HOPFED BANCORP INC
Form 10-K
March 29, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2012	**Commission file number 000-23667**

HOPFED BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**61-1322555**
(State of jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

4155 Lafayette Road, Hopkinsville, KY **42240**
(Address of principal executive offices) **(Zip Code)**
Registrant s telephone number, including area code: (270) 885-1171.

Securities registered pursuant to Section 12(b) of the Act: None.

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

Common Stock, par value $.01 per share

(Title of Class)

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x.

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

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 x NO ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (subsection 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (as defined in Rule 12b-2 of the Act).

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller Reporting Company	x

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

The registrant s voting stock is traded on the NASDAQ Stock Market. The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the price ($7.20 per share) at which the stock was sold on June 29, 2012, was approximately $51,961,946. For purposes of this calculation, the term affiliate refers to all executive officers and directors of the registrant and all stockholders beneficially owning more than 10% of the registrant s Common Stock.

As of the close of business on March 29, 2013, 7,503,039 shares of the registrant s Common Stock were outstanding.

Documents Incorporated By Reference

Part II:

Annual Report to Stockholders for the year ended December 31, 2012.

Part III:

Portions of the definitive proxy statement for the 2013 Annual Meeting of Stockholders.

PART I

ITEM 1. BUSINESS

In February 1998, HopFed Bancorp, Inc. (the Corporation) issued and sold 4,033,625 shares of common stock, par value $.01 per share (the Common Stock), in connection with the conversion of Hopkinsville Federal Savings Bank (the Bank) from a federal mutual savings bank to a federal stock savings bank and the issuance of the Bank s capital stock to the Corporation. The conversion of the Bank, the acquisition of all of the outstanding capital stock of the Bank by the Corporation and the issuance and sale of the Common Stock are collectively referred to herein as the Conversion. In June of 2010, the Corporation issued and sold 3,333,334 shares of common stock, par value $0.01 per share in connection with a common stock offering. In July 2010, the Corporation issued and sold an additional 250,000 shares of common stock. Both sales were completed at an offering price of $9.00 per share ($8.55 net of expenses). After underwriting fees and selling expenses, the Corporation received additional capital proceeds of approximately $30.4 million. The consolidated results of the Bank and the Corporation are referred to as the Company.

HopFed Bancorp, Inc.

HopFed Bancorp, Inc. was incorporated under the laws of the State of Delaware in May 1997 at the direction of the Board of Directors of the Bank for the purpose of serving as a savings and loan holding company of the Bank upon the acquisition of all of the capital stock issued by the Bank in the Conversion. The Corporation s assets primarily consist of the outstanding capital stock of the Bank. The Corporation s principal business is overseeing the business of the Bank. The Corporation has registered with the Federal Reserve Bank (FRB) as a savings and loan holding company. See Regulation Regulation of the Company.

As a holding company, the Corporation has greater flexibility than the Bank to diversify its business activities through existing or newly formed subsidiaries or through acquisition or merger with other financial institutions. On February 12, 2013, the Company announced the acquisition of Sumner Bank & Trust (Sumner) in Gallatin, Tennessee. The rationale and a discussion of this acquisition is further detailed beginning of page 3 of this report. The Company continues to view acquisitions in higher growth markets as a cost effective means of growth given the current market prices for institutions in our market area.

The Company is classified as a unitary savings and loan holding company. In previous years, both the Company and its wholly owned subsidiary, Heritage Bank, were supervised by the Office of Thrift Supervision. As part of the Dodd-Frank Act of 2010, the Office of Thrift Supervision was merged into the Office of the Comptroller of the Currency (OCC) on July 21, 2011, which assumed responsibility for the supervision of Heritage Bank. After the merger of the Office of Thrift Supervision into the Office of the Comptroller of the Currency, the Federal Reserve Bank (FRB) assumed responsibility for the supervision and regulation of the Company. The Company s executive offices are located at 4155 Lafayette Road, Hopkinsville, Kentucky 42240, and its main telephone number is (270) 885-1171. The Company s mailing address is P.O. Box 537, Hopkinsville, Kentucky 42241-0537.

Heritage Bank

The Bank is a federally chartered stock savings bank headquartered in Hopkinsville, Kentucky, with branch offices in Kentucky and Tennessee. The Kentucky locations include Hopkinsville, Murray, Cadiz, Elkton, Fulton, Calvert City and Benton. The Tennessee locations include Clarksville, Pleasant View, Ashland City, Kingston Springs and Erin. The Bank was incorporated by the Commonwealth of Kentucky in 1879 under the name Hopkinsville Building and Loan Association. In 1940, the Bank converted to a federal mutual savings association and received federal insurance of its deposit accounts. In 1983, the Bank became a federal mutual savings bank. On May 14, 2002, the Bank changed its name from Hopkinsville Federal Bank to Heritage Bank. The primary market area of the Bank consists of the adjacent counties of Calloway, Christian, Todd, Trigg, Fulton, and Marshall located in southwestern Kentucky and Montgomery, Cheatham, Houston, Obion & Weakley counties located in Tennessee.

The business of the Bank primarily consists of attracting deposits from the general public and investing such deposits in loans secured by single family residential real estate and investment securities, including U.S. Government and agency securities, municipal and corporate bonds, collateralized mortgages obligations (CMO s), and mortgage-backed securities. The Bank also originates single-family residential/construction loans and multi-family and commercial real estate loans, as well as loans secured by deposits, other consumer loans and commercial loans. The Bank emphasizes the origination of residential real estate loans with adjustable interest rates and other assets which are responsive to changes in interest rates and allow the Bank to more closely match the interest rate maturation of its assets and liabilities.

Growth Opportunities

For the three year period ended December 31, 2012, the Company s loan portfolio shrank by approximately $115.5 million. There were many factors that resulted in the Company s negative loan growth over this period. In 2010, the deployment of more than 15,000 troops from nearby Fort Campbell, Kentucky to Afghanistan resulted in a reduced level of economic activity, lower sales for merchants, weaker demand for most goods and services and reduced tax collections. Furthermore, the deployment of troops occurred during a time of a national recession, further exasperating the weakness in the local economy. In late 2008, management s decision to dramatically scale back construction and development lending also led to lower loan balances but an improved risk profile. At December 31, 2009, construction and land development loans totaled $97.7 million, as compared to $64.8 million at December 31, 2012.

Another important factor inhibiting lending growth was the presence of a Memorandum of Understanding and Agreement (MOU) originally between the Board of Directors of the Company and the OTS, the Company s and Banks former regulator. The MOU required the Bank to limit the growth of specific types of lending, including commercial real estate lending. In 2010 and 2011, the MOU s limitation on commercial real estate made it more difficult for the Bank to experience positive loan growth. The MOU s limitation on commercial real estate lending was focused on the OTS definition of commercial real estate loan concentrations. In October 2012, the Office of the Comptroller of the Currency (OCC), the Bank s current primary regulator, terminated the Bank s MOU. In November of 2012, the Federal Reserve Bank (FRB) likewise terminated the MOU for the Company. We view the termination of both MOU s as a positive development as we seek future growth opportunities.

In response to the decline in loans balance outstanding, the Company has sought to reduce the level and cost of its interest bearing liabilities. At April 30, 2010, the Company had brokered deposits totaling $104.0 million as compared to $44.5 million at December 31, 2012. The Company has also reduced the balance of Federal Home Loan Bank (FHLB) borrowings from $81.9 million at December 31, 2010, to $43.7 million at December 31, 2012. The reduction of FHLB borrowings include early repayments of $16.0 million in borrowings in September of 2012 resulting in $480,000 in prepayment penalties. In addition to reducing our level of wholesale funding, the Company s funding mix has significantly improved, resulting in lower interest cost. At December 31, 2012, total time deposits (including brokered) were $437.1 million, a decline of $82.9 million as compared to December 31, 2011. Since December 31, 2010, total time deposits have declined by $117.9 million and total deposits have declined by $67.1 million during the same two year period.

The Company s rural markets suffered a severe drought in 2012, reducing the average yield on corn from 180 bushels per acre to less than 40 bushels per acre. Soybean and wheat fared better as yields were close to historical norms. Despite poor corn yields, the agriculture sector remained stable due to strong commodity prices and the presence of crop insurance. Land prices continue to rise and the industry remains optimistic with 2013 land under production remaining near historically high levels.

The Clarksville, Montgomery County, Tennessee (Clarksville) market suffered a recent setback with the announcement that the Hemlock Semiconductor plant (production was scheduled to begin in late 2012) would not begin production due to the market conditions surrounding the solar industry. The Company terminated approximately 300 employees but the bigger loss is the anticipated growth in employment and economic activity that will not occur in the near future. Hemlock s statement indicated that they were committed to production in Clarksville but must wait for the solar market to improve. No date was given for the beginning of production.

Despite the setback discussed above, management views Clarksville as the most vibrant market currently served by the Company. The table below is a summary of selected information from the 2010 U.S. Census related to the Company s current market area:

	2010 Census Est Population	Population Change 2000- 2010	Median Household Income	Median Value Owner occupied housing units
Christian (Hopkinsville)	73,955	2.3%	$ 37,061	$ 95,500
Marshall	31,448	4.4%	$ 43,326	$ 96,900
Calloway	37,191	8.8%	$ 39,194	$ 105,300
Todd	12,460	4.1%	$ 36,989	$ 79,700
Trigg	14,339	13.8%	$ 41,825	$ 98,300
Fulton	6,813	12.1%	$ 31,965	$ 55,300
Mongomery (Clarksville)	172,331	27.9%	$ 48,930	$ 129,400
Cheatham	39,105	9.0%	$ 52,585	$ 155,900
Houston	8,486	4.2%	$ 33,738	$ 87,900

In conducting an analysis of this data, Clarksville is the only market currently served by the Company with a 10 year population growth rate of more than 10% and a total population of more than 15,000. Only two markets, Clarksville and Cheatham County, have median household incomes greater than $43,500 per year, which is the approximate median household income in Tennessee and Kentucky and less that the $51,900 median household income in the United States. The population of the Company s current footprint is approximately 400,000.

The following chart outlines the Bank s market share in its six largest markets individually at June 30, 2009, 2010, 2011, and 2012, according to information provided by the FDIC market Share Report:

	At June 30			
	2009	2010	2011	2012
Calloway	14.0%	17.4%	16.2%	15.3%
Christian	22.8%	28.4%	26.2%	22.5%
Fulton	58.9%	58.2%	56.4%	53.9%
Marshall	14.3%	14.6%	15.0%	14.9%
Cheatham	14.9%	14.8%	16.9%	17.8%
Montgomery	2.9%	3.2%	3.0%	3.0%

In addition to the Clarksville market, management views promising opportunities for growth in the midsize metropolitan markets near the Company s current locations. Highly desirable markets include Bowling Green, Kentucky, Hardin, Kentucky, Louisville, Kentucky, and Nashville, Tennessee. These markets provide desirable demographic and growth opportunities as compared to the Company s current footprint. As evident in the table below, Kentucky growth opportunities may be most attractive in Bowling Green, which is approximately 70 miles from the Company s corporate headquarters. The tables below include the two largest counties by population in the Kentucky and other communities in Kentucky within a two hour drive of the Company s headquarters:

Kentucky	2010 Census Population	Population Change 2000- 2010	Median Household Income	Median Value Owner occupied housing units
Henderson	46,250	3.2%	$ 40,438	$ 101,200
Hardin (Elizabethtown)	105,543	12.1%	$ 47,540	$ 131,900
Daviess (Owensboro)	96,656	5.6%	$ 42,821	$ 106,400
McCracken (Paducah)	65,565	0.1%	$ 41,630	$ 107,500
Warren (Bowling Green)	113,792	23.0%	$ 43,954	$ 135,400
Fayette (Lexington)	295,803	13.5%	$ 47,469	$ 159,200
Jefferson (Louisville)	741,096	6.8%	$ 45,352	$ 145,900

Meanwhile, the Nashville, Tennessee metropolitan statistical area has a population of approximately 1.6 million (includes Cheatham County, Tennessee listed above) and attractive demographics outlined below:

Nashville TN MSA	2010 Estimated Census Population	Population Change 2000- 2010	Median Household Income	Median Value Owner occupied housing units
Robertson (Springfield)	66,283	21.8%	$ 50,820	$ 149,100
Sumner (Gallatin)	160,645	23.1%	$ 54,916	$ 169,100
Wilson (Lebanon)	113,193	28.4%	$ 60,678	$ 187,500
Rutherford (Murfreesboro)	262,604	44.3%	$ 53,770	$ 157,100
Williamson (Franklin)	183,182	44.7%	$ 87,832	$ 335,800
Maury (Columbia)	80,956	16.5%	$ 46,278	$ 137,100
Dickson	49,666	15.1%	$ 44,554	$ 128,700
Davidson (Nashville)	626,681	10.0%	$ 45,668	$ 164,700
Cheatham (listed above)	39,105	9.00%	$ 52,585	$ 155,900

Equity Transactions

On December 12, 2008, the Company received an $18.4 million investment from the United States Treasury (Treasury) in the form of preferred stock. The terms of the investment included a 5% dividend for five years, increasing to 9% thereafter. The investment had no stated maturity but could be paid back in whole or part at any time with regulatory approval. In addition to the dividend, the Treasury received a stock Warrant that allowed the Treasury to immediately purchase 243,816 shares of the Company s Common Stock immediately at a strike price of $11.32 and had a final maturity of December 12, 2018. The amount and price of the warrant have been adjusted to 253,667 shares and a strike price of $10.88 as a result of a 2% stock dividend declared for shareholders of record at September 30, 2010 and October 3, 2011.

On December 19, 2012, the Company repurchased all outstanding shares of preferred stock at par from the Treasury. The Company did not issue additional capital to repurchase the preferred stock. The repurchased Preferred Stock is recognized on the Company s balance sheet as treasury shares. On January 16, 2013, the Company repurchased the outstanding Warrant from the Treasury for $256,257.

In June and July of 2010, the Company sold a total of 3,583,334 shares of Common Stock at $9.00 per share ($8.55 net of expenses) in a public offering. The net proceeds of the public offering, $30.4 million, were used for general corporate purposes and included a $10.0 million investment to the Bank. The sale of common stock in June 2010 included 112,639 shares of treasury stock.

Subsequent Event

On January 16, 2013, the Company announced that it had repurchased a Warrant issued to the Treasury for $256,257. The Warrant was originally issued on December 12, 2008 and allowed the owner to purchase 253,667 shares of the Company s common stock at $10.88 per share. The Warrant was to mature on December 12, 2018.

On February 12, 2013, the Company announced the acquisition of Sumner Bank & Trust (Sumner) in Gallatin, Tennessee for approximately $14.3 million in cash, or $10.04 per share. At December 31, 2012, Sumner had assets of $184.0 million, deposits of $157.6 million and loans outstanding of $121.6 million. Sumner has two full service banking locations in Gallatin, Tennessee and one full service location in Hendersonville, Tennessee. Sumner has three loan production offices in the Tennessee communities of Franklin and Lebanon in middle Tennessee and Jackson in west Tennessee. The acquisition of Sumner will provide us with greater access to the Nashville, Tennessee market as well as an entry into the west Tennessee market. The Sumner acquisition is subject to approval by Sumner s shareholders and regulatory approval and is expected to close in the third quarter of 2013.

Available Information

The Company s filings with the Securities and Exchange Commission (SEC), including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments thereto, are available on the Company s website as soon as reasonably practicable after the reports are filed with or furnished to the SEC. Copies can be obtained free of charge in the Investor Relations section of the Company s website at www.bankwithheritage.com.

Stock Repurchases

The Company s acceptance of the capital investment from the Treasury required the Company to cease all stock repurchase activity for a period of no less than three years or until capital investment is redeemed in full, which occurred in December 2012. As of March 29, 2013, 402,916 shares of common stock had been repurchased. The Company did not purchase any capital stock in 2011 or 2012. The repurchase of Preferred Stock from the Treasury resulted in the Company recognizing 18,400 shares of treasury preferred stock.

Lending Activities

General. The total gross loan portfolio totaled $535.5 million at December 31, 2012, representing 55.3% of total assets at that date. Substantially all loans are originated in the Bank s market area. At December 31, 2012, $203.8 million, or 38.0% of the loan portfolio, consisted of one-to-four family, residential mortgage loans. Other loans secured by real estate include non-residential real estate loans, which amounted to $215.3 million, or 40.2% of the loan portfolio at December 31, 2012, and multi-family residential loans, which were $33.1 million, or 6.2% of the loan portfolio at December 31, 2012. At December 31, 2012, construction loans were $18.9 million, or 3.5% of the loan portfolio, and total consumer and commercial loans totaled $64.4 million, or 12.1% of the loan portfolio.

Analysis of Loan Portfolio. Set forth below is selected data relating to the composition of the loan portfolio by type of loan at the dates indicated. At December 31, 2012, there were no concentrations of loans exceeding 10% of total loans other than as disclosed below.

	2012		2011		2010		2009		2008	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
					(Dollars in thousands)					
Type of Loan:										
Real estate loans:										
One-to-four family residential	$ 203,754	38.0%	$ 216,095	38.1%	$ 229,058	37.6%	$ 240,823	37.0%	$ 223,598	35.3%
Multi-family residential	33,056	6.2%	33,739	5.9%	29,416	4.8%	46,325	7.1%	36,857	5.8%
Construction	18,900	3.5%	11,931	2.1%	23,361	3.8%	33,216	5.1%	62,300	9.8%
Non-residential (1)	215,342	40.2%	235,823	41.6%	255,348	41.9%	254,067	39.0%	223,180	35.2%
Total real estate loans	471,052	87.9%	497,588	87.7%	537,183	88.1%	574,431	88.2%	545,935	86.1%
Other loans:										
Secured by deposits	3,768	0.7%	4,016	0.7%	4,081	0.7%	4,075	0.6%	3,949	0.6%
Other consumer loans	10,118	1.9%	11,094	2.0%	13,979	2.3%	17,908	2.8%	19,731	3.1%
Commercial loans	50,549	9.5%	54,673	9.6%	54,439	8.9%	54,531	8.4%	64,595	10.2%
Total other loans	64,435	12.1%	69,783	12.3%	72,499	11.9%	76,514	11.8%	88,275	13.9%
	535,487	100.0%	567,371	100.0%	609,682	100.0%	650,945	100.0%	634,210	100.0%
Deferred loan cost, net	146		251		363		261		279	
Allowance for loan losses	(10,648)		(11,262)		(9,830)		(8,851)		(6,133)	
Total	$ 524,985		$ 556,360		$ 600,215		$ 642,355		$ 628,356	

(1) Consists of loans secured by first liens on residential lots and loans secured by first mortgages on commercial real property and land.

Loan Maturity Schedule. The following table sets forth certain information at December 31, 2012, regarding the dollar amount of loans maturing in the portfolio based on their contractual maturity dates. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less.

	Due the year ending December 31,			Due 3 through 5 years after December 31, 2013	Due 5 through 10 years after December 31, 2013	Due 10 through 15 years after December 31, 2013	Due 15 years after December 31, 2013	Total
	2013	2014	2015					
				(Dollars In Thousands)				
One-to-four family residential	$ 5,635	3,103	2,004	10,977	53,412	34,117	94,506	203,754
Multi-family residential	3,294	174		3,849	3,455	1,784	20,500	33,056
Construction	13,229	1,182			508		3,981	18,900
Non-residential	45,508	9,136	2,147	17,593	24,339	51,861	64,758	215,342
Secured by deposits	2,506	664	309	264	25			3,768
Other	23,493	7,887	8,549	9,650	7,603	3,072	413	60,667
Total	$ 93,665	22,146	13,009	42,333	89,342	90,834	184,158	535,487

The following table sets forth at December 31, 2012, the dollar amount of all loans due after December 31, 2013, which had predetermined interest rates and had floating or adjustable interest rates.

	Predetermined Rate	Floating or Adjustable Rate
	(Dollars In Thousands)	
One-to-four family residential	$ 33,249	$ 164,870
Multi-family residential	4,461	25,301
Construction	116	5,555
Non-residential	43,062	126,772
Other	29,932	8,504
Total	$ 110,820	$ 331,002

Scheduled contractual principal repayments of loans do not reflect the actual life of such assets. The average life of loans is substantially less than their contractual terms because of prepayments. In addition, due-on-sale clauses on loans generally give the lender the right to declare a loan immediately due and payable in the event, among other things, that the borrower sells the real property subject to the mortgage and the loan is not repaid. The average life of mortgage loans tends to increase when current mortgage loan market rates are substantially higher than rates on existing mortgage loans and, conversely, decrease when current mortgage loan market rates are substantially lower than rates on existing mortgage loans.

In the last ten years, the Company has attempted to diversify its loan portfolio mix to mitigate the risk of lending in a geographically limited area. The Company uses several metrics to measure our relative success in this area. The table below identifies loan balances by type as a percentage of consolidated total risk based capital:

	Total (Dollars in Thousands)	Current Balance as Percentage Of Consolidated Risk Based Capital
One-to-four family residential	$ 203,754	194.08%
Multi-family residential	33,056	31.49%
Construction	18,900	18.00%
Non-residential	169,436	161.39%
Land	45,906	43.73%
Consumer	13,886	13.23%
Commercial	50,549	48.15%
Total gross loans	$ 535,487	510.07%

The Company uses standardized industry codes known as NASIC codes to track the individual components of its loan portfolio, including our non-residential real estate loan portfolio. At December 31, 2012, the Company commercial real estate loan portfolio consisted of the following:

	Current Balance	Unadvanced Amount	Total Commitment
		(Dollars in Thousands)	
Land	$ 45,906	5,299	51,205
Construction			
Manufacturing	3,856	614	4,470
Professional, Technical	2,025	124	2,149
Retail Trade	12,391	528	12,919
Other Services	18,303	152	18,455
Finance & Insurance	386	22	408
Agricultural, Forestry, Fishing & Hunting	42,420	3,429	45,849
Real Estate and Rental and Leasing	48,249	783	49,032
Wholesale Trade	8,891	5,034	13,925
Arts, Entertainment & Recreation	3,461	110	3,571
Accomodations / Food Service	17,152	1	17,153
Healthcare and Social Assistance	7,932	28	7,960
Educational Services			
Transportation & Warehousing	1,295	30	1,325
Information	2,488	50	2,538
Non-industry	46		46
Admin Support / Waste Mgmt	541		541
Total	$ 215,342	16,204	231,546

Management measures commercial real estate (CRE) concentrations as discussed in *Concentrations of Commercial Real Estate Lending, Sound Risk Management Practices* issued on December 12, 2006, jointly by the Office of the Comptroller of the Currency (OCC), Board of Governors of the Federal Reserve System (Federal Reserve) and the Federal Deposit Insurance Corporation (FDIC). In this guidance, the agencies make a significant distinction between owner-occupied CRE and non-owner occupied CRE. The agencies have a heighted level of concerned with those loans with risk profiles sensitive to the condition of the CRE market.

CRE loans secured by non-farm, non-residential CRE where the primary source of repayment is the cash flow from the ongoing operations and activities conducted by the owner of the property are generally excluded from the guidance. Using the instructions provided in the FDIC call report, the Bank has calculated that $150.0 million of our loan portfolio, or 136.8% of the Bank s risk based capital, consists of properties classified as non-owner occupied commercial real estate which includes all loans secured by multi-family properties, all construction and land development loans and certain other commercial real estate loans identified by regulations as non-owner occupied. These properties included multi-family, land development and construction, and non-owner occupied commercial real estate.

Included in the definition of commercial real estate are $64.8 million in construction and land development loans, or 59.1% of our risk based capital. Both of our concentration categories are within regulatory guidelines and appear reasonable to management at this time. However, the Company currently classifies

Originations, Purchases and Sales of Loans. The Bank generally has authority to originate and purchase loans secured by real estate located throughout the United States. Consistent with its emphasis on being a community-oriented financial institution, the Bank conducts substantially all of its lending activities in its market area. The following table sets forth certain information with respect to loan origination activity for the periods indicated.

	Year Ended December 31,		
	2012	2011	2010
	(Dollars In Thousands)		
Loan originations:			
One-to-four family residential	$ 84,559	$ 39,651	$ 83,568
Multi-family residential	4,489	7,494	13,480
Construction	21,361	15,975	18,537
Non-residential	71,051	52,093	74,798
Other	51,892	60,001	54,240
Total loans originated	233,352	175,214	244,623
Loan reductions:			
Transfer to other real estate owned	2,285	3,748	11,505
(Increase) decrease in deferred loan origination fees, net of income	105	112	(102)
Increase (decrease) in allowance for loan losses	(614)	1,432	979
Loans sold	47,749	35,647	42,866
Loan principal payments	215,202	178,130	231,515
Net decrease in loan portfolio	($ 31,375)	($ 43,855)	($ 42,140)

Loan originations are derived from a number of sources, including existing customers, referrals by real estate agents, depositors and borrowers and advertising, as well as walk-in customers. Solicitation programs consist of advertisements in local media, in addition to occasional participation in various community organizations and events. Real estate loans are originated by the Bank s loan personnel. All of the loan personnel are salaried, and are not compensated on a commission basis for loans originated. Loan applications are accepted at any of the Bank s branches.

Loan Underwriting Policies. Lending activities are subject to written, non-discriminatory underwriting standards and to loan origination procedures prescribed by the Board of Directors and its management. Detailed loan applications are obtained to determine the ability of borrowers to repay, and the more significant items on these applications are verified through the use of credit reports, financial statements and confirmations. Loan requests exceeding loan officer limits must be approved by the loan committee or Board of Directors.

Generally, upon receipt of a loan application from a prospective borrower, a credit report and verifications are ordered to confirm specific information relating to the loan applicant s employment, income and credit standing. If a proposed loan is to be secured by a mortgage on real estate, an appraisal of the real estate is undertaken by an appraiser approved by the Board of Directors and licensed or certified (as necessary) by the Commonwealth of Kentucky or the State of Tennessee. In the case of one-to-four family residential mortgage loans, except when the Bank becomes aware of a particular risk of environmental contamination, the Bank generally does not obtain a formal environmental report on the real estate at the time a loan is made. A formal environmental report may be required in connection with nonresidential real estate loans.

It is the Bank s policy to record a lien on the real estate securing a loan and to obtain a title opinion from Kentucky counsel who provides that the property is free of prior encumbrances and other possible title defects. Title Insurance is generally required on all commercial real estate loans, all one-to-four family loans with balances exceeding $70,000 and all one-to-four family loans that are to be sold in the secondary market. Borrowers must also obtain hazard insurance policies prior to closing and, when the property is in a flood hazard area, pay flood insurance policy premiums. The majority of real estate loan applications are underwritten and closed in accordance with the Bank s own lending guidelines, which generally do not conform to secondary market guidelines. Although such loans may not be readily saleable in the secondary market, management believes that, if necessary, such loans may be sold to private investors at a discount to par.

The Bank offers a fixed rate loan program with maturities of 15, 20, and 30 years. These loans are underwritten and closed in accordance with secondary market standards. These loans are originated with the intent to sell on the secondary market. The Bank offers both servicing retained and servicing released products in an attempt to meet the needs of our customers. At December 31, 2012, the Bank s 1-4 family loan servicing portfolio was approximately $26.3 million.

The Bank is permitted to lend up to 100% of the appraised value of the residential real property securing a mortgage loan. Under its lending policies, the Bank will originate a one-to-four family residential mortgage loan for owner-occupied property with a loan-to-value ratio of up to 95%. For residential properties that are not owner-occupied, the Bank generally does not lend more than 80% of the appraised value. For all residential mortgage loans, the Bank may increase its lending level on a case-by-case basis, provided that the excess amount is insured with private mortgage insurance. Exceptions to this policy must be approved by the loan committee or the Board of Directors. At December 31, 2012, the Bank held approximately $8.9 million of 1-4 family residential mortgages with a loan to value ratio exceeding 90% without private mortgage insurance. For these loans at December 31, 2012, approximately $790,000 are in non-accrual status and $173,000 was past due more than 30 days but less than 89 days.

Under applicable law, with certain limited exceptions, loans and extensions of credit outstanding by a savings institution to a person at one time shall not exceed 15% of the institution s unimpaired capital and surplus. Loans and extensions of credit fully secured by readily marketable collateral may comprise an additional 10% of unimpaired capital and surplus. Applicable law additionally authorizes savings institutions to make loans to one borrower, for any purpose, in an amount not to exceed the lesser of $30.0 million or 30% of unimpaired capital and surplus to develop residential housing, provided certain requirements are satisfied. Under these limits, the Bank s loans to one borrower were limited to approximately $16.4 million at December 31, 2012. At that date, the Bank had no lending relationships in excess of the loans-to-one-borrower limit.

Interest rates charged by the Bank on loans are affected principally by competitive factors, the demand for such loans and the supply of funds available for lending purposes. These factors are, in turn, affected by general economic conditions, monetary policies of the federal government, including the Federal Reserve Board, legislative tax policies and government budgetary matters.

One-to-four Family Residential Lending. The Bank historically has been and continues to be an originator of one-to-four family residential real estate loans in its market area. At December 31, 2012, one-to-four family residential mortgage loans totaled approximately $203.8 million, or 38.0% of the Bank s loan portfolio. The Bank originated approximately $47.7 million in loans that were sold in the secondary market with servicing released. At December 31, 2012, the Bank had approximately $2.3 million in one-to-four family residential real estate loans past due more than ninety days or in non-accrual status. At December 31, 2012, the Company s allowance for loan loss included $3.1 million in reserve for one to four family residential lending.

The Bank primarily originates residential mortgage loans with adjustable rates. As of December 31, 2012, 83.7% of one-to-four family mortgage loans in the Bank s loan portfolio carried adjustable rates or mature within one year. The Bank s one to four family loan portfolio consists of closed end first and second mortgages as well as opened ended home equity lines of credit. At December 31, 2012, approximately $166.7 million of the Bank s residential mortgage portfolio consisted of closed end first and junior liens. Such loans are primarily for terms of 25 years, although the Bank does occasionally originate adjustable rate mortgages for 15, 20 and 30 year terms, in each case amortized on a monthly basis with principal and interest due each month. The interest rates on these mortgages are adjusted once per year, with a maximum adjustment of 1% per adjustment period and a maximum aggregate adjustment of 5% over the life of the loan. Prior to August 1, 1997, rate adjustments on the Bank s adjustable rate loans were indexed to a rate which adjusted annually based upon changes in an index based on the National Monthly Median Cost of Funds, plus a margin of 2.75%. Because the National Monthly Median Cost of Funds is a lagging index, which results in rates changing at a slower pace than rates generally in the marketplace, the Bank changed to a one-year Treasury bill constant maturity (One Year CMT), which the Bank believes reflects more current market information and thus allows the Bank to react more quickly to changes in the interest rate environment. In mid 2004, the Bank increased its margin on its adjustable rate loans to 3.00%. However, the vast majority of the current adjustable rate portfolio maintains a margin of 2.75% over the One Year CMT.

The Bank also originates, to a limited extent, fixed-rate loans for terms of 10 and 15 years. Such loans are secured by first mortgages on one-to-four family, owner-occupied residential real property located in the Bank s market area. Because of the Bank s policy to mitigate its exposure to interest rate risk through the use of adjustable rate rather than fixed rate products, the Bank does not emphasize fixed-rate mortgage loans. Fixed rate mortgage loans originated by the Bank are loans that often do not qualify for the secondary market due to numerous factors not related to credit quality. Typically, these products are not priced to be competitive with secondary market loans but to offer as an alternative if that option is not available. At December 31, 2012, $33.2 million of the Bank s loan portfolio consisted of fixed-rate one-to-four family first mortgage loans that will mature after December 31, 2013. To further reduce its interest rate risk associated with such loans, the Bank may rely upon FHLB advances with similar maturities to fund such loans. See Deposit Activity and Other Sources of Funds Borrowing.

At December 31, 2012, the Bank had $37.1 million in home equity lines of credit outstanding and $29.2 million of additional credit available. Typically, these loans are for a term of fifteen years and have loan to value ratio of 80% to 100%. The home equity portfolio is priced at a spread to prime, adjusted daily, depending on the customer s loan to value ratio at the time of origination. Many of the home equity lines of credit require monthly interest payments with all unpaid interest and principal due at maturity.

The retention of adjustable rate loans in the Bank s portfolio helps reduce, but does not eliminate, the Bank s exposure to increases in prevailing market interest rates. However, there are unquantifiable credit risks resulting from potential increases in costs to borrowers in the event of upward re-pricing of adjustable-rate loans. It is possible that during periods of rising interest rates, the risk of default on adjustable rate loans may increase due to increases in interest costs to borrowers. Further, although adjustable rate loans allow the Bank to increase the sensitivity of its interest-earning assets to changes in interest rates, the extent of this interest sensitivity is limited by the initial fixed-rate period before the first adjustment and the lifetime interest rate adjustment limitations. This risk is heightened by the Bank s prior practice of offering its adjustable rate mortgages with a 1% limitation on annual interest rate adjustments. Accordingly, there can be no assurance that yields on the Bank s adjustable rate loans will fully adjust to compensate for increases in the Bank s cost of funds.

Finally, adjustable rate loans increase the Bank s exposure to decreases in prevailing market interest rates, although the 1% limitation on annual decreases in the loans interest rate tends to offset this effect. In times of declining interest rates, borrowers often refinance into fixed rate loan products, limiting the Bank s ability to significantly increase its interest rate margin on adjustable rate loans in a declining interest rate market. In times of increasing interest rates, the 1% annual cap on increases in the interest rates tends to reduce refinancing activity and reduce the Bank s net interest margin.

Neither the fixed rate nor the adjustable rate residential mortgage loans held in the Bank s portfolio are originated in conformity with secondary market guidelines issued by FHLMC or FNMA. As a result, such loans may not be readily saleable in the secondary market to institutional purchasers. However, such loans may still be sold to private investors whose investment strategies do not depend upon loans that satisfy FHLMC or FNMA criteria. Further, given its high liquidity, the Bank does not currently view loan sales as a necessary funding source.

Construction Lending. The Bank engages in construction lending involving loans to individuals for construction of one-to-four family residential housing, multi-family housing and non-residential real estate located within the Bank s market area, with such loans converting to permanent financing upon completion of construction. The Bank mitigates its risk with construction loans by imposing a maximum loan-to-value ratio of 80% for homes that will be owner-occupied or being built on a speculative basis.

The Bank also makes loans to qualified builders for the construction of one-to-four family residential housing located in established subdivisions in the Bank s market area. Because such homes are intended for resale, such loans are generally not converted to permanent financing at the Bank. All construction loans are secured by a first lien on the property under construction.

Loan proceeds are disbursed in increments as construction progresses and as inspections warrant. Construction/permanent loans may have adjustable or fixed interest rates and are underwritten in accordance with the same terms and requirements as the Bank s permanent mortgages.

Such loans generally provide for disbursement in stages during a construction period of up to eighteen months, during which period the borrower is required to make payments of interest only. The permanent loans are typically 30-year adjustable rate loans, with the same terms and conditions otherwise offered by the Bank. Monthly payments of principal and interest commence the month following the date the loan is converted to permanent financing. Borrowers must satisfy all credit requirements that would apply to the Bank s permanent mortgage loan financing prior to receiving construction financing for the subject property.

Construction financing generally is considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property s value at completion of construction or development and the estimated cost (including interest) of construction. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, the Bank may be confronted at or prior to the maturity of the loan, with a project having a value which is insufficient to assure full repayment. The ability of a developer to sell developed lots or completed dwelling units will depend on, among other things, demand, pricing, availability of comparable properties and economic conditions. The Bank has sought to minimize this risk by limiting construction lending to qualified borrowers in the Bank s market area, by requiring the involvement of qualified builders, and by limiting the aggregate amount of outstanding construction loans. At December 31, 2008, the Bank s loan portfolio included $62.3 million. By that time, the Bank had begun to reduce its construction loan exposure due to concerns about a slowing economy. The significant reduction in construction loans has had a negative impact on the Bank s loan portfolio balances and net interest margin. However, the negative impact has been offset by the relatively minor credit problems that have occurred in this portfolio.

At December 31, 2012, the Bank s loan portfolio included $18.9 million of loans secured by properties under construction, including construction/permanent loans structured to become permanent loans upon the completion of construction and interim construction loans structured to be repaid in full upon completion of construction and receipt of permanent financing. At December 31, 2012, approximately $8.6 million of construction loans were for one to four family dwellings and $10.3 million were for non-residential real estate. At December 31, 2012, there were no construction loans past due more than ninety days or in non-accrual status. At December 31, 2012, the Company s allowance for loan loss included $256,000 in the general reserve for construction loans.

Multi-Family Residential and Non-Residential Real Estate Lending. The Bank s multi-family residential loan portfolio consists of fixed and adjustable rate loans secured by real estate. At December 31, 2012, the Bank had $33.1 million of multi-family residential loans, which amounted to 6.2% of the Bank s loan portfolio at such date. The Bank s non-residential real estate portfolio generally consists of adjustable and fixed rate loans secured by first mortgages on commercial real estate, residential lots, and rental property. In most cases, such property is located in the Bank s market area. At December 31, 2012, the Bank had approximately $215.3 million of such loans, which comprised 40.2% of its loan portfolio.

At December 31, 2012, non-residential real estate loans consisted of $46.8 million in land used in agricultural production, $52.1 million in non-owner occupied properties, $70.5 million in owner occupied commercial real estate and $45.9 million in raw land. The Company currently has no land under development and all lots are completed and available for sale. At December 31, 2012, approximately $23.8 million, or 52.0% of the Company s land portfolio is classified as substandard. The reduction of land loans classified as substandard remains a high priority for management. Without the sales history to support full repayment in a timely manner, management s expectations of land development customers are to begin to making scheduled principal and interest payments.

The inventory of land loans includes 418 lots available for sale with an aggregate loan balance of $15.0 million. The average lot has a loan balance of approximately $36,000. Also at December 31, 2012, the Company has $23.8 million in land loans on property that is designated for future development in which no meaningful infrastructure has been started. These loans represent approximately 1,585 acres of land with an average price per acre of approximately $15,000. The remaining $7.1 million in land loans is classified as land for personal use.

Multi-family residential real estate loans are underwritten with loan-to-value ratios up to 80% of the appraised value of the property. Non-residential real estate loans are underwritten with loan-to-value ratios up to 65% of the appraised value for raw land and 75% for land development loans. Non-residential real estate loans for agricultural and other non-residential real estate properties are underwritten with loan-to-value ratios up to 85%.

Multi-family residential and non-residential real estate lending entails significant additional risks as compared with one-to-four family residential property lending. Multi-family residential and commercial real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers. The payment experience on such loans typically is dependent on the successful operation of the real estate project, retail establishment or business. These risks can be significantly impacted by supply and demand conditions in the market for the office, retail and residential space, and, as such, may be subject to a greater extent to adverse conditions in the economy generally.

To minimize these risks, the Bank generally limits itself to its market area or to borrowers with which it has prior experience or who are otherwise known to the Bank. It has been the Bank s policy to obtain annual financial statements of the business of the borrower or the project for which multi-family residential real estate or non-residential real estate loans are made. At December 31, 2012, there were $38,000 in multi-family loans past due more than 90 days or classified as non-accrual. At December 31, 2012, there were $1.7 million in non-residential real estate that were past due by 90 days or more or classified as non-accrual and $2.8 million of loans secured by raw land that were past due by 90 days or more or classified as non-accrual.

In 2012, the Company s experienced a decline in loan losses as compared to 2011 and 2010. In 2012, the Company s net charges offs were $2.9 million, as compared to $4.5 million in 2011 and $5.0 million in 2010. In 2012, the Company net charge offs included $628,000 in loans secured by land, $1.0 million in loans secured by non-residential real estate, $417,000 in multi-family loans and $356,000 in loans secured by 1-4 family residences.

Consumer Lending. The consumer loans currently in the Bank s loan portfolio consist of loans secured by savings deposits and other consumer loans. Savings deposit loans are usually made for up to 90% of the depositor s savings account balance. The interest rate is approximately 2.0% above the rate paid on such deposit account serving as collateral, and the account must be pledged as collateral to secure the loan. Interest generally is billed on a quarterly basis. At December 31, 2012, loans on deposit accounts totaled $3.8 million, or 0.7% of the Bank s loan portfolio. Other consumer loans include automobile loans, the amount and terms of which are determined by the loan committee, and home equity and home improvement loans, which are made for up to 100% of the value of the property. At December 31, 2012, all other consumer loans accounts totaled $10.1 million, or 1.9% of total loans.

Consumer loans may entail greater credit risk than do residential mortgage loans, particularly in the case of consumer loans that are unsecured or are secured by rapidly depreciable assets, such as automobiles. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower s continuing financial stability, and therefore are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankrupcy and insolvency laws, may limit the amount which can be recovered on such loans. At December 31, 2012, there were $145,000 in consumer loans delinquent 90 days or more or classified as non-accrual. At December 31, 2012, the Company s allowance for loan loss included $338,000 in reserve for consumer loans.

Commercial Lending. The Bank originates commercial loans on a secured and, to a lesser extent, unsecured basis. At December 31, 2012, the Bank s commercial loans amounted to $50.5 million, or 9.5% of the Bank s loan portfolio. The Bank s commercial loans generally are secured by business assets. In addition, the Bank generally obtains guarantees from the principals of the borrower with respect to all commercial loans. At December 31, 2012, there was $617,000 in commercial loans delinquent 90 days or more or classified as non-accrual. At December 31, 2012, the Company s allowance for loan loss included $619,000 in reserve for commercial loans.

At December 31, 2012, the Company s level of classified loans to risk based capital is 59.4%. The Company seeks to reduce this ratio at least 40%. To make further reductions in the level of classified assets, management will focus on loans secured by land and commercial real estate. To assist in the reduction of the level of classified loans to capital, management has developed a special assets division to more closely monitor and work with classified assets. As a part of these efforts, management may wish to reduce the exposure to classified assets in specific categories and / or to specific customers. The strategy of reducing the level of classified assets may result in lower loan balances in 2013. However, management will take all reasonable actions necessary to reduce the level of classified assets.

Non-accrual Loans and Other Problem Assets

The Bank s non-accrual loans totaled 1.43% of total loans at December 31, 2012. Loans are placed on a non-accrual status when the loan is past due in excess of 90 days or the collection of principal and interest is doubtful. The Bank places a high priority on contacting customers by telephone as a primary method of determining the status of delinquent loans and the action necessary to resolve any payment problem. The Bank s management performs quality reviews of problem assets to determine the necessity of establishing additional loss reserves. The Bank s total non-performing assets to total asset ratio was 0.95% at December 31, 2012.

The following table sets forth information with respect to the Bank s non-accrual loans at the dates indicated.

	At December 31,				
	2012	2011	2010	2009	2008
	(Dollars In Thousands)				
Accruing loans which are contractually past due 90 days or more:					
Residential real estate	$	$	$	$	$
Non-residential real estate					
Consumer					
Total					
Non-Accrual Loans:					
Construction			1,541	572	341
Multi-family	38		301	4,851	
Residential real estate	2,313	2,309	1,662	1,399	1,340
Land	2,768	1,330	363	3,503	5,052
Non residential real estate	1,782	2,231	1,043	490	427
Consumer	145	9	23	27	55
Commercial	617	254	97	367	106
Total non-accrual loans	$ 7,663	$ 6,133	$ 5,030	$ 11,209	$ 7,321
Percentage of total loans	1.43%	1.08%	0.82%	1.72%	1.16%

Federal regulations require savings institutions to classify their assets on the basis of quality on a regular basis. In determining the classification of an asset, the Company utilizes a Classified Asset Committee consisting of members of senior management, accounting, credit analysis, loan administration, loan review, internal audit and collections. The committee is charged with determining the value of assets that are potentially impaired as well as the accurate reporting of Troubled Debt Restructuring (TDR) assets as defined later in this report. The committee s function is an important step in management s determination as to the necessary level of funding required in the Company s allowance for loan loss account.

An asset meeting one of the classification definitions set forth below may be classified and still be a performing loan. An asset is classified as substandard if it is determined to be inadequately protected by the current retained earnings and paying capacity of the obligor or of the collateral pledged, if any. A substandard classification may also result from the change in business purpose of a loan and / or its collateral. For example, a home builder who intends to sell a home upon completion changes his mind due to market conditions and places the home in a rental portfolio that he maintains.

The Company may allow the builder to do this if he has experience in this line of business but requires the customer to refinance the home on a twenty year loans with monthly principal and interest payments. The change of business purpose (built for sale then converted to rental) requires that the Company classify the loan as substandard and review the collateral for impairment. After a period of time of satisfactory loan performance and having satisfactory financial trends, the Company may gradually upgrade the loan from substandard to satisfactory. The typical time for a loan to receive an upgrade from a substandard to satisfactory is twelve to eighteen months of continuous satisfactory performance.

An asset is classified as doubtful if full collection is highly questionable or improbable. An asset is classified as loss if it is considered uncollectible, even if a partial recovery could be expected in the future. The regulations also provide for a special mention designation, described as assets which do not currently expose a savings institution to a sufficient degree of risk to warrant classification but do possess credit deficiencies or potential weaknesses deserving management s close attention. Such assets designated as special mention may include non-performing loans consistent with the above definition.

Assets classified as substandard or doubtful require a savings institution to conduct an impairment test to determine if the establishment of a specific reserve against the allowance for loan loss account is necessary. Typically, the basis for a loan impairment test is the current market value of the collateral, discounted to allow for selling and carrying cost. Typically, new appraisals on 1-4 family properties are discounted 10% to 15% from the appraised value while land and commercial real estate are discounted at 15% to 25% of new appraised values depending on the perceived marketability of the property.

The Company requires a new appraisal for all impairment testing of collateral when the loan balance exceeds $250,000. For loans less than $250,000, the Company may choose to use an old appraisal and provide additional discounts to the appraised value in determining the amount of specific reserve required. In the last twelve months, the Company has found that appraisers face in increase in request for services and the time between a request for an appraisal and its completion is longer than normal, up to sixty days for complex multi-family or commercial properties. During the interim, the Company may chose to use an old appraisal with larger discounts to ascertain the likelihood of a loan impairment until a current appraisal is received.

If an asset or portion thereof is classified loss, we charge off such amount. If the Company determines that a loan relationship is collateral dependent, it will charge off the portion of that loan that is deemed to be impaired. The Company defines collateral dependent as any loan in that the customer will be unable to reduce the principal balance of the loan without the complete or partial sale of the collateral.

Federal examiners may disagree with management s classifications. If management does not agree with an examiner s classification of an asset, it may appeal this determination to the OCC Assistant Comptroller of the Currency. Management regularly reviews its assets to determine whether any assets require classification or re-classification. At December 31, 2012, the Bank had $66.6 million in loans classified as substandard. Loans classified as substandard or doubtful by the Bank meet our classification of impaired loans, as defined by ASC 942-310-45-1. At December 31, 2012, and including our most recent examination, there were no material disagreements between examiners, auditors and management regarding risk grading or the funding of the allowance for loan loss account.

As depicted in the table below, the level of classified loans experienced a significant increase in 2012 as compared to 2011. The increase in classified assets occurred largely during the first two quarters of 2012 as the Company identified several significant customer relationships with either declining levels of cash flow or missing financial information, making the review of their cash flow impossible. In addition, the Company s level of classified loans increased as management began to convert interest only land loans into amortizing loans or requested that borrowers seek financing elsewhere.

During the third and fourth quarter of 2012, the level of classified loans generally declined as compared to the level at June 30, 2012. The improved level of classified loans occurred as the Company received updated financial information and saw a select number of customers seek financing elsewhere. In November 2012, the Company sold approximately $4.0 million in non-performing loans to a third party. Despite the second half decline in classified loans, the total level of classified loans at December 31, 2012, remained higher as compared to December 31, 2011, as follows:

The tables below provide a summary of loans classified by the Bank as special mention, substandard and doubtful by category for the years ended December 31, 2012, and December 31, 2011. The table also identifies the amount of the Bank s allowance for loan loss account specifically allocated to individual loans for the specific periods below:

December 31, 2012	Special Mention	Impaired Loans Substandard	Impaired Loans Doubful	Specific Allowance for Impairment
		(Dollars In Thousands)		
One-to-four family mortgages	$ 779	4,595		754
Home equity line of credit	1,109	1,237		68
Junior lien	47	468		196
Multi-family	1,478	4,115		38
Construction		4,848		
Land	7,683	23,849		932
Non-residential real estate	1,899	21,094		1,424
Consumer loans		556		121
Commercial loans	516	5,842		308
Total	$ 13,511	66,604		$ 3,841

December 31, 2011	Special Mention	Impaired Loans Substandard	Impaired Loans Doubful	Specific Allowance for Impairment
		(Dollars In Thousands)		
One-to-four family mortgages	$ 9,434	8,153	230	728
Home equity line of credit	1,694	233	239	131
Junior lien	622	809		180
Multi-family	7,073	5,951		26
Construction	213	1,775		14
Land	24,714	9,055	999	924
Non-residential real estate	25,077	16,101	117	1,374
Consumer loans	268	423	20	80
Commercial loans	4,009	5,034	121	623
Total	$ 73,104	47,534	1,726	$ 4,080

Troubled Debt Restructuring

Due to challenges in the local and national economy that continue to persist, the Company has had more of its customers incur financial problems. These customers may request temporary or permanent modification of loans in an effort to avoid foreclosure. The Company analyzes each request separately and grants loan modifications based on the customer s ability to eventually repay the loan and return to the original loan terms, the customer s current loan status and the current and projected future value of the Bank s collateral. Loans that are modified as a result of a customer s financial distress are classified as Troubled Debt Restructuring (TDR). The classification of a loan as TDR is important in that it indicates that a particular customer may not be past due but represents a credit weakness due to the Bank s willingness to modify loan terms based on the financial weakness of the borrower.

The classification of a loan as a TDR may represent the Company s last best chance to work with a distressed customer before foreclosure proceedings begin. At December 31, 2012, the Company had $14.1 million in loans classified as TDR, with $11.0 million of reported TDR s performing as agreed by the loans modified terms. At December 31, 2012, non-performing TDRs included $2.8 million in land loans, $44,000 in loans secured by farmland, $100,000 secured by junior liens on 1-4 family properties and $119,000 in commercial loans. At December 31, 2012, the Company had $1.0 million in specific reserves of the allowance for loan loss account allocated to loans classified as performing TDRs and no specific reserves for non-performing TDRs. A summary of loans classified as TDR and the respective TDR activity for the year ended December 31, 2012, can be found in the table below:

	Balance at December 31, 2011	New TDR	Loss or Foreclosure	Removed due to performance	Balance at December 31,2012
			(Dollars in Thousands)		
One-to-four family mortgages	$ 2,521	146		(779)	1,888
Junior Lien	857			(661)	196
Multi-family		239		(5)	234
Construction		4,272	(160)		4,112
Land	941	4,850	(233)	(2,134)	3,424
Non-residential real estate	3,367	1,168	(453)		4,082
Consumer loans	33	75	(5)	(98)	5
Commercial loans	125	931	(10)	(918)	128
Total TDR	$ 7,844	11,681	(861)	(4,595)	14,069

A summary of loans classified as TDR and the respective TDR activity for the year ended December 31, 2011, can be found in the table below:

	Balance at December 31, 2010	New TDR	Loss or Foreclosure	Removed due to performance	Balance at December 31,2011
			(Dollars in Thousands)		
One-to-four family mortgages	$ 4,046	1,163	(401)	(2,287)	2,521
Junior Lien		857			857
Multi-family	246		(5)	(241)	
Construction	1,541	100	(1,641)		
Land	512	963	(534)		941
Non-residential real estate	3,915	1,540	(1,228)	(860)	3,367
Consumer loans	69	27	(9)	(54)	33
Commercial loans	700	102	(235)	(442)	125
Total TDR	$ 11,029	4,752	(4,053)	(3,884)	7,844

Real estate acquired by the Bank as a result of foreclosure is classified as real estate owned until such time as it is sold. The Bank generally tries to sell the property at its current market price. The current market price is determined by obtaining an appraisal prior to the acquisition of the property. When such property is acquired, it is recorded at its fair value less estimated costs of sale. In the last eighteen months, the Company has determined that properties acquired through foreclosure have experienced a significant loss in market value as compared to the market value at the time of the origination of the loan. At the time of foreclosure, the collateral is reduced in value to its fair market value less holding and selling expenses and the remaining balance is charged against the allowance for loan losses.

Subsequent to foreclosure, in accordance with accounting principles generally accepted in the United States of America, a valuation allowance is established if the carrying value of the property exceeds its fair value net of related selling expenses. The value of other real estate owned is periodically evaluated, no less than annually, to ascertain its current market value. Additional reductions in market value or recognized as an expense through a charge to losses on real estate owned. At December 31, 2012, the Bank s real estate and other assets owned totaled $1.5 million. The following table sets forth information with respect to the Bank s real estate and other assets owned at December 31, 2012, and December 31, 2011:

	2012	2011
	(Dollars in Thousands)	
One-to-four family first mortgages	$ 258	480
Multi-family		905
Construction	130	465
Land	1,112	248
Non-residential real estate	44	160
Consumer loans	4	9
Total real estate and other assets owned	$ 1,548	2,267

Allowance for Loan Losses. In originating loans, the Bank recognizes that credit losses will be experienced and that the risk of loss will vary with, among other things, the type of loan being made, the creditworthiness of the borrower over the term of the loan, general economic conditions and, in the case of a secured loan, the quality of the security for the loan. It is management s policy to maintain an adequate allowance for loan losses based on, among other things, the Bank s and the industry s historical loan loss experience, evaluation of economic conditions, regular reviews of delinquencies and loan portfolio quality and evolving standards imposed by federal bank examiners and other regulatory agencies. The Bank increases its allowance for loan losses by charging provisions for loan losses against the Bank s income.

Management will continue to actively monitor the Bank s asset quality and allowance for loan losses. Management will charge off loans and properties acquired in settlement of loans against the allowances for loan losses on such loans and such properties when appropriate and will provide specific loss allowances when necessary. Although management believes it uses the best information available to make determinations with respect to the allowances for loan losses and believes such allowances are adequate, future adjustments may be necessary if economic conditions differ substantially from the economic conditions in the assumptions used in making the initial determinations.

The Bank s methodology for establishing the allowance for loan losses takes into consideration probable losses that have been identified in connection with specific assets as well as losses that have not been identified but can be expected to occur. Management conducts regular reviews of the Bank s assets and evaluates the need to establish allowances on the basis of this review. Allowances are established by the Board of Directors on a quarterly basis based on an assessment of risk in the Bank s assets taking into consideration the composition and quality of the portfolio, delinquency trends, current charge-off and loss experience, loan concentrations, the state of the real estate market, regulatory reviews conducted in the regulatory examination process and economic conditions generally.

Specific reserves will be provided for individual assets, or portions of assets, when ultimate collection is considered improbable by management based on the current payment status of the assets and the fair value of the security. At the date of foreclosure or other repossession, the Bank would transfer the property to real estate acquired in settlement of loans initially at the lower of cost or estimated fair value and subsequently at the lower of book value or fair value less estimated selling costs. Any portion of the outstanding loan balance in excess of fair value less estimated selling costs would be charged off against the allowance for loan losses. If, upon ultimate disposition of the property, net sales proceeds exceed the net carrying value of the property, a gain on sale of other real estate would be recorded.

Financial institutions must provide adequate disclosure of the methodology used regarding maintenance of an adequate allowance for loan and lease losses and an effective loan review system. The Bank utilizes a combination of its twelve quarter loan loss history and the sum of all impairment testing completed on individually classified loans deemed collateral dependent.

The charge off history is weighted using the sum of the year s digits. This method provides a 15.4% weight to the most recent quarters losses, then 14.1% for the prior quarters losses, 12.8% for the 2nd prior quarters losses and 11.5% for the prior quarter s losses and continuing for twelve quarters. Using this method, the Bank trends for increasing or decreasing levels of charge offs may materially impact the funding level of the allowance for loan loss account. Additionally, the Bank reserves the loss amount of any loans deemed to be impaired. The Bank also applies certain qualitative factors in reviewing its allowance funding, including local and national delinquency and loss trends, noted concentrations or risk and recent additions to regulator guidance.

Financial institutions regulated by the OCC and FDIC may require institutions to immediately charge off any portion of a collateral dependent loan that is deemed to be impaired.

The following table sets forth an analysis of the Bank s allowance for loan losses for the years indicated.

	Year Ended December 31,				
	2012	2011	2010	2009	2008
	(Dollars in thousands)				
Balance at beginning of period	$ 11,262	$ 9,830	$ 8,851	$ 6,133	$ 4,842
Loans charged off:					
Commercial loans	(2,727)	(3,596)	(4,354)	(530)	(364)
Consumer loans and overdrafts	(510)	(371)	(472)	(662)	(685)
Residential real estate	(447)	(908)	(464)	(644)	(365)
Total charge-offs	(3,684)	(4,875)	(5,290)	(1,836)	(1,414)
Recoveries	795	386	299	355	288
Net loans charged off	(2,889)	(4,489)	(4,991)	(1,481)	(1,126)
Provision for loan losses	2,275	5,921	5,970	4,199	2,417
Balance at end of period	$ 10,648	11,262	$ 9,830	$ 8,851	$ 6,133
Ratio of net charge-offs to average loans outstanding during the period	0.52%	0.76%	0.79%	0.23%	0.20%

The following table sets forth the breakdown of the allowance for loan losses by loan category at the dates indicated. Management believes that the allowance can be allocated by category only on an approximate basis. The allocation of the allowance to each category is not necessarily indicative of future losses and does not restrict the use of the allowance to absorb losses in any category.

	At December 31,							
	2012		2011		2010		2009	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)							
One-to-four family	$ 3,094	38.0%	$ 3,325	38.1%	$ 1,455	37.6%	$ 2,209	37.0%
Construction	256	3.5%	139	2.1%	657	3.8%	514	5.1%
Multi-family residential	524	6.2%	1,201	5.9%	2,022	4.8%	1,344	7.1%
Non-residential	5,817	40.2%	5,003	41.6%	4,890	41.9%	3,231	39.0%
Secured by deposits		0.7%		0.7%		0.7%		0.6%
Other loans	957	11.4%	1,594	11.6%	806	11.2%	1,553	11.2%
Total allowance for loan losses	$ 10,648	100.0%	$ 11,262	100.0%	$ 9,830	100.0%	$ 8,851	100.0%

	At December 31, 2008	
	Amount	Percent of Loans in Each Category to Total Loans
	(Dollars In Thousands)	
One-to-four family	$ 2,683	35.3%
Construction	393	9.8%
Multi-family residential	455	5.8%
Non-residential	443	35.2%
Secured by deposits		0.6%
Other consumer loans	2,159	13.3%
Total allowance for loan losses	$ 6,133	100.0%

Investment Activities

The Company makes investments in order to maintain the levels of liquid assets required by regulatory authorities and manage cash flow, diversify its assets, obtain yield and to satisfy certain requirements for favorable tax treatment. The principal objective of the investment policy is to earn as high a rate of return as possible, but to consider also financial or credit risk, liquidity risk and interest rate risk. The investment activities of the Corporation and the Bank consist primarily of investments in U.S. Government agency securities, municipal and corporate bonds, CMO s (see definition below), and mortgage-backed securities. Typical investments include federally sponsored agency mortgage pass-through and federally sponsored agency and mortgage-related securities. Investment and aggregate investment limitations and credit quality parameters of each class of investment are prescribed in the Bank s investment policy. The Corporation and the Bank perform analyses on mortgage-related securities prior to purchase and on an ongoing basis to determine the impact on earnings and market value under various interest rate and prepayment conditions. Securities purchases must be approved by the Bank s Chief Financial Officer or President. The Board of Directors reviews all securities transactions on a monthly basis.

At December 31, 2012, securities, including FHLB stock, with an amortized cost of $344.9 million and an approximate market value of $360.8 million were classified as available for sale. Management presently does not intend to sell such securities and, based on the current liquidity level and the access to borrowings through the FHLB of Cincinnati, management currently does not anticipate that the Corporation or the Bank will be placed in a position of having to sell securities with material unrealized losses.

Mortgage-Backed and Related Securities. Mortgage-backed securities represent a participation interest in a pool of one-to-four family or multi-family mortgages, the principal and interest payments on which are passed from the mortgage originators through intermediaries that pool and repackage the participation interest in the form of securities to investors such as the Bank. CMO s are a variation of mortgage-backed securities in which the mortgage pool is divided into specific classes, with different classes receiving different principal reduction streams based on numerous factors, including prepayments speeds. Such intermediaries may include quasi-governmental agencies such as FHLMC, FNMA and the Government National Mortgage Association (GNMA) which guarantees the payment of principal and interest to investors. Of the $92.4 million mortgage-backed security portfolio and $21.9 million CMO portfolio at December 31, 2012, approximately $26.6 million were originated through GNMA, approximately $72.8 million were originated through FNMA, approximately $9.4 million were originated through FHLMC, approximately $260,000 are Whole Loan CMO s and approximately $5.2 million are SLMA student loan pools.

At December 31, 2012, the Company s mortgage backed security portfolio included approximately $5.6 million in GNMA mortgages securities used in the construction of a hospital and approximately $22.3 million in other securities used to finance multi-family housing. Securities used to finance multi-family properties and other projects typically have longer dated maturities with substantial prepayment penalties and balloon periods of five to fifteen years. These securities are desirable in low or declining rate markets in which prepayment speeds on single family mortgage securities become a problem.

Mortgage-backed securities are typically issued with stated principal amounts and the securities are backed by pools of mortgages that have loans with interest rates that are within a range and have similar maturities. The underlying pool of mortgages can be composed of either fixed-rate or adjustable-rate mortgage loans. Mortgage-backed securities generally are referred to as mortgage participation certificates or pass-through certificates. As a result, the interest rate risk characteristics of the underlying pool of mortgages, i.e., fixed-rate or adjustable-rate, as well as prepayment risk, are passed on to the certificate holder. The life of a mortgage-backed pass-through security is equal to the life of the underlying mortgages. The actual maturity of a mortgage-backed security varies, depending on when the mortgagors prepay or repay the underlying mortgages. Prepayments of the underlying mortgages may shorten the life of the investment, thereby adversely affecting its yield to maturity and the related market value of the mortgage-backed security.

Amortizing U.S. Agency securities owned by the Company are similar in structure to mortgage backed securities. The Company owns two types of amortizing agency securities, both of which are issued with the full faith and credit guarantee of the Small Business Administration (SBA). The Small Business Investment Corporation (SBIC) bonds include pools of SBA loans for business equipment with a ten year maturity. The Small Business Administration Participation Notes (SBAP) has a twenty year maturity and is secured by pools of commercial real estate loans guaranteed by the SBA. Both investments provide superior yields to mortgage backed securities with a credit rating equal to GNMA and superior to FHLMC and FNMA. Historically, the actual cash flows and prepayment speeds for SBIC and SBAP bonds are typically slower than similar maturities for mortgage backed securities due to the cost of refinancing SBA loans. However, the Company has seen a significant increase in the prepayment speeds on these securities in the last twelve months.

The yield is based upon the interest income and the amortization of the premium or accretion of the discount related to the mortgage-backed security. Premiums and discounts on mortgage-backed securities are amortized or accreted over the estimated term of the securities using a level yield method. The prepayment assumptions used to determine the amortization period for premiums and discounts can significantly affect the yield of the mortgage-backed security, and these assumptions are reviewed periodically to reflect the actual prepayment.

The actual prepayments of the underlying mortgages depend on many factors, including the type of mortgage, the coupon rate, the age of the mortgages, the geographical location of the underlying real estate collateralizing the mortgages and general levels of market interest rates. The difference between the interest rates on the underlying mortgages and the prevailing mortgage interest rates is an important determinant in the rate of prepayments. During periods of falling mortgage interest rates, prepayments generally increase, and, conversely, during periods of rising mortgage interest rates, prepayments generally decrease. If the coupon rate of the underlying mortgage significantly exceeds the prevailing market interest rates offered for mortgage loans, refinancing generally increases and accelerates the prepayment of the underlying mortgages. Prepayment experience is more difficult to estimate for adjustable-rate mortgage-backed securities.

The following table sets forth the carrying value of the investment securities at the dates indicated.

	At December 31, 2012	2011	2010
	(In thousands)		
FHLB stock, restricted	$ 4,428	4,428	4,378
Securities available for sale:			
U.S. Agency securities, non-amortizing	12,362	29,397	33,988
U.S. Agency securities, amortizing	140,416	145,190	130,416
Mortgage-backed securities	114,295	129,242	110,872
Tax free municipal bonds	74,047	65,055	64,393
Taxable municipal bonds	13,736	13,905	16,792
Trust preferred security	1,489	993	1,277
Total investment securities	$ 360,773	$ 388,210	362,116

The following table sets forth information on the scheduled maturities, amortized cost, market values and average yields for U.S. Government agency securities, corporate bonds and municipal securities in the investment portfolio at December 31, 2011. At such date, $9.3 million of the agency securities were callable and/or due on or before March 5, 2013 and $3.1 million were not callable. In addition, approximately $140.4 million in small business administration amortizing bonds require periodic principal payments. At December 31, 2012, all municipal securities (both taxable and tax free) were callable and/or due between January 2013 and December 2020. The average yield for the tax free municipal security portfolio is quoted as a taxable equivalent yield.

	One Year or Less		One to Five Years		Five to Ten Years		After Ten Years		Total Investment Portfolio		
.	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Market Value	Average Yield
	(Dollars in thousands)										
Non-amortizing U.S. agency securities	$	%	$	%	$ 5,132	3.10%	$ 7,230	2.28%	$ 12,362	$ 12,362	2.62%
Taxable municipal bonds	$	%	$ 1,311	3.23%	$ 5,137	4.05%	$ 7,288	3.36%	$ 13,736	$ 13,736	3.60%
Tax free municipal bonds	$ 346	2.36%	$ 10,371	5.32%	$ 22,047	4.23%	$ 41,283	5.66%	$ 74,047	$ 74,047	5.17%
Trust preferred							$ 1,489	n/a	$ 1,489	$ 1,489	n/a

Deposit Activity and Other Sources of Funds

General. Deposits are the primary source of the Bank s funds for lending, investment activities and general operational purposes. In addition to deposits, the Bank derives funds from loan principal and interest repayments, maturities of investment securities and mortgage-backed securities and interest payments thereon. Although scheduled loan repayments are a relatively stable source of funds, deposit inflows and outflows are significantly influenced by general interest rates and money market conditions. Borrowings may be used on a short-term basis to compensate for reductions in the availability of funds, or on a longer term basis for general corporate purposes. The Bank has access to borrow from the FHLB of Cincinnati. The Bank may rely upon retail deposits rather than borrowings as its primary source of funding for future asset growth.

In 2012, weak loan demand and high levels of liquidity have made it difficult to maintain a desirable level of profitability. Therefore, management is placing an emphasis on reducing the Bank s cost of funds ratio. The reduction in cost of funds will be accomplished by changing the deposit mix and overall funding mix of the Bank. First, we continue to place a strong marketing emphasis on non-interest bearing checking accounts. In 2012, we opened more than 4,200 non-interest checking accounts and saw the average balance of these accounts increase by $11.3 million as compared to 2011. While growing transaction accounts, we have successfully reduced our interest expense for time deposits. This reduction was accomplished by allowing higher costing deposits to re-price to lower levels or leave the Bank. At December 31, 2012, total time deposits were $437.1 million, a decline of $82.9 million as compared to December 31, 2011. During 2012, the average balance of time deposits declined $61.4 million as compared to 2011. In 2012, the Bank reduced its average balance of FHLB borrowings by $14.4 million as compared to 2011 by prepaying fixed rate advances.

Deposits. The Bank attracts deposits principally from within its market area by offering competitive rates on its deposit instruments, including money market accounts, passbook savings accounts, individual retirement accounts, and certificates of deposit which range in maturity from three months to five years. Deposit terms vary according to the minimum balance required and the length of time the funds must remain on deposit and the interest rate. Maturities, terms, service fees and withdrawal penalties for its deposit accounts are established by the Bank on a periodic basis. The Bank reviews its deposit mix and pricing on a weekly basis. In determining the characteristics of its deposit accounts, the Bank considers the rates offered by competing institutions, lending and liquidity requirements, growth goals and federal regulations.

The Bank has, on a limited basis, utilized brokered deposits to augment its funding requirements. At December 31, 2012, the Bank had $46.6 million in brokered deposits as compared to $58.4 million at December 31, 2011. Given the high level of liquidity maintained by the Bank, it is our current practice to not replace the majority of brokered time deposits once they mature or, where applicable, the Bank tenders a call on the deposit All brokered deposits are FDIC insured.

The Bank attempts to compete for deposits with other institutions in its market area by offering competitively priced deposit instruments that are tailored to the needs of its customers. Additionally, the Bank seeks to meet customers needs by providing convenient customer service to the community. With the exception of brokered deposits, substantially all of the Bank s depositors are Kentucky or Tennessee residents who reside in the Bank s market area.

Deposits in the Bank at December 31, 2012, were represented by the various types of deposit programs described below.

Interest Rate*	Minimum Term	Category	Minimum Amount	Balance (In thousands)	Percentage of Total Deposits
%	None	Non-interest bearing	$ 100	$ 94,083	12.4%
0.05%*	None	NOW accounts	1,500	147,047	19.4%
0.10%	None	Savings & money market	10	81,643	10.7%
				322,773	42.5%
		Certificates of Deposit			
0.12%	3 months or less	Fixed-term, fixed rate	1,000	50,138	6.6%
0.42%	3 to 12 months	Fixed-term, fixed-rate	1,000	170,044	22.4%
0.65%	12 to 24-months	Fixed-term, fixed-rate	1,000	78,333	10.3%
0.80%	24 to 36-months	Fixed-term, fixed-rate	1,000	42,661	5.5%
0.90%	36 to 48-months	Fixed-term, fixed-rate	1,000	78,036	10.3%
1.06%	48 to 60-months	Fixed-term, fixed rate	1,000	17,880	2.4%
				437,092	57.5%
				$ 759,865	100.0%

* Represents current interest rate offered by the Bank.

The following table sets forth, for the periods indicated, the average balances and interest rates based on month-end balances for interest-bearing demand deposits and time deposits.

	Year Ended December 31,					
	2012		2011		2010	
	Interest-bearing demand deposits	Time deposits	Interest-bearing demand deposits	Time deposits	Interest-bearing demand deposits	Time deposits
	(Dollars in thousands)					
Average Balance	$ 219,747	$ 486,647	$ 205,175	$ 548,048	$ 191,661	$ 570,757
Average Rate	0.60%	1.90%	0.81%	2.29%	0.94%	2.73%

The following table sets forth the change in dollar amount of deposits in the various types of accounts offered by the Bank between the dates indicated.

	Balance at December 31, 2012	% of Deposits	Increase (Decrease) from December 31, 2011	Balance at December 31, 2011	% of Deposits	Increase (Decrease) from December 31, 2010
			(Dollars in thousands)			
Non-interest bearing	$ 94,083	12.4%	$ 14,533	$ 79,550	9.9%	$ 10,411
Demand & Now	147,047	19.4%	16,933	130,114	16.3%	(8,822)
Savings & MMDA	81,643	10.7%	11,200	70,443	8.8%	6,595
Time deposits	437,092	57.5%	(82,896)	519,988	65.0%	(35,018)
Total	$ 759,865	100.0%	$ (40,230)	$ 800,095	100.0%	$ (26,834)

	Balance at December 31, 2010	% of Deposits	Increase (Decrease) from December 31, 2009	Balance at December 31, 2009	% of Deposits
			(Dollars in thousands)		
Non-interest bearing	$ 69,139	8.4%	$ 608	$ 68,531	8.6%
Demand & NOW	138,936	16.8%	33,115	105,821	13.3%
Savings & MMDA	63,848	7.7%	3,439	60,409	7.6%
Time deposits	555,006	67.1%	(4,377)	559,383	70.5%
Total	$ 826,929	100.0%	$ 32,785	$ 794,144	100.0%

The following table sets forth the time deposits in the Bank classified by rates at the dates indicated.

	At December 31,		
	2012	2011	2010
		(In thousands)	
0.01 - 2.00%	$ 276,231	$ 273,950	$ 206,126
2.01 - 4.00%	159,664	228,255	280,943
4.01 - 6.00%	1,197	17,783	67,370
6.01 - 8.00%			567
Total	$ 437,092	$ 519,988	$ 555,006

The following table sets forth the amount and maturities of time deposits at December 31, 2012.

	Amount Due				
	Less Than One Year	1-2 Years	2-3 Years	After 3 Years	Total
			(In thousands)		
0.00 - 2.00%	$ 148,677	$ 70,289	$ 23,663	$ 33,602	$ 276,231
2.01 - 4.00%	70,516	7,836	18,998	62,314	159,664

4.01 - 6.00%	989	208			1,197
6.01 - 8.00%					
Total	$ 220,182	$ 78,333	$ 42,661	$ 95,916	$ 437,092

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The following table indicates the amount of the Bank s certificates of deposit of $100,000 or more by time remaining until maturity as of December 31, 2012.

Maturity Period	Certificates of Deposit (In millions)
Three months or less	$ 21.1
Over three through six months	31.8
Over six through 12 months	53.1
Over 12 months	116.0
Total	$ 222.0

Certificates of deposit at December 31, 2012, included approximately $222.0 million of deposits with balances of $100,000 or more, compared to $272.5 million and $289.1 million at December 31, 2011, and December 31, 2010, respectively. Such time deposits may be risky because their continued presence in the Bank is dependent partially upon the rates paid by the Bank rather than any customer relationship and, therefore, may be withdrawn upon maturity if another institution offers higher interest rates. The Bank may be required to resort to other funding sources such as borrowings or sales of its securities available for sale if the Bank believes that increasing its rates to maintain such deposits would adversely affect its operating results. At this time, the Bank does not believe that it will need to significantly increase its deposit rates to maintain such certificates of deposit and, therefore, does not anticipate resorting to alternative funding sources. See Note 6 of Notes to Consolidated Financial Statements.

The following table sets forth the deposit activities of the Bank for the periods indicated.

	Year Ended December 31,		
	2012	2011	2010
		(In thousands)	
Deposits	$ 174,825	$ 320,208	$ 321,997
Withdrawals	222,546	355,868	299,929
Net increase (decrease) before interest credited	(47,721)	(35,660)	22,068
Interest credited	7,491	8,826	10,717
Net increase (decrease) in deposits	$ (40,230)	$ (26,834)	$ 32,785

Borrowings. Savings deposits historically have been the primary source of funds for the Bank s lending, investments and general operating activities. The Bank is authorized, however, to use advances from the FHLB of Cincinnati to supplement its supply of lendable funds and to meet deposit withdrawal requirements. The FHLB of Cincinnati functions as a central reserve bank providing credit for savings institutions and certain other member financial institutions.

As a member of the FHLB System, the Bank is required to own stock in the FHLB of Cincinnati and is authorized to apply for advances. Advances are pursuant to several different programs, each of which has its own interest rate and range of maturities. The Bank has entered into a Cash Management Advance program with FHLB. See Note 7 of Notes to Consolidated Financial Statements. Advances from the FHLB of Cincinnati were $43.7 million at December 31, 2012, and are secured by a blanket security agreement in which the Bank has pledged its 1-4 family first mortgage loans held in the Bank s loan portfolio.

On September 25, 2003, the Company issued $10,310,000 in floating rate junior subordinated debentures with a thirty year maturity and callable at the Company s discretion quarterly after September 25, 2008. The subordinated debentures are priced at a variable rate equal to the three month Libor (London Inter Bank Offering Rate) plus 3.10%. At December 31, 2012, the three-month Libor rate was 0.31%. The securities are immediately callable in the event of a change in tax or accounting law that has a significant negative impact to issuing these securities.

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For regulatory purposes, subordinated debentures may be treated as Tier I capital. Federal regulations limit the use of subordinated debentures to 25% of total Tier I capital. Discussions among regulatory agencies are underway that may limit the current and future use of subordinated debentures as Tier I capital. The Company s decision to issue subordinated debentures was in part influenced by potential regulatory actions in the future. The Company anticipates above average growth to continue and anticipates a time in the future when capital ratios are lower and additional capital may be need.

In October of 2008, the Bank entered into an interest rate swap agreement. The agreement calls for the Bank to pay a fixed rate of 7.27% until October 8, 2015, on $10 million and receive payment equal to the three month libor plus 3.10%. The Bank then completed an intercompany transaction that transferred the swap to the Company, providing an effective hedge for its variable rate subordinated debentures. At December 31, 2012, the cost to the Bank to terminate the swap is approximately $1,126,000.

Repurchase Agreements

The Company offers cash management customers an automated sweep account of excess funds from checking accounts into repurchase accounts. Prior to 2011, this product was the preferred method to provide commercial deposit customers the opportunity to earn interest income on demand deposit accounts. Repurchase balances are overnight borrowings from customers and are not FDIC insured but are fully collateralized by specific securities in the Company s investment portfolio. In addition to customer repurchase agreements, the Company has two long term repurchase agreements with large money center banks that are secured by individual investment securities. At December 31, 2012, the Company s retail repurchase agreements total $27.5 million and total long term repurchase agreements of $16.0 million.

Subsidiary Activities

As a federally chartered savings bank, the Bank is permitted to invest an amount equal to 2% of its assets in subsidiaries, with an additional investment of 1% of assets where such investment serves primarily community, inner-city and community development purposes. The Bank s has two subsidiary organizations. The Bank s insurance subsidiary, Fall and Fall Insurance Agency (Fall and Fall) of Fulton, Kentucky was acquired in the Fulton acquisition on September 5, 2002. The Bank s investment in the agency is approximately $830,000.

The Company is a limited partner and owns a 99% interest in an LLLP for the Fort Webb project, a low income senior citizen housing facility in Bowling Green, Kentucky. The facility offers apartments for rent for those senior citizens who qualify and is managed by the Bowling Green, Kentucky Housing Authority. The Company receives tax credits and Community Reinvestment Credits for its $420,000 investment.

Competition

The Bank faces significant competition both in originating mortgage and other loans and in attracting deposits. The Bank competes for loans principally on the basis of interest rates, the types of loans it originates, the deposit products it offers and the quality of services it provides to borrowers. The Bank also competes by offering products which are tailored to the local community. Its competition in originating real estate loans comes primarily from other savings institutions, commercial banks and mortgage bankers making loans secured by real estate located in the Bank s market area. Commercial banks, credit unions and finance companies provide vigorous competition in consumer lending. Competition may increase as a result of the continuing reduction of restrictions on the interstate operations of financial institutions.

At June 30, 2012, the Bank had a 14.2% share of the deposit market in its combined markets. The Bank s most significant competition across its entire market area was Planters Bank of Kentucky with a 9.2% deposit market share, Branch Bank & Trust of North Carolina with a 8.4% deposit market share and Regions Bank of Birmingham, Alabama with an 8.3% deposit market share. In addition, each market contains other community banks that provide competitive products and services within individual markets.

The Bank attracts its deposits through its eighteen offices primarily from the local community. Consequently, competition for deposits is principally from other savings institutions, commercial banks and brokers in the local community as well as from credit unions. The Bank competes for deposits and loans by offering what it believes to be a variety of deposit accounts at competitive rates, convenient business hours, a commitment to outstanding customer service and a well-trained staff. The Bank believes it has developed strong relationships with local realtors and the community in general.

The Bank is a community and retail-oriented financial institution. Management considers the Bank s branch network and reputation for financial strength and quality customer service as its major competitive advantage in attracting and retaining customers in its market area. A number of the Bank s competitors have been acquired by statewide/nationwide banking organizations. While the Bank is subject to competition from other financial institutions which may have greater financial and marketing resources, management believes the Bank benefits by its community orientation and its long-standing relationship with many of its customers.

Employees

As of December 31, 2012, the Company and the Bank had 270 full-time and 11 part-time employees, none of whom were represented by a collective bargaining agreement. Management considers the Bank s relationships with its employees to be good.

Executive Officers of the Registrant

John E. Peck. Mr. Peck has served as President and Chief Executive Officer of both the Company and the Bank since July 2000. Prior to that, Mr. Peck was President and Chief Executive Officer of United Commonwealth Bank and President of Firstar Bank-Calloway County. Mr. Peck was a past Board Member and Chairman of the Christian County Chamber of Commerce, Jennie Stuart Hospital and Murray-Calloway County Hospital. Mr. Peck holds a Bachelor of Science of Business Administration with a concentration in Finance from the University of Louisville. Mr. Peck is a graduate of the Louisiana State University School of Banking. Mr. Peck is a member and serves on the finance committee of the First Baptist Church of Hopkinsville.

Michael L. Woolfolk. Mr. Woolfolk has served as Executive Vice President and Chief Operations Officer of the Bank since August 2000. Mr. Woolfolk was appointed to the Board of Directors of the Company on August 15, 2012. Prior to that, he was President of First-Star Bank-Marshall County, President and Chief Executive Officer of Bank of Marshall County and President of Mercantile Bank. Mr. Woolfolk is a member of First Baptist Church of Hopkinsville.

Billy C. Duvall. Mr. Duvall has served as Senior Vice President, Chief Financial Officer and Treasurer of the Company and the Bank since June 1, 2001. Prior to that, he was an Auditor with Rayburn, Betts & Bates, P.C., independent public accountants and nine years as a Principal Examiner with the National Credit Union Administration. Mr. Duvall holds a Bachelor of Business Administration from Austin Peay State University in Accounting and Finance. Mr. Duvall is a Certified Public Accountant of Virginia. Mr. Duvall is the current Board Chairman for the Pennyroyal Mental Health Center, a member of the Hopkinsville Kiwanis club, and a member of Southside Church of Christ in Hopkinsville.

P. Michael Foley. Mr. Foley was hired in December 2011 to serve as Senior Vice President, Chief Credit Officer of the Bank. Prior to that, from January 2011 to December 2011, he served as Senior Vice President, Senior Credit Officer in the Special Assets Group of Old National Bank of Evansville, Indiana. From July 2006 through December 2010, Mr. Foley served as Senior Vice President, Senior Credit Officer and Chicago Market Manager for Integra Bank of Evansville, Indiana.

Keith Bennett. Mr. Bennett has served as Montgomery County, Tennessee Market President for the Bank since November 2005. Prior to that, Mr. Bennett was Vice President of Commercial Lending for Farmers and Merchants Bank and First Federal Savings and Loan, both of Clarksville, Tennessee. Mr. Bennett served seven years as a field examiner with the Office of Thrift Supervision. Mr. Bennett holds a Bachelor of Business Administration in Accounting from the University of Tennessee at Martin.

Seasonality of Revenues and Expenses

The Company s business is not materially affected by seasonality fluctuations in our business cycle. The Company financial health is substantially affected by the overall business cycle and market interest rates.

Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law. The Dodd-Frank Act is intended to affect a fundamental restructuring of federal banking regulation. Among other things, the Dodd-Frank Act created a new Financial Stability Oversight Council to identify systemic risks in the financial system and gives federal regulators new authority to take control of and liquidate financial firms. The Dodd-Frank Act eliminated our current primary federal regulator and subjects savings and loan holding companies to greater regulation. The Dodd-Frank Act additionally creates a new independent federal regulator to administer federal consumer protection laws. The Dodd-Frank Act is expected to have a significant impact on our business operations as its provisions take effect. Among the provisions that are likely to affect us are the following:

Elimination of OTS. The Dodd-Frank Act resulted in the elimination of the OTS, which was our primary federal regulator and the primary federal regulator of the Bank until July 21, 2011. The current primary federal regulator of HopFed Bancorp, Inc. is the Board of Governors of the Federal Reserve System (the FRB), and the primary federal regulator for the Bank is the Office of the Comptroller of the Currency (OCC). The FRB and OCC have rulemaking, examination, supervision and oversight authority over our operations and the FDIC will retain secondary authority over the Bank. OTS guidance, orders, interpretations, policies and similar items under which we and other savings and loan holding companies and federal savings associations operate will continue to remain in effect until they are superseded by new guidance and policies from the OCC or Federal Reserve.

Holding Company Capital Requirements. Effective as of the transfer date, the Federal Reserve is authorized to establish capital requirements for savings and loan holding companies. These capital requirements must be countercyclical so that the required amount of capital increases in times of economic expansion and decreases in times of economic contraction, consistent with safety and soundness. Savings and loan holding companies are now required to serve as a source of financial strength for their depository institution subsidiaries. The Dodd-Frank Act requires the Federal Reserve to apply consolidated capital requirements that are no less stringent than those currently applied to depository institutions to depository institution holding companies that were not supervised by the Federal Reserve as of May 19, 2009.

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

Under these standards, trust preferred securities will be excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010, by a bank or savings and loan holding company with less than $15 billion in assets. The Company has trust preferred securities, but is exempt from these standards. However, discussions on the proposal of BASEL III include the phase out of the capital treatment of trust preferred securities. Management anticipates that the final version of BASEL III may include a ten year phase out of capital treatment. In such an event, the Company would seek to reduce its balance of trust preferred securities in a time frame consistent with the phase out periods. At December 31, 2012, we estimate that the complete removal of trust preferred securities would have resulted in the Tier 1 Leverage Ratio of the Bank being 9.6%, as compared to the actual Tier 1 Leverage Ratio of 10.6%.

Federal Preemption. A major benefit of the federal thrift charter has been the strong preemptive effect of the Home Owners Loan Act (HOLA), under which we are chartered. Historically, the courts have interpreted the HOLA to occupy the field with respect to the operations of federal thrifts, leaving no room for conflicting state regulation. The Dodd-Frank Act, however, amends the HOLA to specifically provide that it does not occupy the field in any area of state law. Henceforth, any preemption determination must be made in accordance with the standards applicable to national banks, which have themselves been scaled back to require case-by-case determinations of whether state consumer protection laws discriminate against national banks or interfere with the exercise of their powers before these laws may be pre-empted.

Deposit Insurance. The Dodd-Frank Act permanently increases the maximum deposit insurance amount for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2009, and extended unlimited deposit insurance to non-interest bearing transaction accounts through December 31, 2012. The Dodd-Frank Act also broadens the base for FDIC insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act requires the FDIC to increase the reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits by 2020 and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. The Dodd-Frank Act eliminates the federal statutory prohibition against the payment of interest on business checking accounts. The Company anticipates that the removal of unlimited deposit insurance for non-interest bearing accounts will not have a material impact on the Company s level of liquidity.

Qualified Thrift Lender Test. Under the Dodd-Frank Act, a savings association that fails the qualified thrift lender test is prohibited from paying dividends, except for dividends that: (i) would be permissible for a national bank; (ii) are necessary to meet obligations of a company that controls the savings association; and (iii) are specifically approved by the OCC and the Federal Reserve. In addition, a savings association that fails the qualified thrift lender test is deemed to have violated Section 5 of the Home Owners Loan Act and is subject to enforcement actions thereunder.

Corporate Governance. The Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation at their first annual meeting taking place six months after the date of enactment and at least every three years thereafter and on so-called golden parachute payments in connection with approvals of mergers and acquisitions. The new legislation also authorizes the SEC to promulgate rules that would allow stockholders to nominate their own candidates using a company s proxy materials. Additionally, the Dodd-Frank Act directs the federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of $1.0 billion, regardless of whether the company is publicly traded or not. The Dodd-Frank Act gives the SEC authority to prohibit broker discretionary voting on elections of directors and executive compensation matters.

Pursuant to the Dodd-Frank Act, the SEC adopted say-on-pay rules. Under these rules, smaller reporting companies such as the Company are not required to conduct say-on-pay and frequency votes until annual meetings occurring on or after January 21, 2013. In adopting the two- year deferral period, the SEC stated that it may adjust the rule before it applies to smaller issuers.

Also pursuant to the Dodd-Frank Act, the SEC proposed a so-called proxy access rule. However, in July 2011, the U.S. Court of Appeals for the District of Columbia rejected the SEC s proposed rule, and the SEC subsequently announced that it would not dispute the Court s decision.

Transactions with Affiliates and Insiders. The Dodd-Frank Act expanded the definition of affiliate for purposes of quantitative and qualitative limitations of Section 23A of the Federal Reserve Act to include mutual funds advised by a depository institution or its affiliates. The Dodd-Frank Act applies to Section 23A and Section 22(h) of the Federal Reserve Act (governing transactions with insiders) to derivative transactions, repurchase agreements and securities lending and borrowing transaction that create credit exposure to an affiliate or an insider. Any such transactions with affiliates must be fully secured. The current exemption from Section 23A for transactions with financial subsidiaries is eliminated. The Dodd-Frank Act prohibits an insured depository institution from purchasing an asset from or selling an asset to an insider unless the transaction is on market terms and, if representing more than 10% of capital, is approved in advance by the disinterested directors.

Consumer Financial Protection Bureau. The Dodd-Frank Act created a new, independent federal agency called the Consumer Financial Protection Bureau (CFPB), which has been granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Smaller institutions will be subject to rules promulgated by the CFPB but are examined and supervised by federal banking regulators for consumer compliance purposes.

The CFPB has the authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. The Dodd-Frank Act authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower s ability to repay.

In addition, the Dodd-Frank Act allows borrowers to raise certain defenses to foreclosure if they receive any loan other than a qualified mortgage as defined by the CFPB. The Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations. Federal preemption of state consumer protection law requirements, traditionally an attribute of the federal savings association charter, has also been modified by the Dodd-Frank Act and now requires a case-by-case determination of preemption by the OCC and eliminates preemption for subsidiaries of a bank. Depending on the implementation of this revised federal preemption standard, the operations of the Bank are subject to additional compliance burdens in the states in which it operates.

Ratio of Earnings to Fixed Charges.

The table below is a Company s computation of earnings to fixed charges for the years ended December 31, 2012, through December 31, 2008 (All dollars in thousands).

	2012	2011	2010	2009	2008
Including interest on deposits					
Earnings					
Pre-tax income	$ 4,886	$ 3,404	9,129	2,372	6,567
Add: fixed charges from below	14,877	18,415	22,246	26,312	26,420
	$ 19,763	$ 21,819	31,375	28,684	32,987
Fixed Charges:					
Total interest expense	$ 14,877	$ 18,415	22,246	26,312	26,420
Preference security dividend	1,526	1,394	1,394	1,394	56
Including preference security dividend	$ 16,403	$ 19,809	23,640	27,706	26,476
Ratio of earnings to fixed charges	$ 1.33	1.18	1.41	1.09	1.25
Including preference security dividend	$ 1.20	1.10	1.33	1.04	1.25
Excluding interest on deposits					
Earnings					
Pre-tax income	$ 4,886	$ 3,404	9,129	2,372	6,567
Add: fixed charges from below	4,306	4,208	4,862	5,479	5,631
	$ 9,192	$ 7,612	13,991	7,851	12,198
Fixed Charges:					
Total interest expense excluding interest paid on deposits	$ 4,306	$ 4,208	4,862	5,479	5,631
Preferred security dividend	1,526	1,394	1,394	1,394	56
Including preference security dividend	$ 5,832	$ 5,602	6,256	6,873	5,687
Ratio of earnings to fixed charges	$ 2.13	1.81	2.88	1.43	2.17
Including preference security dividend	$ 1.58	1.36	2.24	1.14	2.14

Limitations on Capital Distributions. The FRB regulations impose limitations upon capital distributions by savings institutions, such as cash dividends, payments to repurchase or otherwise acquire its shares, payments to stockholders of another institution in a cash-out merger and other distributions charged against capital. Under the FRB capital distribution regulations, a savings institution that (i) qualifies for expedited treatment of applications by maintaining one of the two highest supervisory examination ratings, (ii) will be at least adequately capitalized after the proposed capital distribution and (iii) and is not otherwise restricted by applicable law in making capital distributions may, without prior approval by the FRB, make capital distributions during a calendar year equal to its net income for such year plus its retained net income for the preceding two years. Capital distributions in excess of such amount would require prior Fed approval. However, given the current economic climate, FRB has publically stated that it is carefully reviewing every dividend request and has informed the Company that it must seek approval prior to any future declaration of dividends to common shareholders.

As a participant in the United States Treasury s Capital Purchase Program, the Company was required to obtain prior written approval before it increased the amount of dividends paid to common shareholders prior to December 12, 2011. In the event that the Company failed to make a scheduled dividend payment to preferred shareholders or interest payments on trust preferred securities, the Company was prohibited from paying any dividends to common shareholders. The Company repurchased all preferred shares sold to the Treasury at par on December 19, 2012.

As a condition in the Company s MOU signed April 30, 2010, the Company was required to make a request to the FRB prior to the payment of any dividends from either the Bank to the Company or from the Company to its common shareholders. At December 31, 2012, the Company has no restriction on dividend payments. However, as a thrift holding Company regulated by the FRB, the Company is required by Dodd Frank to make a request to the FRB before it pays a dividend from the Bank to the Company. In 2012, the Bank made a $6.0 million dividend payment to the Company for the purpose of facilitating the repurchase of preferred shares from the Treasury. At December 31, 2012, the Bank s Tangible Capital Ratio and Total Risk Based Capital Ratios were 10.6% and 19.1%, respectively.

Future earnings of the Bank appropriated to bad debt reserves and deducted for federal income tax purposes are not available for payment of dividends or other distributions to the Company without payment of taxes at the then current tax rate by the Bank on the amount of earnings removed from the reserves for such distributions.

Transactions with Affiliates and Insiders. Generally, transactions between a savings bank or its subsidiaries and its affiliates are required to be on terms as favorable to the savings bank as transactions with non-affiliates. In addition, certain of these transactions, such as loans to an affiliate, are restricted to a percentage of the savings bank s capital. Affiliates of the Bank include the Company and any company that is under common control with the Bank. In addition, a savings bank may not lend to any affiliate engaged in activities not permissible for a bank holding company or acquire the securities of most affiliates. The OCC has the discretion to treat subsidiaries of savings banks as affiliates on a case-by-case basis.

Certain transactions with directors, officers or controlling persons are also subject to conflict of interest regulations enforced by the OCC. These conflict of interest regulations and other statutes also impose restrictions on loans to such persons and their related interests. Among other things, such loans must generally be made on terms that are substantially the same as for loans to unaffiliated individuals.

Reserve Requirements. Pursuant to regulations of the FRB, all FDIC-insured depository institutions must maintain average daily reserves at specified levels against their transaction accounts. The Bank met these reserve requirements at December 31, 2012.

Federal Home Loan Bank System. The Federal Home Loan Bank System consists of 12 district Federal Home Loan Banks subject to supervision and regulation by the Federal Housing Finance Board (FHFB). The Federal Home Loan Banks provide a central credit facility primarily for member institutions. As a member of the FHLB, the Bank is required to acquire and hold shares of capital stock in the FHLB in an amount at least equal to 1% of the aggregate unpaid principal of its home mortgage loans, home purchase contracts, and similar obligations at the beginning of each year, or 5% of its advances (borrowings) from the FHLB, whichever is greater. The Bank was in compliance with this requirement, with a $4.4 million investment in FHLB stock at December 31, 2012.

Emergency Economic Stabilization Act of 2008, Federal Deposit Insurance Corporation, Financial Stability Plan, American Recovery and Reinvestment Act of 2009, Homeowner Affordability and Stability Plan, and Other Regulatory Developments

Emergency Economic Stabilization Act of 2008

On October 3, 2008, the EESA was enacted, enabling the federal government to insure troubled assets of financial institutions and collect fees from institutions participating in this program under the terms and conditions set forth by the Secretary of the Treasury. EESA includes, among other provisions: (a) the $700 billion Troubled Asset Relief Program (TARP), under which the Secretary of the Treasury is authorized to purchase, insure, hold, and sell a wide variety of financial instruments, particularly those that are based on or related to residential or commercial mortgages originated or issued on or before March 14, 2008; and (b) an increase in the amount of deposit insurance provided by the FDIC.

Troubled Assets Relief Program (TARP)

Under TARP, the United States Department of the Treasury authorized a voluntary capital purchase program (CPP) to purchase up to $250 billion of senior preferred shares of qualifying financial institutions that elected to participate. Participating companies must adopt certain standards for executive compensation, including prohibiting golden parachute payments as defined in EESA to senior Executive Officers; (b) requiring recovery of any compensation paid to senior Executive Officers based on criteria that is later proven to be materially inaccurate; and (c) prohibiting incentive compensation that encourages unnecessary and excessive risks that threaten the value of the financial institution. The terms of the CPP also limit certain uses of capital by the issuer, including repurchases of company stock and increases in dividends paid to common shareholders.

On December 12, 2008, the Company agreed to participate in the CPP and issued and sold 18,400 shares of preferred stock for $18.4 million. The preferred stock paid a cash dividend of 5% per year for the first five years and was set to increase to 9% per year thereafter. In addition, the Company issued the United States Treasury a Warrant, allowing the Treasury to immediately purchase 243,816 shares of the Company s common stock at a strike price of $11.32 per share. The Warrant had a ten year final maturity. The Warrant amount was adjusted to 253,667 shares and the strike price was adjusted to $10.88 per share as a result of a 2% stock dividends paid to shareholders of record at September 30, 2010 and October 3, 2011. The Company repurchased on 100% of the Preferred stock issued to the Treasury on December 19, 2012. On January 16, 2013, the Company repurchased the Warrant previously held by the Treasury for $256,257.

Financial Stability Plan

The Financial Stability Plan (FSP) is a comprehensive set of measures intended to improve the health of the financial system. The key elements of the FSP include making additional capital injections into financial institutions, creating a private public investment fund to buy troubled assets, establishing guidelines for loan modification programs and expanding the Federal Reserve lending program.

American Recovery and Reinvestment Act of 2009

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (ARRA) was enacted. ARRA is intended to provide a stimulus to the United States economy in the wake of the economic downturn brought about by the subprime mortgage crisis and resulting liquidity and credit crunch. The bill includes federal tax cuts, expansion of unemployment benefits and other social welfare provisions, and domestic spending in education, healthcare, and infrastructure, including the energy structure. The new law also includes numerous non-economic recovery related items, including a limitation on executive compensation in federally aided banks.

Under ARRA, an institution will be subject to the following restrictions and standards through out the period of which any obligation arising from the financial assistance provide under TARP remains outstanding:

Limits on incentive compensation for risk taking by senior executive officers.

Claw Back provisions for compensation paid based or inaccurate financial information.

Prohibition on Golden Parachute Payments .

Limitations on luxury expenditures.

TARP recipients are required to permit a separate shareholder vote to approve the compensation of executives, as disclosed pursuant to the SEC s compensation disclosure rules.

Publically registered TARP recipients must establish a board compensation committee comprised entirely of independent directors, for the purpose of reviewing employee compensation plans.

Sarbanes Oxley Act of 2002

The Sarbanes-Oxley Act provided for sweeping changes with respect to corporate governance, accounting policies and disclosure requirements for public companies, and also for their directors and officers. The Sarbanes-Oxley Act required the SEC to adopt new rules to implement the Act s requirements. These requirements include new financial reporting requirements and rules concerning the chief executive and chief financial officers to certify certain financial and other information included in the company s quarterly and annual reports. The rules also require these officers to certify that they are responsible for establishing, maintaining and regularly evaluating the effectiveness of the company s disclosure controls and procedures; and that they have included information in their quarterly and annual filings about their evaluation and whether there have been significant changes to the controls and procedures or other factors which would significantly impact these controls subsequent to their evaluation. The certifications by the Company s Chief Executive Officer and Chief Financial Officer of the financial statements and other information included in this Annual Report on Form 10-K have been filed as exhibits to this Form 10-K. See Item 9A (Controls and Procedures) hereof for the Company s evaluation of disclosure controls and procedures.

Pursuant to Section 404 of the Sarbanes-Oxley Act, the Company is required under rules adopted by the SEC to include in its annual reports a report by management on the Company s internal control over financial reporting and an accompanying auditor s report. In September 2005, the SEC extended the Section 404 compliance date for the Company and other non-accelerated filers. Under the extension, the Company is required to comply with these requirements.

USA Patriot Act

The USA Patriot Act authorizes new regulatory powers to combat international terrorism. The provisions that affect financial institutions most directly provide the federal government with enhanced authority to identify, deter, and punish international money laundering and other crimes. Among other things, the USA Patriot Act prohibits financial institutions from doing business with foreign shell banks and requires increased due diligence for private banking transactions and correspondent accounts for foreign banks. In addition, financial institutions have to follow minimum verification of identity standards for all new accounts and are permitted to share information with law enforcement authorities under circumstances that were not previously permitted.

Community Reinvestment Act

The Community Reinvestment Act requires federal bank regulatory agencies to encourage financial institutions to meet the credit needs of low and moderate-income borrowers in their local communities. An institution s size and business strategy determines the type of examination that it will receive. Large, retail-oriented institutions are examined using a performance-based lending, investment and service test. Small institutions are examined using a streamlined approach. All institutions may opt to be evaluated under a strategic plan formulated with community input and pre-approved by the bank regulatory agency.

The Community Reinvestment Act regulations provide for certain disclosure obligations. Each institution must post a notice advising the public of its right to comment to the institution and its regulator on the institution s Community Reinvestment Act performance and to review the institution s Community Reinvestment Act public file. Each lending institution must maintain for public inspection a file that includes a listing of branch locations and services, a summary of lending activity, a map of its communities and any written comments from the public on its performance in meeting community credit needs. The Community Reinvestment Act requires public disclosure of a financial institution s written Community Reinvestment Act evaluations. This promotes enforcement of Community Reinvestment Act requirements by providing the public with the status of a particular institution s community reinvestment record.

The Gramm-Leach-Bliley Act made various changes to the Community Reinvestment Act. Among other changes, Community Reinvestment Act agreements with private parties must be disclosed and annual Community Reinvestment Act reports must be made available to a bank s primary federal regulator. A bank holding company will not be permitted to become a financial holding company and no new activities authorized under the Gramm-Leach-Bliley Act may be commenced by a holding company or by a bank financial subsidiary if any of its bank subsidiaries received less than a satisfactory Community Reinvestment Act rating in its latest Community Reinvestment Act examination.

Forward-Looking Statements

This Annual Report on Form 10-K, including all documents incorporated herein by reference, contains forward-looking statements. Additional written or oral forward-looking statements may be made by the Company from time to time in filings with the Securities and Exchange Commission or otherwise. The words believe, expect, seek, and intend and similar expressions identify forward-looking statements, which speak only as of the date the statement is made. Such forward-looking statements are within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may include, but are not limited to, projections of income or loss, expenditures, acquisitions, plans for future operations, financing needs or plans relating to services of the Company, as well as assumptions relating to the foregoing. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by or underlying the forward-looking statements.

The Company does not undertake, and specifically disclaims, any obligation to publicly release the results of revisions which may be made to forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

Item 1A. RISK FACTORS

The Company could experience an increase in loan losses, which would reduce the Company s earnings.

As the nation continues to suffer from an economic recession, real estate prices remain under pressure in the Company s market. Furthermore, elevated levels of unemployment have made it difficult for many consumers to meet their monthly obligations. The deployment of military personnel out of Fort Campbell to the Middle East may reduce both demand for and pricing of all types of real estate in the Company s largest market. As a lender, we are exposed to the risk that our customers will be unable to repay their loans according to their terms and that any collateral securing the payment of their loans may not be sufficient to assure repayment. As discussed in Footnote 3 of the Notes to Consolidated Financial Statements, the Company has significant exposure to various types of real estate loans, including commercial real estate, land and land development loans, construction loans, multi-family real estate and loans for residential homes. Credit losses are inherent in the business of making loans and our industry has seen above average loan loss levels for approximately eighteen months. While the Company believes that its loan underwriting standards have been and remain sound, the Company has experienced an increase in charge offs and non-performing loans. To the extent charge offs exceed our financial models, increased amounts charged to the provision for loan losses would reduce net income.

Rapidly changing interest rate environments could reduce our net interest margin, net interest income, fee income and net income.

Interest and fees on loans and securities, net of interest paid on deposits and borrowings, are a large part of our net income. Interest rates are the key drivers of the Company s net interest margin and subject to many factors beyond the control of management. As interest rates change, net interest income is affected. Rapid increases in interest rates in the future could result in interest expense increasing faster than interest income because of mismatches in the maturities of the Company s assets and liabilities. Furthermore, substantially higher rates generally reduce loan demand and may result in slower loan growth. Decreases or increases in interest rates could have a negative effect on the spreads between interest rates earned on assets and the rates of interest paid on liabilities, and therefore decrease net interest income. See Quantitative and Qualitative Disclosures about Market Risk .

Liquidity needs could adversely affect the Company s results of operations and financial condition.

The Company relies on dividends from the Bank as a primary source of funds. The Bank s primary source of funds is customer deposits and cash flows from investment instruments and loan repayments. While scheduled loan repayments are a relatively stable source, they are subject to the ability of the borrowers to repay their loans. The ability of the borrowers to repay their loans can be adversely affected by a number of factors, including changes in the economic conditions, adverse trends or events affecting the business environment, natural disasters and various other factors. Cash flows from the investment portfolio may be affected by changes in interest rates, resulting in excessive levels of cash flow during periods of declining interest rates and lower levels of cash flow during periods of rising interest rates. Deposit levels may be affected by a number of factors, including both the national market and local competitive interest rate environment, local and national economic conditions, natural disasters and other various events. Accordingly, the Company may be required from time to time to rely on secondary sources of liquidity to meet withdrawal demands or otherwise fund operations. Such sources include the FHLB advances, brokered deposits and federal funds lines of credit from correspondent banks.

The Company may also pledge investments as collateral to borrow money from third parties. In certain cases, the Company may sell investment instruments for sizable losses to meet liquidity needs, hurting net income. While the Company believes that these sources are currently adequate, there can be no assurance they will be sufficient to meet future liquidity needs.

The financial industry is very competitive.

We face competition in attracting and retaining deposits, making loans, and providing other financial services throughout our market area. Our competitors include other community banks, regional and super-regional banking institutions, national banking institutions, and a wide range of other financial institutions such as credit unions, government-sponsored enterprises, mutual fund companies, insurance companies, brokerage companies, and other non-bank businesses. Many of these competitors have substantially greater resources than HopFed Bancorp, Inc.

Inability to hire or retain certain key professionals, management and staff could adversely affect our revenues and net income.

We rely on key personnel to manage and operate our business, including major revenue generating functions such as our loan and deposit portfolios. The loss of key staff may adversely affect our ability to maintain and manage these portfolios effectively, which could negatively affect our revenues. In addition, loss of key personnel could result in increased recruiting, hiring, and training expenses, resulting in lower net income.

The Company is subject to extensive regulation that could limit or restrict its activities.

The Company operates in a highly regulated industry and is subject to examination, supervision, and comprehensive regulation by various federal agencies, including the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. The Company s regulatory compliance is costly and certain types of activities, including the payment of dividends, mergers and acquisitions, investments, loans and interest rates charged and interest rates paid on deposits and locations of offices are subject to regulatory approval and may be limited by regulation. The Company is also subject to capitalization guidelines established by its regulators, which require it and the Bank to maintain adequate capital to support its and the Bank s growth.

The laws and regulations applicable to the banking industry could change at any time, and the Company cannot predict the effects of these changes on its business and profitability. The Sarbanes-Oxley Act of 2002, and the related rules and regulations promulgated by the Securities and Exchange Commission and NASDAQ National Market that are now and will be applicable to the Company, have increased the scope, complexity, and cost of corporate governance, reporting and disclosure practices. As a result, the Company has experienced, and may continue to experience, greater compliance cost.

Legislation was enacted on July 21, 2010 that will implement sweeping changes to the current bank regulatory structure. The Dodd-Frank Act eliminated the OTS. The Comptroller of the Currency (the primary federal regulator for national banks) will become the primary federal regulator of the Bank. The Board of Governors of the Federal Reserve System (the Federal Reserve) now has exclusive authority to regulate all bank and thrift holding companies. As a result, the Company is now subject to supervision by the FRB as opposed to the OTS. These changes occurred July 21, 2011.

Among the many requirements in the Dodd-Frank Act for new banking regulations is a requirement for new capital regulations to be adopted within 18 months. These regulations must be at least as stringent as, and may call for higher levels of capital than, current regulations. Generally, trust preferred securities will no longer be eligible as Tier 1 capital, but the Company s currently outstanding trust preferred securities will be grandfathered. Savings and loan holding companies like the Company have not previously been subject to capital requirements, but under the Dodd-Frank Act, five years from the date of enactment, savings and loan holding companies will become subject to the same capital requirements as bank holding companies. Savings and loan holding companies are immediately subject to the source of strength doctrine, under which a holding company must serve as a source of financial strength for its depository institution subsidiaries.

The Dodd-Frank Act also establishes a new minimum reserve ratio for the deposit insurance fund of 1.35%, and requires the FDIC to take steps to reach this ratio by September 30, 2020. It is expected that this will result in relatively higher assessments for larger institutions (with assets greater than $10 billion).

Even though the Company s common stock is currently traded on The NASDAQ National Market, the trading volume in the Company s common stock has been low and the sale of substantial amounts of its common stock in the public market could depress the price of the Company s common stock.

The trading volume of the Company s common stock on The NASDAQ National Market has been relatively low when compared with larger companies listed on The NASDAQ National Market or other stock exchanges. Thinly traded stocks, such as the Company s, can be more volatile than stocks trading in an active public market. Because of this, the Company stockholders may not be able to sell their shares at the volumes, prices, or times that they desire.

The Company cannot predict the effect, if any, that future sales of its common stock in the market, or availability of shares of its common stock for sale in the market, will have on the market prices of the Company s common stock. The Company, therefore, can give no assurance that sales of substantial amounts of its common stock in the market, or the potential for large amounts of sale in the market, would not cause the price of its common stock to decline or impair the Company s ability to raise capital through sales of its common stock.

The market price of the Company s common stock may fluctuate in the future, and these fluctuations may be unrelated to its performance. General market prices declines or overall market volatility in the future could adversely affect the price of the Company s common stock, and the current market price may not be indicative of future market prices.

The current banking crisis, including the enactment of Emergency Economic Stabilization Action (EESA) and American Recovery and Reinvestment Act (ARRA), have significantly affected our financial condition, results of operations, liquidity or stock price.

The capital and credit markets have been experiencing volatility and disruption for more than a year. In recent months, the volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers seeming without regard to that issuer s underlying financial strength.

EESA, which established the TARP, was signed into law in October 2008. As part of TARP, the Treasury established the Capital Purchase Program (CPP) to provide up to $700 billion of funding to eligible financial institutions through the purchase of preferred shares and other financial instruments with the stated purpose of stabilizing and providing liquidity to the U.S. financial markets.

On February 17, 2009, President Obama signed ARRA, an economic recovery package intended to stimulate the economy and provide for a broad range of infrastructure, energy, health and educational needs. There can be no assurance as to the actual impact that EESA or its programs, including the CPP, and the ARRA or its programs, will have on the national economy or financial markets. The failure of these significant legislative measures to help stabilize the financial markets and the continuation or worsening of current financial market conditions may materially and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our common shares.

The Company conducts virtually all of its business activities in a geographically concentrated area of Middle and West Tennessee and Western Kentucky.

The Company operates eighteen offices located in Middle Tennessee and Western Kentucky. The Company maintains significant business relationships in the markets in which it operates as well as the communities adjoining our offices. Therefore, the Company s success is directly tied to the economic viability of our markets which may not be representative of the country as a whole. In 2012, the Company s market had unemployment rates ranging from 8% to 24%. While the Company believes that its credit quality has been strong given the current environment, continued economic stress in the market may result in an increase in non-performing loans and charge offs. Given the limited geographic footprint of our Company, the economic conditions in our marketplace may not be reflective of the entire nation.

Management s analysis of the necessary funding for the allowance for loan loss account may be incorrect or may suddenly change, resulting in lower earnings.

The funding of the allowance for loan loss account is the most significant estimate made by management in its financial reporting to shareholders and regulators. If negative changes to the performance of the Company s loan portfolio were to occur, management may find it necessary or be required to funding the allowance for loan loss account through additional charges to the Company s provision for loan loss expense. These changes may occur suddenly and be dramatic in nature. These changes are likely to affect the Company s financial performance, capital levels and stock price.

The December 31, 2012 expiration of the FDIC s Transaction Account Guarantee Program could negatively impact our liquidity and cost of funds.

Under the FDIC s Transaction Account Guarantee Program, certain non-interest bearing transaction accounts, including those of consumers and businesses, were insured by the FDIC even if their balances were over and above the customary $250,000 limit. This program expired on December 31, 2012, and deposits held in such non-interest bearing accounts are now aggregated with any interest bearing deposits the owner may hold in the same ownership category. We currently have a significant amount of our deposits that exceed the customary $250,000 limit. Although we have not experienced a large number of withdrawals with respect to these deposits, a withdrawal of these deposits could negatively impact the Company s liquidity. Furthermore, the withdrawal of these deposits could negatively impact the Company s cost of funds by potentially reducing its levels of core deposits and increasing its need to rely on more expensive funding sources.

If the federal funds and interbank funding rates remain at current extremely low levels, our net interest margin, and consequently our net earnings, may be negatively impacted.

Because of significant competitive pressures in our market and the negative impact of these pressures on our deposit and loan pricing, coupled with the fact that a significant portion of our loan portfolio has variable rate pricing that moves in concert with changes to the Federal Reserve Board of Governors federal funds rate or the London Interbank Offered Rate (LIBOR) (both of which are at extremely low levels as a result of current economic conditions), our net interest margin may be negatively impacted. Additionally, the amount of non-accrual loans and other real estate owned has been and may continue to be elevated.

We also expect loan pricing to remain competitive in 2013 and believe that economic factors affecting broader markets will likely result in reduced yields for our investment securities portfolio. As a result, our net interest margin, and consequently our profitability, may continue to be negatively impacted in 2013 and beyond.

Holders of HopFed Capital Trust I have rights that are senior to those of the Company s common shareholders.

The Company has issued trust preferred securities from special purpose trusts and accompanying junior subordinated debentures. At December 31, 2012, HopFed had outstanding trust preferred securities $10.3 million. Payments of the principal and interest on the trust preferred securities of these trusts are conditionally guaranteed by the Company. Further, the accompanying junior subordinated debentures HopFed issued to the trusts are senior to our common stock. As a result, we must make payments on the junior subordinated debentures before any dividends can be paid on common stock and, in the event of the Company s , dissolution or liquidation, the holders of the junior subordinated debentures must be satisfied before any distributions can be made to HopFed s common shareholders. The Company has the right to defer distributions on its junior subordinated debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid on its common stock. If our financial condition deteriorates or if we do not receive required regulatory approvals, we may be required to defer distributions on our junior subordinated debentures.

Currently proposed changes to capital requirements for bank holding companies and depository institutions may negatively impact our results of operations.

On June 7, 2012, the Federal Reserve, FDIC and OCC approved proposed rules that would substantially amend the regulatory risk-based capital rules applicable to HopFed Bancorp and Heritage Bank. The proposed rules implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act.

Various provisions of the Dodd-Frank Act increase the capital requirements of bank and thrift holding companies, such as HopFed Bancorp. The leverage and risk-based capital ratios of these entities may not be lower than the leverage and risk-based capital ratios for insured depository institutions. The proposed rules that seek to implement the Basel III regulatory capital reforms include new minimum risk-based capital and leverage ratios, which were initially expected to be phased in during 2013 and 2014. These rules if implemented would refine the definition of what constitutes capital for purposes of calculating those ratios. The proposed new minimum capital level requirements applicable to HopFed Bancorp and Heritage Bank under the proposals would be: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 risk-based capital ratio of 6% (increased from 4%); (iii) a total risk-based capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The proposed rules would also establish a capital conservation buffer of 2.5% above the new regulatory minimum capital ratios, and would result in the following minimum ratios: (i) a common equity Tier 1 risk-based capital ratio of 7.0%, (ii) a Tier 1 risk-based capital ratio of 8.5%, and (iii) a total risk-based capital ratio of 10.5%. As currently proposed, the capital conservation buffer requirement would be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase each year until fully implemented in January 2019. An institution would be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if its capital levels fall below the buffer amounts. These limitations would establish a maximum percentage of eligible retained income that could be utilized for such actions. While the proposed Basel III changes and other regulatory capital requirements will likely result in generally higher regulatory capital standards, it is difficult at this time to predict when or how any new standards will ultimately be applied to HopFed Bancorp or Heritage Bank as the federal regulatory agencies that have proposed the rules have announced that they are indefinitely delaying the implementation of the rules.

The application of more stringent capital requirements for HopFed Bancorp and Heritage Bank, like those proposed to implement the Basel III reforms, could, among other things, result in lower returns on invested capital, require the raising of additional capital, and result in regulatory actions if we were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III could result in our having to lengthen the term of our funding, restructure our business models and/or increase our holdings of liquid assets. Implementation of changes to asset risk weightings for risk based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in management modifying its business strategy and could limit our ability to make distributions, including paying dividends or buying back shares.

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

Our businesses are dependent on their ability to process and monitor, on a daily basis, a large number of transactions, many of which are highly complex, across numerous and diverse markets. These transactions, as well as the information technology services we provide to clients, often must adhere to client-specific guidelines, as well as legal and regulatory standards. Due to the breadth of our client base and our geographical reach, developing and maintaining our operational systems and infrastructure is challenging, particularly as a result of rapidly evolving legal and regulatory requirements and technological shifts. Our financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, such as a spike in transaction volume, cyber-attack or other unforeseen catastrophic events, which may adversely affect our ability to process these transactions or provide services.

In addition, our operations rely on the secure processing, storage and transmission of confidential and other information on our computer systems and networks. Although we take protective measures to maintain the confidentiality, integrity and availability of our and our clients information across all geographic and product lines, and endeavor to modify these protective measures as circumstances warrant, the nature of the threats continues to evolve. As a result, our computer systems, software and networks may be vulnerable to unauthorized access, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses or other malicious code, cyber-attacks and other events that could have an adverse security impact. Despite the defensive measures we take to manage our internal technological and operational infrastructure, these threats may originate externally from third parties such as foreign governments, organized crime and other hackers, and outsource or infrastructure-support providers and application developers, or may originate internally from within our organization. Given the increasingly high volume of our transactions, certain errors may be repeated or compounded before they can be discovered and rectified.

We also face the risk of operational disruption, failure, termination or capacity constraints of any of the third parties that facilitate our business activities, including exchanges, clearing agents, clearing houses or other financial intermediaries. Such parties could also be the source of an attack on, or breach of, our operational systems, data or infrastructure. In addition, as interconnectivity with our clients grows, we increasingly face the risk of operational failure with respect to our clients systems.

Although we have not experienced a cyber-incident, if one or more of these events occurs, it could potentially jeopardize the confidential, proprietary and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, as well as our clients or other third parties , operations, which could result in damage to our reputation, substantial costs, regulatory penalties and/or client dissatisfaction or loss. Potential costs of a cyber-incident may include, but would not be limited to, remediation costs, increased protection costs, lost revenue from the unauthorized use of proprietary information or the loss of current and/or future customers, and litigation.

We maintain an insurance policy which we believe provides sufficient coverage at a manageable expense for an institution of our size and scope with similar technological systems. However, we cannot assure that this policy would be sufficient to cover all financial losses, damages, penalties, including lost revenues, should we experience any one or more of our or a third party s systems failing or experiencing attack.

Our loan portfolio includes loans with a higher risk of loss which could lead to higher loan losses and non- accrual assets.

We originate commercial real estate loans, construction and development loans, consumer loans, and residential mortgage loans primarily within our market area. Commercial real estate, commercial, and construction and development loans tend to involve larger loan balances to a single borrower or groups of related borrowers and are most susceptible to a risk of loss during a downturn in the business cycle. These loans also have historically had greater credit risk than other loans for the following reasons:

Commercial Real Estate Loans. Repayment is dependent on income being generated in amounts sufficient to cover operating expenses and debt service. These loans also involve greater risk because they may not be fully amortizing over a loan period, but may have a balloon payment due at maturity. A borrower s ability to make a balloon payment typically will depend on being able to either refinance the loan or timely sell the underlying property. As of December 31, 2012, commercial real estate loans and multi-family loans comprised approximately 37.8% of our total loan portfolio, or 165.7% of the Company s total risk based capital. At December 31, 2012, the Company had $25.2 million of its commercial real estate and multi-family real estate loans classified as substandard which equaled 12.4% of that portfolio. At December 31, 2012, the Company s allowance for loan losses included $4.2 million allocated to this portfolio.

Commercial Loans. Repayment is generally dependent upon the successful operation of the borrower s business. In addition, the collateral securing the loans may depreciate over time, be difficult to appraise, be illiquid, or fluctuate in value based on the success of the business. As of December 31, 2012, commercial loans comprised approximately 9.5% of our total loan portfolio, or 41.4% of the Company s consolidated total risk based capital. At December 31, 2012, the Company had $5.8 million of its commercial loan portfolio classified as substandard which equaled 11.6% of that portfolio. At December 31, 2012, the Company s allowance for loan losses included $619,000 allocated to this portfolio.

Construction and Development Loans. The risk of loss is largely dependent on our initial estimate of whether the property s value at completion equals or exceeds the cost of property construction and the availability of take-out financing. During the construction phase, a number of factors can result in delays or cost overruns. If our estimate is inaccurate or if actual construction costs exceed estimates, the value of the property securing our loan may be insufficient to ensure full repayment when completed through a permanent loan, sale of the property, or by seizure of collateral. As of December 31, 2012, construction, land and land development loans comprised approximately 12.1% of our total loan portfolio and approximately 53.0% of the Company s consolidated total risk based capital. At December 31, 2012, the Company had $28.7 million of its construction and development loans classified as substandard which equaled 44.3% of that portfolio. At December 31, 2012, the Company s allowance for loan losses included $2.4 million allocated to this portfolio.

The increased risks associated with these types of loans result in a correspondingly higher probability of default on such loans (as compared to single-family real estate loans). Loan defaults would likely increase our loan losses and non-accrual assets and could adversely affect our allowance for loan losses.

Since we engage in lending secured by real estate and may be forced to foreclose on the collateral property and own the underlying real estate, we may be subject to the increased costs associated with the ownership of real property, which could result in reduced net income.

Since we originate loans secured by real estate, we may have to foreclose on the collateral property to protect our investment and may thereafter own and operate such property, in which case we are exposed to the risks inherent in the ownership of real estate.

The amount that we, as mortgagee, may realize after a default is dependent upon factors outside of our control, including, but not limited to general and local economic conditions, changing values of property, interest rates, unpaid real estate taxes, environmental issues, operating expenses involved with managing other real estate owned, and the supply and demand for units held for sale as well as other unforeseen cost and delays.

Certain expenditures associated with the ownership of real estate, principally real estate taxes and maintenance costs, may adversely affect the income from the real estate. Therefore, the cost of operating real property may exceed the rental income earned from such property, and we may have to advance funds in order to protect our investment or we may be required to dispose of the real property at a loss.

The downgrade of the U.S. credit rating and Europe s debt crisis could have a material adverse effect on our business, financial condition and liquidity.

Standard & Poor s lowered its long term sovereign credit rating on the United States of America from AAA to AA+ on August 5, 2011. A further downgrade or a downgrade by other rating agencies could have a material adverse impact on financial markets and economic conditions in the United States and worldwide. Any such adverse impact could have a material adverse effect on our liquidity, financial condition and results of operations.

In addition, the possibility that certain European Union (EU) member states will default on their debt obligations has negatively impacted economic conditions and global markets. The continued uncertainty over the outcome of international and the EU s financial support programs and the possibility that other EU member states may experience similar financial troubles could further disrupt global markets. The negative impact on economic conditions and global markets could also have a material adverse effect on our liquidity, financial condition and results of operations.

We face risks arising from acquisitions of either other financial institutions or branch locations.

We have announced the acquisition of another financial institution and may continue to do so in the future. We face a number of risks arising from acquisition transactions, including difficulties in integrating the acquired business into our operations, difficulties in assimilating and retaining employees and intermediaries, difficulties in retaining the existing customers of the acquired entity, unforeseen liabilities that arise in connection with the acquired business and unfavorable market conditions that could negatively impact our growth expectations for the acquired business. These risks may prevent us from realizing the expected benefits from acquisitions and could result in the impairment of goodwill and/or intangible assets recognized at the time of acquisition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved staff comments from the Securities and Exchange Commission.

ITEM 2. PROPERTIES

The following table sets forth information regarding the Bank s offices at December 31, 2012:

	Year Opened	Owned or Leased	Book Value(1) (In thousands)		Approximate Square Footage of Office
Main Office:					
4155 Lafayette Road Hopkinsville, Kentucky	2006	Owned	$	4,575	24,072
Branch Offices:					
2700 Fort Campbell Boulevard Hopkinsville, Kentucky	1995	Owned	$	1,960	17,625
Downtown Branch Office 605 South Virginia Street Hopkinsville, Kentucky	1997	Owned	$	135	756
Murray South Office 210 N. 12th Street Murray, Kentucky	2003	Owned	$	1,649	5,600
Murray North Office 1601 North 12th Street Murray, Kentucky	2007	Owned	$	1,204	3,400
Cadiz Branch Office 352 Main Street Cadiz, Kentucky	1998	Owned	$	418	2,200
Elkton Branch Office 536 W. Main Street Elkton, Kentucky	1976	Owned	$	112	3,400
Benton Branch Office 105 W. 5th Street Benton, Kentucky	2003	Owned	$	528	4,800
Calvert City Office 35 Oak Plaza Drive Calvert City, Kentucky	2003	Owned	$	1,126	3,400
Carr Plaza Office 607 N. Highland Drive Fulton, Kentucky	2002	Owned	$	184	800
Lake Street Office 306 Lake Street Fulton, Kentucky	2002	Owned	$	1,023	15,000
Fall & Fall Insurance Office 101 Main Street Fulton, Kentucky	2002	Owned	$		3,200
Clarksville Main Street 322 Main Street Clarksville, Tennessee	2007	Owned	$	1,504	10,000
Trenton Road Branch 3845 Trenton Road Clarksville, Tennessee	2006	Owned	$	2,380	3,362
Madison Street Office 2185 Madison Street Clarksville, Tennessee	2007	Owned	$	1,585	3,950
Houston County Office 1102 West Main Street	2006	Owned	$	524	2,390

Erin, Tennessee				
Ashland City Office 108 Cumberland Street Ashland City, Tennessee	2006	Owned	$ 1,327	7,058
Pleasant View Office 2556 Highway 49 East Pleasant View, Tennessee	2006	Owned	$ 713	2,433
Kingston Springs Office 104 West Kingston Springs Road Kingston Springs, Tennessee	2006	Owned	$ 1,610	9,780
Total			$ 22,557	

(1) Represents the book value of land, building, furniture, fixtures and equipment owned by the Bank.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company or the Bank is a party to various legal proceedings incident to its business. At March 29, 2013, there were no legal proceedings to which the Company or the Bank was a party, or to which any of their property was subject, which were expected by management to result in a material loss to the Company or the Bank. There are no pending regulatory proceedings to which the Company or the Bank is a party or to which any of their properties is subject which are currently expected to result in a material loss.

ITEM 4. MINE SAFETY DISCLOSURE

None

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUERS PURCHASES OF EQUITY SECURITIES.

A cash dividend of $0.08 per share was declared in first and second quarter of 2011. A cash dividend of $0.02 per share was declared in the third and fourth quarter of 2011 and all four quarters of 2012. The Company paid a 2% common stock dividend during the third quarter of 2011. The Company paid a 5% preferred cash dividend in 2011 and 2012, respectively. The high and low price range of the Company s common stock for 2012 and 2011 is set forth below and has been adjusted to reflect the 2% stock dividend paid to shareholders of record at October 3, 2011:

	Year Ended December 31, 2012		Year Ended December 31, 2011	
	High	Low	High	Low
First Quarter	$ 9.04	$ 6.54	$ 9.58	$ 8.82
Second Quarter	$ 9.05	$ 6.81	$ 9.11	$ 7.42
Third Quarter	$ 7.80	$ 6.92	$ 8.98	$ 5.08
Fourth Quarter	$ 8.84	$ 7.44	$ 6.89	$ 5.32

At March 29, 2013, the Company estimates that is has approximately 2,400 shareholders, with approximately 980 reported in the name of the shareholder and the remainder recorded in street name.

The Company s participation in the United States Treasury s Capital Purchase Program precluded it from repurchasing additional treasury shares for a three year period. The Company issued 112,639 shares of treasury stock as part of its common equity offering in June 2010. The Company currently has 402,916 shares of common treasury stock and 18,400 shares of preferred treasury stock.

The Federal Reserve Bank has issued a policy statement regarding the payment of dividends and the repurchase of common stock by thrift holding companies. In general, dividends should be paid out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization s capital needs, asset quality and overall financial condition. These regulatory policies may affect the ability of the Company to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

ITEM 6. SELECTED FINANCIAL DATA

The information set forth under the caption Selected Financial Information and Other Data in the Company s Annual Report to Stockholders for the year ended December 31, 2012, (Exhibit No. 13.1) is incorporated herein by reference. See Note 22 of Notes of Consolidated Financial Statements which is incorporated herein by reference.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information set forth under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s Annual Report to Stockholders for the year ended December 31, 2012, (Exhibit No. 13.1) is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information set forth under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations Interest Rate Sensitivity Analysis in the Company s Annual Report to Stockholders for the year ended December 31, 2012, (Exhibit No. 13.1) is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company s Consolidated Financial Statements together with the related notes and the report of Rayburn, Bates & Fitzgerald, P.C., independent registered public accounting firm, all as set forth in the Company s Annual Report to Stockholders for the year ended December 31, 2012, (Exhibit No. 13.1) are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the Exchange Act) that are designed to insure that information required to be disclosed by it in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified under the SEC s rules and forms and that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decision making regarding required disclosure. The Company, under the supervision and participation of its management, including the Company s Chief Executive Officer and the Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of the end of the period covered by this report pursuant to the Exchange Act. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective in ensuring that all material information required to be disclosed is this annual report has been accumulated and communicated to them in a manner appropriate to allow timely decisions regarding required disclosures.

Management Report on Internal Control

The management of HopFed Bancorp, Inc. and its subsidiaries (collectively referred to as the Company) is responsible for the preparation, integrity and fair presentation of published financial statements and all other information presented in this annual report. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and, as such, include amounts based on informed judgments and estimates made by management.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for financial presentations in conformity with GAAP. Pursuant to the rules and regulations of the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of, the Company s Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and included those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company.

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and Directors of the Company; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention of overriding controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, or that the degree of compliance with the policies and procedures include in such controls may deteriorate.

Management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2012 based on the control criteria established in a report entitled *Internal Control Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, we have concluded that HopFed Bancorp s internal control over financial reporting is effective as of December 31, 2012.

This annual report does not include an attestation report of the Company s registered public accounting firm regarding internal control over financial reporting. Management report was not subject to attestation by the Company s registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only managements report in this annual report.

Date: March 29, 2013

By: (signed) John E. Peck
John E. Peck
President and Chief Executive Officer

By: (signed) Billy C. Duvall
Billy C. Duvall
Senior Vice President and Treasurer
(Principal Financial Officer)

ITEM 9B. OTHER INFORMATION

Not Applicable

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE OF THE REGISTRANT

Information regarding directors of the Company is omitted from this Report as the Company will file a definitive proxy statement (the Proxy Statement) not later than 120 days after December 31, 2012, and the information included therein under Proposal I Election of Directors is incorporated herein by reference. Information regarding the executive officers of the Company is included under separate caption in Part I of this Form 10-K

Information regarding Section 16(a) beneficial ownership reporting compliance is omitted from this Report as the Company will file the Proxy Statement not later than 120 days after December 31, 2012, and the information included therein under Section 16(a) Beneficial Ownership Reporting Compliance is incorporated herein by reference.

Information regarding audit committee financial expert compliance is omitted from this Report as the Company will file the Proxy Statement not later than 120 days after December 31, 2012, and the information contained therein under Committees of the Board of Directors is incorporated herein by reference.

The Company has adopted a code of ethics that applies to all directors and employees, including without exception, the principal executive officer, principal financial officer, principal accounting officer and controller, or persons performing similar functions.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation is omitted from this Report as the Company will file the Proxy Statement not later than 120 days after December 31, 2012, and the information included therein under Proposal I Election of Directors is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this Item is omitted from this Report as the Company will file the Proxy Statement not later than 120 days after December 31, 2012, and the information included therein under Voting Securities and Principal Holders Thereof and Proposal I Election of Directors is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information required by this Item is omitted from this Report as the Company will file the Proxy Statement, not later than 120 days after December 31, 2012, and the information included therein under Proposal I Election of Directors is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this item is omitted from this report as the Company will file the Proxy Statement not later than 120 days after December 31, 2012, and the information included therein under Independent Registered Public Accounting Firm is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following consolidated financial statements of the Company included in the Annual Report to Stockholders for the year ended December 31, 2012, are incorporated herein by reference in Item 8 of this Report. The remaining information appearing in the Annual Report to Stockholders is not deemed to be filed as part of this Report, except as expressly provided herein.

1. Report of Independent Registered Public Accounting Firm.

2. Consolidated Balance Sheets December 31, 2012 and 2011.

3. Consolidated Statements of Income for the Years Ended December 31, 2012, 2011 and 2010.

4. Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2012, 2011 and 2010.

5. Consolidated Statements of Changes in Stockholders Equity for the Years Ended December 31, 2012, 2011 and 2010.

6. Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2011 and 2010.

7. Notes to Consolidated Financial Statements.

(b) The following exhibits either are filed as part of this Report or are incorporated herein by reference:

Exhibit No. 2.1. Plan of Conversion of Hopkinsville Federal Savings Bank. Incorporated herein by reference to Exhibit No. 2 to Registrant s Registration Statement on Form S-1 (File No. 333-30215).

Exhibit No. 3.1. Certificate of Incorporation. Incorporated herein by reference to Exhibit No. 3.1 to Registrant s Registration Statement on Form S-1 (File No. 333-30215).

Exhibit No. 3.2 Certificate of Amendment to the Certificate of Incorporation, Incorporated herein by reference to Exhibit No. 3.1 to the Registrant s Current Report on Form 8-K dated May 28, 2010 (filed on May 28, 2010).

Exhibit No. 3.3 Certificate of Designations with respect to Fixed Rate Cumulative Perpetual Preferred Stock, Series A. Incorporated herein by reference to Exhibit No. 3.1 to Registrant s Current Report on Form 8-K dated December 12, 2008 (filed on December 17, 2008).

Exhibit No. 3.4 Bylaws, as amended. Incorporated herein by reference to Exhibit No. 3.2 to Registrant s Current Report on Form 8-K dated December 5, 2007 (filed on December 6, 2007).

Exhibit No. 4.1. Form of Common Stock Certificate incorporated herein by reference to Exhibit No. 4.1 to Registrant s Registration Statement on Form S-1 (File No. 333-30215).

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Exhibit No. 4.2 Warrant to Purchase up to 243,816 shares of Common Stock. Incorporated herein by reference to Exhibit No. 3.2 to Registrant s Current Report on Form 8-K dated December 12, 2008 (filed December 17, 2008).

Exhibit No. 10.1. HopFed Bancorp, Inc. Management Recognition Plan. Incorporated herein by reference to Exhibit 99.1 to Registration Statement on Form S-8 (File No. 333-79391).

Exhibit No. 10.2. HopFed Bancorp, Inc. 1999 Stock Option Plan. Incorporated herein by reference to Exhibit 99.2 to Registration Statement on Form S-8 (File No. 333-79391).

Exhibit No. 10.3. Employment Agreement by and between Hopkinsville Federal Savings Bank and John E. Peck. Incorporated herein by reference to Exhibit No. 10.2 to Registrant s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2000.

Exhibit No. 10.4. Employment Agreement by and between Registrant and John E. Peck. Incorporated herein by reference to Exhibit No. 10.2 to Registrant s Current Report on Form 8-K dated April 17, 2008 (filed April 22, 2008).

Exhibit No. 10.5. HopFed Bancorp, Inc. 2000 Stock Option Plan. Incorporated herein by reference to Exhibit 10.10 to Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.

Exhibit No. 10.6. Employment Agreement by and between Registrant and Billy C. Duvall. Incorporated herein by reference to Exhibit 10.1 to Registrant s Current Report on Form 8-K dated February 12, 2008 (filed February 19, 2008).

Exhibit No. 10.7. Employment Agreement by and between Heritage Bank and Billy C. Duvall. Incorporated herein by reference to Exhibit 10.2 to Registrant s Current Report on Form 8-K dated February 12, 2008 (filed February 19, 2008).

Exhibit No. 10.8. Employment Agreement by and between Registrant and Michael L. Woolfolk. Incorporated herein by reference to Exhibit 10.1 to Registrant s Current Report on Form 8-K dated April 17, 2008 (filed April 22, 2008).

Exhibit No. 10.9. Employment Agreement by and between Heritage Bank and Michael L. Woolfolk. Incorporated herein by reference to Exhibit 10.2 to Registrant s Current Report on Form 8-K dated April 17, 2008 (filed April 22, 2008).

Exhibit No. 10.10. Fulton Division Acquisition Agreement dated as of March 1, 2002, by and between Old National Bank and Hopkinsville Federal Bank. Incorporated herein by reference to Exhibit 10.1 to Registrant s Current Report on Form 8-K dated March 1, 2002.

Exhibit No. 10.11 HopFed Bancorp, Inc. 2004 Long Term Incentive Plan. Incorporated herein by reference to Exhibit 99.3 to Registration Statement on Form S-8 (File No. 333-117956) dated August 5, 2004.

Exhibit No. 10.13 Employment Agreement by and between Heritage Bank and P. Michael Foley. Incorporated herein by reference to Exhibit 10.1 to Registrant s Current Report on Form 8-K dated December 6, 2011 (filed December 7, 2011).

Exhibit No. 10.17 Form of Letter Agreement, executed by each of Messrs. John E. Peck, Michael L. Woolfolk, Michael F. Stalls, Billy C. Duvall, P. Michael Foley and Keith Bennett with Registrant. Incorporated herein by reference to Exhibit No. 10.3 to Registrant s Current Report on Form 8-K dated December 12, 2008 (filed December 17, 2008).

Exhibit No. 13.1. Annual Report to Stockholders Except for those portions of the Annual Report to Stockholders for the year ended December 31, 2012, which are expressly incorporated herein by reference, such Annual Report is furnished for the information of the Commission and is not to be deemed filed as part of this Report.

Exhibit No. 14.1. Code of Ethics. Incorporated herein by reference to Exhibit 14 to Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

Exhibit No. 21.1 Subsidiaries of the Registrant.

Exhibit No. 23.1. Consent of Independent Registered Public Accounting Firm.

Exhibit No. 31.1 Certification of Principal Executive Officer pursuant to Exchange Act Rule

13a 14(a) or 15d 14(a).

Exhibit No. 31.2 Certification of Principal Financial Officer pursuant to Exchange Act Rule

13a 14(a) or 15d 14(a).

Exhibit No 32.1. Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

Exhibit No 32.2. Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

99.1 Certification of principal executive officer pursuant to Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008.

99.2 Certification of principal financial officer pursuant to Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008.

Exhibit 101. The following materials from the Company s annual report on Form 10-K for the years ended December 31, 2012 and December 31, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statement of Financial Condition as of December 31, 2012 and December 31, 2011, (ii) Condensed Consolidated Statements of Income for the years ended December 31, 2012, 2011 and 2010, respectively (iii)Condensed Consolidated Statements of Cash Flows, for the years ended December 31, 2012, 2011 and 2010, respectively, and (iv) Notes to Condensed Consolidated Financial Statements (unaudited), tagged as blocks of text.

(c) All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

SIGNATURES

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

HOPFED BANCORP, INC.
(Registrant)

Date: March 29, 2013

By: (signed) John E. Peck
John E. Peck
President and
Chief Executive Officer

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

DATE: SIGNATURE AND TITLE:

(signed) John E. Peck John E. Peck Director, President and Chief Executive Officer (Principal Executive Officer)	March 29, 2013
(signed) Billy C. Duvall Billy C. Duvall Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 29, 2013
(signed) Gilbert E. Lee Gilbert E. Lee Chairman of the Board	March 29, 2013
(signed) Thomas I. Miller Thomas I. Miller Vice-Chairman of the Board	March 29, 2013
(signed) Michael Woolfolk Michael Woolfolk Director, Board Secretary and Executive Vice President and Chief Operating Officer	March 29, 2013
(signed) Steve Hunt Steve Hunt Director	March 29, 2013
(signed) Harry J. Dempsey Harry J. Dempsey Director	March 29, 2013
(signed) Ted Kinsey Ted Kinsey Director	March 29, 2013

(signed) Clay Smith Clay Smith Director	March 29, 2013