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

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

OR

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

Commission File Number: 000-23667

HOPFED BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**61-1322555**
(State or other jurisdiction of 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	¨
Non-accelerated filer	¨	Smaller reporting company filer	x

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

As of May 13, 2013, the Registrant had outstanding 7,503,039 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)

	March 31, 2013 (unaudited)	December 31, 2012
Assets		
Cash and due from banks	$ 33,245	31,563
Interest-earning deposits	15,235	5,613
Cash and cash equivalents	48,480	37,176
Federal Home Loan Bank stock, at cost	4,428	4,428
Securities available for sale	352,973	356,345
Loans receivable, net of allowance for loan losses of $10,579 at March 31, 2013, and $10,648 at December 31, 2012	530,928	524,985
Accrued interest receivable	4,760	5,398
Real estate and other assets owned	1,480	1,548
Bank owned life insurance	9,399	9,323
Premises and equipment, net	22,209	22,557
Deferred tax assets	175	
Intangible asset	243	292
Other assets	6,034	5,637
Total assets	$ 981,109	967,689
Liabilities and Stockholders Equity		
Liabilities:		
Deposits:		
Non-interest-bearing accounts	$ 100,305	94,083
Interest-bearing accounts:		
Interest-bearing checking accounts	169,203	147,047
Savings and money market accounts	82,529	81,643
Other time deposits	425,517	437,092
Total deposits	777,554	759,865
Advances from Federal Home Loan Bank	43,257	43,741
Repurchase agreements	40,485	43,508
Subordinated debentures	10,310	10,310
Advances from borrowers for taxes and insurance	481	396
Dividends payable	180	180
Deferred tax liability		568
Accrued expenses and other liabilities	4,756	4,122
Total liabilities	877,023	862,690

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

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HOPFED BANCORP, INC.

Consolidated Condensed Statements of Financial Condition, Continued

(Dollars in Thousands)

	March 31, 2013 (unaudited)	December 31, 2012
Stockholders equity:		
Preferred stock, par value $0.01 per share; authorized - 500,000 shares; 18,400 shares issued and no shares outstanding at March 31, 2013, and December 31, 2012.	$	
Common stock, par value $.01 per share; authorized 15,000,000 shares; 7,905,955 issued and 7,503,039 outstanding at March 31, 2013, and 7,905,728 issued and 7,502,812 outstanding at December 31, 2012	79	79
Common stock warrant		556
Additional paid-in-capital	76,609	76,288
Retained earnings	42,663	41,829
Treasury stock-preferred (at cost, 18,400 shares at March 31, 2013, and December 31, 2012)	(18,400)	(18,400)
Treasury stock-common (at cost, 402,916 shares at March 31, 2013, and December 31, 2012)	(5,076)	(5,076)
Accumulated other comprehensive income, net of taxes	8,211	9,723
Total stockholders equity	104,086	104,999
Total liabilities and stockholders equity	$ 981,109	967,689

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

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

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HOPFED BANCORP, INC.

Consolidated Condensed Statements of Income

(Dollars in Thousands)

(Unaudited)

	For the Three Month Periods Ended March 31, 2013	2012
Interest and dividend income:		
Loans receivable	$ 6,882	7,801
Investment in securities, taxable	1,832	2,375
Investment in securities, non-taxable	585	575
Interest-earning deposits	6	8
Total interest and dividend income	9,305	10,759
Interest expense:		
Deposits	2,046	2,884
Advances from Federal Home Loan Bank	444	573
Repurchase agreements	242	248
Subordinated debentures	182	187
Total interest expense	2,914	3,892
Net interest income	6,391	6,867
Provision for loan losses	376	869
Net interest income after provision for loan losses	6,015	5,998
Non-interest income:		
Service charges	853	938
Merchant card income	223	196
Mortgage origination revenue	200	203
Gain on sale of securities	627	44
Income from bank owned life insurance	75	79
Financial services commission	297	227
Other operating income	208	230
Total non-interest income	2,483	1,917

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

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HOPFED BANCORP, INC.

Consolidated Condensed Statements of Income, Continued

(Dollars in Thousands, Except Per Share Amounts)

(Unaudited)

	For the Three Month Periods Ended March 31, 2013	2012
Non-interest expenses:		
Salaries and benefits	$ 3,848	3,507
Occupancy expense	845	855
Data processing expense	650	625
State deposit tax	142	162
Intangible amortization expense	49	65
Professional services expense	393	388
Deposit insurance and examination expense	232	419
Advertising expense	333	304
Postage and communications expense	139	141
Supplies expense	136	111
Loss on disposal of equipment		6
Loss on sale of real estate owned	35	147
Real estate owned expenses	76	46
Other operating expenses	396	323
Total non-interest expense	7,274	7,099
Income before income tax expense	1,224	816
Income tax expense	240	89
Net income	984	727
Less:		
Dividend on preferred shares		229
Accretion dividend on preferred shares		28
Net income available to common shareholders	$ 984	470
Net income available to common shareholders		
Per share, basic	$ 0.13	$ 0.06
Per share, diluted	$ 0.13	$ 0.06
Dividend per share	$ 0.02	$ 0.02
Weighted average shares outstanding - basic	7,488,445	7,484,475
Weighted average shares outstanding - diluted	7,488,445	7,484,475

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

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HOPFED BANCORP, INC.

Consolidated Condensed Statements of Comprehensive Income (Loss)

(Dollars in Thousands)

(Unaudited)

	For the Three Month Periods Ended March 31, 2013	2012
Net income	$ 984	727
Other comprehensive income, net of tax:		
Unrealized gain (loss) on investment securities available for sale, net of tax effect of $598 and ($73) for the three months ended March 31, 2013, and March 31, 2012, respectively;	(1,161)	142
Unrealized gain (loss) on derivatives, net of tax effect of ($32) and ($17) for the three month periods ending March 31, 2013, and March 31, 2012, respectively;	63	33
Reclassification adjustment for gains included in net income, net of tax effect of $213 and $15 for the three month periods ended March 31, 2013, and March 31, 2012, respectively;	(414)	(29)
Comprehensive income (loss)	($ 528)	873

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

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HOPFED BANCORP, INC.

Consolidated Condensed Statement of Stockholders Equity

For the Three Month Period Ended March 31, 2013

(Dollars in Thousands, Except Share Amounts)

(Unaudited)

	Shares Common Stock	Preferred Stock	Common Stock	Common Stock Warrants	Additional Capital Surplus	Retained Earnings	Treasury Stock Preferred	Treasury Stock Common	Accumulated Other Comprehensive Income	Total Stockholders Equity
Balance at December 31, 2012	7,502,812	18,400	$ 79	556	76,288	41,829	(18,400)	(5,076)	9,723	104,999
Restricted stock awards	227									
Consolidated net income						984				984
Compensation expense, restricted stock awards					22					22
Net change in unrealized gain on securities available for sale, net of income taxes of $811									(1,575)	(1,575)
Net change in unrealized loss on derivatives, net of income tax benefit of $32									63	63
Repurchase of warrant				(556)	299					(257)
Cash dividend to common stockholders						(150)				(150)
Balance March 31, 2013	7,503,039	18,400	$ 79		76,609	42,663	(18,400)	(5,076)	8,211	104,086

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 Three Month Periods Ended March 31, 2013	2012
Cash flows from operating activities:		
Net cash provided by operating activities	$ 2,903	$ 3,791
Cash flows from investing activities		
Proceeds from sales, calls and maturities of securities available for sale	41,814	28,242
Purchase of securities available for sale	(40,938)	(50,869)
Net (increase) decrease in loans	(6,396)	4,792
Proceeds from sale of foreclosed assets	110	1,573
Purchase of premises and equipment	(49)	(187)
Net cash used in investing activities	(5,459)	(16,449)
Cash flows from financing activities:		
Net increase in demand deposits	6,222	$ 8,288
Net increase in time and other deposits	11,467	$ 5,815
Increase in advances from borrowers for taxes and insurance	85	88
Repayment of advances from Federal Home Loan Bank	(484)	(951)
Net decrease in repurchase agreements	(3,023)	(603)
Cash used to repurchase warrant	(257)	
Dividend paid on preferred stock		(230)
Dividends paid on common stock	(150)	(150)
Net cash provided by financing activities	13,860	12,257
Increase (decrease) in cash and cash equivalents	11,304	(401)
Cash and cash equivalents, beginning of period	37,176	48,760
Cash and cash equivalents, end of period	$ 48,480	48,359
Supplemental disclosures of Cash Flow Information:		
Interest paid	$ 1,492	1,969
Income taxes paid	$ 445	445
Supplemental disclosures of non-cash investing and financing activities:		
Loans charged off	$ 523	1,717
Foreclosures and in substance foreclosures of loans during period	$ 77	633

Net unrealized gains (losses) on investment securities classified as available for sale	$	(2,386)	171
Increase (decrease) in deferred tax asset related to unrealized gains on investments	$	811	(58)
Dividends declared and payable	$	180	178
Issue of unearned restricted stock	$	2	12

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

HopFed Bancorp, Inc. (the Company) was formed at the direction of Heritage Bank, formerly Hopkinsville Federal Savings Bank (the Bank), to become the holding company of the Bank upon the conversion of the Bank from a federally chartered mutual savings bank to a federally chartered stock savings bank. The conversion was consummated on February 6, 1998. The Company s primary assets are the outstanding capital stock of the converted Bank, and its sole business is that of the converted Bank. The Bank owns 100% of the stock of Fall and Fall Insurance Agency (Fall & Fall) of Fulton, Kentucky. Fall & Fall sells life and casualty insurance to both individuals and businesses. The majority of Fall & Fall s customer base is within the geographic footprint of the Bank.

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

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

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

(2) INCOME PER SHARE

The following schedule reconciles the numerators and denominators of the basic and diluted income per share (IPS) computations for the three month periods ended March 31, 2013, and March 31, 2012. Diluted common shares arise from the potentially dilutive effect of the Company s stock options and warrant outstanding.

	Three Month Periods Ended March 31, 2013	Three Month Periods Ended March 31, 2012
Basic IPS:		
Net income available to common stockholders	$ 984,000	$ 470,000
Average common shares outstanding	7,488,445	7,484,475
Net income per share available to common shareholders, basic	$ 0.13	$ 0.06
Diluted IPS		
Net income available to common stockholders	$ 984,000	$ 470,000
Average common shares outstanding	7,488,445	7,484,475
Dilutive effect of stock options		
Average diluted shares outstanding	7,488,445	7,484,475
Net income per share available to common shareholders, diluted	$ 0.13	$ 0.06

(3) STOCK COMPENSATION

The Company incurred compensation cost related to the HopFed Bancorp, Inc. 2004 Long Term Incentive Plan of $22,000 for the three month period ended March 31, 2013, and $27,000 for the three month period ended March 31, 2012, respectively. The Company issued 227 and 1,556 shares of restricted stock during the three month periods ended March 31, 2013, and March 31, 2012, respectively. The table below provides a detail of the Company s future compensation expense related to restricted stock vesting at March 31, 2013:

Year Ending December 31,	Future Expense
2013	$ 52,599
2014	50,984
2015	28,070
2016	8,299
2017	6
Total	$ 139,958

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 March 31, 2013, the Company has 41 securities with unrealized losses. The carrying amount of securities and their estimated fair values at March 31, 2013, were as follows:

	March 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in Thousands)			
Restricted:				
FHLB stock	$ 4,428			4,428
Unrestricted:				
U.S. government and agency securities:				
Agency debt securities	$ 139,563	5,136	(66)	144,633
Taxable municipal bonds	17,117	1,149	(45)	18,221
Tax free municipal bonds	66,943	4,491	(126)	71,308
Trust preferred securities	2,000		(511)	1,489
Mortgage-backed securities:				
GNMA	17,657	1,133	(7)	18,783
FNMA	67,678	2,177	(153)	69,702
FHLMC	3,972	131		4,103
NON-AGENCY CMOs	10,334	41	(140)	10,235
AGENCY CMOs	14,238	334	(73)	14,499
	$ 339,502	14,592	(1,121)	352,973

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

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

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The scheduled maturities of debt securities available for sale at March 31, 2013, were as follows:

	Amortized Cost	Estimated Fair Value
Due within one year	$ 420	$ 420
Due in one to five years	13,205	13,378
Due in five to ten years	31,888	33,668
Due after ten years	52,924	56,106
	98,437	103,572
Amortizing agency bonds	127,186	132,079
Mortgage-backed securities	113,879	117,322
Total unrestricted securities available for sale	$ 339,502	$ 352,973

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

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

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The estimated fair value and unrealized loss amounts of temporarily impaired investments as of March 31, 2013, are as follows:

	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
			(Dollars in Thousands)			
Available for sale						
U.S. government and agency securities:						
Agency debt securities	$ 14,234	(66)			14,234	(66)
Taxable municipals	4,441	(45)			4,441	(45)
Tax free municipals	8,510	(126)			8,510	(126)
Trust preferred securities			1,489	(511)	1,489	(511)
Mortgage-backed securities:						
GNMA			1,220	(7)	1,220	(7)
FNMA	9,989	(153)			9,989	(153)
FHLMC						
NON-AGENCY CMOs	1,553	(140)			1,553	(140)
AGENCY CMOs	1,978	(67)	1,232	(6)	3,210	(73)
Total Available for Sale	$ 40,705	(597)	3,941	(524)	44,646	(1,121)

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

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

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At March 31, 2013, securities with a book value of approximately $151.3 million and a market value of approximately $165.8 million were pledged to various municipalities for deposits in excess of FDIC limits as required by law. In addition, securities with a book value of $507,000 and a market value of $536,000 are pledged as collateral to the Federal Home Loan Bank of Cincinnati. The Federal Home Loan Bank of Cincinnati has issued letters of credit in the Bank s name totaling $15.5 million secured by the Bank s loan portfolio to secure additional municipal deposits.

At March 31, 2013, securities with a book and market value of $24.5 million were sold under agreements to repurchase from various customers. Furthermore, the Company has two wholesale repurchase agreements with third parties secured by investments with a combined book value of $20.8 million and a market value of $21.4 million. One repurchase agreement is in the amount of $6.0 million and has a maturity of September 18, 2016 and is currently callable on a quarterly basis and has a fixed rate of interest of 4.36%. The second repurchase agreement, in the amount of $10.0 million, has a maturity of September 5, 2014, is currently callable quarterly and has a fixed rate of interest of 4.28%.

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(5) LOANS

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

	March 31, 2013 Amount	March 31, 2013 Percent	December 31, 2012 Amount	December 31, 2012 Percent
		(Dollars in thousands, except percentages)		
Real estate loans:				
One-to-four family (closed end) first mortgages	$ 160,171	29.6%	$ 162,335	30.3%
Second mortgages (closed end)	4,188	0.8%	4,336	0.8%
Home equity lines of credit	35,822	6.6%	37,083	6.9%
Multi-family	33,010	6.1%	33,056	6.2%
Construction	14,548	2.7%	18,900	3.5%
Land	42,280	7.8%	45,906	8.6%
Farmland	49,199	9.1%	46,799	8.7%
Non-residential real estate	133,018	24.6%	122,637	22.9%
Total mortgage loans	472,236	87.3%	471,052	87.9%
Consumer loans	13,115	2.4%	13,886	2.6%
Commercial loans	56,058	10.3%	50,549	9.5%
Total other loans	69,173	12.7%	64,435	12.1%
Total loans, gross	541,409	100.0%	535,487	100.0%
Deferred loan cost, net of income	98		146	
Less allowance for loan losses	(10,579)		(10,648)	
Total loans	$ 530,928		$ 524,985	

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

	March 31, 2013	December 31, 2012
	(Dollars in Thousands)	
Land	$ 42,280	45,906
Manufacturing	3,517	3,856
Professional, Technical	2,156	2,025
Retail Trade	12,095	12,391
Other Services	18,278	18,303
Finance & Insurance	1,860	386
Agricultural, Forestry, Fishing & Hunting	46,199	42,420
Real Estate and Rental and Leasing	44,434	48,249
Wholesale Trade	15,294	8,891
Arts, Entertainment & Recreation	2,889	3,461
Accomodations / Food Service	20,181	17,152
Healthcare and Social Assistance	6,834	7,932
Educational Services		
Transportation & Warehousing	1,236	1,295
Information	2,707	2,488
Non-industry	4,107	46
Admin Support / Waste Mgmt	430	541
Total	$ 224,497	215,342

The allowance for loan losses totaled $10.6 million at March 31, 2013, December 31, 2012, and March 31, 2012, respectively. The ratio of the allowance for loan losses to total loans was 1.95% at March 31, 2013, 1.98% at December 31, 2012, and 1.89% at March 31, 2012.

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

	March 31, 2013	December 31, 2012	March 31, 2012
		(Dollars in Thousands)	
One-to-four family mortgages	$ 1,883	2,243	2,294
Home equity line of credit	66	66	100
Junior lien	3	4	
Multi-family		38	
Construction	177		
Land	2,754	2,768	5,042
Non-residential real estate	1,496	1,782	3,630
Consumer loans	65	145	18
Commercial loans	592	617	132
Total non-accrual loans	$ 7,036	7,663	11,216

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The following table provides a detail of the Company s activity in the allowance for loan loss account by loan type for the three month period ended March 31, 2013:

	Balance 12/31/2012	Charge off 2013	Recovery 2013	Specific Provision 2013	General Provision 2013	Balance 3/31/2013
			(Dollars in Thousands)			
One-to-four family mortgages	$ 2,490	(206)	3	324	537	3,148
Home equity line of credit	374		1	6	97	478
Junior liens	230	(38)	23	(50)	(47)	118
Multi-family	524				(24)	500
Construction	256			(65)	(60)	131
Land	2,184		2	(435)	(297)	1,454
Non-residential real estate	3,633	(123)	14	(110)	(465)	2,949
Consumer loans	338	(130)	33	204	46	491
Commercial loans	619	(26)	2	271	444	1,310
Total	$ 10,648	(523)	78	145	231	10,579

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

	Balance 12/31/2011	Charge off 2012	Recovery 2012	Specific Provision 2012	General Provision 2012	Balance 12/31/2012
			(Dollars in Thousands)			
One-to-four family mortgages	$ 2,640	(379)	81	324	(176)	2,490
Home equity line of credit	408	(67)	6	6	21	374
Junior liens	277	(1)	4		(50)	230
Multi-family	1,201	(417)		429	(689)	524
Construction	139			117		256
Land	1,332	(1,033)	405	635	845	2,184
Non-residential real estate	3,671	(1,120)	137	1,033	(88)	3,633
Consumer loans	262	(510)	150	404	32	338
Commercial loans	1,332	(157)	12	(171)	(397)	619
Total	$ 11,262	(3,684)	795	2,777	(502)	10,648

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The table below presents past due and non-accrual balances at March 31, 2013, by loan classification allocated between performing and non-performing:

March 31, 2013	Currently Performing	30 -89 Days Past Due	Non-accrual Loans	Special Mention	Impaired Loans Currently Performing Substandard	Doubful	Total
			(Dollars in Thousands)				
One-to-four family mortgages	$ 155,077	673	1,883	654	1,884		160,171
Home equity line of credit	34,934		66		822		35,822
Junior liens	3,674	14	3	45	452		4,188
Multi-family	30,911	233			1,866		33,010
Construction	10,436		177		3,935		14,548
Land	13,663	981	1,496	8,917	17,223		42,280
Non-residential real estate	169,840	191	2,754	1,843	7,589		182,217
Consumer loans	12,675	168	65		207		13,115
Commercial loans	51,924	151	592	471	2,920		56,058
Total	$ 483,134	2,411	7,036	11,930	36,898		541,409

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

December 31, 2012	Currently Performing	30 - 89 Days Past Due	Non-accrual Loans	Special Mention	Impaired Loans Currently Performing Substandard	Doubful	Total
			(Dollars in Thousands)				
One-to-four family mortgages	$ 155,936	1,339	2,243	779	2,038		162,335
Home equity line of credit	34,732	5	66	1,109	1,171		37,083
Junior liens	3,584	237	4	47	464		4,336
Multi-family	27,463		38	1,478	4,077		33,056
Construction	13,876	176			4,848		18,900
Land for development	14,237	137	2,768	7,683	21,081		45,906
Non-residential real estate	146,150	293	1,782	1,899	19,312		169,436
Consumer loans	13,266	74	145		401		13,886
Commercial loans	43,961	230	617	516	5,225		50,549
Total	$ 453,205	2,491	7,663	13,511	58,617		535,487

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All loans listed as 30-89 days past due and non-accrual are not performing as agreed. Loans listed as special 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 Bank does not originate loans it considers sub-prime and is not aware of any exposure to the additional credit concerns associated with sub-prime lending in either the Company s loan or investment portfolios. The Company does have a significant amount of construction and land development loans. Management reports to the Company s Board of Directors on the status of the Company s specific construction and development loans as well as the market trends in those markets in which the Company actively participates.

The Company s annualized net charge off ratios for three month periods ended March 31, 2013, March 31, 2012, and the year ended December 31, 2012, was 0.33%, 1.08% and 0.52%, respectively. The ratios of allowance for loan losses to non-accrual loans at March 31, 2013, March 31, 2012, and December 31, 2012, were 150.35%, 94.59%, and 138.99% respectively.

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

	Three month period ended March 31, 2013	Year ended December 31, 2012	Three month period ended March 31, 2012
	(Dollars in Thousands, Except Percentages)		
Beginning balance, allowance for loan loss	$ 10,648	11,262	11,262
Charge offs			
One-to-four family mortgages	(206)	(379)	(122)
Home equity line of credit		(67)	(53)
Junior liens	(38)	(1)	
Multi-family		(417)	
Construction			
Land		(1,033)	(579)
Non-residential real estate	(123)	(1,120)	(779)
Consumer loans	(130)	(510)	(108)
Commercial loans	(26)	(157)	(76)
Total charge offs	(523)	(3,684)	(1,717)
Recoveries			
One-to-four family mortgages	3	81	39
Home equity line of credit	1	6	1
Junior liens	23	4	1
Multi-family			
Construction			
Land	2	405	100
Non-residential real estate	14	137	
Consumer loans	33	150	52
Commercial loans	2	12	2
Total recoveries	78	795	195
Net Charge offs	(445)	(2,889)	(1,522)
Provision for loan losses	376	2,275	869
Ending balance	$ 10,579	10,648	10,609
Average loan balance, gross	$ 533,172	533,081	562,866
Ratio of net charge offs to average outstanding loans during the period	0.33%	0.52%	1.08%

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.

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The Company conducts annual reviews on all loan relationships above $1 million to ascertain the borrowers continued ability to service their debt as agreed. In addition to the credit relationships mentioned above, management may 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 sixty days. The Company uses the following risk definitions for risk grades:

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

Watch loans are acceptable credits: (1) that need continual monitoring, such as out-of territory or asset-based loans (since the Bank does not have an asset-based lending department), or (2) with a marginal risk level to business concerns and individuals that; (a) have exhibited favorable performance in the past, though currently experiencing negative trends; (b) are in an industry that is experiencing volatility or is declining, and their performance is less than industry norms; and (c) are experiencing unfavorable trends in their financial position, such as one-time net losses or declines in asset values. These marginal borrowers may have early warning signs of problems such as occasional overdrafts and minor delinquency. If considered marginal, a loan would be a watch until financial data demonstrated improved performance or further deterioration to a substandard grade usually within a 12-month period. In the table on page 24, Watch loans are included with satisfactory loans and classified as Pass.

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

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

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

A loan is considered to be impaired when management determines that it is probable that the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. The value of individually impaired loans is measured based on the present value of expected payments using the fair value of the collateral if the loan is collateral dependent. Currently, it is management s practice to classify all substandard or doubtful loans as impaired. At March 31, 2013, December 31, 2012, and March 31, 2012, the Company s impaired loans totaled $43.7 million, $66.6 million and $82.2 million, respectively. At March 31, 2013, December 31, 2012, and March 31, 2012, the Company s specific reserve for impaired loans totaled $2.7 million, $3.8 million and $4.6 million, respectively.

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A summary of the Company s impaired loans, including their respective regulatory classification and their respective specific reserve at March 31, 2013, were as follows:

	Pass	Special Mention	Impaired Loans Substandard	Doubful	Total	Specific Allowance for Impairment	Allowance for Performing Loans
	(Dollars in Thousands)						
One-to-four family mortgages	$ 155,940	654	3,545	32	160,171	791	2,357
Home equity line of credit	34,934		888		35,822	144	334
Junior liens	3,688	45	455		4,188	70	48
Multi-family	31,144		1,866		33,010		500
Construction	10,436		4,112		14,548		131
Land	14,644	8,917	18,719		42,280	946	508
Non-residential real estate	125,959	1,489	5,570		133,018	117	2,108
Farmland	44,072	354	4,773		49,199	18	706
Consumer loans	12,843		272		13,115	56	435
Commercial loans	52,154	471	3,433		56,058	522	788
Total	$ 485,814	11,930	43,633	32	541,409	2,664	7,915

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

	Pass	Special Mention	Impaired Loans Substandard	Doubful	Total	Specific Allowance for Impairment	Allowance for Performing Loans
	(Dollars in Thousands)						
One-to-four family mortgages	$ 156,961	779	4,595		162,335	754	1,736
Home equity line of credit	34,737	1,109	1,237		37,083	76	298
Junior liens	3,821	47	468		4,336	188	42
Multi-family	27,463	1,478	4,115		33,056	38	486
Construction	14,052		4,848		18,900		256
Land	14,374	7,683	23,849		45,906	932	1,252
Non-residential real estate	107,947	669	14,021		122,637	1,240	1,681
Farmland	38,496	1,230	7,073		46,799	184	528
Consumer loans	13,330		556		13,886	121	217
Commercial loans	44,191	516	5,842		50,549	308	311
Total	$ 455,372	13,511	66,604		535,487	3,841	6,807

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Impaired loans by classification type and the related valuation allowance amounts at March 31, 2013, were as follows:

	At March 31, 2013			For the three month period ended March 31, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(Dollars in thousands)		
Impaired loans with no recorded reserve:					
One-to-four family mortgages	$ 1,239	1,239		1,239	8
Home equity line of credit	545	545		545	3
Junior liens	370	370		370	2
Multi-family	1,866	1,866		1,866	16
Construction	4,112	4,112		4,112	18
Land	15,148	15,148		15,148	181
Farmland	4,320	4,320		4,320	76
Non-residential real estate	5,390	5,390		5,390	27
Consumer loans	49	49		49	2
Commercial loans	2,517	2,517		2,517	51
Total	$ 35,556	35,556		35,556	384

	At March 31, 2013			For the three month period ended March 31, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(Dollars in thousands)		
Impaired loans with recorded reserve:					
One-to-four family mortgages	$ 2,338	2,338	792	2,338	10
Home equity line of credit	343	343	144	343	2
Junior liens	85	85	70	85	1
Multi-family					
Construction					
Land	3,571	3,571	945	3,571	12
Farmland	452	452	18	452	1
Non-residential real estate	181	181	117	181	2
Consumer loans	223	223	56	223	
Commercial loans	916	916	522	916	6
Total	$ 8,109	8,109	2,664	8,109	34
Total impaired loans	$ 43,665	43,665	2,664	43,665	418

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

	At December 31, 2012			For the year ended 12/31/12	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)				
Impaired loans with no recorded reserve:					
One-to-four family mortgages	$ 1,759	1,759		5,279	107
Home equity line of credit	1,169	1,169		869	50
Junior liens				281	3
Multi-family	4,077	4,077		3,626	219
Construction	4,848	4,848		3,133	174
Land	20,279	20,279		19,857	504
Farmland	5,701	5,701		5,701	202
Non-residential real estate	9,662	9,662		14,235	653
Consumer loans	81	81		66	5
Commercial loans	1,617	1,617		2,701	165
Total	$ 49,193	49,193		55,748	2,082

	At December 31, 2012			For the year ended 12/31/12	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)				
Impaired loans with recorded reserve:					
One-to-four family mortgages	$ 2,836	2,836	754	3,135	145
Home equity line of credit	68	68	76	162	3
Junior liens	468	468	188	365	38
Multi-family	38	38	38	2,640	4
Construction				1,095	
Land	3,570	3,570	932	4,848	213
Farmland	1,372	1,372	184	1,372	92
Non-residential real estate	4,359	4,359	1,240	5,206	231
Consumer loans	475	475	121	281	1
Commercial loans	4,225	4,225	308	4,470	28
Total	$ 17,411	17,411	3,841	23,574	755
Total impaired loans	$ 66,604	66,604	3,841	79,322	2,837

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

- The restructuring constitutes a concession

- The debtor is experiencing financial difficulties

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

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

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

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

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

	March 31, 2013	December 31, 2012
	(Dollars in Thousands)	
TDR by Loan Type:		
One-to-four family mortgages	$ 70	1,888
Home equity line of credit		
Junior lien	86	196
Multi-family		234
Construction	4,112	4,112
Land	2,754	3,424
Non-residential real estate	368	3,173
Farmland		909
Consumer loans	4	5
Commercial loans	232	128
Total TDR	7,626	14,069
Less:		
TDR in non-accrual status		
One-to-four family mortgages	(45)	
Home equity line of credit		(100)
Junior lien		
Multi-family		
Construction		
Land	(2,754)	(2,768)
Non-residential real estate		(44)
Farmland		
Consumer loans		
Commercial loans	(128)	(119)
Total performing TDR	$ 4,699	11,038

(6) REAL ESTATE AND OTHER ASSETS OWNED

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

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At March 31, 2013, December 31, 2012, and March 31, 2012, the Company had balances in other real estate and assets owned consisting of the following:

	March 31, 2013	December 31, 2012 (Dollars in Thousands)	March 31, 2012
One-to-four family mortgages	$ 295	258	540
Multi-family			
Construction		130	216
Land	1,112	1,112	425
Non-residential real estate	73	44	
Consumer assets owned by bank		4	
Total other assets owned	1,480	1,548	1,181
Total non-accrual loans	7,036	7,663	11,216
Total non-performing assets	$ 8,516	9,211	12,397
Non-performing assets / Total assets	0.86%	0.95%	1.18%

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The following is a summary of the activity in the Company s real estate and other assets owned for the three month period ending March 31, 2013:

	Balance 12/31/2012	Foreclosures	Proceeds	Reduction in Values	Gain (Loss) on Sale	Balance 3/31/2013
		(Dollars in Thousands)				
One-to-four family mortgages	$ 258	37				295
Multi-family						
Construction	130		(110)	(110)	90	
Land	1,112					1,112
Non-residential real estate	44	40		(11)		73
Consumer assets	4			(4)		
Total	$ 1,548	77	(110)	(125)	90	1,480

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

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

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(7) INVESTMENTS IN AFFILIATED COMPANIES

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

Summary Statements of Financial Condition

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

Summary Statement of Income

	Three Month Periods Ended March 31, 2013	2012
Income - interest income from subordinated debentures issued by HopFed Bancorp, Inc.	$ 88	96
Net income	$ 88	96

Summary Statement of Stockholders Equity

	Trust Preferred Securities	Common Stock	Retained Earnings	Total Stockholders Equity
Beginning balances, December 31, 2012	$ 10,000	310		10,310
Net income			88	88
Dividends:				
Trust preferred securities			(85)	(85)
Common paid to HopFed Bancorp, Inc.			(3)	(3)
Ending balances, March 31, 2013	$ 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 fair values of securities available for sale are determined by a matrix pricing, which is a mathematical technique that is widely used in the industry to value debt securities without exclusively using quoted prices for the individual securities in the Company s portfolio but rather by relying on the securities relationship to other benchmark quoted securities. Impaired loans are valued at the net present value of expected payments using the fair value of any assigned collateral. The values for bank owned life insurance are obtained from stated values from the respective insurance companies. The liability associated with the Company s derivative is obtained from a quoted value supplied by our correspondent banker. The value of real estate owned is obtained from appraisals completed on properties at the time of acquisition and annually thereafter.

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Assets and Liabilities Measured on a Recurring Basis

The assets and liabilities measured at fair value on a recurring basis at March 31, 2013, are summarized below:

Description	Total carrying value in the consolidated balance sheet at March 31, 2013	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Available for sale securities	$ 352,973		351,484	1,489
Bank owned life insurance	$ 9,399		9,399	
Liabilities				
Interest rate swap	$ 1,029		1,029	

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

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

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The assets and liabilities measured at fair value on a non-recurring basis are summarized below for March 31, 2013:

Description	Total carrying value in the consolidated balance sheet at March 31, 2013	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in Thousands)		
Assets				
Other real estate owned	$ 1,480			$ 1,480
Impaired loans, net of reserve of $2,664	$ 41,001			$ 41,001

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

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

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The table below includes a roll-forward of the consolidated condensed statement of financial condition items for the three month periods ended March 31, 2013, and March 1, 2012, (including the change in fair value) for assets and liabilities classified by HopFed Bancorp, Inc. within level 3 of the valuation hierarchy for assets and liabilities measured at fair value on a recurring basis. When a determination is made to classify an asset or liability within level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, since level 3 assets and liabilities typically include, in addition to the unobservable or level 3 components, observable components (that is components that are actively quoted and can be validated to external sources), the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology.

Three month period ended March 31,	2013		2012	
	Other Assets	Other Liabilities	Other Assets	Other Liabilities
	(Dollars in Thousands)			
Fair value, January 1,	$ 1,489		993	
Change in unrealized losses included in other comprehensive income for assets and liabilities still held at March 31,				
Purchases, issuances and settlements, net				
Transfers in and/or out of Level 3				
Fair value, March 31,	$ 1,489		993	

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The estimated fair values of financial instruments were as follows at March 31, 2013:

	Carrying Amount	Estimated Fair Value	Quoted Prices In Active Markets for Identical Assets Level 1	Using Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
			(Dollars in Thousands)		
Financial Assets:					
Cash and due from banks	$ 33,245	$ 33,245	$ 33,245		
Interest-earning deposits	15,235	15,235	15,235		
Securities available for sale	352,973	352,973		351,484	1,489
Federal Home Loan Bank stock	4,428	4,428		4,428	
Loans receivable	530,928	533,700			533,700
Accrued interest receivable	4,760	4,760		4,760	
Bank owned life insurance	9,399	9,399		9,399	
Financial liabilities:					
Deposits	777,554	768,969		768,969	
Advances from borrowers for taxes and insurance	481	481		481	
Advances from Federal Home Loan Bank	43,257	48,494		48,494	
Repurchase agreements	40,485	42,119		42,119	
Subordinated debentures	10,310	10,091			10,091
Off-balance-sheet liabilities:					
Commitments to extend credit					
Commercial letters of credit					
Market value of interest rate swap	1,029	1,029		1,029	

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

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

(9) ISSUANCE AND REPURCHASE OF PREFERRED SHARES

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

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(10) STOCK OPTIONS

At March 31, 2013, all stock options outstanding were issued under the HopFed Bancorp, Inc. 1999 Stock Option Plan. At March 31, 2013, the Company can no longer issue options under this plan. The remaining 20,808 options are fully vested with a strike price of $16.67 and have a final maturity of June 1, 2014.

(11) DERIVATIVE INSTRUMENTS

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

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

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

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

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In October of 2008, the Bank entered into an interest rate swap agreement for a term of seven years and an amount of $10.0 million. The Bank will pay a fixed rate of 7.27% for seven years and receive an amount equal to the three-month London Interbank Lending Rate (LIBOR) plus 3.10%. The interest rate swap is classified as a cash flow hedge by the Bank and will be tested quarterly for effectiveness. At March 31, 2013, and December 31, 2012, the cost of the Bank to terminate the cash flow hedge was approximately $1,029,000 and $1,126,000, respectively.

(12) REGULATORY CHANGES

The Bank is subject to various regulatory capital requirements now administered by the Office of the Comptroller of the Currency as successor to the OTS (see discussion above regarding Regulatory Changes). Failure to meet minimum capital requirements can result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct and material effect on the Bank s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank s assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

(13) EFFECT OF NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

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

ASU 2012-06, *Business Combinations (Topic 805) Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution (a consensus of the FASB Emerging Issues Task Force).* ASU 2012-06 clarifies the applicable guidance for subsequently measuring an indemnification asset recognized as a result of a government-assisted acquisition of a financial institution. Under ASU 2012-06, when a reporting entity recognizes an indemnification asset as a result of a government-assisted acquisition of a financial institution and, subsequently, a change in the cash flows expected to be collected on the indemnification asset occurs (as a result of a change in cash flows expected to be collected on the assets subject to indemnification), the reporting entity should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement (that is, the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets). ASU 2012-06 became effective for the Company on January 1, 2013 and did not have a significant impact on the Corporation s financial statements.

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

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

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

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

Comparison of Financial Condition at March 31, 2013, and December 31, 2012

At March 31, 2013, total assets increased $13.4 million, to $981.1 million as compared to $967.7 million at December 31, 2012, due to higher deposit and loan levels. Securities available for sale decreased from $356.3 million at December 31, 2012, to $353.0 million at March 31, 2013. At March 31, 2013, and December 31, 2012, securities classified as available for sale had an amortized cost of $339.5 million and $340.5 million, respectively.

The Company s holdings of Federal Home Loan Bank of Cincinnati (FHLB) stock, at cost was $4.4 million at December 31, 2012, and March 31, 2013. Total Federal Home Loan Bank FHLB borrowings declined $484,000, from $43.7 million at December 31, 2012, to $43.3 million at March 31, 2013. Total repurchase balances decreased from $43.5 million at December 31, 2012, to $40.5 million at March 31, 2013.

Net loans totaled $530.9 million and $525.0 million at March 31, 2013, and December 31, 2012, respectively. In the three month period ended March 31, 2013, loans outstanding increased during the final two weeks of the period, providing for a higher balance of loans outstanding while average loan balances declined over the same period.

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At March 31, 2013, deposits increased to $777.6 million from $759.9 million at December 31, 2012 despite a $11.6 million reduction in time deposits. At March 31, 2013, non-interest checking account balances increased by $6.2 million, to $100.3 million, or 12.9% of total deposits as compared to December 31, 2012. For the three month period ended March 31, 2013, interest bearing checking accounts and money market accounts increased by $22.2 million and $886,000, respectively, as compared to December 31, 2012. The average cost of all deposits during the three month periods ended March 31, 2013, December 31, 2012, and March 31, 2012, was 1.06%, 1.20% and 1.42%, respectively. Management continually evaluates the investment alternatives available to customers and adjusts the pricing on its deposit products to more actively manage its funding costs while remaining competitive in its market area. Given our continued high level of liquidity, the Company has chosen to reduce its balances of higher costing time deposits. In the six month period beginning April 1, 2013, and ending September 30, 2013, the Company has $138.6 million in time deposits scheduled to mature at a current weighted average cost of 1.71%.

Comparison of Operating Results for the Three Month Periods Ended March 31, 2013 and 2012.

Net Income. The Company s net income available to common shareholders was $984,000 for the three month period ended March 31, 2013, as compared to net income available to common shareholders of $470,000 for the three month period ended March 31, 2012. The improvement in the Company s results for the three month period ended March 31, 2013, was partially the result of the elimination of $257,000 in preferred stock dividend and warrant accretion and an increase in gains recognized on the sale of securities.

Net Interest Income. Net interest income for the three month period ended March 31, 2013, was $6.4 million, compared to $6.9 million for the three month period ended March 31, 2012. The decline in net interest income for the three months ended March 31, 2013, as compared to March 31, 2012, was due to a $66.3 million decline in the average balance of interest earning assets and an overall decline in net yields available on interest earning assets.

For the three months ended March 31, 2013, the average yield on loans was 5.27%, as compared to 5.66% for the three month period ended March 31, 2012. For the three month period ended March 31, 2013, income on taxable securities declined to $1.8 million, from $2.4 million for the three month period ended March 31, 2012, due to lower yields on new investment purchases and a $45.4 million decline in the average balance of available for sale taxable securities. For the three month period ending March 31, 2013, the tax equivalent yield on taxable and tax free securities were 2.58% and 4.58%, respectively, as compared to 2.88% and 5.15% for the three-month period ended March 31, 2012, respectively.

For the three month periods ended March 31, 2013, and March 31, 2012, the Company s cost of interest bearing liabilities was 1.51% and 1.83%, respectively. The lower cost of interest bearing liabilities was the result of lower short term interest rates. At March 31, 2013, and March 31, 2012, the Company s net interest margin was 2.99% and 2.98%, 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 three-month periods ended March 31, 2013, and March 31, 2012. Yields on assets and cost of liabilities are derived by dividing income or expense by the average daily balances of interest earning assets and liabilities for the appropriate three-month periods.

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Average balances for loans include loans classified as non-accrual, net of the allowance for loan losses. The table adjusts tax-free investment income by $282,000 for March 31, 2013, and $271,000 for March 31, 2012, for a tax equivalent rate using a cost of funds rate of 1.50% for March 31, 2013, and 1.80% for March 31, 2012. The table adjusts tax-free loan income by $1,000 for March 31, 2013, and $6,000 for March 31, 2012, for a tax equivalent rate using the same cost of funds rate:

	Average Balance 3/31/2013	Income and Expense 3/31/2013	Average Rates 3/31/2013	Average Balance 3/31/2012	Income and Expense 3/31/2012	Average Rates 3/31/2012
	(Table Amounts in Thousands, Except Percentages)					
Loans	$ 522,705	6,883	5.27%	$ 551,579	7,807	5.66%
Investments AFS taxable	284,378	1,832	2.58%	329,819	2,375	2.88%
Investment AFS tax free	75,689	867	4.58%	65,669	846	5.15%
Federal funds	9,882	6	0.24%	11,911	8	0.27%
Total interest earning assets	892,654	9,588	4.30%	958,978	11,036	4.60%
Other assets	85,058			94,246		
Total assets	$ 977,712			$ 1,053,224		
Interest bearing checking	$ 164,074	330	0.80%	$ 143,858	294	0.82%
Saving / MMDA	80,687	33	0.16%	72,434	33	0.18%
Retail time deposits	384,815	1,499	1.56%	457,461	2,289	2.00%
Brokered deposits	47,100	184	1.56%	57,345	268	1.87%
FHLB borrowings	43,558	444	4.08%	62,969	573	3.64%
Repurchase agreements	43,032	242	2.25%	44,043	248	2.25%
Subordinated debentures	10,310	182	7.06%	10,310	187	7.26%
Total interest bearing liabilities	773,576	2,914	1.51%	848,420	3,892	1.83%
Non-interest bearing deposits	94,100			80,503		
Other liabilities	4,989			5,164		
Stockholders equity	105,047			119,137		
Total liabilities and stockholders equity	$ 977,712			$ 1,053,224		
Net change in interest earning assets and interest bearing liabilities		$ 6,674	2.79%		$ 7,144	2.77%
Net yield on interest earning assets		2.99%			2.98%	

Interest Income. For the three month periods ended March 31, 2013, and March 31, 2012, the Company s total interest income was $9.3 million and $10.8 million, respectively. As the Company s loan demand remains soft, we continue to have a high dependency on investment income. As investment options have become less attractive, the Company has chosen to increase its holdings in floating rate securities. By investing in floating rate securities, the Company is limiting the price volatility on a portion of the portfolio while accepting yields that are significantly below the average yield in the remaining portfolio. At March 31, 2013, the Company owns approximately $59.5 million in floating rate securities that re-price monthly or quarterly based on movements in the one and three month London Interbank Offering Rate (LIBOR).

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The average balance of loans receivable declined from $551.6 million for the three month period ended March 31, 2012, to $522.7 million for the three month period ended March 31, 2013. The ratio of average interest-earning assets to average interest-bearing liabilities increased from 113.03% for the three months ended March 31, 2012, to 115.39% for the three months ended March 31, 2013.

Interest Expense. Interest expense declined approximately $978,000 for the three months ended March 31, 2013, as compared to March 31, 2012. The decline was attributable to lower market interest rates, the re-pricing of higher costing deposits, and a reduction in the average balance of time deposits FHLB borrowings. The average cost of interest-bearing retail time deposits declined from 2.00% for the three month period ended March 31, 2012, to 1.56% for the three months ended March 31, 2013. Over the same period, the average balance of interest bearing retail time deposits declined $72.7 million, from $457.5 million for the three months ended March 31, 2012, to $384.5 million for the three months ended March 31, 2013.

The average balance cost of brokered deposits declined from 1.87% for the three months ended March 31, 2012, to 1.56% for the three months ended March 31, 2013. Over the same period, the average balance of brokered deposits declined $10.2 million for the three month period ended March 31, 2012 to $47.1 million for the three month period ended March 31, 2013. For the three month period ended March 31, 2013, the Company s total cost of deposits was 1.06% as compared to 1.42% for the three month period ended March 31, 2012.

The average balance of funds borrowed from the FHLB declined $19.4 million, from $63.0 million for the three months ended March 31, 2012, to $43.6 million for the three month period ended March 31, 2013. The average cost of borrowed funds from the FHLB were 3.64% for the three months ended March 31, 2012, and 4.08% for the three months ended March 31, 2013, respectively. The average balance of repurchase agreements declined from $44.0 million for the three months ended March 31, 2012, to $43.0 for the three month period ended March 31, 2013. The average cost of repurchase agreements was 2.25% for the three months ended March 31, 2012, and March 31, 2013, respectively.

Provision for Loan Losses. The allowance for loan losses is established through a provision for loan losses based on management s evaluation of the risk inherent in its loan portfolio and the general economy. Such evaluation considers numerous factors including general economic conditions, loan portfolio composition and prior loss experience, the estimated fair value of the underlying collateral and other factors that warrant recognition in providing for an adequate loan loss allowance. The Company determined that an additional $376,000 in provision for loan loss was required for the three month period ended March 31, 2013, compared to a $869,000 in provision for loan loss expense for the three month period ended March 31, 2012. The lower level of required provision expense for the three month period ended March 31, 2013, is the result of improving credit quality and risk grade trends on the Company s loan portfolio.

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Non-Interest Income. There was a $566,000 increase in non-interest income in the three month period ended March 31, 2013, as compared to the same period in 2012. The increase in non-interest income was largely the result of a $583,000 increase in gains realized on the sale of investments. For the three month period ended March 31, 2013, the Company earned $200,000 in mortgage origination income as compared to $203,000 during the three month period ended March 31, 2012. The Company s financial services commission increased from $227,000 to $297,000 for the three month period ended March 31, 2012, as compared to the three month period ended March 31, 2013, as bank customers sought higher yields than is available on deposit accounts.

Non-Interest Expenses. There was a $175,000 increase in total non-interest expenses in the three-month period ended March 31, 2013, as compared to the same period in 2012. The most significant change in non-interest expenses was a $341,000 increase in salary and benefit expenses for the three month period ended March 31, 2013, as compared to the three month period ended March 31, 2012. For the three month period ended March 31, 2013, the Company s deposit insurance expense was $232,000 as compared to $419,000 for the three month period ended March 31, 2012. The decline was due to the removal of the Company s and Bank s Memorandum of Understanding and Agreement. For the three month period ended March 31, 2013, losses incurred on the sale of other assets owned were $35,000 as compared to $147,000 for the three month period ended March 31, 2012. The reduction in losses on other assets owned is largely the result of lower asset balances and an improving level of overall asset quality.

Income Taxes. The effective tax rate for the three-month periods ending March 31, 2013, and March 31, 2012, was 19.6% and 10.9%, respectively. The Company s lower tax rate is the result of lower levels of taxable net income.

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. In the past, the Company has been required to seek approval from the Office of Thrift Supervision prior to the declaration of a dividend to common shareholders. Currently, we are not required to seek approval for each cash common dividend payment to the Federal Reserve Bank.

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

At March 31, 2013, the Bank s brokered deposits consisted of the following:

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

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

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The Bank must satisfy three capital standards: a ratio of core capital to adjusted total assets of 4.0%, a tangible capital standard expressed as 1.5% of total adjusted assets, and a combination of core and supplementary capital equal to 8.0% of risk-weighted assets. At March 31, 2013, the Bank exceeded all regulatory capital requirements.

The table below presents certain information relating to the Company s and Bank s capital compliance at March 31, 2013:

	Company		Bank	
	Amount	Percent	Amount	Percent
	(Dollars in Thousands)			
Tangible Capital	$ 105,632	10.77%	$ 103,606	10.59%
Core Capital	$ 105,632	18.03%	$ 103,606	17.78%
Risk Based Capital	$ 112,958	19.28%	$ 110,932	19.03%

At March 31, 2013, the Bank had no outstanding commitments to originate loans and undisbursed commitments on loans outstanding of $102.5 million. Management believes that the Bank s sources of funds are sufficient to fund all of its outstanding commitments. Certificates of deposits scheduled to mature in one year or less from March 31, 2013, totaled $214.4 million. Management believes that a significant percentage of such deposits will remain with the Bank.

The Bank s FHLB borrowings are secured by a blanket security agreement pledging the Bank s 1-4 family first mortgage loans and non-residential real estate loans. At March 31, 2013, the Bank has pledged all eligible 1-4 family first mortgages.

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At March 31, 2013, the Bank has outstanding borrowings of $43.3 million from the FHLB with maturities two months to seven years. A schedule of FHLB borrowings at March 31, 2013, is provided below:

Outstanding Balance	Rate	Maturity	Note
	(Dollars in thousands)		
$ 4,000	5.34%	03/17/16	
7,000	4.25%	05/01/17	Quarterly callable
10,000	4.56%	06/28/17	Quarterly callable
10,000	4.26%	08/17/17	Quarterly callable
12,257	3.13%	01/01/19	Monthly Principal Payments
$ 43,257	4.11%	4.6 years	Weighted average life

At March 31, 2013, the Bank had $43.6 million in additional borrowing capacity with the FHLB which includes an overnight line of credit of $30.0 million. The Bank has an $8 million unsecured overnight borrowing capacity from a correspondent bank.

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

At March 31, 2013, the Company had the following off-balance sheet commitments (in thousands):

Standby letters of credit	$ 340
Unused home equity lines of credit	$ 27,926
Unused commercial lines of credit	$ 50,736
Unused unsecured personal lines of credit	$ 23,506

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements. Additional written or oral forward-looking statements may be made by the Company from time to time in filings with the Securities and Exchange Commission or otherwise. The words believe, expect, seek, and intend and similar expressions identify forward-looking statements, which speak only as of the date the statement is made. Such forward-looking statements are within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may include, but are not limited to, projections of income or loss, expenditures, acquisitions, plans for future operations, financing needs or plans relating to services of the Company, as well as assumptions relating to the foregoing.

Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by or underlying the forward-looking statements. The Company does not undertake, and specifically disclaims, any obligation to publicly release the results of revisions, which may be made to forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

The Company s analysis at March 31, 2013, indicates that changes in interest rates are less likely to result in significant changes in the Company s annual net interest income. A summary of the Company s analysis at March 31, 2013, for the twelve month period ending March 31, 2014, is as follows:

	Down 1.00%	No change	Up 1.00%	Up 2.00%	Up 3.00%
			(Dollars In Thousands)		
Net interest income	$ 27,470	$ 27,867	$ 27,929	$ 28,034	$ 29,198

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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 Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the quarter ended March 31, 2013.

Based upon their evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the three months ended March 31, 2013, to ensure that material information relating to the Company, including its consolidated subsidiaries, was made known to them by others within those entities, particularly during the period in which this quarterly report on Form 10-Q was being prepared.

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

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

Changes in Internal Control over Financial Reporting

There were no changes in the Company s internal control over financial reporting during the Company s fiscal quarter ended March 31, 2013, that have materially affected, or are reasonable likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company currently has no material pending legal proceedings.

Item 1A. Risk Factors

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

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

(a) None
(b) None
(c) None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

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Item 6. Exhibits

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

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SIGNATURES

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

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