HOPFED BANCORP INC
Form 10-Q
November 09, 2015
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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 September 30, 2015

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 incorporation or organization)	**(I.R.S. Employer 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	x
Non-accelerated filer	¨	Smaller reporting company filer	¨

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 November 3, 2015, the Registrant had outstanding 6,913,013 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, Except Share and Per Share Amounts)

		September 30, 2015 (Unaudited)	December 31, 2014
Assets			
Cash and due from banks	$	18,110	34,389
Interest-earning deposits		5,647	6,050
Cash and cash equivalents		23,757	40,439
Federal Home Loan Bank stock, at cost		4,428	4,428
Securities available for sale		239,922	303,628
Loans held for sale		5,298	1,444
Loans receivable, net of allowance for loan losses of $5,487 at September 30, 2015, and $6,289 at December 31, 2014		561,514	539,264
Accrued interest receivable		4,119	4,576
Real estate and other assets owned		1,736	1,927
Bank owned life insurance		10,236	9,984
Premises and equipment, net		24,371	22,940
Deferred tax assets		1,198	2,261
Intangible asset			33
Income taxes receivable		3,215	2,960
Other assets		2,942	1,901
Total assets	$	882,736	935,785
Liabilities and Stockholders Equity			
Liabilities:			
Deposits:			
Non-interest-bearing accounts	$	113,469	115,051
Interest-bearing accounts			
Interest-bearing checking accounts		185,377	186,616
Savings and money market accounts		93,821	97,726
Other time deposits		313,531	331,915
Total deposits		706,198	731,308
Advances from Federal Home Loan Bank		25,000	34,000

Repurchase agreements	46,300	57,358
Subordinated debentures	10,310	10,310
Advances from borrowers for taxes and insurance	1,077	513
Dividends payable	289	301
Accrued expenses and other liabilities	4,739	3,593
Total liabilities	793,913	837,383

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, Except Share and Per Share Amounts)

		September 30, 2015 (Unaudited)	December 31, 2014
Stockholders equity			
Preferred stock, par value $0.01 per share; authorized - 500,000 shares; no shares issued and outstanding at September 30, 2015, and December 31, 2014.	$		
Common stock, par value $.01 per share; authorized 15,000,000 shares; 7,951,699 issued and 6,913,013 outstanding at September 30, 2015, and 7,949,665 issued and 7,171,282 outstanding at December 31, 2014		79	79
Additional paid-in-capital		58,578	58,466
Retained earnings		46,719	45,729
Treasury stock-common (at cost, 1,038,686 shares at September 30, 2015, and 778,383 shares at December 31, 2014)		(12,915)	(9,429)
Unallocated ESOP shares (at cost, 562,937 shares at September 30, 2015, and no shares at December 31, 2014)		(7,397)	
Accumulated other comprehensive income, net of taxes		3,759	3,557
Total stockholders equity		88,823	98,402
Total liabilities and stockholders equity	$	882,736	935,785
Commitment and contingencies (note 14)			

The consolidated condensed statement of financial condition at December 31, 2014, has been derived from the audited 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, Except Share and Per Share Amounts)

(Unaudited)

	For the Three Month Periods Ended September 30,		For the Nine Month Periods Ended September 30,	
	2015	2014	2015	2014
Interest income:				
Loans receivable	$ 6,374	6,913	18,895	19,743
Securities available for sale - taxable	1,237	1,562	4,953	5,035
Securities available for sale - nontaxable	398	514	1,267	1,589
Interest-earning deposits	3	5	11	19
Total interest income	8,012	8,994	25,126	26,386
Interest expense:				
Deposits	1,246	1,354	3,751	4,313
Advances from Federal Home Loan Bank	71	430	206	1,292
Repurchase agreements	130	228	368	722
Subordinated debentures	186	174	553	551
Total interest expense	1,633	2,186	4,878	6,878
Net interest income	6,379	6,808	20,248	19,508
Provision for loan losses	275	(892)	760	(773)
Net interest income after provision for loan losses	6,104	7,700	19,488	20,281
Non-interest income:				
Service charges	750	879	2,184	2,505
Merchant card income	286	265	842	800
Mortgage origination revenue	345	316	865	507
Gain on sale of securities	103	294	552	548
Income from bank owned life insurance	108	65	252	226
Financial services commission	186	363	539	737
Other operating income	158	211	483	613
Total non-interest income	1,936	2,393	5,717	5,936

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 Share and Per Share Amounts)

(Unaudited)

	For the Three Month Periods Ended September 30, 2015	2014	For the Nine Month Periods Ended September 30, 2015	2014
Non-interest expenses:				
Salaries and benefits	$ 3,960	3,881	12,148	11,368
Occupancy	788	781	2,278	2,498
Data processing	724	730	2,117	2,194
Franchise and deposit tax	260	346	759	990
Intangible amortization		16	32	81
Professional services	380	397	1,177	1,025
Deposit insurance and examination	135	182	403	562
Advertising	337	368	983	1,023
Postage and communications	162	140	428	423
Supplies	107	156	364	459
Loss (gain) on real estate owned	(18)	35	716	160
Real estate owned	202	(29)	406	193
Other operating	516	560	1,446	1,358
Total non-interest expense	7,553	7,563	23,257	22,334
Income before income tax	487	2,530	1,948	3,883
Income tax expense (benefit)	(23)	577	200	651
Net income	$ 510	1,953	1,748	3,232
Net income per share:				
Basic	$ 0.08	0.27	0.27	0.44
Diluted	$ 0.08	0.27	0.27	0.44
Dividend per share	$ 0.04	0.04	0.12	0.12
Weighted average shares outstanding - basic	6,359,556	7,265,597	6,493,449	7,348,708
Weighted average shares outstanding - diluted	6,359,556	7,265,597	6,493,449	7,348,708

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

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HOPFED BANCORP, INC.

Consolidated Condensed Statements of Comprehensive Income

(Dollars in Thousands)

(Unaudited)

	For the Three Month Periods Ended September 30, 2015	For the Three Month Periods Ended September 30, 2014	For the Nine Month Periods Ended September 30, 2015	For the Nine Month Periods Ended September 30, 2014
Net income	$ 510	1,953	1,748	3,232
Other comprehensive income, net of tax:				
Unrealized gains on securities for which a portion of an other than temporary impairment has been recorded in earnings:				
Unrealized holding gains arising during the period	(17)		289	
Income tax expense (benefit)	6		(98)	
Other comprehensive income on available for sale for sale securities with other than temporary impairment	(11)		191	
Unrealized gain (loss) on investment securities available for sale, net of tax effect of ($468) and $138 for the three months periods ended September 30, 2015, and September 30, 2014, respectively; and ($89) and ($2,121) for the nine month periods ended September 30, 2015, and September 30, 2014, respectively;	920	(269)	184	4,118
Unrealized gain on derivatives, net of tax effect of ($33) and ($34) for the three month periods ended September 30, 2015, and September 30, 2014, respectively; and ($98) and ($90) for the nine month periods ending September 30, 2015, and September 30, 2014, respectively;	64	65	191	174
Reclassification adjustment for gains included in net income, net of tax effect of $35 and $100 for the three month periods ended September 30, 2015, and September 30, 2014, respectively; and $188 and $186 the nine month periods ended September 30, 2015, and September 30, 2014, respectively;	(68)	(194)	(364)	(362)
Other comprehensive income (loss) on available for sale without other than temporary impairment	916	(398)	11	3,930

Total other comprehensive income (loss)		905	(398)	202	3,930
Comprehensive income	$	1,415	1,555	1,950	7,162

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

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HOPFED BANCORP, INC.

Consolidated Condensed Statement of Stockholders Equity

For the Nine Month Period Ended September 30, 2015

(Dollars in Thousands, Except Share Amounts)

(Unaudited)

	Common Shares	Preferred Shares	Common Stock	Common Stock Warrant	Additional Paid-in Capital	Retained Earnings	Preferred Treasury Stock	Common Treasury Stock	Unearned ESOP Shares	Accumulated Other Comprehensive Income	Total Equity
Balance at December 31, 2014	7,171,282		$ 79		58,466	45,729		(9,429)		3,557	98,402
Consolidated net income						1,748					1,748
Treasury stock reissued	600,000							7,884	(7,884)		
Restricted stock awards	2,034										
Repurchase of treasury stock	(860,303)							(11,370)			(11,370)
ESOP shares committed to release									487		487
Change in price of ESOP shares					(32)						(32)
Compensation expense, restricted stock awards					144						144
Net change in unrealized gain on securities available for sale, net of income taxes										11	11
Net change in unrealized loss										191	191

on derivatives, net of income taxes of ($98)								
Cash dividend to common stockholders				(758)				(758)
Balance September 30, 2015	6,913,013	$ 79	58,578	46,719	(12,915)	(7,397)	3,759	88,823

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements

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HOPFED BANCORP, INC.

Consolidated Condensed Statement of Stockholders Equity

For the Nine Month Period Ended September 30, 2014

(Dollars in Thousands, Except Share Amounts)

(Unaudited)

	Common Shares	Preferred Shares	Common Stock	Common Stock Warrant	Additional Paid-in Capital	Retained Earnings	Preferred Treasury Stock	Common Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance at December 31, 2013	7,447,903		$ 79		58,302	44,694		(5,929)	(1,429)	95,717
Consolidated net income						3,232				3,232
Repurchase of treasury stock	(259,226)							(3,027)		(3,027)
Restricted stock awards	22,378									
Compensation expense, restricted stock awards					114					114
Net change in unrealized gain on securities available for sale, net of income taxes of ($1,935)									3,756	3,756
Net change in unrealized loss on derivatives, net of income taxes of ($90)									174	174
Cash dividend to common stockholders						(877)				(877)
Balance September 30, 2014	7,211,055		79		58,416	47,049		(8,956)	2,501	99,089

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements

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HOPFED BANCORP, INC.

Consolidated Condensed Statements of Cash Flows

(Dollars in Thousands)

(Unaudited)

	For the Nine Month Periods September 30, 2015	2014
Cash flows from operating activities:		
Net cash provided by operating activities	$ 5,977	6,601
Cash flows from investing activities		
Proceeds from sales, calls and maturities of securities available for sale	91,119	81,801
Purchase of securities available for sale	(28,162)	(69,927)
Net (increase) decrease in loans	(26,827)	12,205
Proceeds from sale of foreclosed assets	318	1,001
Purchase of premises and equipment	(2,363)	(856)
Net cash provided by investing activities	34,085	24,224
Cash flows from financing activities:		
Net increase (decrease) in demand deposits	(1,582)	2,965
Net decrease in time and other deposits	(23,528)	(37,736)
Increase in advances from borrowers for taxes and insurance	564	328
Advances from Federal Home Loan Bank	36,000	27,000
Repayment of advances from Federal Home Loan Bank	(45,000)	(33,511)
Net decrease in repurchase agreements	(11,058)	(6,430)
Cash used to repurchase treasury stock	(11,370)	(3,027)
Dividends paid on common stock	(770)	(877)
Net cash used in financing activities	(56,744)	(51,288)
Decrease in cash and cash equivalents	(16,682)	(20,463)
Cash and cash equivalents, beginning of period	40,439	55,848
Cash and cash equivalents, end of period	$ 23,757	35,385
Supplemental disclosures of cash flow information:		
Interest paid	$ 4,912	6,977
Income taxes paid	$ 100	

Supplemental disclosures of non-cash investing and financing activities:			
Loans charged off	$	1,744	820
Foreclosures and in substance foreclosures of loans during period	$	843	1,441
Net unrealized gains on investment securities classified as as available for sale	$	16	5,691
Decrease in deferred tax asset related to unrealized gains on investments	($	5)	(1,935)
Dividends declared and payable	$	289	301
Issue of treasury stock to ESOP	$	7,884	
Issue of restricted stock	$	25	260

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements

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NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

HopFed Bancorp, Inc. (the Company) was formed at the direction of Heritage Bank USA Inc., 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. The Company s primary assets are the outstanding capital stock of the converted Bank, and its sole business is that of the converted Bank.

On June 5, 2013, the Bank s legal name became Heritage Bank USA Inc. and the Bank was granted a commercial bank charter by the Kentucky Department of Financial Institutions (KDFI). On June 5, 2013, the Bank became subject to regulation by the KDFI and the Federal Deposit Insurance Corporation (FDIC). On the same day, HopFed Bancorp was granted a bank holding company charter by the Federal Reserve Bank of Saint Louis (FED) and as such regulated by the FED.

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 Solutions, with offices in Murray, Kentucky, Kingston Springs, Tennessee, and Pleasant View, Tennessee. Heritage Wealth Management agents travel throughout western Kentucky and middle Tennessee offering fixed and variable annuities, mutual funds and brokerage services. In October of 2014, the Bank opened a loan production office in Nashville, Tennessee.

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 three month period ended September 30, 2015, are not necessarily indicative of results that may be expected for the entire fiscal year ending December 31, 2015.

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, 2014. The accounting policies followed by the Company are set forth in the Summary of Significant Accounting Policies in the Company s December 31, 2014, Consolidated Financial Statements.

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(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 nine month periods ended September 30, 2015, and September 30, 2014. For the three and nine month periods ended September 30, 2015, the Company s financial statements reflect a liability adequate to release of 37,063 shares from the HopFed Bancorp, Inc. 2015 Employee Stock Ownership Plan (the ESOP). Therefore, the Company has included 37,063 shares held by the ESOP in the IPS calculation. The Company has excluded 562,937 unearned shares purchased and owned by the ESOP from our IPS computations. Diluted common shares arise from the potentially dilutive effect of the Company s stock options and warrants outstanding.

	Three Month Period Ended September 30,	
	2015	2014
Basic IPS:		
Net income	$ 510,000	$ 1,953,000
Average common shares outstanding	6,359,556	7,265,597
Net income per share	$ 0.08	$ 0.27
Diluted IPS:		
Net income	$ 510,000	$ 1,953,000
Average common shares outstanding	6,359,556	7,265,597
Dilutive effect of stock options		
Average diluted shares outstanding	6,359,556	7,265,597
Net income per share, diluted	$ 0.08	$ 0.27

	Nine Month Period Ended September 30,	
	2015	2014
Basic IPS:		
Net income	$ 1,748,000	$ 3,232,000
Average common shares outstanding	6,493,449	7,348,708
Net income per share	$ 0.27	$ 0.44
Diluted IPS:		
Net income	$ 1,748,000	$ 3,232,000
Average common shares outstanding	6,493,449	7,348,708
Dilutive effect of stock options		
Average diluted shares outstanding	6,493,449	7,348,708

Net income per share, diluted	$	0.27	$	0.44

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(3) STOCK COMPENSATION

The Company incurred compensation cost related to the HopFed Bancorp, Inc. 2004 Long Term Incentive Plan of $46,000 and $144,000 for the three and nine month periods ended September 30, 2015, and $49,000 and $114,000 for the three and nine month periods ended September 30, 2014, respectively. The Company issued 1,263 and 2,034 shares of restricted stock during the three and nine month periods ended September 30, 2015. The Company issued 2,140 and 22,378 shares of restricted stock during the three and nine month periods ended September 30, 2014. The table below provides a detail of the Company s future compensation expense related to restricted stock vesting at September 30, 2015:

Year Ending December 31,	Future Expense
2015	$ 45,857
2016	139,040
2017	52,215
2018	9,387
2019	2,604
Total	$ 249,103

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.

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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 September 30, 2015, the Company has 42 securities with unrealized losses. The carrying amount of securities and their estimated fair values at September 30, 2015, were as follows:

	September 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in Thousands)			
Restricted:				
FHLB stock	$ 4,428			4,428
Available for sale:				
U.S. Treasury securities	$ 2,001	9		2,010
Agency debt securities	91,190	2,352	(159)	93,383
Taxable municipal bonds	7,173	217	(16)	7,374
Tax free municipal bonds	47,209	2,525	(96)	49,638
Trust preferred securities	1,613	177		1,790
Mortgage-backed securities:				
GNMA	20,214	249	(89)	20,374
FNMA	31,596	583	(20)	32,159
FHLMC	5,353	46	(16)	5,383
SLMA CMO	3,819		(183)	3,636
AGENCY CMO	23,958	259	(42)	24,175
	$ 234,126	6,417	(621)	239,922

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The carrying amount of securities and their estimated fair values at December 31, 2014, was as follows:

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in Thousands)			
Restricted:				
FHLB stock	$ 4,428			4,428
Available for sale:				
U.S. Treasury securities	$ 3,977	3		3,980
Agency debt securities	101,654	2,125	(527)	103,252
Tax free municipal bonds	57,399	3,814	(166)	61,047
Taxable municipal bonds	11,871	235	(63)	12,043
Trust preferred securities	1,600		(111)	1,489
Commercial bonds	2,000	7		2,007
Mortgage-backed securities:				
GNMA	27,535	670	(122)	28,083
FNMA	50,617	694	(536)	50,775
FHLMC	3,276	38		3,314
SLMA CMO	9,895		(252)	9,643
AGENCY CMO	28,024	176	(205)	27,995
	$ 297,848	7,762	(1,982)	303,628

The scheduled maturities of debt securities available for sale at September 30, 2015, were as follows:

September 30, 2015	Amortized Cost	Estimated Fair Value
Due within one year	$ 4,830	$ 4,894
Due in one to five years	26,697	27,089
Due in five to ten years	29,401	30,316
Due after ten years	24,604	26,089
	85,532	88,388
Amortizing agency bonds	63,654	65,807
Mortgage-backed securities	84,940	85,727
Total unrestricted securities available for sale	$ 234,126	$ 239,922

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The scheduled maturities of debt securities available for sale at December 31, 2014, were as follows:

December 31, 2014	Amortized Cost	Estimated Fair Value
Due within one year	$ 4,830	$ 4,927
Due in one to five years	21,564	21,818
Due in five to ten years	41,683	42,613
Due after ten years	33,119	35,380
	101,196	104,738
Amortizing agency bonds	77,305	79,080
Mortgage-backed securities	119,347	119,810
Total unrestricted securities available for sale	$ 297,848	$ 303,628

The estimated fair value and unrealized loss amounts of temporarily impaired investments as of September 30, 2015, 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. Agency debt securities	$ 5,009	(13)	9,997	(146)	15,006	(159)
Taxable municipals			1,926	(16)	1,926	(16)
Tax free municipals			6,308	(96)	6,308	(96)
Mortgage-backed securities:						
GNMA	4,180	(22)	10,694	(67)	14,874	(89)
FNMA	2,267	(12)	3,101	(8)	5,368	(20)
FHLMC	2,539	(16)			2,539	(16)
SLMA CMOs			3,636	(183)	3,636	(183)
AGENCY CMOs	2,422	(27)	2,072	(15)	4,494	(42)
Total available for sale	$ 16,417	(90)	37,734	(531)	54,151	(621)

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The estimated fair value and unrealized loss amounts of temporarily impaired investments as of December 31, 2014, 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
Available for sale						
U.S. Agency debt securities	$ 14,021	(20)	29,156	(507)	43,177	(527)
Taxable municipals			4,785	(63)	4,785	(63)
Tax free municipals			6,647	(166)	6,647	(166)
Trust preferred securities			1,489	(111)	1,489	(111)
Mortgage-backed securities:						
GNMA	12,568	(108)	2,895	(14)	15,463	(122)
FNMA			18,927	(536)	18,927	(536)
SLMA CMOs	1,923	(14)	7,720	(238)	9,643	(252)
AGENCY CMOs	9,545	(91)	7,685	(114)	17,230	(205)
Total available for sale	$ 38,057	(233)	79,304	(1,749)	117,361	(1,982)

At September 30, 2015, and December 31, 2014, the Company evaluated all securities with unrealized losses to determine if any such securities were other than temporarily impaired. At September 30, 2015, and December 31, 2014, the Company has determined that none of its securities are other than temporarily impaired.

At September 30, 2015, securities with a book value of approximately $124.8 million and a market value of approximately $129.6 million were pledged to various municipalities for deposits in excess of FDIC limits as required by law.

At September 30, 2015, securities with a book value of $39.7 million and market value of $40.3 million were sold under agreements to repurchase from various customers. Furthermore, the Company has a wholesale repurchase agreement with third party secured by investments with a combined book value of $6.7 million and a market value of $6.9 million. The 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%.

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(5) LOANS

The components of loans receivable in the consolidated balance sheets as of September 30, 2015, and December 31, 2014, were as follows:

	September 30, 2015 Amount	September 30, 2015 Percent	December 31, 2014 Amount	December 31, 2014 Percent
	(Dollars in thousands, except percentages)			
Real estate loans				
One-to-four family (closed end) first mortgages	$ 146,370	25.8%	$ 150,551	27.6%
Second mortgages (closed end)	1,798	0.3%	2,102	0.4%
Home equity lines of credit	32,976	5.8%	34,238	6.3%
Multi-family	23,366	4.1%	25,991	4.8%
Construction	32,669	5.8%	24,241	4.4%
Land	22,654	4.0%	26,654	4.9%
Farmland	40,639	7.2%	42,874	7.8%
Non-residential real estate	157,114	27.7%	150,596	27.6%
Total mortgage loans	457,586	80.7%	457,247	83.8%
Consumer loans	18,375	3.2%	14,438	2.6%
Commercial loans	91,550	16.1%	74,154	13.6%
Total other loans	109,925	19.3%	88,592	16.2%
Total loans, gross	567,511	100.0%	545,839	100.0%
Deferred loan cost, net of fees	(510)		(286)	
Less allowance for loan losses	(5,487)		(6,289)	
Total loans	$ 561,514		$ 539,264	

The allowance for loan losses totaled $5.5 million at September 30, 2015, $6.3 million at December 31, 2014, and $8.1 million at September 30, 2014, respectively. The ratio of the allowance for loan losses to total loans was 0.97% at September 30, 2015, 1.15% at December 31, 2014, and 1.51% at September 30, 2014. At September 30, 2015, the Company has one land loan, totaling $1.5 million, that is past due 91 days but still accruing interest. The following table indicates the type and level of non-accrual loans at the periods indicated below:

	September 30, 2015	December 31, 2014	September 30, 2014
		(Dollars in Thousands)	
One-to-four family mortgages	$ 1,427	1,501	407
Home equity line of credit	48		31
Multi-family	1,968	95	

Land	1,680	215	301
Non-residential real estate	672	1,159	101
Farmland	168	115	12
Consumer loans			2
Commercial loans	1,195	90	263
Total non-accrual loans	$ 7,158	3,175	1,117

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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 nine month period ended September 30, 2015:

	Balance 12/31/2014	Charge off 2015	Recovery 2015	General Provision 2015	Specific Provision 2015	Ending Balance 9/30/2015
One-to-four family mortgages	$ 1,198	(143)	30	90	(215)	960
Home equity line of credit	181	(92)	6	86		181
Junior liens	14		4	(4)	(6)	8
Multi-family	85				(11)	74
Construction	146				51	197
Land	1,123	(911)		514	958	1,684
Non-residential real estate	2,083	(222)	2	(375)	(287)	1,201
Farmland	461				(124)	337
Consumer loans	494	(224)	94	120	(134)	350
Commercial loans	504	(152)	46	163	(66)	495
	$ 6,289	(1,744)	182	594	166	5,487

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, 2014:

	Balance 12/31/2013	Charge off 2014	Recovery 2014	General Provision 2014	Specific Provision 2014	Ending Balance 12/31/2014
One-to-four family mortgages	$ 2,048	(233)	24	(304)	(337)	1,198
Home equity line of credit	218	(83)	3	(37)	80	181
Junior liens	39		9	(25)	(9)	14
Multi-family	466			(381)		85
Construction	88	(139)	9	58	130	146
Land	1,305			(74)	(108)	1,123
Non-residential real estate	2,719	(66)	864	(1,368)	(66)	2,083
Farmland	510			542	(591)	461
Consumer loans	541	(415)	109	(13)	272	494
Commercial loans	748	(296)	94	(244)	202	504
	$ 8,682	(1,232)	1,112	(1,846)	(427)	6,289

The table below presents loan balances at September 30, 2015, by loan classification allocated between past due, performing and non-performing:

						Impaired Loan Currently Performing		
	Currently Performing	30 - 89 Days Past Due	90 Days + past due and Accruing	Non-Accrual Loans	Special Mention	Substandard	Doubtful	Total
				(Dollars in Thousands)				
One-to-four family mortgages	$ 142,796	325		1,427	330	1,492		146,370
Home equity line of credit	32,703			48		225		32,976
Junior liens	1,746				36	16		1,798
Multi-family	20,272			1,968		1,126		23,366
Construction	32,669							32,669
Land	11,604		1,486	1,680	43	7,841		22,654
Non-residential real estate	147,938			672	4,158	4,346		157,114
Farmland	40,309			168		162		40,639
Consumer loans	18,142	29				204		18,375
Commercial loans	88,384	701		1,195	357	913		91,550
Total	$ 536,563	1,055	1,486	7,158	4,924	16,325		567,511

The table below presents loan balances December 31, 2014, by loan classification allocated past due, performing and non-performing:

					Impaired Loans Currently Performing		
	Currently Performing	30 - 89 Days Past Due	Non-accrual Loans	Special Mention	Substandard	Doubtful	Total
One-to-four family mortgages	$ 145,372	757	1,501	203	2,718		150,551
Home equity line of credit	33,338	143			757		34,238
Junior liens	2,025			40	37		2,102
Multi-family	20,066		95	2,904	2,926		25,991
Construction	24,241						24,241
Land	14,674	654	215	362	10,749		26,654
Non-residential real estate	131,854		1,159	5,492	12,091		150,596
Farmland	40,057	64	115	516	2,122		42,874
Consumer loans	14,104	14		21	299		14,438
Commercial loans	71,191	55	90	325	2,493		74,154
Total	$ 496,922	1,687	3,175	9,863	34,192		545,839

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The following table presents the balance in the allowance for loan losses and the recorded investment in loans as of September 30, 2015, and December 31, 2014, by portfolio segment and based on the impairment method as of September 30, 2015, and December 31, 2014.

	Commercial	Land Development / Construction	Commercial Real Estate	Residential Real Estate	Consumer	Total
September 30, 2015:						
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 56	266	143	29	51	$ 545
Collectively evaluated for impairment	439	1,615	1,469	1,120	299	4,942
Total ending allowance balance	$ 495	1,881	1,612	1,149	350	$ 5,487
Loans:						
Loans individually evaluated for impairment	$ 2,108	9,521	8,442	3,208	204	$ 23,483
Loans collectively evaluated for impairment	89,442	45,802	212,677	177,936	18,171	544,028
Total ending loans balance	$ 91,550	55,323	221,119	181,144	18,375	$ 567,511

	Commercial	Land Development / Construction	Commercial Real Estate	Residential Real Estate	Consumer	Total
December 31, 2014:						
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$	663	738	51	62	$ 1,514
Collectively evaluated for impairment	504	606	1,891	1,342	432	4,775
Total ending allowance balance	$ 504	1,269	2,629	1,393	494	$ 6,289
Loans:						

Loans individually evaluated for impairment	$ 2,583	10,964	18,508	5,013	299	$ 37,367
Loans collectively evaluated for impairment	71,571	39,931	200,953	181,878	14,139	508,472
Total ending loans balance	$ 74,154	50,895	219,461	186,891	14,438	$ 545,839

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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 mentioned, 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 (net recovery) ratios for nine month periods ended September 30, 2015, September 30, 2014, and the year ended December 31, 2014, was 0.37%, (0.05%) and 0.02%, respectively. The ratios of allowance for loan losses to non-accrual loans at September 30, 2015, September 30, 2014, and December 31, 2014, were 76.7%, 728.1%, and 198.08%, respectively.

The determination of the allowance for loan losses is based on management s analysis, performed 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.

The Company conducts annual reviews on all loan relationships above one million to ascertain the borrowers continued ability to service their debt as agreed. In addition to the credit relationships mentioned above, management may classify 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 ninety 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 23, Watch loans are included with satisfactory loans and classified as Pass.

Special Mention loans 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.

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 possible 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 or using the fair value of the collateral less cost to sell if the loan is collateral dependent. Currently, it is management s practice to classify all substandard or doubtful loans as impaired. At September 30, 2015, December 31, 2014, and September 30, 2014, the Company s impaired loans totaled $23.5 million, $37.4 million and $38.4 million, respectively.

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At September 30, 2015, December 31, 2014 and September 30, 2014, the Company s specific reserve for impaired loans totaled $545,000, $1.5 million and $2.9 million respectively. Loans by classification type and the related allowance amounts at September 30, 2015, are as follows:

September 30, 2015	Pass	Special Mention	Impaired Loans Substandard	Impaired Loans Doubful	Total	Specific Allowance for Impairment	Allowance for Performing Loans
	(Dollars in Thousands)						
One-to-four family mortgages	$ 143,121	330	2,919		146,370	29	931
Home equity line of credit	32,703		273		32,976		181
Junior liens	1,746	36	16		1,798		8
Multi-family	20,272		3,094		23,366		74
Construction	32,669				32,669		197
Land	11,604	1,529	9,521		22,654	266	1,417
Non-residential real estate	147,938	4,158	5,018		157,114	143	1,058
Farmland	40,309		330		40,639		337
Consumer loans	18,171		204		18,375	51	300
Commercial loans	89,085	357	2,108		91,550	56	439
Total	$ 537,618	6,410	23,483		567,511	545	4,942

Loans by classification type and the related allowance amounts at December 31, 2014, are as follows:

December 31, 2014	Pass	Special Mention	Impaired Loans Substandard	Impaired Loans Doubtful	Total	Specific Allowance for Impairment	Allowance For Performing Loans
One-to-four family mortgages	$ 146,129	203	4,219		150,551	51	1,147
Home equity line of credit	33,481		757		34,238		181
Junior lien	2,025	40	37		2,102		14
Multi-family	20,066	2,904	3,021		25,991		85
Construction	24,241				24,241		146
Land	15,328	362	10,964		26,654	663	460
Non-residential real estate	131,854	5,492	13,250		150,596	738	1,345
Farmland	40,121	516	2,237		42,874		461
Consumer loans	14,118	21	299		14,438	62	432
Commercial loans	71,246	325	2,583		74,154		504

Total	$ 498,609	9,863	37,367	545,839	1,514	4,775

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Impaired loans by classification type and the related valuation allowance amounts at September 30, 2015, were as follows:

	At September 30, 2015			For the nine month period ended September 30, 2015	
Impaired loans with no specific allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
One-to-four family mortgages	$ 2,212	2,212		2,343	55
Home equity line of credit	273	273		553	9
Junior liens	16	16		17	1
Multi-family	3,094	3,094		3,019	126
Construction					
Land	7,290	7,290		8,014	350
Farmland	330	330		268	35
Non-residential real estate	4,297	4,297		7,819	253
Consumer loans				3	
Commercial loans	1,908	1,908		1,707	72
Total	19,420	19,420		23,743	901
Impaired loans with a specific allowance:					
One-to-four family mortgages	707	707	29	710	30
Home equity line of credit					
Junior liens					
Multi-family					
Construction					
Land	2,231	3,248	266	2,083	72
Farmland					
Non-residential real estate	721	721	143	875	20
Consumer loans	204	204	51	191	
Commercial loans	200	200	56	419	7
Total	4,063	5,080	545	4,278	129
Total impaired loans	$ 23,483	24,500	545	28,021	1,030

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Impaired loans by classification type and the related valuation allowance amounts at December 31, 2014, were as follows:

	At December 31, 2014			For the year ended December 31, 2014	
Impaired loans with no specific allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
One-to-four family mortgages	$ 3,501	3,501		2,972	176
Home equity line of credit	757	757		690	35
Junior liens	37	37		39	2
Multi-family	3,021	3,021		1,342	190
Construction				29	
Land	7,740	7,740		8,978	339
Non-residential real estate	12,057	12,057		8,672	669
Farmland	2,237	2,237		3,968	125
Consumer loans	51	51		36	3
Commercial loans	2,583	2,583		2,246	154
Total	31,984	31,984		28,972	1,693
Impaired loans with a specific allowance					
One-to-four family mortgages	$ 718	718	51	1,434	44
Home equity line of credit					
Junior liens					
Multi-family					
Construction					
Land	3,224	4,737	663	3,418	160
Non-residential real estate	1,193	1,258	738	3,617	69
Farmland				619	
Consumer loans	248	248	62	355	
Commercial loans				100	
Total	5,383	6,961	1,514	9,543	273
Total impaired loans	$ 37,367	38,945	1,514	38,515	1,966

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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.

For the three month period ended September 30, 2015, the Company classified two additional loans as TDRs. At September 30, 2015, the two new TDR s are interest only loans for six months. At September 30, 2015, the two notes that were previously classified as TDR have now begun to make monthly principal and interest payments but remain classified as TDR at this time. A summary of the activity in loans classified as TDRs for the nine month period ended September 30, 2015, is as follows:

	Balance at December 31, 2014	New TDR	Loss or Foreclosure	Loan Amortization	Removed from (Taken to) Non-accrual	Balance at September 30, 2015
	(Dollars in Thousands)					
Non-residential real estate	$ 3,284	2,149		(1)		5,432

Total performing TDR	$ 3,284	2,149	(1)	5,432

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A summary of the activity in loans classified as TDRs for the twelve month period ended December 31, 2014, is as follows

	Balance at December 31, 2013	New TDR	Loss or Foreclosure	Transferred to Held For Sale	Removed from (Taken to) Non-accrual	Balance at December 31, 2014
	(Dollars in Thousands)					
Non-residential real estate	$ 10,271			(6,987)		3,284
Total performing TDR	$ 10,271			(6,987)		3,284

(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.

At September 30, 2015, December 31, 2014, and September 30, 2014, the composition of the Company s balance of non-accrual loans, real estate owned and other assets owned are as follows:

	September 30, 2015	December 31, 2014	September 30, 2014
	(Dollars in Thousands)		
One-to-four family mortgages	$ 55	159	120
Land	943	1,768	1,834
Non-residential real estate	738		
Total other assets owned	$ 1,736	1,927	1,954
Total non-accrual loans	$ 7,158	3,175	1,117
Past due 90 days still accruing	1,486		
Total non-performing assets	$ 10,380	5,102	3,071

Non-performing assets / Total assets	1.18%	0.55%	0.33%

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The following is a summary of the activity in the Company s real estate and other assets owned for the nine month period ending September 30, 2015:

	Balance	Activity During 2015				Balance
	December 31, 2014	Foreclosures	Proceeds	Reduction in Values	Gain (Loss) on Sale	September 30, 2015
	(Dollars in Thousands)					
One-to-four family mortgages	$ 159	105	(194)		(15)	55
Land	1,768		(124)		(701)	943
Non-residential real estate		738				738
Total	$ 1,927	843	(318)		(716)	1,736

The following is a summary of the activity in the Company s real estate and other assets owned for the year ended December 31, 2014:

	Balance	Activity During 2014				Balance
	December 31, 2013	Foreclosures	Sales	Reduction in Values	Gain (Loss) on Sale	December 31, 2014
	(Dollars in Thousands)					
One-to-four family mortgages	$ 350	461	(667)	(5)	20	159
Land	1,124	943	(123)	(157)	(19)	1,768
Non-residential real estate	200	175	(328)		(47)	
Total	$ 1,674	1,579	(1,118)	(162)	(46)	1,927

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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	September 30, 2015	December 31, 2014
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 September 30,		Nine Month Period Ended September 30,	
	2015	2014	2015	2014
Income interest income from subordinated debenturesissued by HopFed Bancorp, Inc.	$ 87	88	$ 264	261
Net income	$ 87	88	$ 264	261

Summary Statement of Stockholders Equity

(For the nine month period ended September 30, 2015)

	Trust Preferred Securities	Common Stock	Retained Earnings	Total Stockholders Equity
Beginning balances, December 31, 2014	$ 10,000	310		10,310
Net income			264	264
Dividends:				
Trust preferred securities			(256)	(256)
Common paid to HopFed Bancorp, Inc.			(8)	(8)
Ending balances, September 30, 2015	$ 10,000	310		10,310

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(8) FAIR VALUE OF ASSETS AND LIABILITIES

In September 2006, the FASB issued ASC 820-10, *Fair Value Measurements*. This Statement 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 Company s $1.8 million book value trust preferred is the only investment security classified as a Level 3 asset. The Company determines the value of the security by computing the present value of all scheduled future cash flows and discount accretion to determine an estimated market value for the security.

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 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 September 30, 2015, are summarized below:

September 30, 2015 Description		Total carrying value in the consolidated balance sheet at September 30, 2015	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	$	239,922	2,010	236,122	1,790
Liabilities					
Interest rate swap	$	99		99	

The assets and liabilities measured at fair value on a recurring basis at December 31, 2014, are summarized below

December 31, 2014 Description		Total carrying value in the consolidated balance sheet at December 31, 2014	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	$	303,628	3,980	298,159	1,489
Liabilities					
Interest rate swap	$	390		390	

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The assets and liabilities measured at fair value on a non-recurring basis are summarized below for September 30, 2015:

September 30, 2015 Description	Total carrying value in the consolidated balance sheet 9/30/2015	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 and other assets owned	$ 1,736			$ 1,736
Impaired loans, net of reserve of $545	$ 3,518			$ 3,518

The assets and liabilities measured at fair value on a non-recurring basis are summarized below for December 31, 2014:

December 31, 2014 Description	Total carrying value in the consolidated balance sheet 12/31/2014	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 and other assets owned	$ 1,927			$ 1,927
Impaired loans, net of reserve of $1,514	$ 3,869			$ 3,869

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The table below includes a roll-forward of the consolidated condensed statement of financial condition items for the nine month periods ended September 30, 2015, and September 30, 2014, (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.

	2015		2014	
Nine month period ended September 30,	Other Assets	Other Liabilities	Other Assets	Other Liabilities
	(Dollars in Thousands)			
Fair value, January 1,	$ 1,489		1,489	
Change in unrealized losses included in other comprehensive income for assets and liabilities still held at September 30,	289			
Accretion of previous discounted amounts	12			
Purchases, issuances and settlements, net				
Transfers in and/or out of Level 3				
Fair value, September 30,	$ 1,790		1,489	

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The estimated fair values of financial instruments were as follows at September 30, 2015:

	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
Financial Assets:					
Cash and due from banks	$ 18,110	18,110	18,110		
Interest-earning deposits	5,647	5,647	5,647		
Securities available for sale	239,922	239,922	2,010	236,122	1,790
Federal Home Loan Bank stock	4,428	4,428		4,428	
Loans held for sale	5,298	5,298		5,298	
Loans receivable	561,514	562,862			562,862
Accrued interest receivable	4,119	4,119		4,119	
Financial liabilities:					
Deposits	706,198	689,565		689,565	
Advances from borrowers for taxes and insurance	1,077	1,077		1,077	
Advances from Federal Home Loan Bank	25,000	24,979		24,979	
Repurchase agreements	46,300	46,516		46,516	
Subordinated debentures	10,310	10,099			10,099
Off-balance-sheet liabilities:					
Market value of interest rate swap	99	99		99	

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The estimated fair values of financial instruments were as follows at December 31, 2014:

	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
Financial Assets:					
Cash and due from banks	$ 34,389	34,389	34,389		
Interest-earning deposits	6,050	6,050	6,050		
Securities available for sale	303,628	303,628	3,980	298,159	1,489
Federal Home Loan Bank stock	4,428	4,428		4,428	
Loans held for sale	1,444	1,444		1,444	
Loans receivable	539,264	537,493			537,493
Accrued interest receivable	4,576	4,576		4,576	
Financial liabilities:					
Deposits	731,308	714,750		714,750	
Advances from borrowers for taxes and insurance	513	513		513	
Advances from Federal Home Loan Bank	34,000	34,217		34,217	
Repurchase agreements	57,358	57,688		57,688	
Subordinated debentures	10,310	10,099			10,099
Off-balance-sheet liabilities:					
Market value of interest rate swap	390	390		390	

(9) 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.

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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 nine month period ended September 30, 2015, or the year ended December 31, 2014.

In October of 2008, the Company entered into an interest rate swap agreement for a term of seven years and an amount of $10.0 million. The Company pays 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 Company. At September 30, 2015, and December 31, 2014, the cost of the Company to terminate the cash flow hedge was approximately $99,000 and $390,000, respectively. The interest rate swap agreement expires October 8, 2015.

(10) EFFECT OF NEW ACCOUNTING PRONOUNCEMENTS

ASU 2015-01, *Income Statement - Extraordinary and Unusual Items (Subtopic 225-20) Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items.* ASU 2015-01 eliminates from U.S. GAAP the concept of extraordinary items, which, among other things, required an entity to segregate extraordinary items considered to be unusual and infrequent from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. ASU 2015-01 is effective for the Corporation beginning January 1, 2016, though early adoption is permitted. ASU 2015-01 is not expected to have a significant impact on the Company s consolidated financial position or results of operations.

ASU No. 2015-02, *Amendments to the Consolidation Analysis.* This ASU affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments: (1) Modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities; (2) Eliminate the presumption that a general partner should consolidate a limited partnership; (3)

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Affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (4) Provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. ASU No. 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. The Company is currently evaluating the provisions of ASU No. 2015-02 to determine the potential impact the new standard will have on the Company s Consolidated Financial Statements.

In May 2014, the FASB issued new guidance related to *Revenue from Contracts with Customers*. This guidance supersedes the revenue recognition requirements in Accounting Standards Codification Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the Accounting Standards Codification. The guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This guidance is effective for interim and annual reporting periods beginning after December 15, 2016; however, the FASB has agreed to a one year deferral of the effective date to December 15, 2017. The Company is currently evaluating this guidance to determine the impact on its consolidated financial statements.

In September 2015, the FASB issued Accounting Standards Update No. 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*. The guidance in this update eliminates the requirement to restate prior period financial statements for measurement period adjustments. The new guidance requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The new guidance is intended to reduce complexity in financial reporting. The elimination of the restatement requirement should simplify financial reporting for many entities. However, recognizing the entire impact of a measurement period adjustment in a single reporting period may introduce earnings volatility and reduce comparability between periods when the adjustments are material. The accounting changes in this update are effective for public companies for annual periods, and the interim periods within those annual periods, beginning after December 15, 2015. Early application is permitted for financial statements that have not been issued. The Company is currently evaluating this guidance to determine the impact on its consolidated 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.

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(11) 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 filed consolidated Kentucky income tax returns. The Bank is exempt from Kentucky corporate income tax. The Company has no unrecognized tax benefits and has accrued any interest or penalties for uncertain tax positions. The effective tax rate differs from the statutory federal rate of 34% and Tennessee excise rate of 6.50% due to investments in qualified municipal securities; bank owned life insurance, income apportioned to Kentucky and certain non-deductible expenses.

(12) OTHER ASSETS

The Company has invested in two flow-through limited liability entities that manage and invest in affordable housing projects that qualify for historic, low-income and elderly housing tax credits. At September 30, 2015, the Company s total investment in each entity was $422,000 and $1.0 million, respectively. The Company has no future capital commitments to either entity. The amounts recognized in net income for these investments for the three and nine month periods below include:

	For the three months ended September 30, 2015	2014	For the nine months ended September 30, 2015	2014
Investment loss included in pre-tax income	$ 55	51	$ 165	153
Tax credits recognized in provision for income taxes	$ 24	20	$ 72	60

(13) ESOP PLAN

All Company employees participate in the 2015 HopFed Bancorp, Inc. Employee Stock Ownership Plan (ESOP). The ESOP purchased 600,000 shares of the Company s common stock from the Company on March 2, 2015, at $13.14 per share. The ESOP borrowed $7.9 million from the Company for the purchase of the stock, using the 600,000 shares of common stock as collateral. The Company makes discretionary contributions to the ESOP. The ESOP utilizes these contributions along with the dividends on the 600,000 held by the ESOP to repay the loan from the Company. When loan payments are made, ESOP shares are released based on reduction in the principal balance of the loan.

The shares are allocated to participants based on relative compensation. Employees who are not employed at the December 31st of each year are not eligible for participation in the ESOP. The Company anticipates that loan payments will be made at the end of each year. Participants receive shares at the end of employment. The Company has the option to repurchase the shares or to provide the shares directly to the employee.

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At September 30, 2015, the ESOP has not made a loan payment to the Company. At September 30, 2015, the Company has an accrued ESOP contribution liability of approximately $630,000. At September 30, 2015, the Company has calculated that our current accrual would be sufficient to release 37,063 shares of ESOP shares to participants. At September 30, 2015, shares held by the ESOP were as follows:

Accrued to allocate to Participants	37,063
Unearned ESOP shares	562,937
Total ESOP shares	600,000
Fair value of unearned shares	$ 6,727,097

(14) COMMITMENTS AND CONTINGENCIES

At September 30, 2015, the Company had $19.7 million in outstanding commitments to originate loans and undisbursed commitments on loans outstanding of $109.3 million. Management believes that the Company 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 September 30, 2015, totaled $200.1 million. Management believes that a significant percentage of such deposits will remain with the Company. At September 30, 2015, the Company has deposit balances totaling $30.2 million that exceed FDIC insurance limits without additional collateral pledged.

The Company s FHLB borrowings are secured by a blanket security agreement pledging the Company s 1-4 family first mortgage loans and non-residential real estate loans. At September 30, 2015, the Company has pledged all eligible 1-4 family first mortgages.

At September 30, 2015, the Company has outstanding borrowings of $25.0 million from the FHLB. At September 30, 2015, the Company s has a $4.0 million borrowing that matures on March 17, 2016, with an interest rate of 5.34% and $6.0 million that matures on July 6, 2018, with an interest rate of 1.18%. The Federal Home Loan Bank of Cincinnati has issued letters of credit in the Bank s name totaling $13.0 million secured by the Company s loan portfolio to secure select municipal deposits with balances in excess of FDIC insurance limits.

At September 30, 2015, the Company had $45.6 million in additional borrowing capacity with the FHLB. The Company s borrowing capacity with the FHLB includes an overnight line of credit of $30.0 million. At September 30, 2015, the Company s had $15.0 million outstanding against the overnight line of credit. The Company has an $8.0 million unsecured overnight borrowing capacity from a correspondent bank.

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The Company 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 Company uses the same credit policies in making these commitments and conditional obligations as it does for on-balance-sheet instruments.

At September 30, 2015, the Company had the following off-balance sheet commitments (in thousands):

Standby letters of credit	$ 47
Unused home equity lines of credit	$ 30,034
Unused commercial lines of credit	$ 51,767
Unused unsecured personal lines of credit	$ 27,458
Unfunded commitments on commercial loans	$ 19,726

(15) REGULATORY MATTERS

In July 2013, the Federal Reserve Board and the FDIC approved final rules that substantially amend the regulatory capital rules applicable to Heritage Bank USA, Inc. and HopFed Bancorp, Inc. The final rules implement the regulatory capital reforms of the Basel Committee on Banking Supervision reflected in Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems (Basel III) and changes required by the Dodd-Frank Act.

Under these rules, the leverage and risk-based capital ratios of bank holding companies may not be lower than the leverage and risk-based capital ratios for insured depository institutions. The final rules implementing the Basel III regulatory capital reforms became effective for the Company and Bank on January 1, 2015, and include new minimum risk-based capital and leverage ratios. Moreover, these rules refine the definition of what constitutes capital for purposes of calculating those ratios, including the definitions of Tier 1 capital and Tier 2 capital. The new minimum capital level requirements applicable to bank holding companies and banks subject to the rules are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 risk-based capital ratio of 6% (increased from 4%); (iii) a total risk-based capital ratio of 8%; (iv) a Tier 1 leverage ratio of 4% for all institutions. The rules also establish a capital conservation buffer of 2.5% (to be phased in over three years) above the new regulatory minimum risk-based capital ratios, and result in the following minimum ratios once the capital conservation buffer is fully phased in: (i) a common equity Tier 1 risk-based capital ratio of 7%, (ii) a Tier 1 risk-based capital ratio of 8.5%, and (iii) a total risk-based capital ratio of 10.5%. The capital conservation buffer requirement is being phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase each year until fully implemented in January 2019. An institution is subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if capital levels fall below minimum plus the buffer amounts. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

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Under these new rules, Tier 1 capital generally consist of common stock (plus related surplus) and retained earnings, limited amounts of minority interest in the form of additional Tier 1 capital instruments, and non-cumulative preferred stock and related surplus, subject to certain eligibility standards, less goodwill and other specified intangible assets and other regulatory deductions. Cumulative preferred stock and trust preferred securities issued after May 19, 2010, will no longer qualify as Tier 1 capital, but such securities issued prior to May 19, 2010, including in the case of bank holding companies with less than $15.0 billion in total assets, trust preferred securities issued prior to that date, will continue to count as Tier 1 capital subject to certain limitations. The definition of Tier 2 capital is generally unchanged for most banking organizations, subject to certain new eligibility criteria.

Common equity Tier 1 capital generally consist of common stock (plus related surplus) and retained earnings plus limited amounts of minority interest in the form of common stock, less goodwill and other specified intangible assets and other regulatory deductions. The final rules allow banks and their holding companies with less than $250 billion in assets a one-time opportunity to opt-out of a requirement to include unrealized gains and losses in accumulated other comprehensive income in their capital calculation. The Company has made the decision to opt-out of this requirement.

The Federal Reserve has adopted regulations applicable to bank holding companies with assets over $10 billion that require such holding companies and banks to conduct annual stress tests and report the results to the applicable regulators and publicly disclose a summary of certain capital information and results including pro forma changes in regulatory capital ratios. The Board of Directors and senior management are required to consider the results of the stress test in the normal course of business, including but not limited to capital planning and an assessment of capital adequacy in accordance with management s policies. The FDIC has adopted all guidelines applicable to state nonmember banks in each case.

At September 30, 2015, the Company and the Bank exceeded all regulatory capital requirements. The table below presents certain information relating to the Company s and Bank s capital compliance at September 30, 2015:

	Company		Bank	
	Amount	Percent	Amount	Percent
	(Dollars in Thousands)			
Common equity tier 1 ratio	$ 95,063	16.34%	$ 92,557	15.90%
Tier 1 leverage ratio	$ 95,063	10.92%	$ 92,557	10.67%
Tier 1 risk-based capital ratio	$ 95,063	16.34%	$ 92,557	15.90%
Total risk based capital ratio	$ 100,550	17.20%	$ 98,044	16.84%

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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 September 30, 2015, and December 31, 2014, and for the three and nine month periods ended September 30, 2015, and September 30, 2014, 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 2014 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 September 30, 2015, and December 31, 2014

At September 30, 2015, total assets declined $53.1 million, to $882.7 million as compared to $935.8 million at December 31, 2014 Securities available for sale declined from $303.6 million at December 31, 2014, to $239.9 million at September 30, 2015. At September 30, 2015, and December 31, 2014, securities classified as available for sale had an amortized cost of $234.1 million and $297.8 million, respectively. The Company utilized the cash flow from its investment portfolio to reduce its level of time deposits, Federal Home Loan Bank (FHLB) advances, customer repurchase account balances and the purchase of $11.4 million in treasury stock.

The Company s holdings of Federal Home Loan Bank of Cincinnati (FHLB) stock, at cost was $4.4 million at December 31, 2014, and September 30, 2015. Total Federal Home Loan Bank FHLB borrowings declined $9.0 million, from $34.0 million at December 31, 2014, to $25.0 million at September 30, 2015. Total repurchase balances decreased from $57.4 million at December 31, 2014, to $46.3 million at September 30, 2015. Net loans totaled $561.5 million and $539.3 million at September 30, 2015, and December 31, 2014, respectively.

At September 30, 2015, deposits declined to $706.2 million from $731.3 million at December 31, 2014. At September 30, 2015, time deposits were $313.5 million, representing a decline of $18.4 million as compared to December 31, 2014. The average cost of all deposits during the three and nine month periods ended September 30, 2015, and September 30, 2014, was 0.69% and 0.78%, respectively.

At September 30, 2015, the Company has $65.2 million in time deposits that have a weighted average cost of 2.52% that mature between December 1, 2015, and February 28, 2016. The Company s eight year interest rate swap, used to fix the cost of the Company s subordinated debentures at 7.27%, matured on October 8, 2015. Beginning January 1, 2016, the cost of the Company s subordinated debt will becoming a floating rate equal to three month Libor plus 3.10%. The Company has a $4.0 million FHLB advance with a current coupon of 5.34% that will mature in March 2016.

Comparison of Operating Results for the Nine Month Periods Ended September 30, 2015 and 2014.

Net Income. The Company s net income was $1.7 million for the nine month period ended September 30, 2015, as compared to net income of $3.2 million for the nine month period ended September 30, 2014. The decline in the Company s results for the nine month period ended September 30, 2015, was largely the result of a negative provision for loan loss expense of $773,000 in the nine month period ended September 30, 2014, as compared to a $760,000 provision for loan loss expense for the nine month period ended September 30, 2015. For the nine month period ended September 30, 2015, the Company s combined losses and expenses related to other real estate owned increased by $769,000 as compared to the nine month period ended September 30, 2014.

Net Interest Income. Net interest income for the nine month period ended September 30, 2015, was $20.2 million, compared to $19.5 million for the nine month period ended September 30, 2014. The increase in net interest income for the nine months ended September 30, 2015, as compared to September 30, 2014, was largely the result of a $2.0 million decline in the Company s interest expense.

For the nine months ended September 30, 2015, the average yield on loans was 4.58%, as compared to 4.92% for the nine month period ended September 30, 2014. For the each of the nine month period s ended September 30, 2015, and September 30, 2014, income on taxable securities was $5.0 million. For the nine month period ending September 30, 2015, the tax equivalent yield on taxable and tax free securities were 3.16% and 4.68%, respectively, as compared to 2.59% and 4.98% for the nine month period ended September 30, 2014, respectively.

For the nine month periods ended September 30, 2015, and September 30, 2014, the Company s cost of interest bearing liabilities was 0.95% and 1.25%, respectively. The lower cost of interest bearing liabilities was largely the result of the prepayment of FHLB advances in December 2014. For the nine month period ended September 30, 2015, and September 30, 2014, the Company s net interest margin was 3.40% and 3.12%, respectively.

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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 nine-month periods ended September 30, 2015, and September 30, 2014. 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 nine-month periods. 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 $625,000 for the nine month period ended September 30, 2015, and $774,000 for the nine month period ended September 30, 2014, for a tax equivalent rate using a cost of funds rate of 0.95% for September 30, 2015, and 1.25% for September 30, 2014. The table adjusts tax-free loan income by $5,000 for September 30, 2015, and $9,000 for September 30, 2014, respectively, for a tax equivalent rate using the same cost of funds rate:

	Average Balance 09/30/2015	Income & Expense 09/30/2015	Average Rates 09/30/2015	Average Balance 09/30/2014	Income & Expense 09/30/2014	Average Rates 09/30/2014
Loans	$ 550,047	$ 18,900	4.58%	$ 535,659	$ 19,752	4.92%
Investments AFS taxable	208,721	4,953	3.16%	259,615	5,035	2.59%
Investments AFS tax free	53,859	1,892	4.68%	63,321	2,363	4.98%
Interest earning deposits	5,096	11	0.29%	9,819	19	0.26%
Total interest earning assets	817,723	25,756	4.20%	868,414	27,169	4.17%
Other assets	74,136			73,550		
Total assets	$ 891,859			$ 941,964		
Retail time deposits	$ 289,157	2,516	1.16%	$ 307,307	2,786	1.21%
Brokered deposits	32,706	279	1.14%	39,741	401	1.35%
Interest bearing checking accounts	195,929	810	0.55%	191,925	981	0.68%
MMDA and savings accounts	95,016	146	0.20%	96,278	145	0.20%
FHLB borrowings	17,315	206	1.59%	44,985	1,292	3.83%
Repurchase agreements	43,726	368	1.12%	41,386	722	2.33%
Subordinated debentures	10,310	553	7.15%	10,310	551	7.13%
Total interest bearing liabilities	684,159	4,878	0.95%	731,932	6,878	1.25%
Non-interest bearing deposits	112,198			105,325		
Other non-interest bearing liabilities	4,363			5,026		
Stockholders equity	91,139			99,681		
Total liabilities and stockholders equity	$ 891,859			$ 941,964		

Interest rate spread	20,878	3.25%	20,291	2.92%
Net interest margin		3.40%		3.12%

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Interest Income. For the nine month periods ended September 30, 2015, and September 30, 2014, the Company s total interest income was $25.1 million and $26.4 million, respectively. For the nine month period ended September 30, 2015, and September 30, 2014, interest income on loans was $18.9 million and $19.7 million, respectively. The average balance of loans receivable increased from $535.7 million for the nine month period ended September 30, 2014, to $550.0 million for the nine month period ended September 30, 2015. The ratio of average interest-earning assets to average interest-bearing liabilities increased from 118.7% for the nine months ended September 30, 2014, to 119.5% for the nine months ended September 30, 2015.

Interest Expense. Interest expense declined $2.0 million for the nine month period ended September 30, 2015, as compared to the nine month period ended September 30, 2014. For the nine month period ending September 30, 2015, the Company s interest expense on FHLB advances was $206,000, compared to $1.3 million for the nine month period ended September 30, 2014. The Company s decision to prepay $35.9 million in FHLB advances was the most significant contributing factor in the reduction of the Company s borrowing expense. The average balance of funds borrowed from the FHLB declined to $17.3 million, from $45.0 million for the nine months ended September 30, 2014. The average cost of FHLB borrowing were 3.83% for the nine months ended September 30, 2014, and 1.59% for the nine months ended September 30, 2015. For the nine month period ended September 30, 2015, the average balance of interest bearing retail time deposits declined $18.1 million to $289.2 million, as compared to $307.3 million for the nine month period ended September 30, 2014.

The average cost of brokered deposits declined from 1.35% for the nine months ended September 30, 2014, to 1.14% for the nine months ended September 30, 2015. Over the same period, the average balance of brokered deposits declined $7.0 million to $32.7 million for the nine month period ended September 30, 2015, as compared to the nine month period ended September 30, 2014. For the nine month period ended September 30, 2015, the Company s total cost of deposits was 0.69% as compared to 0.78% for the nine month period ended September 30, 2014.

The average balance of repurchase agreements increased from $41.4 million for the nine months ended September 30, 2014, to $43.7 million for the nine month period ended September 30, 2015. The average cost of repurchase agreements was 2.33% for the nine months ended September 30, 2014, and 1.12% for the nine month period ended September 30, 2015. The reduction in the cost of repurchase agreements was primarily from the maturity of a $10.0 million long term wholesale repurchase agreement that matured in September 2014 at a cost of 4.28%.

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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 $760,000 in provision for loan loss was required for the nine month period ended September 30, 2015.

For the nine month period ended September 30, 2014, the Company determined that it could record a $773,000 reduction in the allowance for loan loss account. The reduction in the allowance account for the nine month period ended September 30, 2014, was the result of the Company s improved credit quality, a reduction in the level of adversely classified assets and improving local and national economy.

Non-Interest Income. There was a $219,000 decline in non-interest income in the nine month period ended September 30, 2015, as compared to the same period in 2014. The decline in non-interest income was largely the result of a decline in service charge income and financial services income. For the nine month period ended September 30, 2015, the Company earned $539,000 in financial services income as compared to $737,000 during the nine month period ended September 30, 2014. For the nine month ended September 30, 2015, the Company s service charge income was $2.2 million as compared to $2.5 million for the nine month period ended September 30, 2014. The Company s mortgage origination income continues to improve, as we earned $865,000 in the nine month period ended September 30, 2015, as compared to $507,000 in the nine month period ended September 30, 2014.

Non-Interest Expenses. There was a $923,000 increase in total non-interest expenses in the nine-month period ended September 30, 2015, as compared to the same period in 2014. The most significant change in non-interest expenses was a $556,000 increase in losses on the sale of other real estate owned, a $213,000 increase in expenses related to other real estate owned and a $780,000 increase in salaries and benefit expense for the nine month period ended September 30, 2015, as compared to the nine month period ended September 30, 2014. For the nine month period ended September 30, 2015, the increase in salaries and benefits expense was largely the result of payroll expenses related to the opening of the Nashville, Tennessee, loan production office in the fourth quarter of 2014 as well as a company-wide increase in healthcare cost.

Income Taxes. The effective tax rate for the nine-month periods ending September 30, 2015, was 10.2% due to the lower levels of taxable income. For the nine month period ended September 30, 2014, the Company s tax rate was 16.8% due to the higher levels of overall gross income.

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Comparison of Operating Results for the Three Month Periods Ended September 30, 2015 and 2014.

Net Income. For the three month period ended September 30, 2015, the Company experienced net income of $510,000, as compared to net income of $2.0 million for the three month period ended September 30, 2014. The decline in net income as compared to the three month period ended September 30, 2014, was significantly influenced by an $892,000 recapture in provision for loan losses as compared to the three month period ended September 30, 2015.

Net Interest Income. Net interest income for the three month period ended September 30, 2015, was $6.4 million, compared to $6.8 million for the three month period ended September 30, 2014. The decline in net interest income for the three months ended September 30, 2015, as compared to September 30, 2014, was due to a $539,000 decline in the Company s interest income on loans, a $116,000 decline in tax free securities income and a $325,000 decline in the Company s income on taxable securities available for sale. The decline of interest income was partially offset by a $553,000 decline in the Company s interest expense.

For the three months ended September 30, 2015, the average yield on loans was 4.59%, as compared to 5.16% for the three month period ended September 30, 2014. For the three month periods ended September 30, 2015, and September 30, 2014, income on taxable investments were $1.2 million and $1.6 million, respectively. For the three month period ending September 30, 2015, the tax equivalent yield on taxable and tax free securities were 2.52% and 4.66%, respectively, as compared to 2.35% and 4.69% for the three month period ended September 30, 2014, respectively.

For the three month periods ended September 30, 2015, and September 30, 2014, the Company s cost of interest bearing liabilities was 0.97% and 1.17%, respectively. For the three month period ended September 30, 2015, and September 30, 2014, the Company s net interest margin was 3.25% and 3.22%, 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 September 30, 2015, and September 30, 2014. 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 $197,000 for September 30, 2015, and $251,000 for September 30, 2014, for a tax equivalent rate using a cost of funds rate of 0.97% for September 30, 2015, and 1.20% for September 30, 2014. The table adjusts tax-free loan income by $3,000 for the three month periods ended September 30, 2015 and September 30, 2014, respectively, for a tax equivalent rate using the same cost of funds rate:

	Average Balance 9/30/2015	Income and Expense 9/30/2015	Average Rates 9/30/2015	Average Balance 9/30/2014	Income and Expense 9/30/2014	Average Rates 9/30/2014
	(Table Amounts in Thousands, Except Percentages)					
Loans	$ 555,792	6,377	4.59%	$ 535,774	6,916	5.16%
Investments AFS taxable	196,524	1,237	2.52%	265,853	1,562	2.35%
Investment AFS tax free	51,063	595	4.66%	65,298	765	4.69%
Interest bearing deposits	6,305	3	0.19%	10,917	5	0.18%
Total interest earning assets	809,684	8,212	4.06%	877,842	9,248	4.21%
Other assets	67,860			75,617		
Total assets	$ 877,544			$ 953,459		
Retail time deposits	286,516	840	1.17%	320,008	896	1.12%
Brokered deposits	30,149	89	1.18%	42,605	110	1.03%
MMDA and Savings	94,679	45	0.19%	94,522	49	0.21%
Interest bearing checking	191,903	272	0.57%	190,329	299	0.63%
FHLB borrowings	10,685	71	2.66%	42,970	430	4.00%
Repurchase agreements	47,124	130	1.10%	46,765	228	1.95%
Subordinated debentures	10,310	186	7.22%	10,310	174	6.75%
Total interest bearing liabilities	671,366	1,633	0.97%	747,509	2,186	1.17%
Non-interest bearing deposits	114,319			103,112		
Other liabilities	4,574			4,660		
Stockholders equity	87,285			98,178		
Total liabilities and stockholders equity	$ 877,544			$ 953,459		
Net interest income		6,579			7,062	
Interest rate spread			3.09%			3.04%

Net interest margin	3.25%	3.22%

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Interest Income. For the three month periods ended September 30, 2015, and September 30, 2014, the Company s total interest income was $8.0 million and $9.0 million, respectively. For the three month period ended September 30, 2015, interest income on loans was $6.4 million, a $539,000 decline as compared to the three month period ended September 30, 2014. The average balance of loans receivable increased from $535.8 million for the three month period ended September 30, 2014, to $555.8 million for the three month period ended September 30, 2015. The ratio of average interest-earning assets to average interest-bearing liabilities increased from 117.4% for the three month period ended September 30, 2014, to 120.6% for the three month period ended September 30, 2015.

Interest Expense. Interest expense declined $553,000 for the three months ended September 30, 2015, as compared to the three month period ended September 30, 2014. The decline was attributable to the prepayment of FHLB advances and an increase in lower cost interest bearing checking accounts. The average balance of funds borrowed from the FHLB declined by $32.3 million, from $43.0 million for the three months ended September 30, 2014, to $10.7 million for the three month period ended September 30, 2015. The average cost of borrowed funds from the FHLB was 4.00% for the three months ended September 30, 2014, and 2.66% for the three months ended September 30, 2015, respectively. The average balance of repurchase agreements increased from $46.8 million for the three months ended September 30, 2014, to $47.1 million for the three month period ended September 30, 2015. The average cost of repurchase agreements was 1.95% for the three months ended September 30, 2014, and 1.10% for the three month period ended September 30, 2015.

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 it could record a $892,000 reduction in the allowance for loan loss account during three month period ended September 30, 2014, compared to a $275,000 provision for loan loss expense for the three month period ended September 30, 2015. The reduction in the allowance for loan loss account was the result of improved credit quality, enhanced economic trends, and lower levels of assets with specific reserves.

Non-Interest Income. The Company s non-interest income declined by $457,000 in the three month period ended September 30, 2015, as compared to the three month period ended September 30, 2014. The decline in non-interest income was partly the result of a $191,000 decline in gains realized on the sale of investments. The Company s income for services charges was $750,000 for the three month period ended September 30, 2015, compared to $879,000 for the same period in 2014. The Company s financial services commission declined from $363,000 for the three month period ended September 30, 2014, to $186,000 for the three month period ended September 30, 2015. For the three month period ended September 30, 2015, the Company earned $345,000 in mortgage origination income as compared to $316,000 during the three month period ended September 30, 2014.

Non-Interest Expenses. There was a $10,000 decrease in total non-interest expenses in the three month period ended September 30, 2015, as compared to the three month period ended September 30, 2014. The most significant change in non-interest expenses was a $231,000 increase in expenses related to real estate owned and a $79,000 increase in salary and benefit expense for the three month period ended September 30, 2015, as compared to the three month period ended September 30, 2014. The increase in salaries and benefits expense is largely the result of payroll related to the Company s new loan production office in Nashville and higher health insurance cost.

Income Taxes. For the three month period ended September 30, 2015, the Company s effective tax rate was negative due to a high level of tax free income, tax credits available to the Company and relatively low level of net income. The effective tax rate for the three month period ended September 30, 2014, was 22.8%.

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 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 pages 44 and 48 that provides the yields and cost of assets and liabilities.

At September 30, 2015, the Company s brokered deposits consisted of the following:

Issue Date	Interest Rate	Balance	Maturity Date
7/22/2013	0.65%	$ 1,940,000	11/22/2015
12/21/2010	1.70%	805,000	12/21/2015
9/21/2012	0.60%	2,500,000	1/21/2016
7/9/2012	0.75%	2,309,000	3/9/2016
3/17/2011	2.25%	1,500,000	3/17/2016
7/22/2013	0.80%	2,000,000	7/22/2016
8/6/2014	0.75%	2,842,000	10/06/2016
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	1.05%	1,446,000	1/9/2017 (1)
1/9/2015	1.00%	2,077,000	4/9/2017
7/27/2012	1.00%	1,500,000	7/27/2017
1/3/2013	1.00%	3,030,000	1/3/2018
1/9/2015	1.20%	2,004,000	1/9/2018
Total		$ 29,083,000	

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

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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 stateme 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, 2015, 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 September 30, 2015, 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 September 30, 2015, for the twelve month period ending September 30, 2016, is as follows:

	Down 1.00%	No change	Up 1.00%	Up 2.00%	Up 3.00%
			(Dollars In Thousands)		
Net interest income	$ 26,045	$ 27,324	$ 27,967	$ 28,577	$ 29,104

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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 President and Chief Executive Officer and Senior Vice President, Chief Financial Officer and Treasurer, 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 September 30, 2015.

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 nine months ended September 30, 2015, 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 includes (as such term s defined in rules 13a-15(f) and 15d-15(f)) under the Exchange Act during the Company s fiscal quarter ended September 30, 2015, 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

Various legal proceedings to which the Company or its subsidiaries is a party arise from time to time in the normal course of business. There are no material pending legal proceedings to which the Company or its subsidiaries is a party or of which any of their property is the subject.

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, 2014.

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

N/A

(a) Use of Proceeds. Not applicable

(b) Repurchase of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total number of shares Purchased as part of Publically Announced Programs	Maximum Number of Shares that Yet may be Purchased Under the Program at the end of the period
July 1, 2015, to July 31, 2015			1,573,191	504,725
August 1, 2015, to August 31, 2015	17,495	$ 11.64	1,590,686	487,230
September 1, 2015, to September 30, 2015	48,000	$ 11.52	1,638,686	439,230
Total	65,495	$ 11.55	1,638,686	439,230

The Company s buyback program expired October 31, 2015.

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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, President and Chief Executive Officer.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Billy C. Duvall, Senior Vice President, Chief Financial Officer and Treasurer
32.1	Certification Pursuant to Section 18 U.S.C. Section 1350 includes (as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 for John E. Peck, President and Chief Executive Officer.
32.2	Certification Pursuant to Section 18 U.S.C. Section 1350 includes (as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 for Billy C. Duvall, Senior Vice President, Chief Financial Officer and Treasurer.
101	The following materials from the Company s quarterly report on Form 10-Q for the three and nine month period ended September 30, 2015, formatted in (eXtensible Business Reporting Language): (i) Consolidated Condensed Statements of Financial Condition as of September 30, 2015 (unaudited) and December 31, 2014, (ii) Consolidated Condensed Statements of Income for the three and nine month periods ended September 30, 2015, and September 30, 2014 (unaudited), (iii) Consolidated Condensed Statement of Comprehensive Income for the three and nine month periods ended September 30, 2015, and September 30, 2014 (unaudited), (iv) Consolidated Condensed Statement of Stockholders Equity, for the nine month periods ended September 30, 2015, and September 30, 2014 (unaudited); and (v) Consolidated Condensed Statements of Cash Flows, for the nine month periods ended September 30, 2015, and September 30, 2014 (unaudited), and (iv) Notes to Consolidated Condensed 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: November 9, 2015	/s/ John E. Peck John E. Peck President and Chief Executive Officer
Date: November 9, 2015	/s/ Billy C. Duvall Billy C. Duvall Senior Vice President, Chief Financial Officer and Treasurer