and 2014

Newly classified troubled debt restructurings:

	2015		
	Number of Loans	Pre- Modification Recorded Balance	Post- Modification Recorded Balance
Real estate mortgage loans:			
Residential	8	\$ 472	\$ 486
Mobile home and land	1	14	14
Nonresidential	—	—	—
Mobile home loans	—	—	—
Commercial and industrial	—	—	—
Consumer loans	—	—	—
	<u>9</u>	<u>\$ 486</u>	<u>\$ 500</u>

	2014		
	Number of Loans	Pre- Modification Recorded Balance	Post- Modification Recorded Balance
Real estate mortgage loans:			
Residential	10	\$ 691	\$ 696
Mobile home and land	3	156	159
Nonresidential	1	23	23
Mobile home loans	5	121	121
Commercial and industrial	—	—	—
Consumer loans	—	—	—
	<u>19</u>	<u>\$ 991</u>	<u>\$ 999</u>

All of the Company's troubled debt restructurings for the period were extensions of the terms of the customers' notes.

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There were no troubled debt restructuring that subsequently defaulted during 2015.

Troubled debt restructurings that subsequently defaulted during 2014:

	2014	
	Number of Loans	Recorded Balance
Real estate mortgage loans:		
Residential	—	\$ —
Mobile home and land	1	43
Nonresidential	—	—
Mobile home loans	—	—
Commercial and industrial	—	—
Consumer loans	—	—
Total	1	\$ 43

Note 5: Premises and Equipment

	2015	2014
Land	\$ 390	\$ 390
Buildings	2,774	2,728
Equipment	1,404	1,393
Total cost	4,568	4,511
Accumulated depreciation	(2,990)	(2,590)
Net	\$ 1,578	\$ 1,921

During the year ended June 30, 2015, the Company made a change in estimate related to the useful life of a property included in premises and equipment on the balance sheet. This change in estimate resulted in additional depreciation expense of \$290,000 for the year ended June 30, 2015. This change in estimate will not materially impact the financial statements of future periods as the asset was fully depreciated at June 30, 2015.

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Note 6: Investment in Limited Partnership

Investment in limited partnership includes \$490,000 and \$567,000 (as adjusted, see Note 20) at June 30, 2015 and 2014, respectively, representing an 11 percent partnership interest in the Great Lakes Capital Fund Indiana Community LP XIX (Great Lakes), a limited partnership organized to build, own and operate housing and apartment complexes around the state of Indiana. Tax credits generated from these investments totaled \$106,000 and \$106,000 for the years ended June 30, 2015 and 2014, respectively. For both of the years ended June 30, 2015 and 2014, \$77,000 of losses using the proportional amortization method were included in income tax expense. For the year ended June 30, 2014, \$17,000 of pretax loss was recorded on an investment sold during the year ended June 30, 2014. Condensed unaudited financial statements for Great Lakes at December 31, 2014 and 2013 and for the year then ended are as follows:

	December 31	
	2014	2013
Condensed balance sheets		
Assets		
Cash	\$ 19	\$ 16
Land and property	4,508	4,884
Other assets	355	387
Total assets	\$ 4,882	\$ 5,287
Liabilities		
Other liabilities	\$ 11	\$ 12
Partners' equity	4,871	5,275
Total liabilities and partners' equity	\$ 4,882	\$ 5,287
	2014	2013
Condensed statements of operations		
Total revenue	\$ —	\$ —
Total expenses	(417)	(503)
Net loss	\$ (417)	\$ (503)

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Note 7: Deposits

	2015	2014
Noninterest-bearing demand	\$ 6,299	\$ 5,952
Interest-bearing demand	3,716	3,869
Money market deposits	2,442	6,426
Savings	11,968	8,799
Certificates of \$100,000 or more	10,815	13,171
Other certificates	9,366	10,469
Total deposits	\$ 44,606	\$ 48,686

Time deposits in excess of \$250,000 totaled approximately \$3,808,000 at June 30, 2015.

Certificates maturing in years ending June 30:

2016	\$ 8,438
2017	2,605
2018	3,804
2019	3,814
2020	1,520
Thereafter	—
	\$ 20,181

Brokered deposits totaled approximately \$4,620,000 and \$6,604,000 at June 30, 2015 and 2014, respectively.

Note 8: Borrowings

The Federal Home Loan Bank (FHLB) advances totaled \$10,500,000 and \$10,000,000 at June 30, 2015 and 2014, respectively.

At June 30, 2015, the FHLB advances are secured by mortgage loans totaling \$22,512,000. Advances, at interest rates from 0.38 to 4.72 percent, are subject to restrictions or penalties in the event of prepayment. Advances totaling \$2,000,000 may, at certain dates, be converted to adjustable rate advances by the FHLB. If converted, the advances may be prepaid without penalty.

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FHLB advance maturities in years ending June 30:

2016	\$	4,000
2017		2,000
2018		2,500
2019		500
2020		1,000
Thereafter		<u>500</u>
	\$	<u><u>10,500</u></u>

Note 9: Income Tax

	2015	2014 (As Adjusted - Note 20)
Income tax expense		
Currently payable		
Federal	\$ 83	\$ (14)
State	10	7
Deferred		
Federal	(174)	39
State	<u>(26)</u>	<u>30</u>
Total income tax expense (benefit)	<u>\$ (107)</u>	<u>\$ (62)</u>

	2015	2014 (As Adjusted - Note 20)
Reconciliation of federal statutory to actual tax expense (benefit)		
Federal statutory income tax at 34%	\$ 24	\$ 150
Effect of state income taxes	(11)	22
Tax-exempt interest	(15)	(21)
Tax credits	(117)	(110)
Change in valuation allowance	—	(7)
Tax exempt bank-owned life insurance income	(34)	—
Amortization of low income housing investment, net of tax	51	51
Other	<u>(5)</u>	<u>(23)</u>
Actual tax expense (benefit)	<u>\$ (107)</u>	<u>\$ (62)</u>
Effective tax rate	<u>(152.7)%</u>	<u>14.0%</u>

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A cumulative net deferred tax asset is included in other assets. The components of the asset are as follows:

	2015	2014 (As Adjusted - Note 20)
Assets		
Allowance for loan losses	\$ 217	\$ 200
Pension and employee benefit	19	17
Loan fees	2	3
Other real estate owned	—	15
Low income housing credit carry over	232	97
Partnership	7	84
Unrealized capital loss carryforward	29	29
Unrealized loss on available-for-sale securities	29	54
Other	<u>19</u>	<u>25</u>
Total assets	<u>554</u>	<u>524</u>
Liabilities		
Depreciation	(28)	(157)
State income tax	(12)	(3)
FHLB stock	(23)	(43)
Prepaid expenses	<u>(46)</u>	<u>(51)</u>
Total liabilities	<u>(109)</u>	<u>(254)</u>
Valuation Allowance		
Beginning balance	(43)	(50)
Increase during the period	<u>—</u>	<u>7</u>
Ending balance	<u>(43)</u>	<u>(43)</u>
Net deferred tax asset	<u>\$ 402</u>	<u>\$ 227</u>

Management believes the low income housing credits will be utilized during the carryforward period.

Retained earnings at June 30, 2015, include approximately \$700,000 for which no deferred federal income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions as of June 30, 1988 for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses including redemption of bank stock or excess dividends, or loss of “bank status” would create income for tax purposes only, which income would be subject to the then-current corporate income tax rate. The unrecorded deferred federal income tax liability on the above amount was approximately \$240,000 at June 30, 2015.

The Company’s tax years still subject to examination by authorities are years subsequent to 2011.

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Note 10: Commitments and Contingent Liabilities

In the normal course of business, there are outstanding commitments and contingent liabilities, such as commitments to extend credit, which are not included in the accompanying consolidated financial statements. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated balance sheets.

Financial instruments whose contract amount represents credit risk as of June 30 were as follows:

	2015	2014
Commitments to extend credit	\$ 1,702	\$ 829
Unused lines of credit	389	355
Standby letters of credit	23	—

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 expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies, but may include residential real estate or other assets of the borrower.

The Company has entered into agreement with an officer, which provide for salary continuation for a three-year period under certain circumstances, primarily related to change of control of the Company or Bank, as defined. Under the terms of the agreement, these payments could occur if, following a change of control, such officer is terminated other than for cause or unreasonable changes are made in their employment relationship. The agreement extends automatically for one year on each anniversary date unless certain conditions are met.

The Company and Bank are also subject to claims and lawsuits, which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate determination of such possible claims or lawsuits will not have a material adverse effect on the consolidated financial position of the Company or Bank.

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Note 11: Stockholders' Equity

The Company's Board of Directors has approved the repurchase of up to 15 percent of the Company's outstanding shares of common stock. Such purchases will be made subject to market conditions in open market or block transactions. This repurchase program has been completed; however, the Board of Directors has approved the open market repurchase of the Company's shares from time to time.

Note 12: Dividends and Capital Restrictions

Without prior approval, current regulations allow the Bank to pay dividends to the Company not exceeding retained net profits for the current calendar year to date plus those for the previous two calendar years. The Bank normally restricts dividends to a lesser amount because of the need to maintain an adequate capital structure. Under current regulations in effect, the Bank is considered a well-capitalized institution.

Note 13: Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under U.S. GAAP, regulatory reporting requirements and regulatory capital standards. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Bank's regulators could require adjustments to regulatory capital not reflected in these financial statements.

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined) to risk-weighted assets (as defined), common equity Tier I capital (as defined) to total risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of June 30, 2015 and 2014, that the Bank meets all capital adequacy requirements to which it is subject.

As of June 30, 2015, the most recent notification from the regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based capital, Tier I risk-based capital, common equity Tier I risk-based capital and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

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

	2015					
	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital (to risk-weighted assets)	\$ 8,423	23.4%	\$ 2,874	8.0%	\$ 3,592	10.0%
Tier I capital (to risk-weighted assets)	7,974	22.2%	2,155	6.0%	2,874	8.0%
Common equity Tier 1 capital (to risk-weighted assets)	7,974	22.2%	1,616	4.5%	2,335	6.5%
Tier I capital (to adjusted total assets)	7,974	12.1%	2,641	4.0%	3,302	5.0%
Tangible capital (to adjusted tangible assets)	7,974	12.1%	990	1.5%	N/A	N/A
	2014					
	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital (to risk-weighted assets)	\$ 8,636	24.0%	\$ 2,877	8.0%	\$ 3,596	10.0%
Tier I capital (to risk-weighted assets)	8,188	22.8%	1,438	4.0%	2,157	6.0%
Tier I capital (to adjusted total assets)	8,188	12.0%	2,737	4.0%	3,421	5.0%
Tangible capital (to adjusted tangible assets)	8,188	12.0%	1,026	1.5%	N/A	N/A

Capital amounts and ratios at June 30, 2014 have not been adjusted for the adoption of ASU 2014-01 as the impact on the amounts and ratios were immaterial to the financial statements.

Note 14: Employee Benefit Plans

The Bank participates in the Pentegra Defined Benefit Plan for Financial Institutions (the Pentegra Plan), an industry-wide, tax-qualified defined-benefit pension plan. The Pentegra Plan's Employer Identification Number is 13-5645888 and the Plan Number is 333. The Pentegra Plan operates as a multi-employer plan for accounting purposes and as a multiple-employer plan under the *Employee Retirement Income Security Act of 1974* and the Internal Revenue Code. There are no collective bargaining agreements in place that require contributions to the Pentegra Plan. The Pentegra Plan is a single plan under Internal Revenue Code Section 413(c) and, as a result, all of the assets stand behind all of the liabilities.

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The risks of participating in a multi-employer plan are different from a single-employer plan in the following aspects:

1. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
3. If the Bank chooses to stop participating in some of its multi-employer plans, the Bank may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Pentegra Plan has not required and does not require a financial improvement plan (FIP) or a rehabilitation plan (RP). Finally, the number of employees covered by the Bank's multi-employer plans has not decreased by 5% percent from 2014 to 2015, thus not affecting the period-to-period comparability of the contributions for years 2014 and 2015.

Pension expense related to this plan was \$21,000 and \$34,000 for the years ended June 30, 2015 and 2014. Funding status of the plan as of the beginning of the plan years for 2014 and 2013 (July 1st) was 104.19% and 95.55%, respectively.

Total contributions by all employer participants in the Pentegra Plan, as reported on the statement of changes in net plan assets, totaled \$190.8 million and \$136.5 million, respectively, for the plan years ended June 30, 2014 and 2013. The Bank's contributions to the Pentegra Plan totaled \$21,000 and \$34,000, respectively, for the years ended June 30, 2015 and 2014 and do not represent more than 5% of the total contributions made by all employer participants in the Pentegra Plan. There have been no significant changes that affect the comparability of 2014 and 2015 contributions. Given the current interest rate environment, the lower asset valuations, and other factors impacting the operations of the Pentegra Plan, it is likely that our future funding obligations will increase.

The Bank froze the benefits in the Pentegra Plan effective July 1, 2006. Full-time employees of the Bank who had attained at least 21 years of age and completed one year of service were eligible to participate. No further benefits will accrue subsequent to the freeze, and the freeze does not reduce the benefits accrued up to the date of the freeze.

The Company has a Retirement Savings Section 401(k) plan in which substantially all employees may participate. The Company matches participant contributions at the rate of 50 percent of the first 6 percent of base salary contributed by participants. The Company contributes an additional 2 percent of participant base salary regardless of participant contributions. The Company's expense for the plan was \$39,000 and \$37,000 for the years ended June 30, 2015 and 2014, respectively.

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The Company has an ESOP covering substantially all employees of the Bank. At June 30, 2015 and 2014, all 123,448 ESOP shares have been allocated. As of June 30, 2015, no unearned shares remained. The Company is obligated at the option of each beneficiary to repurchase shares of the ESOP upon the beneficiary's termination or after retirement. The fair value of all shares subject to the repurchase obligation is \$704,000 at June 30, 2015. The expense for the ESOP was \$27,000 and \$52,000 for the years ended June 30, 2015 and 2014.

The Company has a Recognition and Retention Plan and Trust (RRP). The RRP has acquired 130,948 shares of the Company's common stock, which is the maximum allowed by the Plan, for awards to management. Shares awarded to management under the RRP vest at a rate of 20 percent at the end of each full 12 months of service with the Bank after the date of grant. As of June 30, 2015, 130,948 shares of common stock have been awarded to management. Of the 130,948 shares granted, 680 shares were forfeited during the year ended June 30, 2015 and are available for grant. Expense under the RRP was \$15,000 and \$37,000 for the years ended June 30, 2015 and 2014.

The Company has entered into an employee agreement with an officer that provides for the continuation of salary and certain benefits for a specified period of time.

Note 15: Related Party Transactions

The Bank has entered into transactions with certain directors and officers. Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. The aggregate amount of loans, as defined, to such related parties were as follows:

Balances, July 1, 2014	\$	298
New loans, including renewals		—
Payments, etc. including renewals		<u>(74)</u>
Balances, June 30, 2015	\$	<u>224</u>

Deposits from related parties held by the Bank at June 30, 2015 and 2014 totaled \$1,089,000 and \$590,000, respectively.

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Note 16: Stock Option Plan

The Company has reserved 202,370 shares of Company stock for the granting of options to certain directors, officers and other key employees of the Company and the Bank. As of June 30, 2015 and 2014, there were no stock options outstanding.

Note 17: Earnings Per Share

Earnings per share were computed as follows:

	Net Income	2015 Weighted- Average Shares	Per- Share Amount
Basic Earnings Per Share			
Income available to common stockholders	\$ 177	1,187,621	\$.15
Effect of Dilutive Stock Incentive Awards	—	1,146	
Diluted Earnings Per Share			
Income available to common stockholders and assumed conversions	\$ 177	1,188,767	\$.15
		2014	
	Net Income (As Adjusted - Note 20)	Weighted- Average Shares	Per- Share Amount (As Adjusted - Note 20)
Basic Earnings Per Share			
Income available to common stockholders	\$ 379	1,187,564	\$.32
Effect of Dilutive Stock Incentive Awards	—	2,052	
Diluted Earnings Per Share			
Income available to common stockholders and assumed conversions	\$ 379	1,189,616	\$.32

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Note 18: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company:

Condensed Balance Sheets

	2015	2014 (As Adjusted - Note 20)
Assets		
Cash and cash equivalents	\$ 492	\$ 64
Premises and equipment	80	387
Investment in subsidiaries	7,934	8,202
Other assets	<u>281</u>	<u>118</u>
Total assets	<u>\$ 8,787</u>	<u>\$ 8,771</u>
Liabilities		
Due to Bank	\$ 79	\$ 116
Other	<u>4</u>	<u>7</u>
Total liabilities	83	123
Stockholders' Equity		
Total liabilities and stockholders' equity	<u>\$ 8,787</u>	<u>\$ 8,771</u>

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Condensed Statements of Income and Comprehensive Income

	2015	2014 (As Adjusted - Note 20)
Income		
Dividends from Bank	\$ 705	\$ 230
Interest and other income	<u>64</u>	<u>47</u>
Total income	<u>769</u>	<u>277</u>
Expenses		
Salaries and employee benefits	20	20
Legal and professional fees	29	33
Other expenses	<u>387</u>	<u>90</u>
Total expenses	<u>436</u>	<u>143</u>
Income before income tax benefit and equity in undistributed income of Bank	333	134
Income tax benefit	<u>(167)</u>	<u>(38)</u>
Income before equity in undistributed income of Bank	500	172
Equity in undistributed income (distributions in excess of income) of Bank	<u>(323)</u>	<u>207</u>
Net Income	<u>\$ 177</u>	<u>\$ 379</u>
Comprehensive Income	<u>\$ 216</u>	<u>\$ 483</u>

Condensed Statements of Cash Flows

	2015	2014 (As Adjusted - Note 20)
Operating Activities		
Net income	\$ 177	\$ 379
Items not requiring (providing) cash	<u>426</u>	<u>(244)</u>
Net cash provided by operating activities	<u>603</u>	<u>135</u>
Financing Activities		
Dividends paid	(149)	(144)
Purchase of stock	<u>(26)</u>	<u>—</u>
Net cash used in financing activities	<u>(175)</u>	<u>(144)</u>
Net Change in Cash and Cash Equivalents	428	(9)
Cash and Cash Equivalents at Beginning of Year	<u>64</u>	<u>73</u>
Cash and Cash Equivalents at End of Year	<u>\$ 492</u>	<u>\$ 64</u>

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Note 19: Disclosures About Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Matrix pricing is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities but rather relying on the investment securities' relationship to other benchmark quoted investment securities. Level 2 securities include mortgage-backed securities, agencies, municipal securities and collateralized mortgage obligations not traded in an active market. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. At this time, the Bank has no securities classified as Level 3.

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The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2015 and 2014:

2015				
Fair Value Measurements Using				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities				
Federal agencies	\$ 3,954	\$ —	\$ 3,954	\$ —
Municipal bonds	<u>4,779</u>	<u>—</u>	<u>4,779</u>	<u>—</u>
	<u>\$ 8,733</u>	<u>\$ —</u>	<u>\$ 8,733</u>	<u>\$ —</u>
 2014				
Fair Value Measurements Using				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities				
Federal agencies	\$ 3,896	\$ —	\$ 3,896	\$ —
Municipal bonds	<u>2,843</u>	<u>—</u>	<u>2,843</u>	<u>—</u>
	<u>\$ 6,739</u>	<u>\$ —</u>	<u>\$ 6,739</u>	<u>\$ —</u>

Following is a description of the inputs and valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Collateral-Dependent Impaired Loans, Net of ALLL

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

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The Bank considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by management. Appraisals are reviewed for accuracy and consistency by management. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by management by comparison to historical results.

The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2015 and 2014:

	2015			
	Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
Impaired loans	\$ <u>681</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>681</u>

	2014			
	Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
Impaired loans	\$ <u>672</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>672</u>

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Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements for the years ended June 30, 2015 and 2014:

	Fair Value	Valuation Technique	Unobservable Inputs	Range
June 30, 2015				
Collateral-dependent impaired loans	\$ 681	Market comparable properties	Marketability discount	10% -32%
June 30, 2014				
Collateral-dependent impaired loans	\$ 672	Market comparable properties	Marketability discount	7% - 17%

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents, Interest-Bearing Deposits, Federal Home Loan Bank Stock, Interest Receivable and Interest Payable

The carrying amount approximates fair value.

Loans

The fair value of loans is estimated by discounting the future cash flows using the market rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations. The carrying amount of accrued interest approximates its fair value.

Deposits

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount approximates fair value. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

Borrowings

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt. Fair value of long-term debt is based on quoted market prices or dealer quotes for the identical liability when traded as an asset in an active market. If a quoted market price is not available, an expected present value technique is used to estimate fair value.

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The following table presents estimated fair values of the Company's financial instruments at June 30, 2015 and 2014.

	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 4,209	\$ 4,209	\$ 3,822	\$ 3,822
Interest-bearing time deposits	2,922	2,922	3,349	3,349
Available-for-sale securities	8,733	8,733	6,739	6,739
Loans, net	45,190	51,687	48,965	53,817
Federal Home Loan Bank stock	568	568	1,033	1,033
Interest receivable	278	278	292	292
Financial liabilities				
Deposits	\$ 44,606	\$ 44,916	\$ 48,686	\$ 49,090
Borrowings	10,500	10,686	10,000	10,344
Interest payable	10	10	12	12

Note 20: Change in Accounting Principle

The Bank makes certain equity investments in limited partnerships that sponsor affordable housing projects utilizing the Low Income Housing Tax Credit (LIHTC) pursuant to Section 42 of the Internal Revenue Code. The purpose of these investments is to achieve a satisfactory return on capital, to facilitate the sale of additional affordable housing product offerings, and to assist in achieving goals associated with the Community Reinvestment Act. The primary activities of the limited partnerships include the identification, development, and operation of multi-family housing that is leased to qualifying residential tenants. Generally, these types of investments are funded through a combination of debt and equity.

The Bank is a limited partner in the Low Income Housing Tax Credit Partnership. A separate unrelated third party is the general partner. The limited partnership is managed by the general partner, who exercises full and exclusive control over the affairs of the limited partnership. Duties entrusted to the general partner of each limited partnership include, but are not limited to: investment in operating companies, company expenditures, investment of excess funds, borrowing funds, employment of agents, disposition of fund property, prepayment and refinancing of liabilities, votes and consents, contract authority, disbursement of funds, accounting methods, tax elections, bank accounts, insurance, litigation, cash reserve, and use of working capital reserve funds. Except for limited rights granted to consent to certain transactions, the limited partner(s) may not participate in the operation, management, or control of the limited partnership's business, transact any business in the limited partnership's name or have any power to sign documents for or otherwise bind the limited partnership. In addition, the general partner may only be removed by the limited partner(s) in the event the general partner fails to comply with the terms of the agreement and/or is negligent in performing its duties.

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The Bank believes the general partner of the limited partnership has the power to direct the activities which most significantly affect the performance of each partnership; therefore, the Bank has determined that it is not the primary beneficiary of any LIHTC partnership. The Bank uses the proportional amortization method to account for its investments in these entities. These investments are included in other assets.

During the year ended June 30, 2015, the Bank adopted ASU 2014-01. The amendments are required to be applied retrospectively to all periods presented. As a result of these changes, the Bank recorded a cumulative-effective adjustment to beginning retained earnings. The Bank believes the application of the proportional amortization method aligns the accounting more closely with the economics of the transaction and therefore provides more transparency to the financial reporting.

The following tables summarize the consolidated balance sheet and income statement amounts impacted by the change at the dates or for the periods indicated:

	June 30, 2014
Other assets (includes investment in limited partnerships and deferred tax asset)	
As previously reported	\$ 1,528
As reported under the new guidance	1,476
Retained earnings	
As previously reported	5,812
As reported under the new guidance	5,760
	Year Ended June 30, 2014
Other expense	
As previously reported	\$ 375
As reported under the new guidance	333
Income tax expense (benefit)	
As previously reported	(3)
As reported under the new guidance	62
Net income	
As previously reported	402
As reported under the new guidance	379
Basic Earnings Per Share	
As previously reported	0.34
As reported under the new guidance	0.32
Diluted Earnings Per Share	
As previously reported	0.34
As reported under the new guidance	0.32

The adoption of ASU 2014-01 did not have a significant impact on the cash flow statement for the year ended June 30, 2014 and earnings for the year ended June 30, 2015.