

Home Financial Bancorp

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2016 and 2015

Home Financial Bancorp

June 30, 2016 and 2015

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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, 2016 and 2015, 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 consolidated 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, 2016 and 2015, 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 26, 2016

Home Financial Bancorp
Consolidated Balance Sheets
June 30, 2016 and 2015

Assets

	<u>2016</u>	<u>2015</u>
Cash	\$ 873,602	\$ 928,259
Short-term interest-bearing deposits	<u>794,165</u>	<u>3,280,461</u>
Total cash and cash equivalents	1,667,767	4,208,720
Interest-bearing time deposits	2,770,000	2,922,000
Investment securities - available for sale	11,650,773	8,733,052
Loans, net of allowance for loan losses of \$453,543 and \$525,657	43,857,035	45,189,925
Premises and equipment	1,657,635	1,578,238
Federal Home Loan Bank of Indianapolis stock	567,600	567,600
Interest receivable	306,232	278,012
Other assets	<u>2,070,794</u>	<u>1,432,898</u>
Total assets	<u>\$ 64,547,836</u>	<u>\$ 64,910,445</u>

Liabilities

Deposits		
Noninterest-bearing deposits	\$ 7,226,551	\$ 6,299,582
Interest-bearing deposits	<u>39,511,237</u>	<u>38,306,635</u>
Total deposits	46,737,788	44,606,217
Borrowings	8,500,000	10,500,000
Other liabilities	<u>473,663</u>	<u>1,100,277</u>
Total liabilities	<u>55,711,451</u>	<u>56,206,494</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 - 2016 - 1,175,703 shares and 2015 - 1,191,583 shares	2,627,619	2,667,319
Additional paid-in capital	324,925	307,997
Retained earnings	5,785,829	5,772,534
Accumulated other comprehensive income (loss)	<u>98,012</u>	<u>(43,899)</u>
Total stockholders' equity	<u>8,836,385</u>	<u>8,703,951</u>
Total liabilities and stockholders' equity	<u>\$ 64,547,836</u>	<u>\$ 64,910,445</u>

Home Financial Bancorp

Consolidated Statements of Income

Years Ended June 30, 2016 and 2015

	2016	2015
Interest Income		
Loans	\$ 2,844,758	\$ 3,126,181
Deposits with financial institutions	50,051	38,468
Investment securities	249,591	132,079
Federal Home Loan Bank stock	<u>23,764</u>	<u>36,013</u>
Total interest and dividend income	<u>3,168,164</u>	<u>3,332,741</u>
Interest Expense		
Deposits	261,053	294,892
Federal Home Loan Bank advances	<u>177,267</u>	<u>232,618</u>
Total interest expense	<u>438,320</u>	<u>527,510</u>
Net Interest Income	2,729,844	2,805,231
Provision for loan losses	<u>100,000</u>	<u>220,000</u>
Net Interest Income After Provision for Loan Losses	<u>2,629,844</u>	<u>2,585,231</u>
Other Income		
Service charges on deposit accounts	255,818	282,564
Net gain on sale of available-for-sale securities (includes \$20,216 and \$0, respectively, related to accumulated other comprehensive earnings reclassifications)	20,216	—
ATM service fees	198,157	194,068
Other income	<u>50,891</u>	<u>205,700</u>
Total other income	<u>525,082</u>	<u>682,332</u>
Other Expenses		
Salaries and employee benefits	1,219,496	1,283,486
Net occupancy expenses	137,352	457,551
Equipment expenses	57,427	54,002
Computer processing fees	384,600	373,548
ATM transaction fees	143,771	134,645
Printing and office supplies	36,543	47,943
Legal and professional fees	231,383	204,032
Director and committee fees	97,950	85,450
Advertising expense	102,804	116,983
Repossessed property expense	156,317	128,940
Other expenses	<u>384,951</u>	<u>310,956</u>
Total other expenses	<u>2,952,594</u>	<u>3,197,536</u>
Income Before Income Tax	202,332	70,027
Income tax benefit (includes \$8,158 and \$0, respectively, related to income tax expense from reclassification items)	<u>(30,530)</u>	<u>(106,903)</u>
Net Income	<u>\$ 232,862</u>	<u>\$ 176,930</u>
Net Income Per Share		
Basic	\$.20	\$.15
Diluted	.20	.15

Home Financial Bancorp
Consolidated Statements of Comprehensive Income
Years Ended June 30, 2016 and 2015

	2016	2015
Net Income	\$ <u>232,862</u>	\$ <u>176,930</u>
Other Comprehensive Income		
Unrealized appreciation on securities available for sale	258,141	64,237
Less: reclassification for realized gains included in net income	20,216	—
Income tax expense related to other comprehensive income	<u>(96,014)</u>	<u>(25,438)</u>
Total other comprehensive income	<u>141,911</u>	<u>38,799</u>
Comprehensive Income	\$ <u><u>374,773</u></u>	\$ <u><u>215,729</u></u>

Home Financial Bancorp
Consolidated Statements of Stockholders' Equity
Years Ended June 30, 2016 and 2015

	Common Stock Shares	Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, July 1, 2015	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	1,191,583	2,667,319	307,997	5,772,534	(43,899)	8,703,951
Net income				232,862		232,862
Other comprehensive income					141,911	141,911
Cash dividends (.14 per share)				(164,225)		(164,225)
Stock repurchases	(15,880)	(39,700)		(55,342)		(95,042)
Recognition Retention Plan and Trust (RRP) shares earned			<u>16,928</u>			<u>16,928</u>
Balances, June 30, 2016	<u>1,175,703</u>	<u>\$ 2,627,619</u>	<u>\$ 324,925</u>	<u>\$ 5,785,829</u>	<u>\$ 98,012</u>	<u>\$ 8,836,385</u>

Home Financial Bancorp

Consolidated Statements of Cash Flows

Years Ended June 30, 2016 and 2015

	2016	2015
Operating Activities		
Net income	\$ 232,862	\$ 176,930
Items not requiring (providing) cash		
Provision for loan losses	100,000	220,000
Investment securities amortization, net	32,771	9,751
RRP shares earned	16,928	15,336
Depreciation	97,345	400,407
Deferred income taxes	(33,603)	(199,818)
Foreclosed asset losses	72,192	37,105
Investment securities gains	(20,216)	—
Amortization of investment in limited partnerships	77,250	77,250
Net change in interest receivable	(28,220)	13,842
Other adjustments	517	52,737
Net cash provided by operating activities	547,826	803,540
Investing Activities		
Net change in interest-bearing deposits	152,000	567,000
Purchase of securities available for sale	(8,242,124)	(1,640,000)
Proceeds from sales of securities available for sale	2,095,125	—
Proceeds from maturities and paydowns of securities available for sale	2,022,500	440,000
Net changes in loans	935,290	3,330,037
Proceeds from sale of foreclosed assets	252,868	234,684
Purchase of premises and equipment	(176,742)	(57,982)
Proceeds from sale of FHLB stock	—	464,900
Net cash provided by (used in) investing activities	(2,961,083)	3,338,639
Financing Activities		
Net change in		
Noninterest-bearing deposits	926,969	347,282
Interest-bearing deposits	1,204,602	(4,427,469)
Proceeds from other borrowings	2,000,000	2,500,000
Repayment of other borrowings	(4,000,000)	(2,000,000)
Purchase of stock	(95,042)	(26,510)
Dividends paid	(164,225)	(149,068)
Net cash used in financing activities	(127,696)	(3,755,765)
Net Change in Cash and Cash Equivalents	(2,540,953)	386,414
Cash and Cash Equivalents, Beginning of Year	4,208,720	3,822,306
Cash and Cash Equivalents, End of Year	\$ 1,667,767	\$ 4,208,720
Additional Cash Flows and Supplementary Information		
Interest paid	\$ 439,182	\$ 530,178
Income tax paid (refunds)	—	(20,134)
Transfers from loans to foreclosed assets	297,600	224,690
Due to/(from) broker for purchases/(sales) of securities available for sale	(692,148)	740,000

Home Financial Bancorp
Notes to Consolidated Financial Statements
June 30, 2016 and 2015
(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 income (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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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.

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.

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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.

Note 2: Restriction on Cash and Due From Banks

At June 30, 2016, the Company had approximately \$819,000 of cash, cash equivalents and interest-bearing time deposits exceeding federally insured limits. Included in this amount was approximately \$762,000 in short-term interest-bearing deposits at the Federal Home Loan Bank, government-sponsored entity, which is not insured by the FDIC.

Home Financial Bancorp
Notes to Consolidated Financial Statements
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Note 3: Investment Securities

	2016			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Available for sale				
Federal agencies	\$ 1,287	\$ —	\$ —	\$ 1,287
Government-sponsored enterprise (GSE) residential mortgage-backed securities	1,067	—	(8)	1,059
Municipal bonds	8,576	167	(2)	8,741
Corporate bonds	500	—	—	500
Equity securities	<u>56</u>	<u>8</u>	<u>—</u>	<u>64</u>
Total investment securities	<u>\$ 11,486</u>	<u>\$ 175</u>	<u>\$ (10)</u>	<u>\$ 11,651</u>

	2015			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
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>

Maturities of available-for-sale investments at June 30, 2016:

	Amortized Cost	Approximate Fair Value
Within one year	\$ 960	\$ 960
One to five years	5,989	6,065
Five to ten years	2,479	2,536
After ten years	<u>935</u>	<u>967</u>
Subtotal	10,363	10,528
GSE residential mortgage-backed securities	1,067	1,059
Equity securities	<u>56</u>	<u>64</u>
	<u>\$ 11,486</u>	<u>\$ 11,651</u>

No securities were pledged at June 30, 2016 and 2015.

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Proceeds from sales of securities available for sale, including due from broker amounts, during 2016 and 2015 were \$2,787,000 and \$0, respectively. Gains realized from sales of securities during 2016 and 2015 totaled \$23,000 and \$0, respectively. Losses realized from sales of securities during 2016 and 2015 totaled \$3,000 and \$0, respectively. Net gains on security transactions for 2016 and 2015 resulted in a tax expense of \$8,000 and \$0, respectively.

At June 30, 2016 and 2015, certain investment bond securities are reported in the consolidated financial statements at an amount less than their historical cost. At June 30, 2016 and 2015, total fair value of these investments was \$2,256,000 and \$5,865,000, which is approximately 19.4 and 67.1 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, 2016 and 2015.

Description of Securities	2016		2016		Total	
	Less Than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
GSE residential mortgage-backed securities	\$ 1,060	\$ (8)	\$ —	\$ —	\$ 1,060	\$ (8)
Municipal bonds	<u>951</u>	<u>(1)</u>	<u>245</u>	<u>(1)</u>	<u>1,196</u>	<u>(2)</u>
	<u>\$ 2,011</u>	<u>\$ (9)</u>	<u>\$ 245</u>	<u>\$ (1)</u>	<u>\$ 2,256</u>	<u>\$ (10)</u>

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>

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Note 4: Loans and Allowance

	2016	2015
Real estate mortgage loans		
Residential	\$ 35,505	\$ 36,440
Mobile home and land	2,794	3,117
Nonresidential	5,021	5,113
Mobile home loans	592	813
Consumer loans	544	425
	44,456	45,908
Undisbursed portion of loans	(141)	(186)
Deferred loan fees	(4)	(6)
Allowance for loan losses	(454)	(526)
	(599)	(718)
Total loans	\$ 43,857	\$ 45,190

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, 2016 and 2015:

	2016					
	Real Estate Mortgage Loans					
	Residential	Mobile Home and Land	Nonresidential	Mobile Home Loans	Consumer Loans	Total
Beginning balance	\$ 301	\$ 32	\$ 91	\$ 100	\$ 2	\$ 526
Provision	108	56	(20)	(39)	(5)	100
Loans charged off	(125)	(38)	(2)	(11)	—	(176)
Recoveries	1	—	—	—	3	4
Ending Balance	<u>\$ 285</u>	<u>\$ 50</u>	<u>\$ 69</u>	<u>\$ 50</u>	<u>\$ —</u>	<u>\$ 454</u>
	2015					
	Real Estate Mortgage Loans					
	Residential	Mobile Home and Land	Nonresidential	Mobile Home Loans	Consumer Loans	Total
Beginning balance	\$ 279	\$ 31	\$ 64	\$ 94	\$ 16	\$ 484
Provision	81	26	27	99	(13)	220
Loans charged off	(60)	(26)	—	(96)	(2)	(184)
Recoveries	1	1	—	3	1	6
Ending Balance	<u>\$ 301</u>	<u>\$ 32</u>	<u>\$ 91</u>	<u>\$ 100</u>	<u>\$ 2</u>	<u>\$ 526</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, 2016 and 2015:

	2016					
	Real Estate Mortgage Loans			Mobile Home Loans	Consumer Loans	Total
	Residential	Mobile Home and Land	Nonresidential			
Allowance Balances:						
Individually evaluated for impairment	\$ 138	\$ —	\$ —	\$ —	\$ —	\$ 138
Collectively evaluated for impairment	<u>147</u>	<u>50</u>	<u>69</u>	<u>50</u>	<u>—</u>	<u>316</u>
Total Allowance for Loan Losses	<u>\$ 285</u>	<u>\$ 50</u>	<u>\$ 69</u>	<u>\$ 50</u>	<u>\$ —</u>	<u>\$ 454</u>
Loan Balances:						
Individually evaluated for impairment	\$ 1,483	\$ 268	\$ 92	\$ 45	\$ —	\$ 1,888
Collectively evaluated for impairment	<u>34,022</u>	<u>2,526</u>	<u>4,929</u>	<u>547</u>	<u>544</u>	<u>42,568</u>
Total Loan Balances	<u>\$ 35,505</u>	<u>\$ 2,794</u>	<u>\$ 5,021</u>	<u>\$ 592</u>	<u>\$ 544</u>	<u>\$ 44,456</u>
	2015					
	Real Estate Mortgage Loans			Mobile Home Loans	Consumer Loans	Total
	Residential	Mobile Home and Land	Nonresidential			
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>2</u>	<u>370</u>
Total Allowance for Loan Losses	<u>\$ 301</u>	<u>\$ 32</u>	<u>\$ 91</u>	<u>\$ 100</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>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>\$ 425</u>	<u>\$ 45,908</u>

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

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, 2016 and 2015:

	2016					Total
	Pass	Special Mention	Substandard	Doubtful	Loss	
Real estate mortgage loans:						
Residential	\$ 34,793	\$ 238	\$ 474	\$ —	\$ —	\$ 35,505
Mobile home and land	2,690	—	104	—	—	2,794
Nonresidential	4,949	—	72	—	—	5,021
Mobile home	586	—	6	—	—	592
Consumer loans	544	—	—	—	—	544
Total	<u>\$ 43,562</u>	<u>\$ 238</u>	<u>\$ 656</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 44,456</u>

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	2015					Total
	Pass	Special Mention	Substandard	Doubtful	Loss	
Real estate mortgage loans:						
Residential	\$ 35,142	\$ 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	425	—	—	—	—	425
Total	\$ 44,400	\$ 387	\$ 1,121	\$ —	\$ —	\$ 45,908

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, 2016 and 2015:

	2016						
	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	\$ 1,423	\$ 202	\$ 510	\$ 2,135	\$ 33,370	\$ 35,505	\$ —
Mobile home and land	226	14	104	344	2,450	2,794	—
Nonresidential	1	—	72	73	4,948	5,021	—
Mobile home loans	49	—	6	55	537	592	—
Consumer loans	<u>10</u>	<u>—</u>	<u>—</u>	<u>10</u>	<u>534</u>	<u>544</u>	<u>—</u>
Total	<u>\$ 1,709</u>	<u>\$ 216</u>	<u>\$ 692</u>	<u>\$ 2,617</u>	<u>\$ 41,839</u>	<u>\$ 44,456</u>	<u>\$ —</u>

	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	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>425</u>	<u>425</u>	<u>—</u>
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>

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:

	2016	2015
Real estate mortgage loans:		
Residential	\$ 510	\$ 762
Mobile home and land	104	76
Nonresidential	72	—
Mobile home loans	6	24
Consumer loans	<u>—</u>	<u>—</u>
Total	<u>\$ 692</u>	<u>\$ 862</u>

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The following tables present impaired loans for the years ended June 30, 2016 and 2015:

	2016				
	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	\$ 900	\$ 900	\$ —	\$ 1,373	\$ 88
Mobile home and land	268	268	—	325	25
Nonresidential	92	92	—	79	6
Mobile home loans	45	45	—	52	6
Consumer loans	<u>—</u>	<u>—</u>	<u>—</u>	<u>2</u>	<u>—</u>
Total	<u>1,305</u>	<u>1,305</u>	<u>—</u>	<u>1,831</u>	<u>125</u>
Impaired loans with a specific valuation allowance:					
Real estate mortgage loans:					
Residential	583	583	138	832	49
Mobile home and land	—	—	—	—	—
Nonresidential	—	—	—	—	—
Mobile home loans	—	—	—	—	—
Consumer loans	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u>583</u>	<u>583</u>	<u>138</u>	<u>832</u>	<u>49</u>
Total impaired loans	<u>\$ 1,888</u>	<u>\$ 1,888</u>	<u>\$ 138</u>	<u>\$ 2,663</u>	<u>\$ 174</u>

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	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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There were no newly classified troubled debt restructurings for the year ended June 30, 2016. The following table presents information regarding troubled debt restructurings by class for the year ended June 30, 2015.

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>
Total	<u>9</u>	<u>\$ 486</u>	<u>\$ 500</u>

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

Troubled debt restructurings modified in the past 12 months that subsequently defaulted during 2016:

	2016	
	Number of Loans	Recorded Balance
Real estate mortgage loans:		
Residential	1	\$ 68
Mobile home and land	—	—
Nonresidential	—	—
Mobile home loans	—	—
Commercial and industrial	—	—
Consumer loans	—	—
	<u>1</u>	<u>\$ 68</u>
Total	<u>1</u>	<u>\$ 68</u>

There were no troubled debt restructuring modified in the past 12 months that subsequently defaulted during 2015.

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At June 30, 2016, the balance of real estate owned includes \$255,000 of foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property. At June 30, 2016, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceeds are in the process is \$220,000.

Note 5: Premises and Equipment

	<u>2016</u>	<u>2015</u>
Land	\$ 390	\$ 390
Buildings	2,394	2,774
Equipment	<u>1,460</u>	<u>1,404</u>
Total cost	4,244	4,568
Accumulated depreciation	<u>(2,586)</u>	<u>(2,990)</u>
Net	<u>\$ 1,658</u>	<u>\$ 1,578</u>

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 consolidated 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 \$412,608 and \$490,000 at June 30, 2016 and 2015, 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 for each of the years ended June 30, 2016 and 2015. For both of the years ended June 30, 2016 and 2015, \$77,000 of losses using the proportional amortization method were included in income tax expense. Condensed unaudited financial statements for Great Lakes at December 31, 2016 and 2015 and for the years then ended are as follows:

	December 31	
	2016	2015
Condensed balance sheets		
Assets		
Cash	\$ 27	\$ 19
Land and property	4,104	4,508
Other assets	323	355
Total assets	\$ 4,454	\$ 4,882
Liabilities		
Other liabilities	\$ 13	\$ 11
Partners' equity	4,441	4,871
Total liabilities and partners' equity	\$ 4,454	\$ 4,882
Condensed statements of operations		
Total revenue	\$ —	\$ —
Total expenses	(444)	(417)
Net loss	\$ (444)	\$ (417)

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Note 7: Deposits

	2016	2015
Noninterest-bearing demand	\$ 7,227	\$ 6,299
Interest-bearing demand	5,907	3,716
Money market deposits	452	2,442
Savings	12,309	11,968
Certificates of \$250,000 or more	5,833	3,808
Other certificates	15,010	16,373
Total deposits	\$ 46,738	\$ 44,606

Certificates maturing in years ending June 30:

2017	\$ 9,141
2018	4,266
2019	3,817
2020	1,581
2021	2,038
	\$ 20,843

Brokered deposits totaled approximately \$2,336,000 and \$4,620,000 at June 30, 2016 and 2015, respectively.

Note 8: Borrowings

The Federal Home Loan Bank (FHLB) advances totaled \$8,500,000 and \$10,500,000 at June 30, 2016 and 2015, respectively.

At June 30, 2016, the FHLB advances are secured by mortgage loans totaling \$21,332,000. Advances, at interest rates from 1.03 to 4.58 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:

2017	\$	2,000
2018		2,500
2019		1,500
2020		1,000
2021		500
Thereafter		<u>1,000</u>
	\$	<u>8,500</u>

Note 9: Income Tax

	<u>2016</u>	<u>2015</u>
Income tax expense		
Currently payable		
Federal	\$ 10	\$ 83
State	(7)	10
Deferred		
Federal	(51)	(174)
State	<u>17</u>	<u>(26)</u>
Total income tax benefit	<u>\$ (31)</u>	<u>\$ (107)</u>

	<u>2016</u>	<u>2015</u>
Reconciliation of federal statutory to actual tax expense (benefit)		
Federal statutory income tax at 34%	\$ 69	\$ 24
Effect of state income taxes	6	(11)
Tax-exempt interest	(48)	(15)
Tax credits	(106)	(117)
Tax exempt bank-owned life insurance income	—	(34)
Amortization of low income housing investment, net of tax	51	51
Other	<u>(3)</u>	<u>(5)</u>
Actual tax benefit	<u>\$ (31)</u>	<u>\$ (107)</u>
Effective tax rate	<u>(15.1)%</u>	<u>(152.7)%</u>

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

	2016	2015
Assets		
Allowance for loan losses	\$ 185	\$ 217
Pension and employee benefit	21	19
Loan fees	2	2
Low income housing credit carry over	310	232
Partnership	17	7
Unrealized capital loss carryforward	10	29
Unrealized loss on available-for-sale securities	—	29
Other	22	19
Total assets	567	554
Liabilities		
Depreciation	(39)	(28)
State income tax	(6)	(12)
FHLB stock	(23)	(23)
Unrealized gain on available-for-sale securities	(67)	—
Prepaid expenses	(49)	(46)
Total liabilities	(184)	(109)
Valuation Allowance		
Beginning balance	(43)	(43)
Increase during the period	—	—
Ending balance	(43)	(43)
Net deferred tax asset	\$ 340	\$ 402

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

Retained earnings at June 30, 2016, 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, 2016.

The Company’s tax years still subject to examination by authorities are years subsequent to 2012.

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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:

	2016	2015
Commitments to extend credit	\$ 3,650	\$ 1,702
Unused lines of credit	386	389
Standby letters of credit	23	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, 2016 and 2015, that the Bank meets all capital adequacy requirements to which it is subject.

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In July 2013, the three federal bank regulatory agencies jointly published final rules (the Basel III Capital Rules) establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. These rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, compared to the current U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. These rules also address risk weights and other issues affecting the denominator in banking institutions regulatory capital ratios and replace the existing risk-weighting approach with a more risk-sensitive approach. The Basel III Capital Rules were effective for the Bank on January 1, 2015 (subject to a four-year phase-in period). January 1, 2016 started a second year of phase-in requirements.

The Basel III Capital Rules, among other things, (i) introduced a new capital measure called "Common Equity Tier 1" (CET1), (ii) specify that Tier 1 capital consists of CET1 and "additional Tier 1 Capital" instruments meeting specified requirements, (iii) defined CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expanded the scope of the deductions/adjustments as compared to existing regulations.

Implementation of the deductions and other adjustments to CET1 began on January 1, 2015, and will phase in over a four-year period (beginning at 40% on January 1, 2015, and an additional 20% per year thereafter). Under the new rule, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of CET1 capital above its minimum risk-based capital requirements. The implementation of the capital conservation buffer begins January 1, 2016, at the 0.625% level and will phase in over a four-year period (increasing by that amount on each subsequent January 1 until it reaches 2.5% on January 1, 2019).

As of June 30, 2016, 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.

	2016					
	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)	\$ 8,579	24.8%	\$ 2,773	8.0%	\$ 3,466	10.0%
Tier I capital (to risk-weighted assets)	8,146	23.5%	2,079	6.0%	2,773	8.0%
Common equity Tier 1 capital (to risk-weighted assets)	8,146	23.5%	1,560	4.5%	2,253	6.5%
Tier I capital (to adjusted total assets)	8,146	12.3%	2,656	4.0%	3,320	5.0%
Tangible capital (to adjusted tangible assets)	8,146	12.3%	996	1.5%	N/A	N/A

	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

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 2015 to 2016, thus not affecting the period-to-period comparability of the contributions for years 2015 and 2016.

Pension expense related to this plan was \$70,000 and \$21,000 for the years ended June 30, 2016 and 2015. Funding status of the plan as of the beginning of the plan years for 2015 and 2014 (July 1st) was 100.38% and 104.19%, respectively.

Total contributions by all employer participants in the Pentegra Plan, as reported on the statement of changes in net plan assets, totaled \$163.1 million and \$190.8 million, respectively, for the plan years ended June 30, 2015 and 2014. The Bank's contributions to the Pentegra Plan totaled \$70,000 and \$21,000, respectively, for the years ended June 30, 2016 and 2015 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 2015 and 2016 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 \$33,000 and \$39,000 for the years ended June 30, 2016 and 2015, respectively.

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The Company has an ESOP covering substantially all employees of the Bank. At June 30, 2016 and 2015, all 128,045 ESOP shares have been allocated. As of June 30, 2016, 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 \$880,000 at June 30, 2016. The expense for the ESOP was \$25,000 and \$27,000 for the years ended June 30, 2016 and 2015.

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, 2016, 130,948 shares of common stock have been awarded to management. Of the 130,948 shares granted, no shares were forfeited during the year ended June 30, 2016. Expense under the RRP was \$16,000 and \$15,000 for the years ended June 30, 2016 and 2015.

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, 2015	\$ 224
New loans, including renewals	55
Payments, etc. including renewals	<u>(17)</u>
Balances, June 30, 2016	<u>\$ 262</u>

Deposits from related parties held by the Bank at June 30, 2016 and 2015 totaled \$807,000 and \$1,089,000, 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, 2016 and 2015, there were no stock options outstanding.

Note 17: Earnings Per Share

Earnings per share were computed as follows:

	Net Income	2016 Weighted- Average Shares	Per- Share Amount
Basic Earnings Per Share			
Income available to common stockholders	\$ 233	1,188,586	\$.20
Effect of Dilutive Stock Incentive Awards	—	357	
Diluted Earnings Per Share			
Income available to common stockholders and assumed conversions	\$ 233	1,188,943	\$.20
	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

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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

	2016	2015
Assets		
Cash and cash equivalents	\$ 120	\$ 492
Investment securities - available for sale	64	—
Premises and equipment	80	80
Investment in subsidiaries	8,247	7,934
Other assets	<u>325</u>	<u>281</u>
Total assets	<u>\$ 8,836</u>	<u>\$ 8,787</u>
Liabilities		
Due to Bank	\$ —	\$ 79
Other	<u>—</u>	<u>4</u>
Total liabilities	—	83
Stockholders' Equity		
	<u>8,836</u>	<u>8,704</u>
Total liabilities and stockholders' equity	<u>\$ 8,836</u>	<u>\$ 8,787</u>

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Condensed Statements of Income and Comprehensive Income

	2016	2015
Income		
Dividends from Bank	\$ 160	\$ 705
Interest and other income	<u>8</u>	<u>64</u>
Total income	<u>168</u>	<u>769</u>
Expenses		
Salaries and employee benefits	20	20
Legal and professional fees	34	29
Other expenses	<u>92</u>	<u>387</u>
Total expenses	<u>146</u>	<u>436</u>
Income before income tax benefit and equity in undistributed income of Bank	22	333
Income tax benefit	<u>(54)</u>	<u>(167)</u>
Income before equity in undistributed income of Bank	76	500
Equity in undistributed income (distributions in excess of income) of Bank	<u>157</u>	<u>(323)</u>
Net Income	<u>\$ 233</u>	<u>\$ 177</u>
Comprehensive Income	<u>\$ 375</u>	<u>\$ 216</u>

Condensed Statements of Cash Flows

	2016	2015
Operating Activities		
Net income	\$ 233	\$ 177
Items not requiring (providing) cash	<u>(290)</u>	<u>426</u>
Net cash provided by (used in) operating activities	<u>(57)</u>	<u>603</u>
Investing Activity - purchase of investment securities available for sale	<u>(56)</u>	<u>—</u>
Financing Activities		
Dividends paid	(164)	(149)
Purchase of stock	<u>(95)</u>	<u>(26)</u>
Net cash used in financing activities	<u>(259)</u>	<u>(175)</u>
Net Change in Cash and Cash Equivalents	(372)	428
Cash and Cash Equivalents at Beginning of Year	<u>492</u>	<u>64</u>
Cash and Cash Equivalents at End of Year	<u>\$ 120</u>	<u>\$ 492</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 corporate 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, 2016 and 2015:

	2016			
	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	\$ 1,287	\$ —	\$ 1,287	\$ —
GSE residential mortgage-backed securities	1,059	—	1,059	—
Municipal bonds	8,741	—	8,741	—
Corporate bonds	500	—	500	—
Equity securities	<u>64</u>	<u>64</u>	<u>—</u>	<u>—</u>
	<u>\$ 11,651</u>	<u>\$ 64</u>	<u>\$ 11,587</u>	<u>\$ —</u>

	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>

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, 2016 and 2015:

	2016			
	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)
	Fair Value	(Level 1)	(Level 2)	(Level 3)
Impaired loans	\$ <u>71</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>71</u>

	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)
	Fair Value	(Level 1)	(Level 2)	(Level 3)
Impaired loans	\$ <u>681</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>681</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, 2016 and 2015:

	Fair Value	Valuation Technique	Unobservable Inputs	Range
June 30, 2016				
Collateral-dependent impaired loans	\$ 71	Market comparable properties	Marketability discount	50% -73%
June 30, 2015				
Collateral-dependent impaired loans	\$ 681	Market comparable properties	Marketability discount	10% -32%

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, 2016 and 2015.

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 1,668	\$ 1,668	\$ 4,209	\$ 4,209
Interest-bearing time deposits	2,770	2,770	2,922	2,922
Available-for-sale securities	11,651	11,651	8,733	8,733
Loans, net	43,857	45,278	45,190	51,687
Federal Home Loan Bank stock	568	568	568	568
Interest receivable	306	306	278	278
Financial liabilities				
Deposits	\$ 46,738	\$ 46,901	\$ 44,606	\$ 44,916
Borrowings	8,500	8,500	10,500	10,686
Interest payable	9	9	10	10