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Home Federal Bancorp, Inc. of Louisiana  
Form 10-Q  
February 11, 2019

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended: December 31, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the transition period from to

Commission file number: 001-35019

HOME FEDERAL BANCORP, INC. OF LOUISIANA  
(Exact name of registrant as specified in its charter)

Louisiana 02-0815311  
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

624 Market Street, Shreveport, Louisiana 71101  
(Address of principal executive offices) (Zip Code)

(318) 222-1145  
(Registrant's telephone number, including area code)

N/A  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check  
mark whether the  
registrant (1) has  
filed all reports  
required to be filed  
by Section 13 or  
15(d) of the  
Securities Exchange  
Act of 1934 during  
the preceding 12  
months (or for such

shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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

Shares of common stock, par value \$.01 per share, outstanding as of February 8, 2019: The registrant had 1,853,035 shares of common stock outstanding.

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SIGNATURES

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## HOME FEDERAL BANCORP, INC. OF LOUISIANA

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

	December 31, 2018	June 30, 2018
	(In Thousands)	
<b>ASSETS</b>		
Cash and Cash Equivalents (Includes Interest-Bearing Deposits with Other Banks of \$7,817 and \$11,974 for December 31, 2018 and June 30, 2018, Respectively)	\$10,874	\$15,867
Securities Available-for-Sale	38,638	29,324
Securities Held-to-Maturity (Fair Value of \$25,751 and \$27,818, Respectively)	26,510	28,888
Loans Held-for-Sale	3,858	6,762
Loans Receivable, Net of Allowance for Loan Losses of \$3,479 and \$3,425, Respectively	322,072	317,493
Accrued Interest Receivable	1,164	1,146
Premises and Equipment, Net	13,160	12,243
Bank Owned Life Insurance	6,878	6,808
Deferred Tax Asset	1,081	1,102
Foreclosed Assets	747	1,177
Other Assets	587	840
<b>Total Assets</b>	<b>\$425,569</b>	<b>\$421,650</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Deposits	\$373,407	\$360,260
Advances from Borrowers for Taxes and Insurance	328	725
Short-term Federal Home Loan Bank advances	288	5,282
Long-term Federal Home Loan Bank advances	1,209	6,355
Other Borrowings	450	300
Other Accrued Expenses and Liabilities	1,249	1,691
<b>Total Liabilities</b>	<b>376,931</b>	<b>374,613</b>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred Stock – \$.01 Par Value; 10,000,000 Shares Authorized; None Issued and Outstanding	--	--
Common Stock – \$.01 Par Value; 40,000,000 Shares Authorized; 1,881,735 and 1,894,081 Shares Issued and Outstanding at December 31, 2018 and June 30, 2018, Respectively	23	23
Additional Paid-in Capital	35,586	35,057
Unearned ESOP Stock	(1,042 )	(1,100 )
Unearned RRP Trust Stock	2	(22 )
Retained Earnings	14,952	14,125
Accumulated Other Comprehensive Income	(883 )	(1,046 )
<b>Total Stockholders' Equity</b>	<b>48,638</b>	<b>47,037</b>

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$425,569	\$421,650
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See accompanying notes to unaudited consolidated financial statements.

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## HOME FEDERAL BANCORP, INC. OF LOUISIANA

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	For the Three Months Ended December 31, 2018		For the Six Months Ended December 31, 2017	
	2018	2017	2018	2017
(In Thousands, Except per Share Data)				
<b>INTEREST INCOME</b>				
Loans, Including Fees	\$4,569	\$4,280	\$9,063	\$8,564
Investment Securities	15	12	29	23
Mortgage-Backed Securities	318	268	616	528
Other Interest-Earning Assets	94	27	174	65
Total Interest Income	4,996	4,587	9,882	9,180
<b>INTEREST EXPENSE</b>				
Deposits	1,030	738	1,959	1,445
Other Borrowings	3	1	4	1
Federal Home Loan Bank Borrowings	42	117	110	261
Total Interest Expense	1,075	856	2,073	1,707
Net Interest Income	3,921	3,731	7,809	7,473
<b>PROVISION FOR LOAN LOSSES</b>				
Net Interest Income after Provision for Loan Losses	3,821	3,531	7,459	6,973
<b>NON-INTEREST INCOME</b>				
Gain on Sale of Loans	374	430	766	1,035
Loss on Sale of Real Estate and Fixed Assets	(230 )	(1 )	(228 )	(1 )
Gain on Sale of Securities	--	--	--	95
Income on Bank Owned Life Insurance	35	35	70	71
Service Charges on Deposit Accounts	238	221	465	437
Other Income	22	12	35	28
Total Non-Interest Income	439	697	1,108	1,665
<b>NON-INTEREST EXPENSE</b>				
Compensation and Benefits	1,547	1,581	3,163	3,296
Occupancy and Equipment	329	361	649	671
Data Processing	147	165	297	332
Audit and Examination Fees	73	77	127	126
Franchise and Bank Shares Tax	97	103	197	201
Advertising	84	30	142	70
Legal Fees	158	143	297	289
Loan and Collection	64	73	126	153
Deposit Insurance Premium	22	40	52	68
Valuation Adjustment Real Estate Owned	--	--	75	--
Other Expense	201	182	372	380
Total Non-Interest Expense	2,722	2,755	5,497	5,586
Income Before Income Taxes	1,538	1,473	3,070	3,052

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PROVISION FOR INCOME TAX EXPENSE	363	1,112	677	1,683
Net Income	\$1,175	\$361	\$2,393	\$1,369
EARNINGS PER COMMON SHARE:				
Basic	\$0.66	\$0.20	\$1.34	\$0.76
Diluted	\$0.62	\$0.19	\$1.25	\$0.72
DIVIDENDS DECLARED	\$0.14	\$0.12	\$0.28	\$0.24

See accompanying notes to unaudited consolidated financial statements.

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HOME FEDERAL BANCORP, INC. OF LOUISIANA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	For the Three Months Ended December 31, 2018 2017 (In Thousands)		For the Six Months Ended December 31, 2018 2017 (In Thousands)	
Net Income	\$1,175	\$361	\$2,393	\$1,369
Other Comprehensive Income (Loss), Net of Tax				
Unrealized Holding Gain (Loss) on Securities Available-for-Sale, Net of Tax of \$63 and \$43 in 2018 and \$78 and \$124 in 2017	238	(153)	163	(239 )
Total Comprehensive Income	\$1,413	\$208	\$2,556	\$1,130

See accompanying notes to unaudited consolidated financial statements.

## HOME FEDERAL BANCORP, INC. OF LOUISIANA

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

THREE MONTHS ENDED DECEMBER 31, 2018 AND 2017

(Unaudited)

	Common Stock	Additional Paid-in Capital	Unearned ESOP Stock (In Thousands)	Unearned RRP Trust Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
BALANCE – June 30, 2017	\$ 23	\$ 34,516	\$ (1,215 )	\$ (46 )	\$ 13,320	\$ (352 )	\$ 46,246
Net Income	--	--	--	--	1,369	--	1,369
Changes in Unrealized Gain on Securities Available-for- Sale, Net of Tax Effects	--	--	--	--	--	(239 )	(239 )
RRP Shares Earned	--	--	--	24	--	--	24
Stock Options Vested	--	68	--	--	--	--	68
Common Stock Issuance for Stock Option Exercises	--	191	--	--	--	--	191
ESOP Compensation Earned	--	99	57	--	--	--	156
Company Stock Purchased	--	--	--	--	(1,417 )	--	(1,417 )
Dividends Declared	--	--	--	--	(466 )	--	(466 )
BALANCE – December 31, 2017	\$ 23	\$ 34,874	\$ (1,158 )	\$ (22 )	\$ 12,806	\$ (591 )	\$ 45,932
BALANCE – June 30, 2018	\$ 23	\$ 35,057	\$ (1,100 )	\$ (22 )	\$ 14,125	\$ (1,046 )	\$ 47,037
Net Income	--	--	--	--	2,393	--	2,393
Changes in Unrealized Gain on Securities Available-for- Sale, Net of Tax Effects	--	--	--	--	--	163	163
Share Awards Earned	--	135	--	--	--	--	135
RRP Shares Earned	--	--	--	24	--	--	24
Stock Options Vested	--	68	--	--	--	--	68
	--	198	--	--	--	--	198

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Common Stock Issuance for  
Stock  
Option Exercises

ESOP Compensation Earned	--	128	58	--	--	--	186
Company Stock Purchased	--	--	--	--	(1,037 )	--	(1,037 )
Dividends Declared	--	--	--	--	(529 )	--	(529 )
BALANCE – December 31, 2018	\$ 23	\$ 35,586	\$ (1,042 )	\$ 2	\$ 14,952	\$ (883 )	\$ 48,638

See accompanying notes to unaudited consolidated financial statements.

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## HOME FEDERAL BANCORP, INC. OF LOUISIANA

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Six Months Ended December 31,	
	2018	2017
	(In Thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$2,393	\$1,369
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Bad Debt Recovery	1	5
Net Amortization and Accretion on Securities	57	96
Loss on Sale of Real Estate	228	1
Gain on Sale of Loans	(766 )	(1,035 )
Gain on Sale of Securities	--	(95 )
Amortization of Deferred Loan Fees	(97 )	(72 )
Depreciation of Premises and Equipment	241	254
ESOP Expense	186	156
Stock Option Expense	68	68
Recognition and Retention Plan Expense	14	14
Deferred Income Tax	(26 )	610
Valuation Adjustment Real Estate Owned	75	--
Provision for Loan Losses	350	500
Increase in Cash Surrender Value on Bank Owned Life Insurance	(70 )	(71 )
Share Awards Expense	68	68
Changes in Assets and Liabilities:		
Loans Held-for-Sale – Originations and Purchases	(28,395 )	(44,573 )
Loans Held-for-Sale – Sale and Principal Repayments	32,065	56,531
Accrued Interest Receivable	(18 )	(79 )
Other Operating Assets	253	428
Other Operating Liabilities	(442 )	(471 )
<b>Net Cash Provided by Operating Activities</b>	<b>6,185</b>	<b>13,704</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Loan Originations and Purchases, Net of Principal Collections	(4,646 )	(3,920 )
Deferred Loan Fees Collected	85	169
Acquisition of Premises and Equipment	(1,923 )	(114 )
Proceeds from Sale of Real Estate	536	--
Activity in Available-for-Sale Securities:		
Principal Payments on Mortgage-Backed Securities	3,369	4,479
Purchases of Securities	(12,522 )	(4,947 )
Sale of Securities	--	3,555
Activity in Held-to-Maturity Securities:		
Principal Payments on Mortgage-Backed Securities	2,396	1,466
Purchase of Securities	--	(1,174 )

Net Cash Used in Investing Activities

(12,705) (486 )

See accompanying notes to unaudited consolidated financial statements.

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## HOME FEDERAL BANCORP, INC. OF LOUISIANA

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)  
(Unaudited)

	Six Months Ended December 31,	
	2018	2017
	(In Thousands)	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net Increase in Deposits	\$13,147	\$13,180
Proceeds from Federal Home Loan Bank Advances	--	61,675
Repayments of Advances from Federal Home Loan Bank	(10,140)	(88,808)
Repayments of Other Borrowings	(300 )	--
Net Decrease in Advances from Borrowers for Taxes and Insurance	(397 )	(384 )
Dividends Paid	(529 )	(466 )
Company Stock Purchased	(1,037 )	(1,417 )
Proceeds from Stock Options Exercised	198	191
Proceeds from Other Bank Borrowings	450	350
Plan Share Distributions	135	--
Net Cash Provided by (Used in) Financing Activities	1,527	(15,679)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(4,993 )</b>	<b>(2,461 )</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD</b>	<b>15,867</b>	<b>11,905</b>
<b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>	<b>\$10,874</b>	<b>\$9,444</b>
<b>SUPPLEMENTARY CASH FLOW INFORMATION</b>		
Interest Paid on Deposits and Borrowed Funds	\$1,403	\$1,614
Income Taxes Paid	787	1,101
Market Value Adjustment for Gain (Loss) on Securities Available-for-Sale	206	(363 )

See accompanying notes to unaudited consolidated financial statements.

HOME FEDERAL BANCORP, INC. OF LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Home Federal Bancorp, Inc. of Louisiana (the “Company”) and its subsidiary, Home Federal Bank (“Home Federal Bank” or the “Bank”). These consolidated financial statements were prepared in accordance with instructions for Form 10-Q and Regulation S-X and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial statements have been included. The results of operations for the six month period ended December 31, 2018 are not necessarily indicative of the results which may be expected for the fiscal year ending June 30, 2019.

The Company follows accounting standards set by the Financial Accounting Standards Board (the “FASB”). The FASB sets generally accepted accounting principles (“GAAP”) that we follow to ensure we consistently report our financial condition, results of operations, and cash flows. References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification (the “Codification” or the “ASC”).

In accordance with the subsequent events topic of the ASC, the Company evaluates events and transactions that occur after the balance sheet date for potential recognition in the financial statements. The effect of all subsequent events that provide additional evidence of conditions that existed at the balance sheet date are recognized in the financial statements as of December 31, 2018. In preparing these financial statements, the Company evaluated the events and transactions that occurred through the date these financial statements were issued.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the Consolidated Statements of Financial Condition and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the allowance for loan losses.

Nature of Operations

Home Federal Bancorp, Inc. of Louisiana, a Louisiana corporation, is the fully public stock holding company for Home Federal Bank located in Shreveport, Louisiana. The Bank is a federally chartered stock savings and loan association and is subject to federal regulation by the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency. The Company is a savings and loan holding company regulated by the Board of Governors of the Federal Reserve System. Services are provided to the Bank’s customers by six full-service banking offices and home office, located in Caddo and Bossier Parishes, Louisiana. The Bank expects to open its seventh full-service banking office during the quarter ended March 31, 2019. The area served by the Bank is primarily the Shreveport-Bossier City metropolitan area; however, loan and deposit customers are found dispersed in a wider geographical area covering much of northwest Louisiana. As of December 31, 2018, the Bank had one wholly-owned subsidiary, Metro Financial Services, Inc., which previously engaged in the sale of annuity contracts and does not currently engage in a meaningful amount of business.

Cash and Cash Equivalents

For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents include cash on hand, balances due from banks, and federal funds sold, all of which mature within ninety days.

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HOME FEDERAL BANCORP, INC. OF LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Accounting Policies (continued)

Securities

The Company classifies its debt and equity investment securities into one of three categories: held-to-maturity, available-for-sale, or trading. Investments in nonmarketable equity securities and debt securities, in which the Company has the positive intent and ability to hold to maturity, are classified as held-to-maturity and carried at amortized cost. Investments in debt securities that are not classified as held-to-maturity and marketable equity securities that have readily determinable fair values are classified as either trading or available-for-sale securities. Securities that are acquired and held principally for the purpose of selling in the near term are classified as trading securities. Investments in securities not classified as trading or held-to-maturity are classified as available-for-sale.

Trading account and available-for-sale securities are carried at fair value. Unrealized holding gains and losses on trading securities are included in earnings, while net unrealized holding gains and losses on available-for-sale securities are excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the term of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans Held-for-Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Loans

Loans receivable are stated as unpaid principal balances less allowances for loan losses and unamortized deferred loan fees. Net nonrefundable fees (loan origination fees, commitment fees, discount points) and costs associated with lending activities are being deferred and subsequently amortized into income as an adjustment of yield on the related interest earning assets using the interest method. Interest income on contractual loans receivable is recognized on the accrual method. Unearned discount on property improvement and automobile loans is deferred and amortized on the interest method over the life of the loan.

Allowance for Loan Losses

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability 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 the underlying collateral, and prevailing economic conditions. The evaluation is inherently subjective as it requires estimates that are susceptible to

significant revision as more information becomes available.

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HOME FEDERAL BANCORP, INC. OF LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Accounting Policies (continued)

Allowance for Loan Losses (continued)

A loan is considered impaired when, based on current information or events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. When a loan is impaired, the measurement of such impairment is based upon the fair value of the collateral of the loan. If the fair value of the collateral is less than the recorded investment in the loan, the Bank will recognize the impairment by creating a valuation allowance with a corresponding charge against earnings. A loan is considered a troubled debt restructuring ("TDR") if the Company, for economic or legal reasons related to a debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. Concessions granted under a TDR typically involve a temporary or permanent reduction in payments or interest rate or an extension of a loan's stated maturity date at less than a current market rate of interest. Loans identified as TDRs are designated as impaired.

An allowance is also established for uncollectible interest on loans classified as substandard. The allowance is established by a charge to interest income equal to all interest previously accrued and income is subsequently recognized only to the extent that cash payments are received. When, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal, the loan is returned to accrual status.

It should be understood that estimates of future loan losses involve an exercise of judgment. While it is possible that in particular periods the Company may sustain losses which are substantial relative to the allowance for loan losses, it is the judgment of management that the allowance for loan losses reflected in the accompanying statements of condition is adequate to absorb known and inherent losses in the existing loan portfolio both probable and reasonable to estimate.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held-for-sale and are transferred to other real estate owned at the lower of cost or current fair value minus estimated cost to sell as of the date of foreclosure. Cost is defined as the lower of the fair value of the property or the recorded investment in the loan. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell.

Premises and Equipment

Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets. Estimated useful lives are as follows:

Buildings and Improvements 10 - 40 Years  
Furniture and Equipment 3 - 10 Years

Bank-Owned Life Insurance

The Company has purchased life insurance contracts on the lives of certain key employees. The Bank is the beneficiary of these policies. These contracts are reported at their cash surrender value, and changes in the cash surrender value are included in non-interest income.

HOME FEDERAL BANCORP, INC. OF LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Accounting Policies (continued)

Allowance for Loan Losses (continued)

Income Taxes

The Company and its wholly-owned subsidiary file a consolidated Federal income tax return on a fiscal year basis. Each entity pays its pro-rata share of income taxes in accordance with a written tax-sharing agreement.

The Company accounts for income taxes on the asset and liability method. Deferred tax assets and liabilities are recorded based on the difference between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the expected amount most likely to be realized. Realization of deferred tax assets is dependent upon the generation of a sufficient level of future taxable income and recoverable taxes paid in prior years. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets will be realized. Current taxes are measured by applying the provisions of enacted tax laws to taxable income to determine the amount of taxes receivable or payable.

The Company follows the provisions of the Income Taxes Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740. ASC 740 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on various related matters such as derecognition, interest, penalties, and disclosures required. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

While the Bank is exempt from Louisiana income tax, it is subject to the Louisiana Ad Valorem Tax, commonly referred to as the Louisiana Shares Tax, which is based on stockholders' equity and net income.

Earnings per Share

Earnings per share are computed based upon the weighted average number of common shares outstanding during the period.

Non-Direct Response Advertising

The Company expenses all advertising costs, except for direct-response advertising, as incurred. Non-direct response advertising costs were \$142,000 and \$70,000 for the six months ended December 31, 2018 and 2017, respectively.

In the event the Company incurs expense for material direct-response advertising, it will be amortized over the estimated benefit period. Direct-response advertising consists of advertising whose primary purpose is to elicit sales to customers who could be shown to have responded specifically to the advertising and results in probable future benefits. For the six months ended December 31, 2018 and 2017, the Company did not incur any amount of direct-response advertising.

Stock-Based Compensation

GAAP requires all share-based payments to employees, including grants of employee stock options and recognition and retention share awards, to be recognized as expense in the statement of operations based on their fair values. The amount of compensation is measured at the fair value of the options or recognition and retention share awards when granted, and this cost is expensed over the required service period, which is normally the vesting period of the options or recognition and retention awards.

HOME FEDERAL BANCORP, INC. OF LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Accounting Policies (continued)

Reclassification

Certain financial statement balances included in the prior year consolidated financial statements have been reclassified to conform to the current period presentation.

Comprehensive Income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the consolidated balance sheets along with net income, they are components of comprehensive income (loss).

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The amendments in ASU 2014-09 supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. The general principle of ASU 2014-09 requires an entity to recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration of which the entity expects to be entitled in exchange for those goods or services. The guidance sets forth a five step approach to be utilized for revenue recognition. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 making it effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. In April 2016, the FASB issued ASU 2016-10 which does not change the core principle of the guidance in Topic 606. The amendments in this Update clarify the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. In May 2016, the FASB issued ASU 2016-12 which does not change the core principle of the guidance in Topic 606. The amendments in this Update affect only certain narrow aspects of Topic 606. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments. The amendments in this Update supersede the guidance to classify equity securities with readily determinable fair values into different categories and require equity securities to be measured at fair value with changes in the fair value recognized through net income. The amendments allow equity investments that do not have readily determinable fair values to be remeasured at fair value either upon the occurrence of an observable price change or upon identification of impairment. The amendments in this Update also simplify the impairment assessment of equity investments without readily determinable fair values by requiring assessment for impairment qualitatively at each reporting period. In addition, the amendments in this Update exempt all entities that are not public business entities from disclosing fair value information for financial instruments measured at amortized cost. In addition, for public business entities, the amendments supersede the requirement to disclose the methods and significant assumptions used in calculating the fair value of financial instruments required to be disclosed for financial instruments measured at amortized cost on the balance sheet. The amendments in this Update require public business entities that are required to disclose fair value of financial instruments measured at amortized cost on the balance sheet to measure that fair value using the exit price notion consistent with Topic 820, Fair Value Measurement.

The provisions within this Update require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option. This amendment excludes from net income gains or losses that the entity may not realize because those financial liabilities are not usually transferred or settled at their fair values before maturity. The amendments in this Update require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or in the accompanying notes to the financial statements.

HOME FEDERAL BANCORP, INC. OF LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Accounting Policies (continued)

Recent Accounting Pronouncements (continued)

For public business entities, the amendments in ASU 2016-01 are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. From the lessee's perspective, the new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting pattern of expense recognition in the income statement for a lessee.

The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements, with certain practical expedients available. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments in this Update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For public business entities that are SEC filers, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, including interim periods with those fiscal years. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20). This Update was issued in response to diversity in practice in the amortization period for premiums of callable debt securities and in how the potential for exercise of a call is factored into current impairment assessments. As such, these amendments reduce the amortization period for certain callable debt securities carried at a premium and require the premium to be amortized over the period not to exceed the earliest call date. These amendments do not apply to securities carried at a discount. The effective date of this Update is for fiscal years beginning on or after December 15, 2018. The Company does not expect ASU 2017-08 to have a material impact on its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation – Stock Compensation (Topic 718). The amendments in this ASU provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in FASB ASC 718. The effective date of this Update is for fiscal years beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. The Company does not expect ASU 2017-09 to have a material impact on its consolidated financial statements.

In November 2017, the FASB issued ASU 2017-14, Income Statement – Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606) (SEC Update). This Update adds, amends, and supersedes SEC paragraphs of the ASC pursuant to Staff Accounting Bulletin No. 116 and SEC Release 33-10403. This ASU is effective upon issuance.



HOME FEDERAL BANCORP, INC. OF LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Accounting Policies (continued)

Recent Accounting Pronouncements (continued)

In February 2018, the FASB issued ASU 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. On December 22, 2017, the U.S. Federal Government enacted a tax bill, H.R.1, An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018 (Tax Cuts and Jobs Act). The amendments in this Update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments in this Update eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. However, because the amendments in this Update only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of this Update is permitted, including adoption in any interim period (1) for public business entities for reporting periods for which financial statements have not yet been issued and (2) for all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments in this Update should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In May 2018, the FASB issued ASU 2018-06, Codification Improvements to Topic 942, Financial Services – Depository and Lending. The amendments in this Update supersede the guidance in Subtopic 942-740, Financial Services – Depository and Lending – Income Taxes, that is related to Circular 202 because that guidance has been rescinded by the Office of the Comptroller of the Currency (OCC) and is no longer relevant. This ASU is effective upon issuance.

In June 2018, the FASB issued ASU 2018-07, Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. Topic 718 improves several areas of nonemployee share-based payment accounting. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, but no earlier than an entity's adoption on Topic 606. The Company does expect ASU 2018-07 to have a material impact on its consolidated financial statements.



## HOME FEDERAL BANCORP, INC. OF LOUISIANA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2. Securities

The amortized cost and fair value of securities with gross unrealized gains and losses follows:

	December 31, 2018			
	Gross		Gross	
	Amortized	Unrealized	Unrealized	Fair
	Cost	Gains	Losses	Value
	(In Thousands)			
Securities Available-for-Sale				
Debt Securities				
FHLMC Mortgage-Backed Certificates	\$8,775	\$ 1	\$ 389	\$8,387
FNMA Mortgage-Backed Certificates	21,469	1	474	20,996
GNMA Mortgage-Backed Certificates	9,512	1	258	9,255
Total Debt Securities	39,756	3	1,121	38,638
Total Securities Available-for-Sale	\$39,756	\$ 3	\$ 1,121	\$38,638
Securities Held-to-Maturity				
Debt Securities				
GNMA Mortgage-Backed Certificates	\$1,147	\$ --	\$ 50	\$1,097
FNMA Mortgage-Backed Certificates	22,488	--	709	21,779
Total Debt Securities	23,635	--	759	22,876
Equity Securities (Non-Marketable)				
26,249 Shares – Federal Home Loan Bank	2,625	--	--	2,625
630 Shares – First National Bankers Bankshares, Inc.	250	--	--	250
Total Equity Securities	2,875	--	--	2,875
Total Securities Held-to-Maturity	\$26,510	\$ --	\$ 759	\$25,751
	June 30, 2018			
	Gross		Gross	
	Amortized	Unrealized	Unrealized	Fair
	Cost	Gains	Losses	Value
	(In Thousands)			
Securities Available-for-Sale				
Debt Securities				
FHLMC Mortgage-Backed Certificates	\$7,601	\$ 2	\$ 518	\$7,085
FNMA Mortgage-Backed Certificates	12,465	1	554	11,912
GNMA Mortgage-Backed Certificates	10,581	2	256	10,327

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Total Debt Securities	30,647	5	1,328	29,324
Total Securities Available-for-Sale	\$30,647	\$ 5	\$ 1,328	\$29,324
Securities Held-to-Maturity				
Debt Securities				
GNMA Mortgage-Backed Securities	\$1,160	\$ --	\$ 45	\$1,115
FNMA Mortgage-Backed Securities	24,882	--	1,025	23,857
Total Debt Securities	26,042	--	1,070	24,972
Equity Securities (Non-Marketable)				
25,959 Shares – Federal Home Loan Bank	2,596	--	--	2,596
630 Shares – First National Bankers Bankshares, Inc.	250	--	--	250
Total Equity Securities	2,846	--	--	2,846
Total Securities Held-to-Maturity	\$28,888	\$ --	\$ 1,070	\$27,818

## HOME FEDERAL BANCORP, INC. OF LOUISIANA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2. Securities (continued)

The amortized cost and fair value of securities by contractual maturity at December 31, 2018 follows:

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
Debt Securities				
Within One Year or Less	\$4	\$4	\$--	\$--
One through Five Years	16,497	16,078	--	--
After Five through Ten Years	7,859	7,572	--	--
Over Ten Years	15,396	14,984	23,635	22,876
	39,756	38,638	23,635	22,876
Other Equity Securities	--	--	2,875	2,875
Total	\$39,756	\$38,638	\$26,510	\$25,751

Securities available-for-sale totaling \$12.5 million were purchased during the six months ended December 31, 2018.

The following tables show information pertaining to gross unrealized losses on securities available-for-sale at December 31, 2018 and June 30, 2018 aggregated by investment category and length of time that individual securities have been in a continuous loss position.

	December 31, 2018			
	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Securities Available-for-Sale				
Mortgage-Backed Securities	\$184	\$16,737	\$937	\$21,792
Total Securities Available-for-Sale	\$184	\$16,737	\$937	\$21,792

	June 30, 2018	
	Less Than Twelve Months	Over Twelve Months
	Gross Unrealized Losses	Fair Value
	(In Thousands)	

	Losses	Value	Losses	Value
	(In Thousands)			
Securities Available-for-Sale				
Mortgage-Backed Securities	\$71	\$4,709	\$1,257	\$24,547
Total Securities Available-for-Sale	\$71	\$4,709	\$1,257	\$24,547

## HOME FEDERAL BANCORP, INC. OF LOUISIANA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2. Securities (continued)

The unrealized losses on the Company's investment in mortgage-backed securities at December 31, 2018 and June 30, 2018 were caused by interest rate changes. The contractual cash flows of these investments are guaranteed by agencies of the U.S. Government. Accordingly, it is expected that these securities would not be settled at a price less than the amortized cost of the Company's investment. Because the decline in market value is attributable to changes in interest rates and not credit quality and because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2018.

The Company's investment in equity securities consists primarily of FHLB stock and shares of First National Bankers Bankshares, Inc. ("FNBB"). Management monitors its investment portfolio to determine whether any investment securities which have unrealized losses should be considered other than temporarily impaired.

At December 31, 2018, securities with a carrying value of \$2.4 million were pledged to secure public deposits, and securities and mortgage loans with a carrying value of \$150.0 million were pledged to secure FHLB advances.

## 3. Loans Receivable

Loans receivable are summarized as follows:

	December 31, 2018	June 30, 2018
	(In Thousands)	
Loans Secured by Mortgages on Real Estate		
One-to-Four Family Residential	\$ 119,448	\$ 121,257
Commercial	81,348	74,416
Multi-Family Residential	43,095	38,079
Land	20,072	20,474
Construction	9,272	11,921
Equity and Second Mortgage	1,387	1,541
Equity Lines of Credit	16,876	17,387
<b>Total Mortgage Loans</b>	<b>291,498</b>	<b>285,075</b>
<b>Commercial Loans</b>	<b>33,533</b>	<b>35,458</b>
<b>Consumer Loans</b>		
Loans on Savings Accounts	421	462
Other Consumer Loans	349	185
<b>Total Consumer Loans</b>	<b>770</b>	<b>647</b>
<b>Total Loans</b>	<b>325,801</b>	<b>321,180</b>
<b>Less: Allowance for Loan Losses</b>	<b>(3,479 )</b>	<b>(3,425 )</b>
<b>Unamortized Loan Fees</b>	<b>(250 )</b>	<b>(262 )</b>

Net Loans Receivable	\$322,072	\$317,493
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## HOME FEDERAL BANCORP, INC. OF LOUISIANA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 3. Loans Receivable (continued)

Following is a summary of changes in the allowance for loan losses:

	Six Months Ended December 31, 2018    2017 (In Thousands)	
Balance - Beginning of Period	\$3,425	\$3,729
Provision for Loan Losses	350	500
Loan Charge-Offs	(297 )	(851 )
Recoveries	1	5
Balance - End of Period	\$3,479	\$3,383

## Credit Quality Indicators

The Company segregates loans into risk categories based on the pertinent information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans according to credit risk. Loans classified as substandard or identified as special mention are reviewed quarterly by management to evaluate the level of deterioration, improvement, and impairment, if any, as well as assign the appropriate risk category.

Loans excluded from the scope of the quarterly review process above are generally identified as pass credits until: (a) they become past due; (b) management becomes aware of deterioration in the credit worthiness of the borrower; or (c) the customer contacts the Company for a modification. In these circumstances, the loan is specifically evaluated for potential classification and the need to allocate reserves or charge-off. The Company uses the following definitions for risk ratings:

**Pass** - Loans classified as pass are well protected by the current net worth or paying capacity of the obligor or by the fair value, less cost to acquire and sell the underlying collateral in a timely manner.

**Pass Watch** - Loans are considered marginal, meaning some weakness has been identified which could cause future impairment of repayment. However, these relationships are currently protected from any apparent loss by collateral.

**Special Mention** - Loans identified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

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

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

Loss - This classification includes those loans which are considered uncollectible and of such little value that their continuance as loans is not warranted. Even though partial recovery may be possible in the future, it is not practical or desirable to defer writing off these basically worthless loans. Accordingly, these loans are charged-off before period end.

## HOME FEDERAL BANCORP, INC. OF LOUISIANA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 3. Loans Receivable (continued)

## Credit Quality Indicators (continued)

The following tables present the grading of loans, segregated by class of loans, as of December 31, 2018 and June 30, 2018:

December 31, 2018	Pass	Special Mention	Substandard (In Thousands)	Doubtful	Total
Real Estate Loans:					
One-to-Four Family Residential	\$ 118,955	\$ 19	\$ 474	\$ --	\$ 119,448
Commercial	77,288	--	4,060	--	81,348
Multi-Family Residential	43,095	--	--	--	43,095
Land	16,802	3,270	--	--	20,072
Construction	9,272	--	--	--	9,272
Equity and Second Mortgage	1,387	--	--	--	1,387
Equity Lines of Credit	16,876	--	--	--	16,876
Commercial Loans	32,954	--	579	--	33,533
Consumer Loans	770	--	--	--	770
Total	\$ 317,399	\$ 3,289	\$ 5,113	\$ --	\$ 325,801

June 30, 2018	Pass	Special Mention	Substandard	Doubtful	Total
Real Estate Loans:					
One-to-Four Family Residential	\$ 120,317	\$ 652	\$ 996	\$ --	\$ 121,257
Commercial	74,416	--	4,060	--	74,416
Multi-Family Residential	38,079	--	--	--	38,079
Land	20,474	--	--	--	20,474
Construction	11,921	--	--	--	11,921
Equity and Second Mortgage	1,541	--	--	--	1,541
Equity Lines of Credit	17,300	--	87	--	17,387
Commercial Loans	29,817	--	873	--	35,458
Consumer Loans	647	--	--	--	647
Total	\$ 314,512	\$ 652	\$ 6,016	\$ --	\$ 321,180

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when contractually due. Loans that experience insignificant payment delays or payment shortfalls are generally not classified as impaired. On a case-by-case basis, management determines the significance of payment delays and payment shortfalls, taking into consideration all of the circumstances related to the loan, including the length of the payment 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.

## HOME FEDERAL BANCORP, INC. OF LOUISIANA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 3. Loans Receivable (continued)

## Credit Quality Indicators (continued)

The following tables present an aging analysis of past due loans, segregated by class of loans, as of December 31, 2018 and June 30, 2018:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
December 31, 2018	(In Thousands)						
Real Estate Loans:							
One-to-Four Family							
Residential	\$ 1,269	\$ 2,244	\$ 1,174	\$ 4,687	\$ 114,761	\$ 119,448	\$ 298
Commercial	--	--	--	--	81,348	81,348	--
Multi-Family Residential	--	--	--	--	43,095	43,095	--
Land	--	--	--	--	20,072	20,072	--
Construction	--	--	--	--	9,272	9,272	--
Equity and Second Mortgage	--	--	--	--	1,387	1,387	--
Equity Lines of Credit	--	483	--	483	16,393	16,876	--
Commercial Loans	--	49	122	171	33,362	33,533	--
Consumer Loans	--	--	--	--	770	770	--
Total	\$ 1,269	\$ 2,776	\$ 1,296	\$ 5,341	\$ 320,460	\$ 325,801	\$ 298
June 30, 2018	(In Thousands)						
Real Estate Loans:							
One-to-Four Family							
Residential	\$ 1,481	\$ 230	\$ 1,954	\$ 3,665	\$ 117,592	\$ 121,257	\$ 680
Commercial	--	--	--	--	74,416	74,416	--
Multi-Family Residential	--	--	--	--	38,079	38,079	--
Land	--	--	--	--	20,474	20,474	--
Construction	--	--	--	--	11,921	11,921	--
Equity and Second Mortgage	--	--	--	--	1,541	1,541	--
Equity Lines of Credit	134	59	117	310	17,077	17,387	30
Commercial Loans	--	--	416	416	35,042	35,458	--
Consumer Loans	--	--	--	--	647	647	--

Total	\$1,615	\$ 289	\$2,487	\$4,391	\$316,789	\$ 321,180	\$ 710
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There was no interest income recognized on non-accrual loans during the six months ended December 31, 2018 or year ended June 30, 2018. If the non-accrual loans had been accruing interest at their original contracted rates, gross interest income that would have been recorded for the six months ended December 31, 2018 and the year ended June 30, 2018 was approximately \$71,000 and \$126,000, respectively.

## HOME FEDERAL BANCORP, INC. OF LOUISIANA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 3. Loans Receivable (continued)

## Credit Quality Indicators (continued)

The change in the allowance for loan losses by loan portfolio class and recorded investment in loans for the three months ended December 31, 2018 was as follows:

December 31, 2018	Real Estate Loans					Home Equity Loans and Lines of Credit	Commercial Loans	Consumer Loans	Total
	1-4 Family Residential	Commercial	Multi- Family	Land	Construction				
(In Thousands)									
Allowance for loan losses:									
Beginning									
Balances	\$ 1,166	\$ 436	\$ 256	\$ 161	\$ 163	\$ 311	\$ 929	\$ 3	\$ 3,425
Charge-Offs	(277 )	--	--	--	--	(20 )	--	--	(297 )
Recoveries	--	--	--	--	--	1	--	--	1
Current									
Provision	134	107	--	(4 )	24	(137 )	226	--	350
Ending Balances	\$ 1,023	\$ 543	\$ 256	\$ 157	\$ 187	\$ 155	\$ 1,155	\$ 3	\$ 3,479
Evaluated for Impairment:									
Individually	--	443	--	--	--	--	--	--	--
Collectively	1,023	100	256	157	187	155	1,155	3	3,479
Loans Receivable:									
Ending Balances									
-									
Total	\$ 119,448	\$ 81,348	\$ 43,095	\$ 20,072	\$ 9,272	\$ 18,263	\$ 33,533	\$ 770	\$ 325,801
Ending Balances:									
Evaluated for Impairment:									
Individually	493	4,060	--	3,270	--	--	579	--	8,402
Collectively	\$ 118,955	\$ 77,288	\$ 43,095	\$ 16,802	\$ 9,272	\$ 18,263	\$ 32,954	\$ 770	\$ 317,399

The change in the allowance for loan losses by loan portfolio class and recorded investment in loans for the year ended June 30, 2018 was as follows:

June 30, 2018	Real Estate Loans					Home Equity Loans	Commercial Loans	Consumer Loans	Total
	1-4 Family Residential	Commercial	Multi- Family	Land	Construction				

	(In Thousands)					and Lines of Credit			
Allowance for loan losses:									
Beginning									
Balances	\$1,822	\$ 353	\$73	\$203	\$ 147	\$142	\$ 979	\$ 10	\$3,729
Charge-Offs	(797 )	--	--	(109 )	--	(217 )	(250 )	(7 )	(1,380 )
Recoveries	5	--	--	20	--	1	--	--	26
Current									
Provision	136	83	183	47	16	385	200	--	1,050
Ending Balances	\$1,166	\$ 436	\$256	\$161	\$ 163	\$311	\$ 929	\$ 3	\$3,425
Evaluated for Impairment:									
Individually	--	--	--	--	--	--	--	--	--
Collectively	1,166	436	256	161	163	311	929	3	3,425
Loans Receivable:									
Ending Balances									
-									
Total	\$121,257	\$ 74,416	\$38,079	\$20,474	\$ 11,921	\$18,928	\$ 35,458	\$ 647	\$321,180
Ending Balances:									
Evaluated for Impairment:									
Individually	1,648	4,060	--	--	--	87	873	--	6,668
Collectively	\$119,609	\$ 70,356	\$38,079	\$20,474	\$ 11,921	\$18,841	\$ 34,585	\$ 647	\$314,512

## HOME FEDERAL BANCORP, INC. OF LOUISIANA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 3. Loans Receivable (continued)

## Credit Quality Indicators (continued)

The change in the allowance for loan losses by loan portfolio class and recorded investment in loans for the six months ended December 31, 2017 was as follows:

December 31, 2017	Real Estate Loans					Home Equity Loans and Lines of Credit	Commercial Loans	Consumer Loans	Total
	1-4 Family Residential	Commercial	Multi-Family	Land	Construction				
	(In Thousands)								
Allowance for loan losses:									
Beginning									
Balances	\$1,822	\$ 353	\$ 73	\$203	\$ 147	\$142	\$ 979	\$ 10	\$3,729
Charge-Offs	--	--	--	(49 )	--	(5 )	(797 )	--	(851 )
Recoveries	5	--	--	--	--	--	--	--	5
Current									
Provision	(543 )	138	99	9	20	66	718	(7 )	500
Ending Balances	\$1,284	\$ 491	\$ 172	\$163	\$ 167	\$203	\$ 900	\$ 3	\$3,383
Evaluated for Impairment:									
Individually									
Collectively	1,284	491	172	163	167	203	900	3	3,383
Loans Receivable:									
Ending Balances									
Total	\$129,053	\$ 73,044	\$ 30,844	\$20,657	\$ 8,724	\$21,952	\$ 34,979	\$ 513	\$319,766
Ending Balances Evaluated for Impairment:									
Individually									
Collectively	1,225	4,211	--	--	--	39	2,076	--	7,551
Collectively	\$127,828	\$ 68,833	\$ 30,844	\$20,657	\$ 8,724	\$21,913	\$ 32,903	\$ 513	\$312,215

The following tables present loans individually evaluated for impairment, segregated by class of loans, as of December 31, 2018 and June 30, 2018:

December 31, 2018	Recorded		Recorded Investment With Allowance	Recorded Investment Total Recorded Investment	Related Allowance	Average Recorded Investment
	Unpaid Principal Balance	With No Allowance				
(In Thousands)						

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Real Estate Loans:

One-to-Four Family Residential	\$493	\$ 493	\$ --	\$ 493	\$ --	\$ 496
Commercial	4,060	--	4,060	4,060	443	4,060
Multi-Family Residential	--	--	--	--	--	--
Land	3,270	3,270	--	3,270	--	3,227
Construction	--	--	--	--	--	--
Equity and Second Mortgage	--	--	--	--	--	--
Equity Lines of Credit	--	--	--	--	--	--
Commercial Loans	579	579	--	579	--	670
Consumer Loans	--	--	--	--	--	--
<b>Total</b>	<b>\$8,402</b>	<b>\$ 4,342</b>	<b>\$ 4,060</b>	<b>\$ 8,402</b>	<b>\$ 443</b>	<b>\$ 8,453</b>

	Unpaid Principal Balance	Recorded Investment With Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
June 30, 2018						

Real Estate Loans:

One-to-Four Family Residential	\$1,648	\$ 1,648	\$ --	\$ 1,648	\$ --	\$ 1,687
Commercial	4,060	4,060	--	4,060	--	4,186
Multi-Family Residential	--	--	--	--	--	--
Land	--	--	--	--	--	--
Construction	--	--	--	--	--	--
Equity and Second Mortgage	--	--	--	--	--	--
Equity Lines of Credit	87	87	--	87	--	87
Commercial Loans	873	873	--	873	--	877
Consumer Loans	--	--	--	--	--	--
<b>Total</b>	<b>\$6,668</b>	<b>\$ 6,668</b>	<b>\$ --</b>	<b>\$ 6,668</b>	<b>\$ --</b>	<b>\$ 6,837</b>

## HOME FEDERAL BANCORP, INC. OF LOUISIANA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 3. Loans Receivable (continued)

## Credit Quality Indicators (continued)

The Bank has no commitments to loan additional funds to borrowers whose loans were previously in non-accrual status.

A troubled debt restructuring (“TDR”) is a restructuring of a debt made by the Company to a debtor for economic or legal reasons related to the debtor’s financial difficulties that it would not otherwise consider. The Company grants the concession in an attempt to protect as much of its investment as possible.

Information about the Company’s TDRs is as follows (in thousands):

	December 31, 2018			
	Past Due Greater Than 30 Current	Nonaccrual Days	Total TDRs	Total TDRs
Commercial business	\$457	\$ 122	\$ 122	\$579
1-4 Family Residential	349	--	--	349
Commercial real estate	4,060	--	--	4,060

	June 30, 2018			
	Past Due Greater Than 30 Current	Nonaccrual Days	Total TDRs	Total TDRs
Commercial business	\$4,943	\$ 416	\$ 416	\$5,359
1-4 Family Residential	1,943	--	--	1,943

For purposes of the determination of an allowance for loan losses on these TDRs, as an identified TDR, the Company considers a loss probable on the loan and, as a result, the loan is reviewed for specific impairment in accordance with the Company’s allowance for loan loss methodology. If it is determined losses are probable on such TDRs, either because of delinquency or other credit quality indicator, the Company establishes specific reserves for these loans. As of December 31, 2018, there were no commitments to lend additional funds to debtors owing sums to the Company whose terms have been modified in TDRs.

## 4. Deposits

Deposits at December 31, 2018 and June 30, 2018 consist of the following classifications:

December 31, 2018	June 30, 2018
-------------------	---------------

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	(In Thousands)	
Non-Interest Bearing	\$58,641	\$58,001
NOW Accounts	28,274	34,576
Money Markets	70,571	70,175
Passbook Savings	34,924	36,241
	192,410	198,993
Certificates of Deposit	180,997	161,267
Total Deposits	\$373,407	\$360,260

## HOME FEDERAL BANCORP, INC. OF LOUISIANA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 5. Earnings Per Share

Basic earnings per common share are computed based on the weighted average number of shares outstanding. Diluted earnings per share is computed based on the weighted average number of shares outstanding and common share equivalents that would arise from the exercise of dilutive securities. Earnings per share for the three and six months ended December 31, 2018 and 2017 were calculated as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
	(In Thousands, Except Per Share Data)			
Net income	\$1,175	\$361	\$2,393	\$1,369
Weighted average shares outstanding – basic	1,776	1,801	1,782	1,807
Effect of dilutive common stock equivalents	126	102	131	100
Adjusted weighted average shares outstanding – diluted	1,902	1,903	1,913	1,907
Basic earnings per share	\$0.66	\$0.20	\$1.34	\$0.76
Diluted earnings per share	\$0.62	\$0.19	\$1.25	\$0.72

For the three months ended December 31, 2018 and 2017, there were outstanding options to purchase 284,048 and 296,551 shares, respectively, at a weighted average exercise price of \$17.98 and \$17.88 per share, respectively and for the six months ended December 31, 2018 and 2017, there were outstanding options to purchase 290,715 and 299,551 shares, respectively, at a weighted average exercise price of \$17.94 and \$17.85 per share, respectively. For the quarter ended December 31, 2018 and 2017, 125,890 options and 98,024 options were included in the computation of diluted earnings per share. For the six month period ended December 31, 2018 and 2017, 131,177 options and 98,024 options were included in the computation of diluted earnings per share.

The following table presents the components of weighted average outstanding shares for purposes of calculating earnings per share:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
	(In Thousands)			
Average common shares issued	3,062	3,062	3,062	3,062
Average unearned ESOP shares	(105 )	(117 )	(107 )	(119 )
Average unearned RRP shares	(2 )	(3 )	(1 )	(3 )
Average Company stock purchased	(1,179 )	(1,141 )	(1,172 )	(1,133 )
Weighted average shares outstanding	1,776	1,801	1,782	1,807

6. Stock-Based Compensation

Recognition and Retention Plan

On December 23, 2011, the shareholders of the Company approved the establishment of the Home Federal Bancorp, Inc. of Louisiana 2011 Recognition and Retention Plan and Trust Agreement (the "Recognition Plan") as an incentive to retain personnel of experience and ability in key positions. The aggregate number of shares of the Company's common stock available for award under the Recognition Plan totaled 77,808 shares, all of which were awarded as of December 31, 2018.

HOME FEDERAL BANCORP, INC. OF LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Stock-Based Compensation (continued)

Recognition and Retention Plan (continued)

Recognition Plan shares are earned by recipients at a rate of 20% of the aggregate number of shares covered by the Recognition Plan award over five years. Generally, if the employment of an employee or service as a non-employee director is terminated prior to the fifth anniversary of the date of grant of Recognition Plan share award, the recipient will forfeit the right to any shares subject to the award that have not been earned. In the case of death or disability of the recipient or a change in control of the Company, the Recognition Plan awards will be vested and shall be distributed as soon as practicable thereafter.

The cost associated with the Recognition Plan is based on a share price of \$18.92 on July 31, 2014, which represents the fair market price of the Company's stock on the date on which the Recognition Plan shares were granted. The cost of the Recognition Plan is being recognized over the five year vesting period. Compensation expense pertaining to the Recognition Plan was \$14,000 for both the six months ended December 31, 2018 and 2017.

Stock Option Plan

On August 10, 2005, the shareholders of the Company approved the establishment of the Home Federal Bancorp, Inc. of Louisiana 2005 Stock Option Plan (the "2005 Option Plan") for the benefit of directors, officers, and other key employees. The aggregate number of shares of common stock reserved for issuance under the 2005 Option Plan totaled 158,868 (as adjusted for the exchange ratio). Both incentive stock options and non-qualified stock options may be granted under the 2005 Option Plan. The 2005 Stock Option Plan terminated on June 8, 2015, however outstanding stock options will remain in effect for the remainder of their original ten year terms. As of December 31, 2018, there were 14,776 options outstanding under the 2005 Option Plan.

On December 23, 2011, the shareholders of the Company approved the establishment of the Home Federal Bancorp, Inc. of Louisiana 2011 Stock Option Plan (the "2011 Option Plan", together with the 2005 Option Plan, the "Option Plans") for the benefit of directors, officers, and other key employees. The aggregate number of shares of common stock reserved for issuance under the 2011 Option Plan totaled 194,522. Both incentive stock options and non-qualified stock options may be granted under the 2011 Option Plan.

On August 19, 2010 and July 31, 2014, the Company granted 21,616 options and 2,133 options, respectively, under the 2005 Option Plan that were previously forfeited (as adjusted for the conversion) at an exercise price of \$10.93 and \$18.92 per share, respectively. On January 31, 2012 and July 31, 2014, 165,344 options and 29,178 options, respectively, were granted to directors and employees at an exercise price of \$14.70 and \$18.92 per share, respectively, under the 2011 Option Plan. As of December 31, 2018, there were 389 stock options available for future grant under the 2011 Option Plan.

Incentive stock options and non-qualified stock options granted under the Option Plan become vested and exercisable at a rate of 20% per year over five years, commencing one year from the date of the grant, with an additional 20% vesting on each successive anniversary of the date the option was granted. No vesting shall occur after an employee's employment or service as a director is terminated. In the event of death or disability of an employee or director or change in control of the Company, the unvested options shall become vested and exercisable. The Company recognizes compensation expense during the vesting period based on the fair value of the option on the date of the grant. For the six months ended December 31, 2018 and 2017, compensation expense charged to operations was \$68,000.



HOME FEDERAL BANCORP, INC. OF LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Stock-Based Compensation (continued)

Stock Incentive Plan

On November 12, 2014, the shareholders of the Company approved the adoption of the Company's 2014 Stock Incentive Plan (the "Stock Incentive Plan") for the benefit of employees and non-employee directors as an incentive to contribute to the success of the Company and reward employees for outstanding performance and the attainment of targeted goals. The Stock Incentive Plan covers a total of 150,000 shares, of which no more than 37,500 shares, or 25% of the plan, may be share awards. The balance of the plan is reserved for stock option awards which would total 112,500 stock options, assuming all the share awards are issued. All incentive stock options granted under the Stock Incentive Plan are intended to comply with the requirements of Section 422 of the Internal Revenue Code. On October 26, 2015, the Company granted a total of 34,500 plan share awards and 103,500 stock options to directors, officers, and other key employees vesting ratably over five years. Of the original grant, 4,500 options were forfeited. As of December 31, 2018, there are up to 3,000 plan share awards available and 13,500 options, assuming the 3,000 shares are granted as plan share awards. The Stock Incentive Plan cost is recognized over the five year vesting period. During the six months ended December 31, 2018 and 2017 the Company recognized \$128,000 and \$68,000, respectively, in expenses related to the Stock Incentive Plan.

7. Related Party Transactions

Certain directors and executive officers were indebted to the Bank in the approximate aggregate amounts of \$2.4 million and \$2.6 million at December 31, 2018 and June 30, 2018, respectively.

8. Fair Value Disclosures

The following disclosure is made in accordance with the requirements of ASC 825, Financial Instruments. Financial instruments are defined as cash and contractual rights and obligations that require settlement, directly or indirectly, in cash. In cases where quoted market prices are not available, fair values have been estimated using the present value of future cash flows or other valuation techniques. The results of these techniques are highly sensitive to the assumptions used, such as those concerning appropriate discount rates and estimates of future cash flows, which require considerable judgment. Accordingly, estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current settlement of the underlying financial instruments.

ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. These disclosures should not be interpreted as representing an aggregate measure of the underlying value of the Company.

The following methods and assumptions were used by the Company in estimating fair values of financial instruments:

Cash and Cash Equivalents

The carrying amount approximates the fair value of cash and cash equivalents.

Investment Securities

Fair values for investment securities, including mortgage-backed securities, are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The carrying values of restricted or non-marketable equity securities approximate their fair values. The

carrying amount of accrued investment income approximates its fair value.

#### Mortgage Loans Held-for-Sale

Because these loans are normally disposed of within ninety days of origination, their carrying value closely approximates the fair value of such loans.

#### Loans Receivable

For variable-rate loans that re-price frequently and with no significant changes in credit risk, fair value approximates the carrying value. Fair values for other loans are estimated using the discounted value of expected future cash flows. Interest rates used are those being offered currently for loans with similar terms to borrowers of similar credit quality. The carrying amount of accrued interest receivable approximates its fair value.

## HOME FEDERAL BANCORP, INC. OF LOUISIANA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 8. Fair Value Disclosures (continued)

## Deposit Liabilities

The fair values for demand deposit accounts are, by definition, equal to the amount payable on demand at the reporting date, that is, their carrying amounts. Fair values for other deposit accounts are estimated using the discounted value of expected future cash flows. The discount rate is estimated using the rates currently offered for deposits of similar maturities.

## Advances from Federal Home Loan Bank

The carrying amount of short-term borrowings approximates their fair value. The fair value of long-term debt is estimated using discounted cash flow analyses based on current incremental borrowing rates for similar borrowing arrangements.

## Off-Balance Sheet Credit-Related Instruments

Fair values for outstanding mortgage loan commitments to lend are based on fees currently charged to enter into similar agreements, taking into account the remaining term of the agreements, customer credit quality, and changes in lending rates.

The fair value of interest rate floors and caps contained in some loan servicing agreements and variable rate mortgage loan contracts are considered immaterial within the context of fair value disclosure requirements. Accordingly, no fair value estimate is provided for these instruments.

At December 31, 2018 and June 30, 2018, the carrying amount and estimated fair values of the Company's financial instruments were as follows:

	December 31, 2018		June 30, 2018	
	Carrying	Estimated	Carrying	Estimated
	Value	Fair	Value	Fair
	(In Thousands)			
<b>Financial Assets</b>				
Cash and Cash Equivalents	\$10,874	\$10,874	\$15,867	\$15,867
Securities Available-for-Sale	38,638	38,638	29,324	29,324
Securities to be Held-to-Maturity	26,510	25,751	28,888	27,818
Loans Held-for-Sale	3,858	3,858	6,762	6,762
Loans Receivable	322,072	311,899	317,493	314,724
<b>Financial Liabilities</b>				
Deposits	\$373,407	\$353,280	\$360,260	\$345,347
Advances from FHLB	1,497	1,362	11,637	11,517
<b>Off-Balance Sheet Items</b>				
Mortgage Loan Commitments	\$5,771	\$5,771	\$5,827	\$5,827

The estimated fair values presented above could be materially different than net realizable value and are only indicative of the individual financial instrument's fair value. Accordingly, these estimates should not be considered an

indication of the fair value of the Company taken as a whole.

The Company follows the guidance of FASB ASC Topic 820, Fair Value Measurements and Disclosures ("ASC 820"). ASC 820 affirms a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 was issued to establish a uniform definition of fair value. The definition of fair value is market-based as opposed to company-specific and includes the following:

Defines fair value as the price that would be received to sell an asset or paid to transfer a liability, in either case, through an orderly transaction between market participants at a measurement date and establishes a framework for measuring fair value;

HOME FEDERAL BANCORP, INC. OF LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Fair Value Disclosures (continued)

Establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date;

Nullifies the guidance in EITF 02-3, which required the deferral of profit at inception of a transaction involving a derivative financial instrument in the absence of observable data supporting the valuation technique;

Eliminates large position discounts for financial instruments quoted in active markets and requires consideration of the company's creditworthiness when valuing liabilities; and

Expands disclosures about instruments that are measured at fair value.

The standard establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy favors the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – Fair value is based upon quoted prices (unadjusted) for identical assets or liabilities in active markets in which the Company can participate.

Level 2 – Fair value is based upon (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly; (c) inputs other than quoted prices that are observable for the asset or liability; or (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Fair value is based upon inputs that are unobservable for the asset or liability. These inputs reflect the Company's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available in the circumstances, which include the Company's own data. The Company's own data used to develop unobservable inputs are adjusted if information indicates that market participants would use different assumptions.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The preceding methods described may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used during the six months ended December 31, 2018.



## HOME FEDERAL BANCORP, INC. OF LOUISIANA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 8. Fair Value Disclosures (continued)

Fair values of assets and liabilities measured on a recurring basis at December 31, 2018 and June 30, 2018 are as follows:

	Fair Value Measurements Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
December 31, 2018	(In Thousands)			
Available-for-Sale Debt Securities				
FHLMC	\$--	\$ 8,387	\$ --	\$8,387
FNMA	--	20,996	--	20,996
GNMA	--	9,255	--	9,255
Total	\$--	\$ 38,638	\$ --	\$38,638

	Fair Value Measurements Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
June 30, 2018	(In Thousands)			
Available-for-Sale Debt Securities				
FHLMC	\$--	\$ 7,085	\$ --	\$7,085
FNMA	--	11,912	--	11,912
GNMA	--	10,327	--	10,327
Total	\$--	\$ 29,324	\$ --	\$29,324

9. Subsequent Events

In accordance with FASB ASC 855, Subsequent Events, the Company has evaluated subsequent events through the date that the financial statements were available to be issued.

HOME FEDERAL BANCORP, INC. OF LOUISIANA

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The Company's results of operations are primarily dependent on the results of the Bank, which became a wholly owned subsidiary upon completion of the second-step conversion and reorganization of the Bank on December 22, 2010. The Bank's results of operations depend, to a large extent, on net interest income, which is the difference between the income earned on its loan and investment portfolios and the cost of funds, consisting of the interest paid on deposits and borrowings. Results of operations are also affected by provisions for loan losses and loan sale activities. Non-interest expense principally consists of compensation and employee benefits, office occupancy and equipment expense, data processing, and other expenses. Our results of operations are also significantly affected by general economic and competitive conditions, particularly changes in interest rates, government policies, and actions of regulatory authorities. Future changes in applicable law, regulations, or government policies may materially impact our financial conditions and results of operations.

Home Federal Bank operates from its main office and an administrative office in Shreveport, Louisiana and five full service branch offices located in Shreveport and Bossier City, Louisiana. The Company's primary market area is the Shreveport-Bossier City metropolitan area. The Company offers security brokerage and advisory services through a third party provider at its agency office, which also serves as the office for the commercial lending division and as a loan production office.

Critical Accounting Policies

**Allowance for Loan Losses.** The Company has identified the calculation of the allowance for loan losses as a critical accounting policy, due to the higher degree of judgment and complexity than its other significant accounting policies. Provisions for loan losses are based upon management's periodic valuation and assessment of the overall loan portfolio and the underlying collateral, trends in non-performing loans, current economic conditions, and other relevant factors in order to maintain the allowance for loan losses at a level believed by management to represent all known and inherent losses in the portfolio that are both probable and reasonably estimable. Although management uses the best information available, the level of the allowance for loan losses remains an estimate which is subject to significant judgment and short-term change.

**Income Taxes.** Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax basis of the various assets and liabilities and gives current recognition to changes in tax rates and laws. The realization of our deferred tax assets principally depends upon our achieving projected future taxable income. We may change our judgments regarding future profitability due to future market conditions and other factors. We may adjust our deferred tax asset balances, if our judgments change.

Discussion of Financial Condition Changes from June 30, 2018 to December 31, 2018

General

At December 31, 2018, the Company reported total assets of \$425.5 million, an increase of \$3.9 million, or 0.9%, compared to total assets of \$421.6 million at June 30, 2018. The increase in assets was comprised primarily of increases in investment securities of \$6.9 million, or 11.9%, from \$58.2 million at June 30, 2018 to \$65.1 million at

December 31, 2018, loans receivable, net, of \$4.6 million, or 1.4%, from \$317.5 million at June 30, 2018 to \$322.1 million at December 31, 2018, premises and equipment of \$917,000, or 7.5%, from \$12.2 million at June 30, 2018 to \$13.2 million at December 31, 2018, bank owned life insurance of \$70,000, or 1.0%, from \$6.8 million at June 30, 2018 to \$6.9 million at December 31, 2018, and accrued interest receivable of \$18,000, or 1.6%, from \$1.1 million at June 30, 2018 to \$1.2 million at December 31, 2018. These increases were partially offset by decreases in cash and cash equivalents of \$5.0 million, or 31.5%, from \$15.9 million at June 30, 2018 to \$10.9 million at December 31, 2018, loans held-for-sale of \$2.9 million, or 42.9%, from \$6.8 million at June 30, 2018 to \$3.9 million at December 31, 2018, foreclosed assets of \$430,000, or 36.5%, from \$1.2 million at June 30, 2018 to \$747,000 at December 31, 2018, other assets of \$253,000, or 30.1%, from \$840,000 at June 30, 2018 to \$587,000 at December 31, 2018, and deferred tax asset of \$21,000, or 1.9%, from \$1.1 million at June 30, 2018 to \$1.08 million at December 31, 2018. The increase in investment securities was primarily due to the purchase \$12.5 million of mortgage-backed securities offset by \$5.8 million of principal repayments on mortgage-backed securities. The decrease in loans held-for-sale resulted primarily from a decrease in loans originated for sale during the six months ended December 31, 2018. The decrease in foreclosed assets was due to the sale of eleven one-to-four family residences during the six months ended December 31, 2018.

HOME FEDERAL BANCORP, INC. OF LOUISIANA

Discussion of Financial Condition Changes from June 30, 2018 to December 31, 2018 (continued)

Cash and Cash Equivalents

Cash and cash equivalents decreased \$5.0 million, or 31.5%, from \$15.9 million at June 30, 2018 to \$10.9 million at December 31, 2018. The \$5.0 million decrease in cash and cash equivalents was used to help fund loan growth and pay off Federal Home Loan Bank advances.

Loans Receivable, Net

Loans receivable, net, increased by \$4.6 million, or 1.4%, to \$322.1 million at December 31, 2018 compared to \$317.5 million at June 30, 2018. The increase in loans receivable, net was primarily due to increases in commercial real estate loans of \$6.9 million, multi-family residential loans of \$5.0 million, and other consumer loans of \$164,000, partially offset by decreases in construction loans of \$2.6 million, commercial non-real estate loans of \$1.9 million, one-to-four family residential loans of \$1.8 million, equity line-of-credit loans of \$511,000, land loans of \$402,000, equity and second mortgage loans of \$154,000, and loans on savings accounts of \$41,000.

Loans Held-for-Sale

Loans held-for-sale decreased \$2.9 million, or 42.9%, from \$6.8 million at June 30, 2018 to \$3.9 million at December 31, 2018. The decrease in loans held-for-sale reflects a reduced emphasis on the Company's mortgage banking operations in recent periods and a decrease in loans originated for sale during the six months ended December 31, 2018.

Investment Securities

Investment securities amounted to \$65.1 million at December 31, 2018 compared to \$58.2 million at June 30, 2018, an increase of \$6.9 million, or 11.9%. The increase in investment securities was primarily due to the purchase of \$12.5 million of mortgage-backed securities offset by \$5.8 million of principal repayments on mortgage-backed securities.

Premises and Equipment, Net

Premises and equipment, net increased \$917,000, or 7.5%, to \$13.2 million at December 31, 2018 compared to \$12.2 million at June 30, 2018, primarily as a result of our new banking office expected to open during the quarter ended March 31, 2019.

Asset Quality

At December 31, 2018, the Company had \$1.4 million of non-performing assets (defined as non-accruing loans, accruing loans 90 days or more past due, and foreclosed assets) compared to \$3.0 million of non-performing assets at June 30, 2018, consisting of one commercial business loan, five single-family residential loans, one line of credit loan, one residential lot in foreclosed assets, and one single family residential loan in foreclosed assets at December 31, 2018, compared to nine single-family residential loans, three line of credit loans, one commercial business loan, one residential lot in foreclosed assets, and two single-family residential loans in foreclosed assets at June 30, 2018. At December 31, 2018, the Company had four single-family residential loans, one commercial business loan, and five loans to one borrower, consisting of two commercial real estate loans, two non-real estate loans, and one single-family

residential loan classified as substandard compared to eight single-family residential loans, two line of credit loans, one commercial business loan, and five loans to one borrower, consisting of two commercial real estate loans, two non-real estate loans, and one single-family residential loan classified as substandard at June 30, 2018. There were no loans classified as doubtful at December 31, 2018 or June 30, 2018.

HOME FEDERAL BANCORP, INC. OF LOUISIANA

Discussion of Financial Condition Changes from June 30, 2018 to December 31, 2018 (continued)

Total Liabilities

Total liabilities increased \$2.3 million, or 0.6%, from \$374.6 million at June 30, 2018 to \$376.9 million at December 31, 2018 primarily due to an increase in total deposits of \$13.1 million, or 3.6%, to \$373.4 million at December 31, 2018 compared to \$360.3 million at June 30, 2018, and an increase in other borrowings of \$150,000, or 50.0%, from \$300,000 at June 30, 2018 to \$450,000 at December 31, 2018, partially offset by a decrease of \$10.1 million, or 87.1%, in advances from the Federal Home Loan Bank to \$1.5 million at December 31, 2018 from \$11.6 million at June 30, 2018, a decrease of \$397,000, or 54.8%, in advances from borrowers taxes and insurance to \$328,000 at December 31, 2018 from \$725,000 at June 30, 2018, and a decrease of \$442,000, or 26.1%, in other accrued expenses and liabilities to \$1.2 million at December 31, 2018 from \$1.7 million at June 30, 2018. The increase in deposits was primarily due to a \$19.7 million, or 12.2%, increase in certificates of deposits from \$161.3 million at June 30, 2018 to \$181.0 million at December 31, 2018, a \$640,000, or 1.1%, increase in non-interest bearing deposits from \$58.0 million at June 30, 2018 to \$58.6 million at December 31, 2018, and a \$396,000, or 0.6%, increase in money market deposits from \$70.2 million at June 30, 2018 to \$70.6 million at December 31, 2018, partially offset by a decrease of \$6.3 million, or 18.2%, in NOW accounts from \$34.6 million at June 30, 2018 to \$28.3 million at December 31, 2018, and a decrease in savings deposits of \$1.3 million, or 3.6%, from \$36.2 million at June 30, 2018 to \$34.9 million at December 31, 2018. The Company had \$8.7 million in brokered deposits at June 30, 2018 and \$11.1 million at December 31, 2018. The brokered certificates of deposit which have maturity dates greater than twelve months are callable by Home Federal Bank after twelve months pursuant to early redemption provisions. The decrease in advances from the Federal Home Loan Bank was primarily due to growth in total deposits which replaced advances as a source of funds.

Shareholders' Equity

Shareholders' equity increased \$1.6 million, or 3.4%, to \$48.6 million at December 31, 2018 from \$47.0 million at June 30, 2018. The primary reasons for the changes in shareholders' equity from June 30, 2018 were net income of \$2.4 million, the decrease in the Company's accumulated other comprehensive loss of \$163,000, the vesting of recognition and retention plan awards, stock incentive plan share awards and stock options, and the release of employee stock ownership plan shares totaling \$413,000, and proceeds from the issuance of common stock from the exercise of stock options of \$198,000. These increases in shareholders' equity were partially offset by the acquisition of Company stock of \$1.0 million, dividends paid totaling \$529,000.

The Bank is required to meet minimum capital standards promulgated by the OCC. At December 31, 2018, Home Federal Bank's regulatory capital was well in excess of the minimum capital requirements.

Comparison of Operating Results for the Three and Six Month Periods Ended December 31, 2018 and 2017

General

Net income amounted to \$1.2 million for the three months ended December 31, 2018 compared to \$361,000 for the same period in 2017, an increase of \$814,000, or 225.5%. The increase was primarily due to a decrease of \$749,000, or 67.4%, in provision for income taxes, a \$190,000, or 5.1%, increase in net interest income, a decrease of \$33,000, or 1.2%, in non-interest expense, along with a decrease of \$100,000, or 50.0%, in provision for loan losses, partially offset by a decrease of \$258,000, or 37.0%, in non-interest income. The decrease in the provision for income taxes

was primarily due to the Tax Cuts and Jobs Act (the “Tax Act”) signed into law on December 22, 2017 which reduced the Company’s effective tax rate for the three months ended December 31, 2018 combined with the \$642,000 re-measurement charge of the Company’s net deferred tax asset during the prior year quarterly period.

Net income amounted to \$2.4 million for the six months ended December 31, 2018 compared to net income of \$1.4 million for the same period in 2017, an increase of \$1.0 million, or 74.8%. The increase was primarily due to a \$1.0 million, or 59.8%, decrease in the provision for income tax expense and a \$336,000, or 4.5%, increase in net interest income partially offset by a decrease of \$150,000, or 30.0%, in provision for loan losses, and a decrease of \$88,000, or 1.6%, in non-interest expense offset by a decrease of \$557,000, or 33.5%, in non-interest income. As was the case for the quarter, the decrease in the provision for income taxes for the six months ended December 31, 2018 over the same prior year period was primarily due to the reduction in the Company’s effective tax rate combined with the \$642,000 re-measurement charge of the Company’s net deferred tax asset as a result of the Tax Act during the six months ended December 31, 2017.

## HOME FEDERAL BANCORP, INC. OF LOUISIANA

Comparison of Operating Results for the Three and Six Month Periods Ended December 31, 2018 and 2017  
(continued)

Net Interest Income

The increase in net interest income for the three months ended December 31, 2018 was primarily due to a \$409,000, or 8.9%, increase in total interest income, primarily due to an increase in the average rate of loans receivable, partially offset by an increase of \$219,000, or 25.6%, in interest expense. The cost of funds from Federal Home Loan Bank borrowings decreased \$75,000, or 64.1%, compared to the prior year three month period and interest paid on deposits increased \$292,000, or 39.6%, compared to the prior year three month period. Interest paid on other borrowings increased \$2,000 compared to the prior year three month period. The Company's average interest rate spread was 3.58% for the three months ended December 31, 2018 compared to 3.54% for the three months ended December 31, 2017. The Company's net interest margin was 3.86% for the three months ended December 31, 2018 compared to 3.76% for the three months ended December 31, 2017. The increase in net interest margin on a comparative quarterly basis was primarily the result of an increase of 33 basis points in average yield on average balances of loans receivable for the three months ended December 31, 2018 compared to the prior quarterly period.

Net interest income for the six months ended December 31, 2018 was \$7.8 million, an increase of \$336,000, or 4.5%, in comparison to the six months ended December 31, 2017. The increase in net interest income for the six month period was primarily due to a \$702,000, or 7.6%, increase in total interest income, partially offset by an increase of \$366,000, or 21.4%, in interest expense. The cost of funds from Federal Home Loan Bank borrowings decreased \$151,000, or 57.9%, compared to the prior year six month period and interest paid on deposits increased \$514,000, or 35.6%, compared to the prior year six month period. Interest paid on other borrowing increased \$3,000 compared to the prior six month period. The Company's average interest rate spread was 3.59% for the six months ended December 31, 2018, compared to 3.53% for the six months ended December 31, 2017. The Company's net interest margin was 3.86% for the six months ended December 31, 2018, compared to 3.75% for the six months ended December 31, 2017. The increase in the average interest rate spread is attributable primarily to an increase of 29 basis points in average yield on average balances of loans receivable.

Provision for Losses on Loans

Based on an analysis of historical experience, the volume and type of lending conducted by Home Federal Bank, the status of past due principal and interest payments, general economic conditions, particularly as such conditions relate to our market area, and other factors related to the collectability of Home Federal Bank's loan portfolio, a provision for loan losses of \$100,000 and \$350,000 was made during the three and six months ended December 31, 2018, respectively, compared to a \$200,000 and \$500,000 provision made during the three and six months ended December 31, 2017. The allowance for loan losses was \$3.5 million, or 1.06% of total loans receivable, at December 31, 2018 compared to \$3.4 million, or 1.07% of total loans receivable, at December 31, 2017. At December 31, 2018, Home Federal Bank had \$670,000 in non-performing loans and \$747,000 in foreclosed assets which totaled \$1.4 million in non-performing assets. At December 31, 2017, Home Federal Bank had \$2.7 million in non-performing loans and \$540,000 in other real-estate owned. At December 31, 2018, the Company had four single family residential loans, one commercial business loan, and five loans to one borrower consisting of two commercial real estate loans, two non-real estate loans, and one single family residential loan classified as substandard compared to eight single family residential loans, two line of credit loans, one commercial business loan, and five loans to one borrower consisting of two commercial real estate loans, two non-real estate loans, and one single family residential loan classified as substandard at June 30, 2018. There were no loans classified as doubtful at December 31, 2018 or December 31, 2017.

At December 31, 2018 the Bank had troubled debt restructurings involving one commercial loan with a balance of \$122,000, one single family residential loan totaling \$273,000, and five loans to one borrower consisting of two commercial real estate loans, two non-real estate loans, and one one-to-four family residential loan totaling \$4.6 million. At December 31, 2017 the Bank had troubled debt restructurings involving nine commercial loan contracts to one borrower with a recorded investment of approximately \$1.6 million along with another troubled debt restructuring at December 31, 2017 consisting of five loans to one borrower consisting of two commercial real estate loans, two non-real estate loans, and one one-to-four family residential loan totaling \$4.7 million. There can be no assurance that the loan loss allowance will be sufficient to cover losses on non-performing assets in the future.

HOME FEDERAL BANCORP, INC. OF LOUISIANA

Comparison of Operating Results for the Three and Six Month Periods Ended December 31, 2018 and 2017  
(continued)

Non-interest Income

The \$258,000 decrease in non-interest income for the three months ended December 31, 2018, compared to the prior year quarterly period, was primarily due to an increase of \$229,000 in loss on sale of real estate, and a \$56,000 decrease in gain on sale of mortgage loans, partially offset by an increase of \$17,000 in service charges on deposit accounts, and an increase of \$10,000 in other income.

Total non-interest income amounted to \$1.1 million for the six months ended December 31, 2018, a decrease of \$557,000, or 33.5%, compared to \$1.7 million for the same period in 2017. The decrease was primarily due to decreases of \$269,000 in gain on sale of loans, an increase of \$227,000 in loss on sale of real estate, a decrease of \$95,000 in gain on sale of securities, and a \$1,000 decrease in income from bank owned life insurance, partially offset by a \$28,000 increase in service charges on deposit accounts, and a \$7,000 increase in other non-interest income. The Company sells most of its long term fixed rate residential mortgage loan originations primarily in order to manage interest rate risk. The decrease in gain on sale of loans reflects a reduced emphasis on the Company's mortgage banking operations in recent periods and fewer loans originated for sale.

Non-interest Expense

The \$33,000 decrease in non-interest expense for the three months ended December 31, 2018, compared to the same period in 2017, is primarily attributable to decreases of \$34,000 in compensation and benefits expense, \$32,000 in occupancy and equipment expense, \$18,000 in data processing expense, \$18,000 in deposit insurance premiums, \$9,000 in loan and collection expense, \$6,000 in franchise and bank shares tax expense, and \$4,000 in audit and examination fees. The decreases were partially offset by increases of \$54,000 in advertising expense, \$19,000 in other expense, and \$15,000 in legal fees.

Total non-interest expense decreased \$88,000, or 1.6%, for the six months ended December 31, 2018 compared to the same six month period in 2017. The decrease in non-interest expense for the six months ended December 31, 2018, compared to the same period in 2017, is primarily attributable to decreases of \$133,000 in compensation and benefits expense, \$35,000 in data processing expense, \$27,000 in loan and collection expense, \$22,000 in occupancy and equipment expense, \$16,000 in deposit insurance premiums, \$7,000 in other non-interest expenses, and \$4,000 in franchise and bank shares tax expense. These decreases were partially offset by increases of \$75,000 in real estate owned valuation expense, \$72,000 in advertising expense, \$8,000 in legal fees, and \$1,000 in audit and examination fees.

The aggregate compensation expense recognized by the Company for its Stock Option, Share Award, ESOP, and Recognition and Retention Plans amounted to \$152,000 and \$413,000 for the three and six months ended December 31, 2018, respectively, compared to \$154,000 and \$303,000 for the three and six months ended December 31, 2017, respectively.

The Louisiana bank shares tax is assessed on the Bank's equity and earnings. For the three and six months ended December 31, 2018, the Company recognized franchise and bank shares tax expense of \$97,000 and \$197,000, respectively, compared to \$103,000 and \$201,000 for the same periods in 2017.



## HOME FEDERAL BANCORP, INC. OF LOUISIANA

Comparison of Operating Results for the Three and Six Month Periods Ended December 31, 2018 and 2017  
(continued)

Income Taxes

Income taxes amounted to \$363,000 and \$677,000 for the three and six months ended December 31, 2018, respectively, resulting in an effective tax rate of 23.60% and 22.06%. Income taxes amounted to \$1.1 million and \$1.7 million for the three and six months ended December 31, 2017, respectively. The decrease in the provision for income taxes was primarily due to the Tax Cuts and Jobs Act (the "Tax Act") signed into law on December 22, 2017, which reduced the Company's effective tax rate for the three and six months ended December 31, 2018 over the prior year quarterly period combined with the \$642,000 re-measurement charge of the Company's net deferred tax asset during the prior year quarterly period.

Average Balances, Net Interest Income, Yields Earned, and Rates Paid. The following tables show for the periods indicated the total dollar amount of interest from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, and the net interest margin. Tax-exempt income and yields have not been adjusted to a tax-equivalent basis. All average balances are based on monthly balances. Management does not believe that the monthly averages differ significantly from what the daily averages would be.

	Three Months Ended December 31, 2018		Average		Three Months Ended December 31, 2017		Average	
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest
(Dollars In Thousands)								
Interest-earning assets:								
Loans receivable	\$327,893	\$4,569	5.53	% \$326,397	\$4,280	5.20	%	
Investment securities	58,704	333	2.25	58,740	280	1.89		
Interest-earning deposits	16,526	94	2.26	8,211	27	1.30		
Total interest-earning assets	\$403,123	4,996	4.92	% \$393,348	4,587	4.63	%	
Non-interest-earning assets	28,394			25,626				
Total assets	\$431,517			\$418,974				
Interest-bearing liabilities:								
Savings accounts	\$35,685	48	0.53	% \$37,317	50	0.50	%	
NOW accounts	30,172	41	0.54	34,664	41	0.47		
Money market accounts	70,292	168	0.95	41,836	41	0.39		
Certificate accounts	177,615	773	1.73	168,085	606	1.43		
Total interest-bearing deposits	313,764	1,030	1.30	281,902	738	1.04		
Other bank borrowings	206	3	3.85	126	1	3.15		
FHLB advances	5,334	42	3.12	30,534	117	1.53		
Total interest-bearing liabilities	\$319,304	1,075	1.34	% \$312,562	856	1.09	%	
Non-interest-bearing liabilities:								
Non-interest bearing demand accounts	60,827			58,603				
Other liabilities	2,996			1,005				
Total liabilities	383,127			372,044				
Total Stockholders' Equity(1)	48,390			46,930				

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Total liabilities and equity	\$431,517			\$418,974		
Net interest-earning assets	\$83,820			\$80,912		
Net interest income; average interest rate spread(2)	\$3,921	3.58	%	\$3,731	3.54	%
Net interest margin(3)		3.86	%		3.76	%
Average interest-earning assets to average interest-bearing liabilities		126.25	%		125.90	%

(1) Includes retained earnings and accumulated other comprehensive loss.

(2) Interest rate spread represents the difference between the weighted-average yield on interest-earning assets and the weighted-average rate on interest-bearing liabilities.

(3) Net interest margin is net interest income divided by net average interest-earning assets.

## HOME FEDERAL BANCORP, INC. OF LOUISIANA

Comparison of Operating Results for the Three and Six Month Periods Ended December 31, 2018 and 2017  
(continued)

	Six Months Ended December 31,							
	2018	Average		2017	Average		Average	
	Average	Interest	Yield/	Average	Interest	Yield/	Rate	
	Balance		Rate	Balance		Rate		
	(Dollars In Thousands)							
Interest-earning assets:								
Loans receivable	\$326,807	\$9,063	5.50	%	\$326,128	\$8,564	5.21	%
Investment securities	58,179	645	2.20		59,647	551	1.83	
Interest-earning deposits	16,374	174	2.11		9,895	65	1.30	
Total interest-earning assets	\$401,360	9,882	4.88	%	\$395,670	9,180	4.60	%
Non-interest-earning assets	28,511				26,050			
Total assets	\$429,871				\$421,720			
Interest-bearing liabilities:								
Savings accounts	\$35,890	97	0.54	%	\$36,536	98	0.53	%
NOW accounts	31,626	83	0.52		35,472	85	0.48	
Money market accounts	70,294	319	0.90		41,659	79	0.38	
Certificate accounts	172,252	1,460	1.68		166,288	1,183	1.41	
Total interest-bearing deposits	310,062	1,959	1.25		279,955	1,445	1.02	
Other bank borrowings	202	4	3.93		62	1	3.20	
FHLB advances	7,924	110	2.75		36,634	261	1.41	
Total interest-bearing liabilities	\$318,188	2,073	1.29	%	\$316,651	1,707	1.07	%
Non-interest-bearing liabilities:								
Non-interest bearing demand accounts	61,012				57,159			
Other liabilities	2,902				1,117			
Total liabilities	382,102				374,927			
Total Stockholders' Equity(1)	47,769				46,793			
Total liabilities and equity	\$429,871				\$421,720			
Net interest-earning assets	\$83,172				\$78,956			
Net interest income; average interest rate spread(2)		\$7.809	3.59	%		\$7.473	3.53	%
Net interest margin(3)			3.86	%			3.75	%
Average interest-earning assets to average interest-bearing liabilities			126.14	%			124.93	%

(1) Includes retained earnings and accumulated other comprehensive loss.

(2) Interest rate spread represents the difference between the weighted-average yield on interest-earning assets and the weighted-average rate on interest-bearing liabilities.

(3) Net interest margin is net interest income divided by net average interest-earning assets.

## Liquidity and Capital Resources

Home Federal Bank maintains levels of liquid assets deemed adequate by management. The Bank adjusts its liquidity levels to fund deposit outflows, repay its borrowings, and to fund loan commitments. Home Federal Bank also adjusts liquidity as appropriate to meet asset and liability management objectives.

Home Federal Bank's primary sources of funds are deposits, amortization and prepayment of loans and mortgage-backed securities, maturities of investment securities and other short-term investments, loan sales, and earnings and funds provided from operations. While scheduled principal repayments on loans and mortgage-backed securities are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. The Bank sets the interest rates on its deposits to maintain a desired level of total deposits. In addition, Home Federal Bank invests excess funds in short-term interest-earning accounts and other assets which provide liquidity to meet lending requirements. Home Federal Bank's deposit accounts with the Federal Home Loan Bank of Dallas amounted to \$1.6 million at December 31, 2018.

A significant portion of Home Federal Bank's liquidity consists of securities classified as available-for-sale and cash and cash equivalents. Home Federal Bank's primary sources of cash are net income, principal repayments on loans and mortgage-backed securities, and increases in deposit accounts. If Home Federal Bank requires funds beyond its ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of Dallas which provides an additional source of funds. At December 31, 2018, Home Federal Bank had \$1.5 million in advances from the Federal Home Loan Bank of Dallas and had \$150.0 million in additional borrowing capacity. Additionally, at December 31, 2018, Home Federal Bank was a party to a Master Purchase Agreement with First National Bankers Bank whereby Home Federal Bank may purchase Federal Funds from First National Bankers Bank in an amount not to exceed \$15.5 million. There were no amounts purchased under this agreement as of December 31, 2018.

## HOME FEDERAL BANCORP, INC. OF LOUISIANA

At December 31, 2018, Home Federal Bank had outstanding loan commitments of \$38.1 million to originate loans and commitments under unused lines of credit of \$9.7 million. At December 31, 2018, certificates of deposit scheduled to mature in less than one year totaled \$95.8 million. Based on prior experience, management believes that a significant portion of such deposits will remain with us, although there can be no assurance that this will be the case. In addition, the cost of such deposits could be significantly higher upon renewal in a rising interest rate environment. Home Federal Bank intends to utilize its high levels of liquidity to fund its lending activities. If additional funds are required to fund lending activities, Home Federal Bank intends to sell its securities classified as available-for-sale, as needed.

At December 31, 2018, Home Federal Bank exceeded each of its regulatory capital requirements with tangible, common equity Tier 1, core, and risk-based capital ratios of 11.47%, 16.81%, 11.47%, and 18.00%, respectively.

### Off-Balance Sheet Arrangements

At December 31, 2018, the Company did not have any off-balance sheet arrangements as defined by Securities and Exchange Commission rules.

### Impact of Inflation and Changing Prices

The financial statements and related financial data presented herein have been prepared in accordance with instructions to Form 10-Q which require the measurement of financial position and operating results in terms of historical dollars without considering changes in relative purchasing power over time due to inflation.

Unlike most industrial companies, virtually all of the Company's assets and liabilities are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than does the effect of inflation.

### Forward-Looking Statements

This Form 10-Q contains certain forward-looking statements and information relating to the Company that are based on the beliefs of management, as well as assumptions made by and information currently available to management. In addition, in those and other portions of this document the words "anticipate", "believe", "estimate", "except", "intend", "should" and similar expressions, or the negative thereof, as they relate to the Company or the Company's management are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future looking events and are subject to certain risks, uncertainties, and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary from those described herein as anticipated, believed, estimated, expected, or intended. The Company does not intend to update these forward-looking statements.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.



HOME FEDERAL BANCORP, INC. OF LOUISIANA

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosures Controls and Procedures. Under the supervision and with the participation of our management including our President and Chief Executive Officer (principal executive officer) and our Chief Financial Officer (principal financial officer), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the applicable time periods specified by the Securities and Exchange Commission's rules and forms.

Changes in Internal Control over Financial Reporting. There has been no change in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

The Company is not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business which involve amounts in the aggregate believed by management to be immaterial to the financial condition of the Company.

ITEM 1A. RISK FACTORS

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

- (a) Not applicable.
- (b) Not applicable.
- (c) Purchases of Equity Securities.

The Company's repurchases of its common stock made during the quarter ended December 31, 2018 are set forth in the table below, including stock-for-stock option exercises:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Part of Publicly Announced Plans or Programs	Total Number of Shares Purchased as of December 31, 2018	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (a)(b)

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October 1, 2018 – October 31, 2018	10,000	\$ 34.14	10,000	19,377
November 1, 2018 – November 30, 2018	10,000	31.80	10,000	9,377
December 1, 2018 – December 31, 2018	4,311	31.30	4,311	100,066
Total	24,311	\$ 32.67	24,311	

Notes to this table:

(a) On October 12, 2016, the Company announced that its Board of Directors approved a seventh stock repurchase program for the repurchase of up to 97,000 shares. The repurchase program does not have an expiration date.

(b) On December 12, 2018, the Company announced that its Board of Directors approved an eighth stock repurchase program for the repurchase of up to 95,000 shares to commence after the completion of the seventh stock repurchase program. As of December 31, 2018, there were 5,066 shares remaining for repurchase under the seventh stock repurchase program. The repurchase program does not have an expiration date.

HOME FEDERAL BANCORP, INC. OF LOUISIANA

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

No.	Description
<u>31.1</u>	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer</u>
<u>31.2</u>	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer</u>
<u>32.0</u>	<u>Certification Pursuant to 18 U.S.C Section 1350</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document

SIGNATURES

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

HOME FEDERAL BANCORP, INC. OF LOUISIANA

Date: February 11, 2019

/s/Glen W. Brown

Glen W. Brown

Senior Vice President and Chief Financial Officer

(Duly authorized officer and principal financial and accounting officer)