HOPFED BANCORP INC
Form 10-Q
August 13, 2013
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

OR

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

Commission File Number: 000-23667

HOPFED BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**61-1322555**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
4155 Lafayette Road, Hopkinsville, Kentucky	**42240**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (270) 885-1171

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 ninety days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Date File required and posted pursuant to Rule 405 of Regulation S-T (subsection 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated file or a non-accelerated filer. See definition of accelerated filer , large accelerated filer and smaller reporting company in Rule12b-2 of the Exchange Act: (Check one)

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

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

As of August 12, 2013, the Registrant had outstanding 7,524,371 shares of the Registrant s Common stock.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HOPFED BANCORP, INC.

Consolidated Condensed Statements of Financial Condition

(Dollars in Thousands)

	June 30, 2013 (unaudited)	December 31, 2012
Assets		
Cash and due from banks	$ 20,070	31,563
Interest-earning deposits	9,633	5,613
Cash and cash equivalents	29,703	37,176
Federal Home Loan Bank stock, at cost	4,428	4,428
Securities available for sale	338,936	356,345
Loans receivable, net of allowance for loan losses of $9,399 at June 30, 2013, and $10,648 at December 31, 2012	528,282	524,985
Accrued interest receivable	4,919	5,398
Real estate and other assets owned	1,632	1,548
Bank owned life insurance	9,486	9,323
Premises and equipment, net	21,853	22,557
Deferred tax assets	3,383	
Intangible asset	195	292
Other assets	6,578	5,637
Total assets	$ 949,395	967,689
Liabilities and Stockholders Equity		
Liabilities:		
Deposits:		
Non-interest-bearing	$ 94,426	94,083
Interest-bearing checking	154,444	147,047
Savings and money market accounts	85,735	81,643
Time deposits	408,059	437,092
Total deposits	742,664	759,865
Federal Home Loan Bank Advances	45,768	43,741
Repurchase agreements	47,072	43,508
Subordinated debentures	10,310	10,310
Advances from borrowers for taxes and insurance	697	396
Dividends payable	177	180
Deferred tax liability		568
Accrued expenses and other liabilities	4,634	4,122
Total liabilities	851,322	862,690

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

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HOPFED BANCORP, INC.

Consolidated Condensed Statements of Financial Condition, Continued

(Dollars in Thousands)

	June 30, 2013 (unaudited)	December 31, 2012
Stockholders equity:		
Preferred stock, par value $0.01 per share; authorized - 500,000 shares; 18,400 shares issued and no shares outstanding at June 30, 2013, and December 31, 2012.	$	
Common stock, par value $.01 per share; authorized 15,000,000 shares; 7,905,955 issued and 7,503,039 outstanding at June 30, 2013, and 7,905,728 issued and 7,502,812 outstanding at December 31, 2012	79	79
Common stock warrant		556
Additional paid-in-capital	76,634	76,288
Retained earnings	43,679	41,829
Treasury stock- preferred (at cost, 18,400 shares at June 30, 2013, and December 31, 2012)	(18,400)	(18,400)
Treasury stock- common (at cost, 402,916 shares at June 30, 2013, and December 31, 2012)	(5,076)	(5,076)
Accumulated other comprehensive income, net of taxes	1,157	9,723
Total stockholders equity	98,073	104,999
Total liabilities and stockholders equity	$ 949,395	967,689

The consolidated condensed statement of financial condition at December 31, 2012, has been derived from the audited consolidated financial statements as of that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

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HOPFED BANCORP, INC.

Consolidated Condensed Statements of Income

(Dollars in Thousands)

(Unaudited)

	For the Three Month Periods Ended June 30, 2013	For the Three Month Periods Ended June 30, 2012	For the Six Month Periods Ended June 30, 2013	For the Six Month Periods Ended June 30, 2012
Interest income:				
Loans receivable	$ 6,676	7,413	13,558	15,214
Securities available for sale - taxable	1,764	2,434	3,596	4,809
Securities available for sale - nontaxable	547	547	1,132	1,122
Interest-earning deposits	7	6	13	14
Total interest income	8,994	10,400	18,299	21,159
Interest expense:				
Deposits	1,936	2,755	3,982	5,639
Advances from Federal Home Loan Bank	446	565	890	1,138
Repurchase agreements	230	237	472	485
Subordinated debentures	182	181	364	368
Total interest expense	2,794	3,738	5,708	7,630
Net interest income	6,200	6,662	12,591	13,529
Provision for loan losses	406	400	782	1,269
Net interest income after provision for loan losses	5,794	6,262	11,809	12,260
Non-interest income:				
Service charges	937	973	1,790	1,911
Merchant card income	259	212	482	408
Mortgage origination revenue	212	263	412	466
Gain on sale of securities	789	630	1,416	674
Income from bank owned life insurance	87	79	162	158
Financial services commission	347	271	644	498
Other operating income	197	211	405	441
Total non-interest income	2,828	2,639	5,311	4,556

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

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HOPFED BANCORP, INC.

Consolidated Condensed Statements of Income, Continued

(Dollars in Thousands, Except Per Share Amounts)

(Unaudited)

	For the Three Month Periods Ended June 30, 2013	2012	For the Six Month Periods Ended June 30, 2013	2012
Non-interest expenses:				
Salaries and benefits	3,714	3,561	7,562	7,068
Occupancy	882	884	1,727	1,739
Data processing	646	627	1,296	1,252
State bank tax	147	162	289	324
Intangible amortization	48	65	97	130
Professional services	549	498	942	886
Deposit insurance and examination	179	434	411	853
Advertising	308	324	641	628
Postage and communications	139	157	278	298
Supplies	93	105	229	216
Loss on disposal of equipment		2		8
Loss on real estate owned	12	72	47	219
Real estate owned expenses	32	25	108	71
Other operating expenses	375	523	771	846
Total non-interest expense	7,124	7,439	14,398	14,538
Income before income tax	1,498	1,462	2,722	2,278
Income tax expense	332	300	572	389
Net income	1,166	1,162	2,150	1,889
Less:				
Dividend on preferred shares		231		460
Accretion dividend on preferred shares		28		56
Net income available to common shareholders	$ 1,166	$ 903	$ 2,150	$ 1,373
Net income available to common shareholders				
Per share, basic	$ 0.16	$ 0.12	$ 0.29	$ 0.18
Per share, diluted	$ 0.16	$ 0.12	$ 0.29	$ 0.18
Dividend per share	$ 0.02	$ 0.02	$ 0.04	$ 0.04
Weighted average shares outstanding - basic	7,488,906	7,485,283	7,488,788	7,484,498
Weighted average shares outstanding - diluted	7,488,906	7,485,283	7,488,788	7,484,498

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

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HOPFED BANCORP, INC.

Consolidated Condensed Statements of Comprehensive Income (Loss)

(Dollars in Thousands)

(Unaudited)

	For the Three Month Periods Ended June 30, 2013	For the Three Month Periods Ended June 30, 2012	For the Six Month Periods Ended June 30, 2013	For the Six Month Periods Ended June 30, 2012
Net income	$ 1,166	1,162	2,150	1,889
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on investment securities available for sale, net of tax effect of $3,405 and ($1,023) for the three month periods ended June 30, 2013, and June 30, 2012, respectively; and $4,003 and ($1,096) for the six month periods ended June 30, 2013, and June 30, 2012, respectively;	(6,610)	1,985	(7,771)	2,127
Unrealized gain on derivatives, net of tax effect of ($40) and ($3) for the three month periods ended June 30, 2013, and June 30, 2012, respectively; and of ($72) and ($20) for the six month periods ending June 30, 2013, and June 30, 2012, respectively;	77	7	140	40
Reclassification adjustment for gains included in net income, net of tax effect of $268 and $214 for the three month periods ended June 30, 2013, and June 30, 2012, respectively; and $482 and $229 the six month periods ended June 30, 2013, and June 30, 2012, respectively;	(521)	(416)	(935)	(445)
Comprehensive income (loss)	($ 5,888)	2,738	(6,416)	3,611

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

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HOPFED BANCORP, INC.

Consolidated Condensed Statement of Stockholders Equity

For the Six Month Period Ended June 30, 2013

(Dollars in Thousands, Except Share Amounts)

(Unaudited)

	Shares Common Stock	Preferred Stock	Common Stock	Common Stock Warrants	Additional Capital Surplus	Retained Earnings	Treasury Stock Preferred	Treasury Stock Common	Accumulated Other Comprehensive Income	Total Stockholders Equity
Balance at December 31, 2012	7,502,812	18,400	$ 79	556	76,288	41,829	(18,400)	(5,076)	9,723	104,999
Restricted stock awards	227									
Consolidated net income						2,150				2,150
Compensation expense, restricted stock awards					47					47
Net change in unrealized gain on securities available for sale, net of income tax benefit of $4,485									(8,706)	(8,706)
Net change in unrealized loss on derivatives, net of income taxes of $72									140	140
Repurchase of warrant				(556)	299					(257)
Cash dividend to common stockholders						(300)				(300)
Balance June 30, 2013	7,503,039	18,400	$ 79		76,634	43,679	(18,400)	(5,076)	1,157	98,073

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements

HOPFED BANCORP, INC.

Consolidated Condensed Statements of Cash Flows

(Dollars in Thousands)

(Unaudited)

	For the Six Month Periods Ended June 30, 2013	2012
Cash flows from operating activities:		
Net cash provided by operating activities	$ 4,484	$ 5,980
Cash flows from investing activities		
Proceeds from sales, calls and maturities of securities available for sale	73,375	85,553
Purchase of securities available for sale	(69,182)	(92,013)
Net (increase) decrease in loans	(4,672)	13,915
Proceeds from sale of foreclosed assets	462	1,573
Purchase of premises and equipment	(74)	(301)
Net cash provided by (used in) investing activities	(91)	8,727
Cash flows from financing activities:		
Net increase in demand deposits	343	4,388
Net increase (decrease) in time and other deposits	(17,544)	(18,574)
Increase in advances from borrowers for taxes and insurance	301	394
Advances from Federal Home Loan Bank	8,000	3,000
Repayment of advances from Federal Home Loan Bank	(5,973)	(1,835)
Net increase (decrease) in repurchase agreements	3,564	(5,348)
Cash used to repurchase warrant	(257)	
Dividend paid on preferred stock		(460)
Dividends paid on common stock	(300)	(299)
Net cash used in financing activities	(11,866)	(18,734)
Increase (decrease) in cash and cash equivalents	(7,473)	(4,027)
Cash and cash equivalents, beginning of period	37,176	48,760
Cash and cash equivalents, end of period	$ 29,703	44,733
Supplemental disclosures of Cash Flow Information:		
Interest paid	$ 2,932	3,525
Income taxes paid	$ 495	990
Supplemental disclosures of non-cash investing and financing activities:		
Loans charged off	$ 2,370	2,428
Foreclosures and in substance foreclosures of loans during period	$ 593	873

Net unrealized gains (losses) on investment securities classified as available for sale	($ 13,191)	2,548
Increase (decrease) in deferred tax asset related to unrealized gains on investments	$ 4,485	(866)
Dividends declared and payable	$ 150	150
Issue of unearned restricted stock	$ 2	74

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements

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NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

HopFed Bancorp, Inc. (the Company) was formed at the direction of Heritage Bank, formerly Hopkinsville Federal Savings Bank (the Bank), to become the holding company of the Bank upon the conversion of the Bank from a federally chartered mutual savings bank to a federally chartered stock savings bank. The conversion was consummated on February 6, 1998.

On June 5, 2013, Heritage Bank changed its legal name to Heritage Bank USA, Inc. and became a Kentucky state chartered commercial bank regulated by the Kentucky Department of Financial Institutions and the Federal Deposit Insurance Corporation. On June 5, 2013, HopFed Bancorp, Inc, become a commercial bank holding company regulated by the Board of Governors of the Federal Reserve System (the FED). The Company s primary assets are the outstanding capital stock of the converted Bank, and its sole business is that of the converted Bank. The Bank owns 100% of the stock of Fall and Fall Insurance Agency (Fall & Fall) of Fulton, Kentucky. Fall & Fall sells life and casualty insurance to both individuals and businesses. The majority of Fall & Fall s customer base is within the geographic footprint of the Bank.

The Bank operates a mortgage division, Heritage Mortgage Services, in Clarksville, Tennessee with agents located in several of its markets. The Bank has a financial services division, Heritage Wealth Management, with offices in Murray, Kentucky, Kingston Springs, Tennessee and Pleasant View, Tennessee. Agents of Heritage Wealth Management travel throughout western Kentucky and middle Tennessee offering fixed and variable annuities, mutual funds and brokerage services.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of only normal recurring accruals) necessary for fair representation have been included. The results of operations and other data for the six month period ended June 30, 2013, are not necessarily indicative of results that may be expected for the entire fiscal year ending December 31, 2013.

The accompanying unaudited financial statements should be read in conjunction with the Consolidated Financial Statements and the Notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012. The accounting policies followed by the Company are set forth in the Summary of Significant Accounting Policies in the Company s December 31, 2012, Consolidated Financial Statements.

(2) INCOME PER SHARE

The following schedule reconciles the numerators and denominators of the basic and diluted income per share (IPS) computations for the three and six month periods ended June 30, 2013, and June 30, 2012. Diluted common shares arise from the potentially dilutive effect of the Company s stock options and warrant outstanding.

	Three Month Periods Ended June 30, 2013	Three Month Periods Ended June 30, 2012
Basic IPS:		
Net income available to common stockholders	$ 1,166,000	$ 903,000
Average common shares outstanding	7,488,906	7,485,283
Net income per share available to common shareholders, basic	$ 0.16	$ 0.12
Diluted IPS		
Net income available to common stockholders	$ 1,166,000	$ 903,000
Average common shares outstanding	7,488,906	7,485,283
Dilutive effect of stock options		
Average diluted shares outstanding	7,488,906	7,485,283
Net income per share available to common shareholders, diluted	$ 0.16	$ 0.12

	Six Month Periods Ended June 30, 2013	Six Month Periods Ended June 30, 2012
Basic IPS:		
Net income available to common stockholders	$ 2,150,000	$ 1,373,000
Average common shares outstanding	7,488,788	7,484,498
Net income per share available to common shareholders, basic	$ 0.29	$ 0.18
Diluted IPS		
Net income available to common stockholders	$ 2,150,000	$ 1,373,000
Average common shares outstanding	7,488,788	7,484,498
Dilutive effect of stock options		
Average diluted shares outstanding	7,488,788	7,484,498
Net income per share available to common shareholders, diluted	$ 0.29	$ 0.18

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(3) STOCK COMPENSATION

The Company incurred compensation cost related to the HopFed Bancorp, Inc. 2004 Long Term Incentive Plan of $25,000 and $47,000 for the three and six month periods ended June 30, 2013, and $27,000 and $54,000 for the three and six month periods ended June 30, 2012, respectively. The Company issued 227 shares of restricted stock during the three and six month periods ended June 30, 2013, and 8,826 and 10,392 shares of restricted stock for the three and six month periods ended June 30, 2012, respectively. The table below provides a detail of the Company s future compensation expense related to restricted stock vesting at June 30, 2013:

Year Ending December 31,	Future Expense
2013	$ 31,156
2014	49,481
2015	27,062
2016	7,791
Total	$ 115,490

The compensation committee may make additional awards of restricted stock, thereby increasing the future expense related to this plan. In addition, award vesting may be accelerated due to certain events as outlined in the restricted stock award agreement. Any acceleration of vesting will change the timing of, but not the aggregate amount of, compensation expense incurred.

At the 2013 HopFed Bancorp, Inc. Annual Shareholder Meeting, shareholders approved a management recommendation to create the HopFed Bancorp, Inc. 2013 Long Term Incentive Plan (the 2013 Plan). The 2013 Plan provides for up to 300,000 shares to be granted to Directors and employees of the Company and the Bank. The details of the plan are discussed in the Company s Definitive Proxy Statement dated April 5, 2013, and SEC Form S-8 dated June 28, 2013. The 2013 Plan replaces the Company s 2004 Long Term Incentive Plan. The Company will not issue additional awards under the 2004 Long Term Incentive Plan.

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(4) SECURITIES

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluations. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At June 30, 2013, the Company has 87 securities with unrealized losses. The carrying amount of securities and their estimated fair values at June 30, 2013, were as follows:

	June 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in Thousands)			
Restricted:				
FHLB stock	$ 4,428			4,428
Unrestricted:				
U.S. government and agency securities:				
Agency debt securities	$ 119,837	3,007	(1,427)	121,417
Corporate bonds	2,000		(16)	1,984
Taxable municipal bonds	19,395	339	(334)	19,400
Tax free municipal bonds	65,395	2,550	(772)	67,173
Trust preferred securities	2,000		(511)	1,489
Mortgage-backed securities:				
GNMA	20,167	768	(117)	20,818
FNMA	77,307	927	(1,369)	76,865
FHLMC	3,441	88		3,529
NON-AGENCY CMOs	13,931		(487)	13,444
AGENCY CMOs	12,795	189	(167)	12,817
	$ 336,268	7,868	(5,200)	338,936

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The carrying amount of securities and their estimated fair values at December 31, 2012, was as follows:

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in Thousands)			
Restricted:				
FHLB stock	$ 4,428			4,428
Unrestricted:				
U.S. government and agency securities:				
Agency debt securities	$ 147,659	5,202	(83)	152,778
Taxable municipal bonds	12,535	1,209	(8)	13,736
Tax free municipal bonds	68,331	5,756	(40)	74,047
Trust preferred securities	2,000		(511)	1,489
Mortgage-backed securities:				
GNMA	19,172	1,244	(19)	20,397
FNMA	64,805	2,558	(58)	67,305
FHLMC	4,519	153		4,672
SLMA CMO	5,412	80		5,492
AGENCY CMOs	16,055	426	(52)	16,429
	$ 340,488	16,628	(771)	356,345

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The scheduled maturities of debt securities available for sale at June 30, 2013, were as follows:

	Amortized Cost	Estimated Fair Value
Due within one year	$ 951	$ 925
Due in one to five years	14,375	14,586
Due in five to ten years	35,929	35,566
Due after ten years	51,913	52,526
	103,168	103,603
Amortizing agency bonds	105,459	107,860
Mortgage-backed securities	127,641	127,473
Total unrestricted securities available for sale	$ 336,268	$ 338,936

The scheduled maturities of debt securities available for sale at December 31, 2012, were as follows:

	Amortized Cost	Estimated Fair Value
Due within one year	$ 345	$ 346
Due in one to five years	11,499	11,682
Due in five to ten years	30,007	32,316
Due in more than ten years	53,222	57,290
	95,073	101,634
Amortizing agency bonds	135,452	140,416
Mortgage-backed securities	109,963	114,295
Total unrestricted securities available for sale	$ 340,488	$ 356,345

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The estimated fair value and unrealized loss amounts of temporarily impaired investments as of June 30, 2013, are as follows:

	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
			(Dollars in Thousands)			
Available for sale						
U.S. government and agency securities:						
Agency debt securities	$ 30,007	(1,427)			30,007	(1,427)
Corporate bonds	1,984	(16)			1,984	(16)
Taxable municipals	8,451	(334)			8,451	(334)
Tax free municipals	13,329	(772)			13,329	(772)
Trust preferred securities			1,489	(511)	1,489	(511)
Mortgage-backed securities:						
GNMA	4,513	(93)	1,005	(24)	5,518	(117)
FNMA	44,606	(1,369)			44,606	(1,369)
FHLMC						
NON-AGENCY CMOs	5,304	(459)	5,166	(28)	10,470	(487)
AGENCY CMOs	1,878	(167)			1,878	(167)
Total Available for Sale	$ 110,072	(4,637)	7,660	(563)	117,732	(5,200)

The estimated fair value and unrealized loss amounts of temporarily impaired investments as of December 31, 2012, were as follows:

	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
			(Dollars in Thousands)			
Available for sale						
U.S. government and agency securities:						
Agency debt securities	$ 12,317	(83)			12,317	(83)
Taxable municipal bonds	885	(8)			885	(8)
Tax free municipal bonds	5,315	(40)			5,315	(40)
Trust preferred securities			1,489	(511)	1,489	(511)
Mortgage-backed securities:						
GNMA			1,415	(19)	1,415	(19)
FNMA	7,077	(58)			7,077	(58)
FHLMC						
NON-AGENCY CMOs						
AGENCY CMOs	3,691	(52)			3,691	(52)
Total Available for Sale	$ 29,285	(241)	2,904	(530)	32,189	(771)

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At June 30, 2013, securities with a book value of approximately $151.6 million and a market value of approximately $152.0 million were pledged to various municipalities for deposits in excess of FDIC limits as required by law. The Federal Home Loan Bank of Cincinnati has issued letters of credit in the Bank s name totaling $13.5 million secured by the Bank s loan portfolio to secure additional municipal deposits.

At June 30, 2013, securities with a book and market value of $31.1 million were sold under agreements to repurchase from various customers. Furthermore, the Company has two wholesale repurchase agreements with third parties secured by investments with a combined book value of $16.9 million and a market value of $16.6 million. One repurchase agreement is in the amount of $6.0 million and has a maturity of September 18, 2016 and is currently callable on a quarterly basis and has a fixed rate of interest of 4.36%. The second repurchase agreement, in the amount of $10.0 million, has a maturity of September 5, 2014, is currently callable quarterly and has a fixed rate of interest of 4.28%.

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(5) LOANS

Set forth below is selected data relating to the composition of the loan portfolio by type of loan at June 30, 2013 and December 31, 2012. At June 30, 2013 and December 31, 2012, there were no concentrations of loans exceeding 10% of total loans other than as disclosed below:

	June 30, 2013 Amount	June 30, 2013 Percent	December 31, 2012 Amount	December 31, 2012 Percent
	(Dollars in thousands, except percentages)			
Real estate loans:				
One-to-four family (closed end) first mortgages	$ 157,880	29.4%	$ 162,335	30.3%
Second mortgages (closed end)	3,912	0.7%	4,336	0.8%
Home equity lines of credit	35,982	6.7%	37,083	6.9%
Multi-family	29,965	5.6%	33,056	6.2%
Construction	8,994	1.7%	18,900	3.5%
Land	39,145	7.3%	45,906	8.6%
Farmland	50,300	9.4%	46,799	8.7%
Non-residential real estate	147,491	27.4%	122,637	22.9%
Total mortgage loans	473,669	88.2%	471,052	87.9%
Consumer loans	12,832	2.4%	13,886	2.6%
Commercial loans	51,155	9.4%	50,549	9.5%
Total other loans	63,987	11.8%	64,435	12.1%
Total loans, gross	537,656	100.0%	535,487	100.0%
Deferred loan cost, net of income	25		146	
Less allowance for loan losses	(9,399)		(10,648)	
Total loans	$ 528,282		$ 524,985	

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The Company assigns an industry standard NAICS code to each loan in the Company s portfolio. By assigning a standard code to each type of loan, management can more readily determine concentrations in risk by industry, location and loan type. This information is most useful when analyzing the Company s non-residential real estate loan portfolio. At June 30, 2013, and December 31, 2012, the Company s non-residential real estate loan portfolio was made up of the following loan types:

	June 30, 2013	December 31, 2012
	(Dollars in Thousands)	
Land	$ 39,145	45,906
Manufacturing	4,191	3,856
Professional, Technical	2,243	2,025
Retail Trade	11,713	12,391
Other Services	19,417	18,303
Finance & Insurance	1,855	386
Agricultural, Forestry, Fishing & Hunting	46,862	42,420
Real Estate and Rental and Leasing	54,354	48,249
Wholesale Trade	19,718	8,891
Arts, Entertainment & Recreation	3,153	3,461
Accommodations / Food Service	20,323	17,152
Healthcare and Social Assistance	7,696	7,932
Transportation & Warehousing	1,238	1,295
Information	2,548	2,488
Non-industry	2,105	46
Admin Support / Waste Mgmt	375	541
Total	$ 236,936	215,342

The allowance for loan losses totaled $9.4 million at June 30, 2013, and $10.6 million at December 31, 2012, and June 30, 2012, respectively. The ratio of the allowance for loan losses to total loans was 1.75% at June 30, 2013, 1.99% at December 31, 2012, and 1.92% at June 30, 2012.

The following table indicates the type and level of non-accrual loans at the dates indicated below:

	June 30, 2013	December 31, 2012	June 30, 2012
		(Dollars in Thousands)	
One-to-four family mortgages	$ 1,131	2,243	2,577
Home equity line of credit	22	66	91
Junior lien	37	4	107
Multi-family		38	190
Construction			
Land	2,255	2,768	4,290
Non-residential real estate	7,055	1,134	4,000
Farmland	781	648	727
Consumer loans	11	145	16
Commercial loans	520	617	121
Total non-accrual loans	$ 11,812	7,663	12,119

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The following table provides a detail of the Company s activity in the allowance for loan loss account by loan type for the three month period ended June 30, 2013:

	Balance 12/31/2012	Charge off 2013	Recovery 2013	General Provision 2013	Specific Provision 2013	Ending Balance 6/30/2013
			(Dollars in Thousands)			
One-to-four family mortgages	$ 2,490	(368)	8	149	115	2,394
Home equity line of credit	374	(6)	2	30	(11)	389
Junior liens	230	(84)	24	(132)	25	63
Multi-family	524	(38)	163	(257)	(159)	233
Construction	256			(61)	(128)	67
Land	2,184	(393)	5	(231)	235	1,800
Non-residential real estate	2,914	(1,039)	14	580	469	2,938
Farmland	719			(271)	14	462
Consumer loans	338	(386)	119	307	102	480
Commercial loans	619	(56)	4	42	(36)	573
Total	$ 10,648	(2,370)	339	156	626	9,399

The following table provides a detail of the Company s activity in the allowance for loan loss account by loan type for the year ended December 31, 2012:

	Balance 12/31/2011	Charge off 2012	Recovery 2012	General Provision 2012	Specific Provision 2012	Balance 12/31/2012
			(Dollars in Thousands)			
One-to-four family mortgages	$ 2,640	(379)	81	324	(176)	2,490
Home equity line of credit	408	(67)	6	6	21	374
Junior liens	277	(1)	4		(50)	230
Multi-family	1,201	(417)		429	(689)	524
Construction	139			117		256
Land	1,332	(1,033)	405	635	845	2,184
Non-residential real estate	3,671	(1,120)	137	718	(492)	2,914
Farmland				315	404	719
Consumer loans	262	(510)	150	404	32	338
Commercial loans	1,332	(157)	12	(171)	(397)	619
Total	$ 11,262	(3,684)	795	2,777	(502)	10,648

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The table below presents currently performing, past due, and non-accrual balances at June 30, 2013, by loan classification allocated between performing and non-performing:

June 30, 2013	Currently Performing	30 - 89 Days Past Due	Non-accrual Loans	Special Mention	Impaired Loans Currently Performing Substandard	Doubtful	Total
			(Dollars in Thousands)				
One-to-four family mortgages	$ 149,160	2,172	1,131	1,169	4,248		157,880
Home equity line of credit	34,728	289	22		943		35,982
Junior liens	3,355	14	37	45	461		3,912
Multi-family	27,870				2,095		29,965
Construction	8,818			176			8,994
Land	21,951	235	2,255	7,441	7,263		39,145
Non-residential real estate	132,667	206	7,055	890	6,673		147,491
Farmland	45,086		781	352	4,081		50,300
Consumer loans	12,345	49	11		427		12,832
Commercial loans	47,366	424	520	435	2,410		51,155
Total	$ 483,346	3,389	11,812	10,508	28,601		537,656

The table below presents currently performing, past due, and non-accrual balances at December 31, 2012, by loan classification allocated between performing and non-performing:

December 31, 2012	Currently Performing	30 - 89 Days Past Due	Non-accrual Loans	Special Mention	Impaired Loans Currently Performing Substandard	Doubtful	Total
			(Dollars in Thousands)				
One-to-four family mortgages	$ 155,936	1,339	2,243	779	2,038		162,335
Home equity line of credit	34,732	5	66	1,109	1,171		37,083
Junior liens	3,584	237	4	47	464		4,336
Multi-family	27,463		38	1,478	4,077		33,056
Construction	13,876	176			4,848		18,900
Land	14,237	137	2,768	7,683	21,081		45,906
Non-residential real estate	101,894	293	1,134	669	18,647		122,637
Farmland	44,256		648	1,230	665		46,799
Consumer loans	13,266	74	145		401		13,886
Commercial loans	43,961	230	617	516	5,225		50,549
Total	$ 453,205	2,491	7,663	13,511	58,617		535,487

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All loans listed as 30-89 days past due and non-accrual are not performing as agreed. Loans listed as special mention, substandard and doubtful are paying as agreed. However, the customer s financial statements may indicate weaknesses in their current cash flow, the customer s industry may be in decline due to current economic conditions, collateral values used to secure the loan may be declining, or the Company may be concerned about the customer s future business prospects.

The Company does not originate loans it considers sub-prime and is not aware of any exposure to the additional credit concerns associated with sub-prime lending in either the Company s loan or investment portfolios. The Company does have a significant amount of construction and land development loans. Management reports to the Company s Board of Directors on the status of the Company s specific construction and development loans as well as the market trends in those markets in which the Company actively participates.

The Company s annualized net charge off ratios for six month periods ended June 30, 2013, June 30, 2012, and the year ended December 31, 2012, was 0.77%, 0.71% and 0.52%, respectively. The ratios of allowance for loan losses to non-accrual loans at June 30, 2013, June 30, 2012, and December 31, 2012, were 79.6%, 87.23%, and 138.99% respectively.

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The table on the below sets forth an analysis of the Bank s allowance for loan losses for the periods presented:

	Six month period ended June 30, 2013	Year ended December 31, 2012	Six month period ended June 30, 2012
	(Dollars in Thousands, Except Percentages)		
Beginning balance, allowance for loan loss	$ 10,648	11,262	11,262
Charge offs			
One-to-four family mortgages	(368)	(379)	(264)
Home equity line of credit	(6)	(67)	(53)
Junior liens	(84)	(1)	(1)
Multi-family	(38)	(417)	(416)
Land	(393)	(1,033)	(779)
Non-residential real estate	(1,039)	(1,120)	(579)
Consumer loans	(386)	(510)	(130)
Commercial loans	(56)	(157)	(206
Total charge offs	(2,370)	(3,684)	(2,428)
Recoveries			
One-to-four family mortgages	8	81	43
Home equity line of credit	2	6	3
Junior liens	24	4	2
Multi-family	163		
Land	5	405	234
Non-residential real estate	14	137	100
Consumer loans	119	150	79
Commercial loans	4	12	4
Total recoveries	339	795	465
Net Charge offs	(2,031)	(2,889)	(1,963)
Provision for loan losses	782	2,275	1,269
Ending balance	$ 9,399	10,648	10,568
Average loan balance, gross	$ 525,448	533,081	550,871
Ratio of net charge offs to average outstanding loans during the period	0.77%	0.52%	0.71%

The determination of the allowance for loan losses is based on management s analysis, completed on a quarterly basis. Various factors are considered, including the market value of the underlying collateral, growth and composition of the loan portfolio, the relationship of the allowance for loan losses to outstanding loans, historical loss experience, delinquency trends and prevailing economic conditions. Although management believes its allowance for loan losses is adequate, there can be no assurance that additional allowances will not be required or that losses on loans will not be incurred.

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The Company conducts annual reviews on all loan relationships above $1 million to ascertain the borrowers continued ability to service their debt as agreed. In addition to the credit relationships mentioned above, management may revise a risk grade on any credit relationship once it becomes aware of adverse credit trends for that customer. Typically, the annual review consists of updated financial statements for borrowers and any guarantors, a review of the borrower s credit history with the Company and other creditors, and current income tax information.

As a result of this review, management will classify loans based on their credit risk. Additionally, the Company provides a risk grade for all loans past due more than sixty days. The Company uses the following risk definitions for risk grades:

Satisfactory loans of average strength having some deficiency or vulnerability to changing economic or industry conditions. These customers should have reasonable amount of capital and operating ratios. Secured loans may lack in margin or liquidity. Loans to individuals, perhaps supported in dollars of net worth, but with supporting assets may be difficult to liquidate.

Watch loans are acceptable credits: (1) that need continual monitoring, such as out-of territory or asset-based loans (since the Bank does not have an asset-based lending department), or (2) with a marginal risk level to business concerns and individuals that; (a) have exhibited favorable performance in the past, though currently experiencing negative trends; (b) are in an industry that is experiencing volatility or is declining, and their performance is less than industry norms; and (c) are experiencing unfavorable trends in their financial position, such as one-time net losses or declines in asset values. These marginal borrowers may have early warning signs of problems such as occasional overdrafts and minor delinquency. If considered marginal, a loan would be a watch until financial data demonstrated improved performance or further deterioration to a substandard grade usually within a 12-month period. In the table on page 25, Watch loans are included with satisfactory loans and classified as Pass.

Other Loans Especially Mentioned are currently protected but are potentially weak. These loans constitute an undue and unwarranted credit risk but not to the point of justifying a substandard classification. The credit risk may be relatively minor yet constitutes an unwarranted risk in light of the circumstances surrounding a specific loan. These credit weaknesses, if not checked or corrected, will weaken the loan or inadequately protect the Bank s credit position at some future date.

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A **Substandard** loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. The loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. This does not imply ultimate loss of the principal, but may involve burdensome administrative expenses and the accompanying cost to carry the credit. Examples of substandard loans include those to borrowers with insufficient or negative cash flow, negative net worth coupled with inadequate guarantor support, inadequate working capital, and/or significantly past-due loans and overdrafts.

A loan classified **Doubtful** has all the weaknesses inherent in a substandard credit except that the weaknesses make collection or liquidation in full (on the basis of currently existing facts, conditions, and values) highly questionable and improbable. The possibility of loss is extremely high, but because of certain pending factors charge-off is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans. The doubtful classification is applied to that portion of the credit in which the full collection of principal and interest is questionable.

A loan is considered to be impaired when management determines that it is probable that the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. The value of individually impaired loans is measured based on the present value of expected payments using the fair value of the collateral if the loan is collateral dependent. Currently, it is management s practice to classify all substandard or doubtful loans as impaired. At June 30, 2013, December 31, 2012, and June 30, 2012, the Company s impaired loans totaled $40.4 million, $66.6 million and $90.4 million, respectively. At June 30, 2013, December 31, 2012, and June 30, 2012, the Company s specific reserve for impaired loans totaled $3.5 million, $3.8 million and $3.7 million, respectively.

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A summary of the Company s impaired loans, including their respective regulatory classification and their respective specific reserve at June 30, 2013, were as follows:

	Pass	Special Mention	Impaired Loans Substandard	Doubtful	Total	Specific Allowance for Impairment	Allowance for Performing Loans
	(Dollars in Thousands)						
One-to-four family mortgages	$ 151,332	1,169	5,348	31	157,880	794	1,600
Home equity line of credit	35,017		965		35,982	146	243
Junior liens	3,361	45	506		3,912		63
Multi-family	27,870		2,095		29,965		233
Construction	8,818	176			8,994		67
Land	22,185	7,441	9,519		39,145	1,385	415
Non-residential real estate	132,851	890	13,750		147,491	1,046	1,892
Farmland	45,086	352	4,862		50,300		462
Consumer loans	12,394		438		12,832	87	393
Commercial loans	47,790	435	2,930		51,155	91	482
Total	$ 486,704	10,508	40,413	31	537,656	3,549	5,850

A summary of the Company s impaired loans and their respective reserve at December 31, 2012, were as follows:

	Pass	Special Mention	Impaired Loans Substandard	Doubtful	Total	Specific Allowance for Impairment	Allowance for Performing Loans
	(Dollars in Thousands)						
One-to-four family mortgages	$ 156,961	779	4,595		162,335	754	1,736
Home equity line of credit	34,737	1,109	1,237		37,083	68	306
Junior liens	3,821	47	468		4,336	196	34
Multi-family	27,463	1,478	4,115		33,056	38	486
Construction	14,052		4,848		18,900		256
Land	14,374	7,683	23,849		45,906	932	1,252
Non-residential real estate	107,947	669	14,021		122,637	1,240	1,681
Farmland	38,496	1,230	7,073		46,799	184	528
Consumer loans	13,330		556		13,886	121	217
Commercial loans	44,191	516	5,842		50,549	308	311
Total	$ 455,372	13,511	66,604		535,487	3,841	6,807

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Impaired loans by classification type and the related valuation allowance amounts at June 30, 2013, were as follows:

	At June 30, 2013			For the six month period ended June 30, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)				
Impaired loans with no recorded reserve:					
One-to-four family mortgages	$ 2,680	2,680		1,975	4
Home equity line of credit	468	468		507	2
Junior liens	506	506		438	1
Multi-family	2,095	2,095		1,981	16
Construction				2,056	
Land	3,979	3,979		9,367	11
Farmland	4,862	4,862		4,591	108
Non-residential real estate	8,587	8,587		6,340	51
Consumer loans	24	24		34	3
Commercial loans	2,411	2,411		2,439	109
Total	$ 25,612	25,612		29,728	305
Impaired loans with recorded reserve:					
One-to-four family mortgages	$ 2,699	2,739	794	2,504	10
Home equity line of credit	497	497	146	420	4
Junior liens				43	
Multi-family					
Construction					
Land	5,540	5,934	1,385	4,753	50
Farmland				226	
Non-residential real estate	5,163	6,460	1,046	3,321	97
Consumer loans	414	419	87	321	
Commercial loans	519	570	91	743	3
Total	$ 14,832	16,619	3,549	12,331	164
Total impaired loans	$ 40,444	42,231	3,549	42,059	469

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Impaired loans by classification type and the related valuation allowance amounts at December 31, 2012, were as follows:

	At December 31, 2012				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with no recorded reserve:					
One-to-four family mortgages	$ 1,759	1,759		5,279	107
Home equity line of credit	1,169	1,169		869	50
Junior liens				281	3
Multi-family	4,077	4,077		3,626	219
Construction	4,848	4,848		3,133	174
Land	20,279	20,279		19,857	504
Farmland	5,701	5,701		5,701	202
Non-residential real estate	9,662	9,662		14,235	653
Consumer loans	81	81		66	5
Commercial loans	1,617	1,617		2,701	165
Total	$ 49,193	49,193		55,748	2,082
Impaired loans with recorded reserve:					
One-to-four family mortgages	$ 2,836	2,836	754	3,135	145
Home equity line of credit	68	68	76	162	3
Junior liens	468	468	188	365	38
Multi-family	38	38	38	2,640	4
Construction				1,095	
Land	3,570	3,570	932	4,848	213
Farmland	1,372	1,372	184	1,372	92
Non-residential real estate	4,359	4,359	1,240	5,206	231
Consumer loans	475	475	121	281	1
Commercial loans	4,225	4,225	308	4,470	28
Total	$ 17,411	17,411	3,841	23,574	755
Total impaired loans	$ 66,604	66,604	3,841	79,322	2,837

On a periodic basis, the Bank may modify the terms of certain loans. In evaluating whether a restructuring constitutes a troubled debt restructuring (TDR), Financial Accounting Standards Board has issued Accounting Standards Update 310 (ASU 310), *A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring.* In evaluating whether a restructuring constitutes a TDR, the Bank must separately conclude that both of the following exist:

- The restructuring constitutes a concession

- The debtor is experiencing financial difficulties

ASU 310 provides the following guidance for the Bank s evaluation of whether it has granted a concession as follows:

- If a debtor does not otherwise have access to funds at a market interest rate for debt with similar risk characteristics as the restructured debt, the restructured debt would be considered a below market rate, which may indicate that the Bank may have granted a concession. In that circumstance, the Bank should consider all aspects of the restructuring in determining whether it has granted a concession, the creditor must make a separate assessment about whether the debtor is experiencing financial difficulties to determine whether the restructuring constitutes a TDR.

- A temporary or permanent increase in the interest rate on a loan as a result of a restructuring does not eliminate the possibility of the restructuring from being considered a concession if the new interest rate on the loan is below the market interest rate for loans of similar risk characteristics.

- A restructuring that results in a delay in payment that is insignificant is not a concession. However, the Bank must consider a variety of factors in assessing whether a restructuring resulting in a delay in payment is insignificant.

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A summary of the Company s loans classified as Troubled Debt Restructurings (TDR s) that are reported as performing at June 30, 2013 and December 31, 2012, is below:

	June 30, 2013	December 31, 2012
	(Dollars in Thousands)	
TDR by Loan Type:		
One-to-four family mortgages	$ 267	1,888
Home equity line of credit		
Junior lien		196
Multi-family		234
Construction		4,112
Land	2,256	3,424
Non-residential real estate	3,343	3,173
Farmland		909
Consumer loans	4	5
Commercial loans	230	128
Total TDR	6,100	14,069
Less: TDR in non-accrual status		
One-to-four family mortgages		
Home equity line of credit		
Junior lien		(100)
Multi-family		
Construction		
Land	(2,256)	(2,768)
Non-residential real estate	(3,248)	(44)
Farmland		
Consumer loans		
Commercial loans	(127)	(119)
Total non-accrual TDRs	(5,631)	3,031
Total performing TDR	$ 469	11,038

(6) REAL ESTATE AND OTHER ASSETS OWNED

The Company s real estate and other assets owned represent properties and personal collateral acquired through customer loan defaults. The property is recorded at the lower of cost or fair value less estimated cost to sell and carrying cost at the date acquired. Any difference between the book value and estimated market value is recognized as a charge off through the allowance for loan loss account. Additional real estate owned and other asset losses may be determined on individual properties at specific intervals or at the time of disposal. In general, the Company will obtain a new appraisal on all real estate owned with a book balance in excess of $250,000 on an annual basis. Additional losses are recognized as a non-interest expense.

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At June 30, 2013, December 31, 2012, and June 30, 2012, the Company had balances in other real estate and assets owned and non-accrual loans consisting of the following:

	June 30, 2013	December 31, 2012	June 30, 2012
		(Dollars in Thousands)	
One-to-four family mortgages	$ 447	258	707
Multi-family			
Construction		130	216
Land	1,112	1,112	425
Non-residential real estate	73	44	
Consumer assets		4	
Total other real estate owned	1,632	1,548	1,348
Total non-accrual loans	11,812	7,663	12,119
Total non-performing assets	$ 13,444	9,211	13,467
Non-performing assets / Total assets	1.42%	0.95%	1.31%

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The following is a summary of the activity in the Company s real estate and other assets owned for the six month period ending June 30, 2013:

		Activity During 2013				
	Balance 12/31/2012	Foreclosures	Proceeds	Reduction in Values	Gain (Loss) on Sale	Balance 6/30/2013
			(Dollars in Thousands)			
One-to-four family mortgages	$ 258	548	(349)		(10)	447
Multi-family						
Construction	130		(110)	(110)	90	
Land	1,112					1,112
Non-residential real estate	44	40		(11)		73
Consumer assets	4	5	(3)	(4)	(2)	
Total	$ 1,548	593	(462)	(125)	78	1,632

The following is a summary of the activity in the Company s real estate and other assets owned for the year ended December 31, 2012:

		Activity During 2012				
	Balance 12/31/2011	Foreclosures	Proceeds	Reduction in Values	Gain (Loss) on Sale	Balance 12/31/2012
			(Dollars in Thousands)			
One-to-four family mortgages	$ 480	983	(1,084)	(92)	(29)	258
Multi-family	905		(875)		(30)	
Construction	465		(321)		(14)	130
Land	248	1,229	(269)	(77)	(19)	1,112
Non-residential real estate	160	64	(178)	(20)	18	44
Consumer assets	9	9	(11)		(3)	4
Total	$ 2,267	2,285	(2,738)	(189)	(77)	1,548

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(7) INVESTMENTS IN AFFILIATED COMPANIES

Investments in affiliated companies accounted for under the equity method consist of 100% of the common stock of HopFed Capital Trust 1 (Trust), a wholly-owned statutory business trust. The Trust was formed on September 25, 2003. Summary financial information for the Trust follows (dollars in thousands):

Summary Statements of Financial Condition

	At June 30, 2013	At December 31, 2012
Assets - investment in subordinated debentures issued by HopFed Bancorp, Inc.	$ 10,310	10,310
Liabilities		
Stockholder s equity - Trust preferred securities	10,000	10,000
Common stock (100% Owned by HopFed Bancorp, Inc.)	310	310
Total stockholders equity	$ 10,310	$ 10,310

Summary Statement of Income

	Three Month Periods Ended June 30,		Six Month Period Ended June 30,	
	2013	2012	2013	2012
Income - interest income from subordinated debentures issued by HopFed Bancorp, Inc.	$ 88	93	$ 176	189
Net income	$ 88	93	$ 176	189

Summary Statement of Stockholders Equity

	Trust Preferred Securities	Common Stock	Retained Earnings	Total Stockholders Equity
Beginning balances, December 31, 2012	$ 10,000	310		10,310
Net income			176	176
Dividends:				
Trust preferred securities			(171)	(171)
Common paid to HopFed Bancorp, Inc.			(5)	(5)
Ending balances, June 30, 2013	$ 10,000	310		10,310

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(8) FAIR VALUE OF ASSETS AND LIABILITIES

ASC 820-10, *Fair Value Measurements* defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value. The statement establishes a fair value hierarchy which requires an entity to maximize the use of observable input and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Level 1 is for assets and liabilities that management has obtained quoted prices (unadjusted for transaction cost) or identical assets or liabilities in active markets that the Company has the ability to access as of the measurement date.

Level 2 is for assets and liabilities in which significant unobservable inputs other than Level 1 prices such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 is for assets and liabilities in which significant unobservable inputs that reflect a reporting entity s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of securities available for sale are determined by a matrix pricing, which is a mathematical technique that is widely used in the industry to value debt securities without exclusively using quoted prices for the individual securities in the Company s portfolio but rather by relying on the securities relationship to other benchmark quoted securities. Impaired loans are valued at the net present value of expected payments using the fair value of any assigned collateral. The values for bank owned life insurance are obtained from stated values from the respective insurance companies. The liability associated with the Company s derivative is obtained from a quoted value supplied by our correspondent banker. The value of real estate owned is obtained from appraisals completed on properties at the time of acquisition and annually thereafter.

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Assets and Liabilities Measured on a Recurring Basis

The assets and liabilities measured at fair value on a recurring basis at June 30, 2013, are summarized below:

Description	Total carrying value in the consolidated balance sheet at June 30, 2013	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Available for sale securities	$ 338,936		337,447	1,489
Bank owned life insurance	$ 9,486		9,486	
Liabilities				
Interest rate swap	$ 913		913	

The assets and liabilities measured at fair value on a recurring basis at December 31, 2012, are summarized below:

Description	Total carrying value in the consolidated balance sheet at December 31, 2012	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Available for sale securities	$ 356,345		354,856	1,489
Bank owned life insurance	$ 9,323		9,323	
Liabilities				
Interest rate swap	$ 1,126		1,126	

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The assets and liabilities measured at fair value on a non-recurring basis are summarized below for June 30, 2013:

Description	Total carrying value in the consolidated balance sheet at June 30, 2013	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in Thousands)			
Assets				
Other real estate owned	$ 1,632			$ 1,632
Impaired loans, net of reserve of $3,549	$ 36,895			$ 36,895

The assets and liabilities measured at fair value on a non-recurring basis are summarized below for December 31, 2012:

Description	Total carrying value in the consolidated balance sheet at December 31, 2012	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Other real estate owned	$ 1,544			$ 1,544
Other assets owned	$ 4			$ 4
Impaired loans, net of reserve of $3,841	$ 62,763			$ 62,763

The table below includes a roll-forward of the consolidated condensed statement of financial condition items for the six month periods ended June 30, 2013, and June 30, 2012, (including the change in fair value) for assets and liabilities classified by HopFed Bancorp, Inc. within level 3 of the valuation hierarchy for assets and liabilities measured at fair value on a recurring basis. When a determination is made to classify an asset or liability within level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, since level 3 assets and liabilities typically include, in addition to the unobservable or level 3 components, observable components (that is components that are actively quoted and can be validated to external sources), the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology.

Six month period ended June 30,	2013		2012	
	Other Assets	Other Liabilities	Other Assets	Other Liabilities
	(Dollars in Thousands)			
Fair value, January 1,	$ 1,489		993	
Change in unrealized losses included in other comprehensive income for assets and liabilities still held at June 30,			429	
Purchases, issuances and settlements, net				
Transfers in and/or out of Level 3				
Fair value, June 30,	$ 1,489		1,422	

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The estimated fair values of financial instruments were as follows at June 30, 2013:

	Carrying Amount	Estimated Fair Value	Quoted Prices In Active Markets for Identical Assets Level 1	Using Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
			(Dollars in Thousands)		
Financial Assets:					
Cash and due from banks	$ 20,070	20,070	$ 20,070		
Interest-earning deposits	9,633	9,633	9,633		
Securities available for sale	338,936	338,936		337,447	1,489
Federal Home Loan Bank stock	4,428	4,428		4,428	
Loans receivable	528,282	527,365			527,365
Accrued interest receivable	4,919	4,919		4,919	
Bank owned life insurance	9,486	9,486		9,486	
Financial liabilities:					
Deposits	742,664	743,829		743,829	
Advances from borrowers for taxes and insurance	697	697		697	
Advances from Federal Home Loan Bank	45,768	46,711		46,711	
Repurchase agreements	47,072	48,311		48,311	
Subordinated debentures	10,310	10,091			10,091
Off-balance-sheet liabilities:					
Commitments to extend credit					
Commercial letters of credit					
Market value of interest rate swap	913	913		913	

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The estimated fair values of financial instruments were as follows at December 31, 2012:

	Carrying Amount	Estimated Fair Value	Quoted Prices In Active Markets for Identical Assets Level 1	Using Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
			(Dollars in Thousands)		
Financial Assets:					
Cash and due from banks	$ 31,563	31,563	$ 31,563		
Interest-earning deposits	5,613	5,613	5,613		
Securities available for sale	356,345	356,345		354,856	1,489
Federal Home Loan Bank stock	4,428	4,428		4,428	
Loans receivable	524,985	532,040			532,040
Accrued interest receivable	5,398	5,398		5,398	
Bank owned life insurance	9,323	9,323		9,323	
Financial liabilities:					
Deposits	759,865	756,426		756,426	
Advances from borrowers for taxes and insurance	396	396		396	
Advances from Federal Home Loan Bank	43,741	49,293		49,293	
Repurchase agreements	43,508	44,779		44,779	
Subordinated debentures	10,310	10,092			10,092
Off-balance-sheet liabilities:					
Commitments to extend credit					
Commercial letters of credit					
Market value of interest rate swap	1,126	1,126		1,126	

(9) PARTICIPATION IN UNITED STATE OF AMERICA TREASURY DEPARTMENT S CAPITAL PURCHASE PLAN

On December 12, 2008, HopFed Bancorp issued and sold 18,400 shares of preferred stock to the United States Treasury (Treasury) for $18,400,000 pursuant to the Capital Purchase Program. The Company also issued a common stock warrant to the Treasury as a condition to its participation in the Capital Purchase Program. The warrant was immediately exercisable and allowed the holder to purchase 253,667 shares of the Company s common stock at $10.88 per share. The warrant would have expired on December 12, 2018. The preferred stock had no stated maturity and was non-voting, other than having class voting rights on certain matters, and paid cumulative dividends quarterly at a rate of 5% per year for the first five years and 9% thereafter. The Company repurchased the preferred stock from the Treasury at par on December 19, 2012, and repurchased the warrant from the Treasury on January 16, 2013, for $256,257.

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(10) STOCK OPTIONS
At June 30, 2013, all stock options outstanding were issued under the HopFed Bancorp, Inc. 1999 Stock Option Plan. At June 30, 2013, the Company can no longer issue options under this plan. The remaining 20,808 options are fully vested with a strike price of $16.67 and have a final maturity of June 1, 2014.

(11) DERIVATIVE INSTRUMENTS
Under guidelines of Financial Accounting Standards Board (FASB) ASC 815*, Derivative Instruments and Hedging Activities*, as amended, all derivative instruments are required to be carried at fair value on the consolidated statement of financial position. ASC 815 provides special hedge accounting provisions, which permit the change in fair value of the hedge item related to the risk being hedged to be recognized in earnings in the same period and in the same income statement line as the change in the fair value of the derivative.

A derivative instrument designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges under ASC 815. Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Cash value hedges are accounted for by recording the fair value of the derivative instrument and the fair value related to the risk being hedged of the hedged asset or liability on the consolidated statement of financial position with corresponding offsets recorded in the consolidated statement of financial position.

The adjustment to the hedged asset or liability is included in the basis of the hedged item, while the fair value of the derivative is recorded as a freestanding asset or liability. Actual cash receipts or payments and related amounts accrued during the period on derivatives included in a fair value hedge relationship are recorded as adjustments to the income or expense recorded on the hedged asset or liability.

Under both the fair value and cash flow hedge methods, derivative gains and losses not effective in hedging the change in fair value or expected cash flows of the hedged item are recognized immediately in the income statement. At the hedge s inception and at least quarterly thereafter, a formal assessment is performed to determine whether changes in the fair values or cash flows of the derivative instrument has been highly effective in offsetting changes in the fair values or cash flows of the hedged items and whether they are expected to be highly effective in the future. If it is determined a derivative instrument has not been, or will not continue to be highly effective as a hedge, hedged accounting is discontinued. ASC 815 basis adjustments recorded on hedged assets and liabilities are amortized over the remaining life of the hedged item beginning no later than when hedge accounting ceases. There were no fair value hedging gains or losses, as a result of hedge ineffectiveness, recognized for the six month period ended June 30, 2013, or the year ended December 31, 2012.

In October of 2008, the Bank entered into an interest rate swap agreement for a term of seven years and an amount of $10.0 million. The Bank will pay a fixed rate of 7.27% for seven years and receive an amount equal to the three-month London Interbank Lending Rate (LIBOR) plus 3.10%. The interest rate swap is classified as a cash flow hedge by the Bank and will be tested quarterly for effectiveness. At June 30, 2013, and December 31, 2012, the cost of the Bank to terminate the cash flow hedge was approximately $913,000 and $1,126,000, respectively.

(12) REGULATORY CHANGES

On June 5, 2013, the Company announced that its wholly owned subsidiary, Heritage Bank, has completed its conversion from a federally chartered savings and loan to a state chartered commercial bank regulated by the Kentucky Department of Financial Institutions and the Federal Deposit Insurance Corporation. In connection with the Bank s charter conversion, the Company has received approval from the Board of Governors of the Federal Reserve System (the Federal Reserve) to convert our holding company from a savings and loan holding company to a bank holding company also with an effective date of June 5, 2013.

On July 2, 2013, the Board of Governors of the Federal Reserve Bank approved the final rule for BASEL III capital requirements for all commercial banks charted in the United States of America. The rule was subsequently approved by the FDIC on July 9, 2013. The rule will implement in the United States the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. Under the final rule, minimum requirements will increase for both the quantity and quality of capital held by banking organizations. Consistent with the international Basel framework, the rule includes a new minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5% and a common equity tier 1 capital conservation buffer of 2.5% of risk-weighted assets that will apply to all supervised financial institutions. The rule also raises the minimum ratio of tier 1 capital to risk-weighted assets from 4 percent to 6 percent and includes a minimum leverage ratio of 4 percent for all banking organizations. In addition, for the largest, most internationally active banking organizations, the final rule includes a new minimum supplementary leverage ratio that takes into account off-balance sheet exposures. The transition period for implementation of Basel III is January 1, 2015, through December 31, 2018. The Company is currently evaluating the impact of Basel III on our financial statements.

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(13) EFFECT OF NEW ACCOUNTING PRONOUNCEMENTS
ASU 2011-11*, Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities.* ASU 2011-11 amends Topic 210, Balance Sheet, to require an entity to disclose both gross and net information about financial instruments, such as sales and repurchase agreements and reverse sale and repurchase agreements and securities borrowing/lending arrangements, and derivative instruments that are eligible for offset in the statement of financial position and/or subject to a master netting arrangement or similar agreement. ASU No. 2013-01, Balance Sheet (Topic 210) Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, clarifies that ordinary trade receivables are not within the scope of ASU 2011-11. ASU 2011-11 is effective for annual and interim periods beginning on January 1, 2013, and did not have a material impact on the Company s financial statements.

In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards update No. 2011-05*. This update to Comprehensive Income (Topic 220) defers the requirement to present items that are reclassified from accumulated other comprehensive income to net income separately with their respective components of net income and other comprehensive income. The deferral supersedes only the paragraphs pertaining to how and where reclassification adjustments are presented. The amendments in this update were effective for public entities for reporting periods beginning after December 15, 2011. The implementation of ASU 2011-12 did not have a material impact on the Company s consolidated statement of comprehensive income.

ASU 2012-02, *Intangibles Goodwill and Other (Topic 350) Testing Indefinite-Lived Intangible Assets for Impairment.* ASU 2012-02 give entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events or circumstances, an entity determines it is more likely than not that an indefinite-lived intangible asset is impaired, then the entity must perform the quantitative impairment test. If, under the quantitative impairment test, the carrying amount of the intangible asset exceeds its fair value, an entity should recognize an impairment loss in the amount of that excess.

Permitting an entity to assess qualitative factors when testing indefinite-lived intangible assets for impairment results in guidance that is similar to the goodwill impairment testing guidance in ASU 2011-08. ASU 2012-02 is effective for the Company s beginning January 1, 2013 (early adoption permitted) and is not expected to have a significant impact on the Company s financial statements.

ASU 2012-06, *Business Combinations (Topic 805) Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution (a consensus of the FASB Emerging Issues Task Force).* ASU 2012-06 clarifies the applicable guidance for subsequently measuring an indemnification asset recognized as a result of a government-assisted acquisition of a financial institution.

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ASU 2013-02, *Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.* ASU 2013-02 amends recent guidance related to the reporting of comprehensive income to enhance the reporting of reclassifications out of accumulated other comprehensive income. ASU 2013-02 became effective for the Company on January 1, 2013, and did not have a significant impact on the Company s financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company s financial position, results of operations or cash flows.

(14) INCOME TAXES

The Company and its subsidiaries file consolidated Federal income tax returns and Tennessee excise tax returns. The Company and its non bank subsidiaries file consolidated Kentucky income tax returns. The Bank is exempt from Kentucky corporate income tax.

The Company has no unrecognized tax benefits and has not accrued any interest or penalties for uncertain tax positions.

The effective tax rate differs from the statutory federal rate of 35% and Tennessee excise tax rate of 6.5% due to investment in qualified municipal securities, bank owned life insurance, income apportioned to Kentucky and certain non deductible expenses.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
Critical Accounting Policies

The consolidated condensed financial statements as of June 30, 2013, and December 31, 2012, and for the three and six month periods ended June 30, 2013, and June 30, 2012, included herein have been prepared by the Company, without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in interim financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the financial statements and notes thereon included in the Company s 2012 Annual Report to Stockholders on Form 10-K.

Certain of the Company s accounting policies are important to the portrayal of the Company s financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Facts and circumstances, which could affect these material judgments, include, but without limitation, changes in interest rates, in the performance of the economy or in the financial condition of borrowers. Management believes that its critical accounting policies include determining the allowance for loan losses, determining the fair value of securities and other financial instruments, and assessing other than temporary impairments of securities.

Comparison of Financial Condition at June 30, 2013, and December 31, 2012

At June 30, 2013, total assets declined $18.3 million, to $949.4 million as compared to $967.7 million at December 31, 2012, due to lower deposit and investment levels. Securities available for sale decreased from $356.3 million at December 31, 2012, to $338.9 million at June 30, 2013. At June 30, 2013, and December 31, 2012, securities classified as available for sale had an amortized cost of $336.3 million and $340.5 million, respectively. Net loans totaled $528.3 million and $525.0 million at June 30, 2013, and December 31, 2012, respectively.

The Company s holdings of Federal Home Loan Bank of Cincinnati (FHLB) stock, at cost was $4.4 million at December 31, 2012, and June 30, 2013. Total Federal Home Loan Bank FHLB borrowings increased from $43.7 million at December 31, 2012, to $45.8 million at June 30, 2013 due to a $3 million overnight borrowing at the end of the second quarter in 2013. Total repurchase balances increased from $43.5 million at December 31, 2012, to $47.1 million at June 30, 2013.

At June 30, 2013, deposits declined to $742.7 million from $759.9 million at December 31, 2012, due to a $29.0 million reduction in time deposits. At June 30, 2013, non-interest checking account balances increased to $94.4 million, or 12.7% of total deposits. The average cost of all deposits during the six month periods ended June 30, 2013, June 30, 2012, and the year ended December 31, 2012, was 1.04%, 1.39% and 1.20%, respectively.

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Management continually evaluates the investment alternatives available to customers and adjusts the pricing on its deposit products to more actively manage its funding costs while remaining competitive in its market area. Given our continued high level of liquidity, the Company has chosen to reduce its balances of higher costing time deposits. In the three month period beginning July 1, 2013, and ending September 30, 2013, the Company has approximately $87.1 million in time deposits scheduled to mature at a current weighted average cost of 1.78%.

Comparison of Operating Results for the Six Month Periods Ended June 30, 2013 and 2012.

Net Income. The Company s net income available to common shareholders was $2.2 million for the six month period ended June 30, 2013, as compared to net income available to common shareholders of $1.4 million for the six month period ended June 30, 2012. The improvement in the Company s results for the six month period ended June 30, 2013, was partially the result of the elimination of $516,000 in preferred stock dividend and warrant accretion and an increase in gains recognized on the sale of securities.

Net Interest Income. Net interest income for the six month period ended June 30, 2013, was $12.6 million, compared to $13.5 million for the six month period ended June 30, 2012. The decline in net interest income for the six months ended June 30, 2013, as compared to June 30, 2012, was due to a $66.8 million decline in the average balance of interest earning assets and an overall decline in net yields available on interest earning assets.

For the six months ended June 30, 2013, the average yield on loans was 5.16%, as compared to 5.56% for the six month period ended June 30, 2012. For the six month period ended June 30, 2013, income on taxable securities declined to $3.6 million, from $4.8 million for the six month period ended June 30, 2012, due to lower yields on new investment purchases and a $45.9 million decline in the average balance of available for sale taxable securities. For the six month period ending June 30, 2013, the tax equivalent yield on taxable and tax free securities were 2.53% and 4.56%, respectively, as compared to 2.92% and 4.95% for the six-month period ended June 30, 2012, respectively.

For the six month periods ended June 30, 2013, and June 30, 2012, the Company s cost of interest bearing liabilities was 1.49% and 1.81%, respectively. The lower cost of interest bearing liabilities was the result of the continued re-pricing of higher costing certificates of deposit. At June 30, 2013, and June 30, 2012, the Company s net interest margin was 2.94% and 2.93%, respectively.

Average Balances, Yields and Interest Expenses. The table on the next page summarizes the overall effect of changes in both interest rates and the average balances of interest earning assets and liabilities for the six-month periods ended June 30, 2013, and June 30, 2012. Yields on assets and cost of liabilities are derived by dividing income or expense by the average daily balances of interest earning assets and liabilities for the appropriate six-month periods.

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Average balances for loans include loans classified as non-accrual, net of the allowance for loan losses. The table adjusts tax-free investment income by $545,000 for June 30, 2013, and $533,000 for June 30, 2012, for a tax equivalent rate using a cost of funds rate of 1.50% for June 30, 2013, and 1.80% for June 30, 2012. The table adjusts tax-free loan income by $4,000 for June 30, 2013, and $5,000 for June 30, 2012, for a tax equivalent rate using the same cost of funds rate:

	Average Balance 6/30/2013	Income and Expense 6/30/2013	Average Rates 6/30/2013	Average Balance 6/30/2012	Income and Expense 6/30/2012	Average Rates 6/30/2012
	(Table Amounts in Thousands, Except Percentages)					
Loans	$ 525,448	13,562	5.16%	$ 547,815	15,219	5.56%
Investments AFS taxable	283,867	3,596	2.53%	$ 329,809	4,809	2.92%
Investment AFS tax free	73,499	1,677	4.56%	$ 66,852	1,655	4.95%
Interest earning deposits	9,672	13	0.27%	$ 14,762	14	0.19%
Total interest earning assets	892,486	18,848	4.22%	959,238	21,697	4.52%
Other assets	79,201			89,115		
Total assets	$ 971,687			$ 1,048,353		
Retail time deposits	378,326	2,877	1.52%	451,622	4,459	1.97%
Brokered deposits	46,390	362	1.56%	54,265	510	1.88%
Saving & MMDA	83,367	70	0.17%	73,453	66	0.18%
Now accounts	165,564	673	0.81%	147,336	604	0.82%
FHLB borrowings	43,586	890	4.08%	62,537	1,138	3.64%
Repurchase agreements	40,595	472	2.33%	41,915	485	2.31%
Subordinated debentures	10,310	364	7.06%	10,310	368	7.14%
Total interest bearing liabilities	768,138	5,708	1.49%	841,438	7,630	1.81%
Non-interest bearing deposits	93,857			82,153		
Other liabilities	4,944			5,212		
Stockholders equity	104,748			119,550		
Total liabilities and stockholders equity	$ 971,687			$ 1,048,353		
Net interest income		13,140			14,067	
Net interest spread			2.73%			2.71%
Net interest margin		2.94%			2.93%	

Interest Income. For the six month periods ended June 30, 2013, and June 30, 2012, the Company s total interest income was $18.3 million and $21.2 million, respectively. As the Company s loan demand remains soft, the Company continues to have a high dependency on investment income. As investment options have become less attractive, the Company has chosen to increase its holdings in floating rate securities. By investing in floating rate securities, the Company is limiting the price volatility on a portion of the portfolio while accepting yields that are significantly below the average yield in the remaining portfolio. At June 30 2013, the Company owns approximately $47.1 million in floating rate securities that re-price monthly or quarterly based on movements in the one and three month London Interbank Offering Rate (LIBOR).

The average balance of loans receivable declined from $547.8 million for the six month period ended June 30, 2012, to $525.4 million for the six month period ended June 30, 2013. The ratio of average interest-earning assets to average interest-bearing liabilities increased from 114.0% for the six months ended June 30, 2012, to 116.2% for the three months ended June 30, 2013.

Interest Expense. Interest expense declined approximately $1.9 million for the six months ended June 30, 2013, as compared to June 30, 2012. The decline was attributable to lower market interest rates, the re-pricing of higher costing deposits, and a reduction in the average balance of time deposits and FHLB borrowings. The average cost of interest-bearing retail time deposits declined from 1.97% for the six month period ended June 30, 2012, to 1.52% for the six months ended June 30, 2013. Over the same period, the average balance of interest bearing retail time deposits declined $73.3 million, from $451.6 million for the three months ended June 30, 2012, to $378.3 million for the three months ended June 30, 2013.

The average cost of brokered deposits declined from 1.88% for the six months ended June 30, 2012, to 1.56% for the six months ended June 30, 2013. Over the same period, the average balance of brokered deposits declined $7.9 million to $46.4 million for the six month period ended June 30, 2013. For the six month period ended June 30, 2013, the Company s total cost of deposits was 1.04% as compared to 1.39% for the six month period ended June 30, 2012.

The average balance of funds borrowed from the FHLB declined $18.9 million, from $62.5 million for the six months ended June 30, 2012, to $43.6 million for the six month period ended June 30, 2013. The average cost of borrowed funds from the FHLB were 3.64% for the six months ended June 30, 2012, and 4.08% for the six months ended June 30, 2013, respectively. The average balance of repurchase agreements declined from $41.9 million for the six months ended June 30, 2012, to $40.6 for the three month period ended June 30, 2013. The average cost of repurchase agreements was 2.31% for the six months ended June 30, 2012, and 2.33% for the six months ended June 30, 2013.

Provision for Loan Losses. The allowance for loan losses is established through a provision for loan losses based on management s evaluation of the risk inherent in its loan portfolio and the general economy. Such evaluation considers numerous factors including general economic conditions, loan portfolio composition and prior loss experience, the estimated fair value of the underlying collateral and other factors that warrant recognition in providing for an adequate loan loss allowance. The Company determined that an additional $782,000 in provision for loan loss was required for the six month period ended June 30, 2013, compared to a $1.3 million in provision for loan loss expense for the six month period ended June 30, 2012. The lower level of required provision expense for the six month period ended June 30, 2013, is the result of improving credit quality and risk grade trends on the Company s loan portfolio.

Non-Interest Income. There was a $755,000 increase in non-interest income in the six month period ended June 30, 2013, as compared to the same period in 2012. The increase in non-interest income was largely the result of a $742,000 increase in gains on the sale of investments. For the six month period ended June 30, 2013, the Company earned $412,000 in mortgage origination income as compared to $466,000 during the six month period ended June 30, 2012. The Company s financial services commission increased from $498,000 to $644,000 for the six month period ended June 30, 2013 as compared to the six month period ended June 30, 2012, as bank customers sought higher yields than is available on deposit accounts.

Non-Interest Expenses. There was a $140,000 decrease in total non-interest expenses in the six-month period ended June 30, 2013, as compared to the same period in 2012. The most significant change in non-interest expenses was a $494,000 increase in salary and benefit expenses for the six month period ended June 30, 2013, as compared to the six month period ended June 30, 2012. For the six month period ended June 30, 2013, the Company s deposit insurance expense was $411,000 as compared to $853,000 for the six month period ended June 30, 2012. The decline was due to the removal of the Company s and Bank s Memorandum of Understanding and Agreement and declining deposit balances. For the six month period ended June 30, 2013, professional services increased to $942,000 as compared to $886,000 for the six month period ended June 30, 2012, due to the cost associated with the Company s contested proxy vote.

Income Taxes. The effective tax rate for the six-month periods ending June 30, 2013, and June 30, 2012, was 21.0% and 17.1%, respectively.

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Comparison of Operating Results for the Three Month Periods Ended June 30, 2013 and 2012.

Net Income. The Company s net income available to common shareholders was $1.2 million for the three month period ended June 30, 2013, as compared to net income available to common shareholders of $903,000 for the three month period ended June 30, 2012. The improvement in the Company s results for the three month period ended June 30, 2013, was partially the result of the elimination of $259,000 in preferred stock dividend and warrant accretion and an increase in gains recognized on the sale of securities.

Net Interest Income. Net interest income for the three month period ended June 30, 2013, was $6.2 million, compared to $6.7 million for the three month period ended June 30, 2012. The decline in net interest income for the three months ended June 30, 2013, as compared to June 30, 2012, was due to a $72.6 million decline in the average balance of interest earning assets and an overall decline in net yields available on interest earning assets.

For the three months ended June 30, 2013, the average yield on loans was 5.06%, as compared to 5.45% for the three month period ended June 30, 2012. For the three month period ended June 30, 2013, income on taxable securities declined to $1.8 million, from $2.4 million for the three month period ended June 30, 2012, due to lower yields on new investment purchases and a $55.9 million decline in the average balance of available for sale taxable securities. For the three month period ending June 30, 2013, the tax equivalent yield on taxable and tax free securities were 2.49% and 4.54%, respectively, as compared to 2.87% and 4.74% for the three-month period ended June 30, 2012, respectively.

For the three month periods ended June 30, 2013, and June 30, 2012, the Company s cost of interest bearing liabilities was 1.47% and 1.79%, respectively. The lower cost of interest bearing liabilities was the result of lower short term interest rates. At June 30, 2013, and June 30, 2012, the Company s net interest margin was 2.90% and 2.87%, respectively.

Average Balances, Yields and Interest Expenses. The table on the next page summarizes the overall effect of changes in both interest rates and the average balances of interest earning assets and liabilities for the three-month periods ended June 30, 2013, and June 30, 2012. Yields on assets and cost of liabilities are derived by dividing income or expense by the average daily balances of interest earning assets and liabilities for the appropriate three-month periods.

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Average balances for loans include loans classified as non-accrual, net of the allowance for loan losses. The table adjusts tax-free investment income by $263,000 for June 30, 2013, and $260,000 for June 30, 2012, for a tax equivalent rate using a cost of funds rate of 1.50% for June 30, 2013, and 1.80% for June 30, 2012. The table adjusts tax-free loan income by $1,000 for June 30, 2013, and $3,000 for June 30, 2012, for a tax equivalent rate using the same cost of funds rate:

	Average Balance 6/30/2013	Income and Expense 6/30/2013	Average Rates 6/30/2013	Average Balance 6/30/2012	Income and Expense 6/30/2012	Average Rates 6/30/2012
	(Table Amounts in Thousands, Except Percentages)					
Loans	$ 528,160	6,677	5.06%	$ 544,056	7,416	5.45%
Investments AFS taxable	283,262	1,764	2.49%	339,125	2,434	2.87%
Investment AFS tax free	71,333	810	4.54%	68,035	807	4.74%
Interest earnings deposits	9,465	7	0.30%	13,632	6	0.18%
Total interest earning assets	892,220	9,258	4.15%	964,848	10,663	4.42%
Other assets	73,757			79,426		
Total assets	$ 965,977			$ 1,044,274		
Retail time deposits	371,908	1,378	1.48%	445,784	2,186	1.96%
Brokered deposits	45,688	178	1.56%	51,185	226	1.77%
Savings & MMDA	86,018	37	0.17%	74,472	33	0.18%
Now accounts	167,038	343	0.82%	150,813	310	0.82%
FHLB borrowings	43,612	446	4.09%	62,105	565	3.64%
Repurchase agreements	38,185	230	2.41%	39,788	237	2.38%
Subordinated debentures	10,310	182	7.06%	10,310	181	7.02%
Total interest bearing liabilities	762,759	2,794	1.47%	834,457	3,738	1.79%
Non-interest bearing deposits	93,616			83,803		
Other liabilities	4,891			4,158		
Stockholders equity	104,711			121,856		
Total liabilities and stockholders equity	$ 965,977			$ 1,044,274		
Net interest income		6,464			6,925	
Interest rate spread			2.68%			2.63%
Net interest margin		2.90%			2.87%	

Interest Income. For the three month periods ended June 30, 2013, and June 30, 2012, the Company s total interest income was $9.0 million and $10.4 million, respectively. As the Company s loan demand remains soft, we continue to have a high dependency on investment income. The average balance of loans receivable declined from $544.1 million for the three month period ended June 30, 2012, to $528.2 million for the three month period ended June 30, 2013. The ratio of average interest-earning assets to average interest-bearing liabilities increased from 115.63% for the three months ended June 30, 2012, to 116.97% for the three months ended June 30, 2013.

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Interest Expense. Interest expense declined $944,000 for the three months ended June 30, 2013, as compared to June 30, 2012. The decline was attributable to lower market interest rates, the re-pricing of higher costing deposits, and a reduction in the average balance of time deposits FHLB borrowings. The average cost of interest-bearing retail time deposits declined from 1.96% for the three month period ended June 30, 2012, to 1.48% for the three months ended June 30, 2013. Over the same period, the average balance of interest bearing retail time deposits declined $73.9 million, from $445.8 million for the three months ended June 30, 2012, to $371.9 million for the three months ended June 30, 2013.

The average cost of brokered deposits declined from 1.77% for the three months ended June 30, 2012, to 1.56% for the three months ended June 30, 2013. Over the same period, the average balance of brokered deposits declined from $51.2 million for the three month period ended June 30, 2012, to $45.7 million for the three month period ended June 30, 2013. For the three month period ended June 30, 2013, the Company s total cost of deposits was 1.01% as compared to 1.37% for the three month period ended June 30, 2012.

The average balance of funds borrowed from the FHLB declined $18.5 million, from $62.1 million for the three months ended June 30, 2012, to $43.6 million for the three month period ended June 30, 2013. The average cost of borrowed funds from the FHLB were 3.64% for the three months ended June 30, 2012, and 4.09% for the three months ended June 30, 2013, respectively. The average balance of repurchase agreements declined from $39.8 million for the three months ended June 30, 2012, to $38.2 for the three month period ended June 30, 2013. The average cost of repurchase agreements was 2.38% for the three months ended June 30, 2012, and 2.41% for the three months ended June 30, 2013, respectively.

Provision for Loan Losses. The allowance for loan losses is established through a provision for loan losses based on management s evaluation of the risk inherent in its loan portfolio and the general economy. Such evaluation considers numerous factors including general economic conditions, loan portfolio composition and prior loss experience, the estimated fair value of the underlying collateral and other factors that warrant recognition in providing for an adequate loan loss allowance. The Company determined that an additional $406,000 in provision for loan loss was required for the three month period ended June 30, 2013, compared to a $400,000 in provision for loan loss expense for the three month period ended June 30, 2012.

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Non-Interest Income. There was a $189,000 increase in non-interest income in the three month period ended June 30, 2013, as compared to the same period in 2012. The increase in non-interest income was largely the result of a $159,000 increase in gains on the sale of investments. For the three month period ended June 30, 2013, the Company earned $212,000 in mortgage origination income as compared to $263,000 during the three month period ended June 30, 2012. The Company s financial services commission increased from $271,000 for the three month period ended June 30, 2012, to $347,000 for the three month period ended June 30, 2013.

Non-Interest Expenses. There was a $315,000 decrease in total non-interest expenses in the three-month period ended June 30, 2013, as compared to the same period in 2012. The most significant change in non-interest expenses was a $153,000 increase in salary and benefit expenses for the three month period ended June 30, 2013, as compared to the three month period ended June 30, 2012. For the three month period ended June 30, 2013, the Company s deposit insurance expense was $179,000 as compared to $434,000 for the three month period ended June 30, 2012. The decline was due to the removal of the Company s and Bank s Memorandum of Understanding and Agreement.

Income Taxes. The effective tax rate for the three-month periods ending June 30, 2013, and June 30, 2012, was 22.2% and 20.5%, respectively.

Liquidity and Capital Resources. The Company has no business other than that of the Bank. Management believes that dividends that may be paid by the Bank to the Company will provide sufficient funds for its current needs. However, no assurance can be given that the Company will not have a need for additional funds in the future. The Bank is subject to certain regulatory limitations with respect to the payment of dividends to the Company. The Company s principal source of funds for dividend payments are dividends received from Heritage Bank, USA. Banking regulations limit the amount of dividends that may be paid to the Parent Company by the Bank without prior approval of the Kentucky Department of Financial Institutions. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year s net profits, combined with the retained net profits of the preceding two years.

The Bank uses brokered deposits to supplement its asset liability need for longer term deposits at reasonable prices. In addition to the coupon rate listed below, brokered deposits carry an additional fee of approximately 0.25% that includes the cost of selling and servicing the deposits. The Company includes this cost as interest expense on its income statement and on its table on page 44 that provides the yields and cost of assets and liabilities.

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At June 30, 2013, the Bank s brokered deposits consisted of the following:

Issue Date	Interest Rate	Balance	Maturity Date
1/22/2010	2.20%	$ 3,092,000	7/22/2013
3/2/2010	2.00%	3,204,000	9/2/2013
9/22/2010	1.15%	2,144,000	3/22/2014
7/1/2011	1.00%	3,000,000	5/1/2014
8/11/2009	3.00%	5,095,000	8/11/2014
7/9/2012	0.54%	3,159,000	1/9/2015
7/27/2012	0.70%	3,590,000	7/27/2015
12/21/2010	1.70%	805,000	12/21/2015
9/21/2012	0.60%	2,500,000	1/21/2016
7/9/2012	0.70%	2,309,000	3/9/2016
3/17/2011	2.25%	1,500,000	3/17/2016
10/13/2011	1.35%	2,086,000	10/13/2016(1)
3/9/2012	1.00%	3,044,000	12/9/2016(1)
7/9/2012	0.98%	1,446,000	1/9/2017(1)
7/27/2012	0.50%	1,496,000	7/27/2017(1)
9/22/2011	1.00%	2,127,000	9/22/2017(1)
1/3/2013	1.00%	3,030,000	1/3/2018
Total		$ 43,627,000	

(1) Denotes brokered deposit with rising rate feature in which the Bank has a call option.

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Presently, the Bank must satisfy three capital standards: a ratio of tier 1 capital to adjusted total assets of 4.0%, a tier one capital to risk-weighted assets of 4.0%, and a combination of core and supplementary capital equal to 8.0% of risk-weighted assets. At June 30, 2013, the Bank exceeded all regulatory capital requirements.

The table below presents certain information relating to the Company s and Bank s capital compliance at June 30, 2013:

June 30, 2013	Actual Amount	Actual Ratio	Minimum Capital Requirement Amount	Minimum Capital Requirement Ratio	Minimum To Be Well Capitalized Under Applicable Regulatory Provisions Amount	Minimum To Be Well Capitalized Under Applicable Regulatory Provisions Ratio
Tier 1 capital to average assets:						
Consolidated	106,722	11.2%	38,178	4.0%	n/a	n/a
Heritage Bank	105,099	11.0%	38,069	4.0%	47,586	5.0%
Tier 1 capital to risk weighted assets:						
Consolidated	106,722	18.2%	23,521	4.0%	35,282	6.0%
Heritage Bank	105,099	17.9%	23,498	4.0%	35,247	6.0%
Total capital to risk weighted assets:						
Consolidated	114,101	19.4%	47,042	8.0%	58,803	10.0%
Heritage Bank	112,446	19.1%	46,996	8.0%	58,745	10.0%

At June 30, 2013, the Bank had no outstanding commitments to originate loans and undisbursed commitments on loans outstanding of $17.3 million. Management believes that the Bank s sources of funds are sufficient to fund all of its outstanding commitments. Certificates of deposits scheduled to mature in one year or less from June 30, 2013, totaled $202.9 million. Management believes that a significant percentage of such deposits will remain with the Bank.

The Bank s FHLB borrowings are secured by a blanket security agreement pledging the Bank s 1-4 family first mortgage loans and non-residential real estate loans. At June 30, 2013, the Bank has pledged all eligible 1-4 family first mortgages.

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At June 30, 2013, the Bank has outstanding borrowings of $45.8 million from the FHLB with maturities ranging from overnight to seven years. A schedule of FHLB borrowings at June 30, 2013, is provided below:

Outstanding Balance	Rate	Maturity	Note
		(Dollars in thousands)	
$ 3,000	0.18%	07/01/13	
4,000	5.34%	03/17/16	
7,000	4.25%	05/01/17	Quarterly callable
10,000	4.56%	06/27/17	Quarterly callable
10,000	4.26%	08/17/17	Quarterly callable
11,768	3.13%	01/01/19	Monthly Principal Payments
$ 45,768	4.11%	4.3 years	Weighted average life

At June 30, 2013, the Bank had $43.9 million in additional borrowing capacity with the FHLB which includes an overnight line of credit of $30.0 million. The Bank has an $8 million unsecured overnight borrowing capacity from a correspondent bank.

The Bank s exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit and financial guarantees written is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making these commitments and conditional obligations as it does for on-balance-sheet instruments.

At June 30, 2013, the Company had the following off-balance sheet commitments (in thousands):

Standby letters of credit	$ 316
Unused home equity lines of credit	$ 28,242
Unused commercial lines of credit	$ 33,881
Unused unsecured personal lines of credit	$ 22,094

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Forward-Looking Statements

This Quarterly Report on Form 10-Q 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 3. Quantitative and Qualitative Disclosures About Market Risk

The actual results of the Company s asset liability management analysis are highly dependent on the prepayment speed of mortgage backed securities and collateralized mortgage obligations. The United States Treasury s policy of purchasing longer dated Treasury bonds has the result of lowering mortgage loan rates, allowing more consumers to refinance their mortgages and pay-off their current mortgage, resulting in higher prepayment speeds on mortgage investment products.

The effects of rising interest rates are discussed throughout Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations. Actual results for the year ending December 31, 2013, will differ from simulations due to timing, magnitude, and the frequency or interest rate changes, market conditions, management strategies, and the timing of the Company s cash receipts and disbursements.

The Company s analysis at June 30, 2013, indicates that changes in interest rates are less likely to result in significant changes in the Company s annual net interest income. A summary of the Company s analysis at June 30, 2013, for the twelve month period ending June 30, 2014, is as follows:

	Down 1.00%	No change	Up 1.00%	Up 2.00%	Up 3.00%
			(Dollars In Thousands)		
Net interest income	$ 27,037	$ 27,386	$ 27,398	$ 27,579	$ 27,764

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

In accordance with Rule 13a-15(b) under the Securities Exchange Act of 1934 (the Exchange Act), an evaluation was carried out with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the quarter ended June 30, 2013.

Based upon their evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the three months ended June 30, 2013, to ensure that material information relating to the Company, including its consolidated subsidiaries, was made known to them by others within those entities, particularly during the period in which this quarterly report on Form 10-Q was being prepared.

Any control system, no matter how well conceived and operated, can provide only reasonable assurance that its objectives are achieved. The design of a control system inherently has limitations, including the controls cost relative to their benefits. Additionally, controls can be circumvented. No cost-effective control system can provide absolute assurance that all control issues and instances of fraud will be detected.

The Company is subject to Section 404 of The Sarbanes-Oxley Act of 2002. Section 404 requires management to assess and report on the effectiveness of the Company s internal controls over financial reporting.

Changes in Internal Control over Financial Reporting

There were no changes in the Company s internal control over financial reporting during the Company s fiscal quarter ended June 30, 2013, that have materially affected, or are reasonable likely to materially affect, the Company s internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company currently has no material pending legal proceedings.

Item 1A. Risk Factors

There have been no material changes to our risk factors as previously disclosed in Part 1, Item 1A of our annual report on Form 10K for the fiscal year ended December 31, 2012 with the following exception.

Regulatory Developments

Among the recent legislative and regulatory developments affecting the banking industry are evolving regulatory capital standards for banking organizations. These standards include the Basel III initiatives, an effort by international banking supervisors to improve the ability of the banking sector to absorb shocks during periods of financial and economic stress.

In July 2013, the U.S. banking regulatory agencies, including the Federal Reserve Board, adopted a final rule implementing a revised regulatory capital framework for U.S. banks in accordance with the Basel III international accord and satisfying related mandates under the Dodd-Frank Wall Street Reform and Consumer Protection Act. The final rule codifies into an integrated regulatory framework U.S. bank regulatory agencies regulatory capital rules. Among other things, the final rule:

- Implements a revised definition of regulatory capital, a new common equity tier 1, (or CET1) minimum capital requirement, and a higher minimum tier 1 capital requirement.
- Requires new deductions from capital for investments in unconsolidated financial institutions, mortgage servicing assets and deferred tax assets that exceed specified thresholds.
- Incorporates these new requirements into the U.S. bank regulatory agencies prompt corrective action framework.
- Establishes limits on capital distributions and certain discretionary bonus payments if a banking organization does not hold a specified amount of CET1 capital in addition to the amount necessary to satisfy its minimum risk-based capital requirements.
- Amends methodologies for determining risk-weighted assets for all banking organizations.

Under the final rule, minimum capital requirements will increase for both quantity and quality of capital held by banking organizations. The final rule includes the new CET1 minimum capital requirement of 4.5% of risk-weighted assets and increases the minimum tier 1 capital requirement from 4.0% to 6.0% of risk-weighted assets. The minimum total risk-based capital requirement remains unchanged at 8.0% of total risk-weighted assets. In addition to the minimum CET1, tier 1 and total risk-based capital requirements, the final rule requires a buffer of CET1 capital in an amount above 2.5% of total risk-weighted assets to avoid restrictions on capital distributions and discretionary bonus payments to executive officers.

The final rule establishes a standardized approach for determining risk-weighted assets. Under the final rule, risk weights for residential mortgage loans that apply under current capital rules will continue to apply, and banking organizations such as the Company with less than $15 billion in total assets may continue to include existing trust preferred securities as capital. The final rule allows banking organizations such as the Company that are not subject to the advanced approaches rule to make a one-time election not to include most elements of accumulated other comprehensive income in regulatory capital and instead use existing treatment under current capital rules.

The minimum regulatory capital requirements and compliance with a standardized approach for determining risk-weighted assets are effective for the Company on January 1, 2015. The capital conservation buffer framework transition period begins January 1, 2016, with full implementation effective January 1, 2019.

Management believes that at June 30, 2013, the Company and the Bank would have met all new capital adequacy requirements on a fully phased-in-basis if such requirements were then effective. There can be no assurance that the Basel III capital rules will not be revised before the effective date and phase-in periods.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) None

(b) None

(c) None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

Item 6. Exhibits

31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for John E. Peck, Chief Executive Officer.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Billy C. Duvall, Chief Financial Officer.
32.1	Certification Pursuant to Section 18 U.S.C. Section 1350 for John E. Peck, Chief Executive Officer.
32.2	Certification Pursuant to Section 18 U.S.C. Section 1350 for Billy C. Duvall, Chief Financial Officer.
101	The following materials from the Company s quarterly report on Form 10-Q for the three and six month periods ended June 30, 2013, and 2012 formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statement of Financial Condition as of June 30, 2013 (unaudited) and December 31, 2012, (ii) Condensed Consolidated Statements of Income and Comprehensive Income (Loss) for the three and six month periods ended June 30, 2013 and 2012 (unaudited), (iii) Condensed Consolidated Statements of Cash Flows, for the six month periods ended June 30, 2013 and 2012 (unaudited), Statement of Stockholders Equity for the six month period ended June 30, 2013 (unaudited), and, (v) Notes to Condensed Consolidated Financial Statements (unaudited), tagged as blocks of text.

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SIGNATURES

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

	HOPFED BANCORP, INC.
Date: August 13, 2013	/s/ John E. Peck John E. Peck President and Chief Executive Officer
Date: August 13, 2013	/s/ Billy C. Duvall Billy C. Duvall Senior Vice President, Chief Financial Officer and Treasurer