

HOPFED BANCORP INC
Form 10-K
March 15, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2016

Commission file number 000-23667

HOPFED BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of jurisdiction of

incorporation or organization)

4155 Lafayette Road, Hopkinsville, KY

61-1322555
(I.R.S. Employer

Identification No.)

42240

(Address of principal executive offices)

(Zip Code)

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

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

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

Common Stock, par value \$.01 per share

(Title of Class)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Small Reporting Company

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

The registrant's voting stock is traded on the NASDAQ Stock Market. The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the price (\$11.59 per share) at which the stock was sold on June 30, 2016, was approximately \$74,901,029. For purposes of this calculation, the term affiliate refers to all executive officers and directors of the registrant and all stockholders beneficially owning more than 10% of the registrant's Common Stock.

As of the close of business on March 6, 2017, 6,716,679 shares of the registrant's Common Stock were outstanding.

Documents Incorporated By Reference

Part II:

Annual Report to Stockholders for the year ended December 31, 2016.

Part III:

Portions of the definitive proxy statement for the 2017 Annual Meeting of Stockholders.

PART I

ITEM 1. BUSINESS

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

HopFed Bancorp, Inc.

HopFed Bancorp, Inc. was incorporated under the laws of the State of Delaware in May 1997 at the direction of the Board of Directors of the Bank to serve as a savings and loan holding company of the Bank upon the acquisition of all of the capital stock issued by the Bank in the Conversion. On June 5, 2013, the Corporation's bank subsidiary, Heritage Bank, changed its name to Heritage Bank USA, Inc., (the Bank), converting its charter from a federal thrift to a Kentucky state chartered commercial bank. Likewise, the Corporation converted its charter to a Federal Reserve non-member commercial bank holding company. The Corporation's assets primarily consist of the outstanding capital stock of the Bank. The Corporation's principal business is overseeing the business of the Bank. See Regulation of the Company. As a holding company, the Corporation has greater flexibility than the Bank to diversify its business activities through existing or newly formed subsidiaries or through acquisition or merger with other financial institutions. The consolidated results of the Bank and the Corporation are referred to as the Company. The Company's executive offices are located at 4155 Lafayette Road, Hopkinsville, Kentucky 42240, and its main telephone number is (270) 885-1171. The Company's mailing address is P.O. Box 537, Hopkinsville, Kentucky 42241-0537.

Heritage Bank USA, Inc.

The Bank is a Kentucky state chartered commercial bank headquartered in Hopkinsville, Kentucky, with branch offices in Kentucky and Tennessee. The Kentucky locations include Hopkinsville, Murray, Cadiz, Elkton, Fulton, Calvert City and Benton. The Tennessee locations include Clarksville, Pleasant View, Ashland City, Kingston Springs and Erin. In October 2014, the Bank opened a loan production office in Nashville, Tennessee. In October 2016, the Bank opened a loan production office in Brentwood, Tennessee. The Bank was incorporated by the Commonwealth of Kentucky in 1879 under the name Hopkinsville Building and Loan Association. In 1940, the Bank converted to a federal mutual savings association and received federal insurance of its deposit accounts. In 1983, the Bank became a federal mutual savings bank. On May 14, 2002, the Bank changed its name from Hopkinsville Federal Bank to Heritage Bank. On June 5, 2013, the Bank changed its legal name to Heritage Bank USA, Inc. The primary market area of the Bank consists of the adjacent counties of Calloway, Christian, Todd, Trigg, Fulton, and Marshall located in southwestern Kentucky and Montgomery, Cheatham, Houston, Davidson, Obion and Weakley counties located in Tennessee.

The business of the Bank primarily consists of attracting deposits from the general public and investing such deposits in loans secured by single family residential real estate and investment securities, including U.S. Government and agency securities, municipal and corporate bonds, collateralized mortgages obligations (CMOs), and mortgage-backed

securities. The Bank also originates single-family residential/construction loans and multi-family and commercial real estate loans, as well as loans secured by deposits, other consumer loans and commercial loans. The Bank emphasizes the origination of commercial and real estate loans.

Subsidiary Activities

The Bank owns JBMM, LLC, a wholly owned, limited liability company, owns and manages the Bank's other real estate and other assets owned. The Bank owns Heritage Interim Corporation, a Tennessee corporation established to facilitate the acquisition of a bank in Tennessee. The proposed acquisition was terminated in August of 2013. The Bank owns Heritage USA Title, LLC, which sells title insurance to the Bank's real estate loan customers.

The Bank owns Fort Webb LP, LLC, which owns a limited partnership interest in Fort Webb LP, LLC, a low income senior citizen housing facility in Bowling Green, Kentucky. The facility offers apartments for rent for those senior citizens who qualify and is managed by the Bowling Green, Kentucky Housing Authority. The Company receives tax credits and Community Reinvestment Credits for its original \$420,000 investment. At December 31, 2016, the Company has no remaining balance on its books related to Fort Webb, LP, LLC. However, we anticipate that the Company will continue to receive tax benefits in the form of partnership depreciation expense for several years.

The following chart outlines the Bank's market share in our six largest markets at June 30, 2012, 2013, 2014, 2015 and 2016, according to information provided by the FDIC Market Share Report:

	At June 30				
	2012	2013	2014	2015	2016
Calloway	15.3%	14.1%	13.7%	13.2%	12.8%
Christian	22.5%	22.1%	22.6%	20.0%	17.9%
Fulton	53.9%	52.0%	51.0%	49.1%	47.5%
Marshall	14.9%	12.9%	11.9%	10.6%	9.4%
Cheatham	17.8%	18.9%	20.0%	23.4%	23.1%
Montgomery	3.0%	2.6%	2.5%	2.7%	2.1%

Growth Opportunities

For the year ended December 31, 2016, the Company's net loan portfolio balance was \$604.3 million, representing an increase of \$47.9 million, or 8.6%, as compared to December 31, 2015. For the six month period ended June 30, 2016, net loan growth was \$4.4 million. For the six month period beginning July 1, 2016, and ended December 31, 2016, loan growth was approximately \$43.5 million.

In 2016, the Company's loan growth largely occurred in two markets. For the year ended December 31, 2016, the Company's Christian County, Kentucky, market experienced loan growth of \$31.4 million, or 30.6%. The Company's loan growth in its home market was the result of improving sentiment on the future of the economy and long term marketing efforts by our loan officers. At December 31, 2016, the Christian County, Kentucky, market had loan balances of \$127.0 million. The Nashville, Tennessee, loan production office (Nashville LPO) experienced loan growth of \$26.3 million for the year ended December 31, 2016. At December 31, 2016, the Nashville LPO had loan balances of \$42.5 million.

For the year ended December 31, 2016, the Company's non-residential loan portfolio grew by \$40.2 million, or approximately 18.7%, as compared to December 31, 2015. At December 31, 2016, the Company's non-owner occupied non-residential loan portfolio (NOOCRE) was \$104.3 million, representing an increase of \$36.9 million, as compared to December 31, 2015. At December 31, 2016, the Company's growth in NOOCRE largely occurred in the following asset categories:

Asset category	2016 Growth
Retail	\$ 12.6 million
Hotel	\$ 3.3 million
Office building	\$ 5.0 million
Warehouse / Other	\$ 8.5 million
Construction	\$ 4.3 million
Farmland	\$ 5.6 million

For the year ended December 31, 2016, the Company's multi-family and construction loan portfolios grew by \$9.6 million and \$4.3 million, respectively, as compared to the year ended December 31, 2015. At December 31, 2016, total consumer loans and loans secured by deposits totaled \$8.7 million, a decline of \$11.6 million as compared to December 31, 2015. The reduction in consumer loans for the year ended December 31, 2016, was largely the result of the liquidation of collateral on one large loan relationship.

The Company has chosen not to seek land loans to augment loan growth. At December 31, 2009, total land loans were \$64.5 million, as compared to \$23.8 million at December 31, 2016. At December 31, 2016, the Company has \$8.2 million in land loans classified as substandard, representing 28.0% of all substandard loans and 34.4% of total land loans. At December 31, 2016, \$7.7 million of land loans are in non-accrual status, representing 84.6% of total non-accrual loan balances. At December 31, 2016, the Company has chosen not to incur the additional risk associated with these types of lending relationships and remains committed to resolving the small number of adversely classified loans in our portfolio.

In October 2014, the Company opened a loan production office in Nashville, Tennessee (Nashville). Nashville is approximately 70 miles from the Company's headquarters and one of the fastest growing markets in the country. The Company's goal was to establish a successful loan production office and use that success to build a modest branch network into the suburban areas surrounding Nashville. As the demographic information on the following pages suggest, the Nashville MSA provides the Company with an unlimited amount of growth opportunities not found in our more rural markets. In October of 2016, the Company opened a second loan production office in the Nashville suburb of Brentwood, Tennessee (Brentwood LPO). The purpose of the Brentwood LPO is to enhance our ability to originate residential home mortgages sold on the secondary market.

For the year ended December 31, 2015, the Company's loan portfolio grew by \$17.0 million, or 3.2%. Prior to the year ended December 31, 2015, the Company's loan growth was negative in four of the last five years. The negative loan growth was the result of several factors, including the deployment of more than 15,000 troops from nearby Fort Campbell, Kentucky to Afghanistan, which resulted in a reduced level of economic activity, lower sales for merchants, weaker demand for most goods and services and reduced tax collections. Furthermore, the deployment of troops occurred during a time of a national recession, further exasperating the weakness in the local economy.

In response to the decline in loan demand, the Company sought to reduce the size of its balance sheet and its cost of interest bearing liabilities. At April 30, 2010, the Company had brokered deposits totaling \$103.4 million as compared to \$33.4 million at December 31, 2016. The Company has also reduced the balance of Federal Home Loan Bank (FHLB) borrowings from \$81.9 million at December 31, 2010, to \$11.0 million at December 31, 2016. The reduction of FHLB borrowings include early repayments of \$35.9 million in borrowings on December 30, 2014, resulting in

\$2.5 million prepayment penalty.

In addition to reducing the level of wholesale funding, the Company's funding mix has significantly improved, resulting in a lower level of interest expenses. At December 31, 2016, total time deposits (including brokered) were \$293.1 million, a decline of \$21.6 million and \$38.8 million as compared to December 31, 2015, and December 31, 2014, respectively. At December 31, 2016, the Company's time deposit balances accounted for 40.0% of total deposits as compared to 42.6% of total deposits at December 31, 2015, and 45.4% at December 31, 2014.

The Company's opportunities for improved profitability are believed to lie in a balanced growth of loans and lower cost deposits while maintaining acceptable credit standards. The Company views its core markets of Western Kentucky and Middle Tennessee as important foundations to our future. The Nashville MSA appears to provide the Company with the best opportunity for meaningful loan growth.

Western Kentucky

Small manufacturing and agri-business interests are the largest drivers of the local economy in our Western Kentucky markets. In Western Kentucky, small manufacturing typically revolves around the automotive, transportation, and chemical industries. The manufacturing sector is reasonably strong in the immediate area with most factories operating near capacity. Unemployment rates are low in many counties in Western Kentucky due largely to the rebound in automobile sales.

In 2016, local farmers enjoyed strong yields on their crops. However, the continued weak level of commodity prices has made it difficult for all those involved in the agri-business sector. Agri-business profitability remains marginal at best. In 2017, the agri-business community anticipates the operating conditions will remain challenging without a meaningful increase in commodity prices, which are projected to remain weak into 2018. Weak commodity prices have resulted in a stabilization of the price of agricultural land, which remain near historical highs.

The tables below are a summary of selected information from the 2010 U.S. Census related to the Company's current market areas. The source of our future growth projections was the 2011 Kentucky State Data Center at the University of Louisville. At December 31, 2016, Kentucky's unemployment rate was 4.8%. The unemployment data by market was obtained from the U.S. Bureau of Labor Statistics (www.bls.gov/LAU):

	Unemployment Rate at Dec-16	2010 Median Household Income	Median Values Owner Occupied Housing Units	2010 Census	2020 Estimated	2030 Estimated
Calloway	4.0%	\$ 39,194	\$ 105,300	37,191	40,411	43,618
Christian	5.2%	\$ 37,061	\$ 95,500	73,955	77,840	81,015
Marshall	5.7%	\$ 43,326	\$ 96,900	31,448	33,023	33,787
Todd	3.6%	\$ 36,989	\$ 79,700	12,460	12,958	13,292
Trigg	5.4%	\$ 41,825	\$ 98,300	14,339	16,244	17,913
Fulton	6.3%	\$ 31,965	\$ 55,300	6,813	6,223	5,535
Total population				176,206	186,699	195,160
Estimated ten year population growth				8,542	10,493	8,461
Estimated population growth rate				5.1%	6.0%	4.5%

Clarksville, Montgomery County, Tennessee (Clarksville)

The Clarksville market is the largest market in which the Company has a significant retail banking presence. The Clarksville economy has several large employers and economic drivers including the United States (U.S.) Army s¹⁰¹101 Airborne Division with approximately 29,000 active duty military personnel and 3,900 civilian employees assigned to the division. Fort Campbell supports the third largest military population in the U.S. Army and the seventh largest in the U.S. Department of Defense. The many services available on the army installation and the community s modest cost of living have resulted in a sizable military retirement population in the area. Clarksville is also home to Austin Peay State University, a 10,000 student public university as well as a diverse manufacturing sector. The unemployment rate for Montgomery County, Tennessee in December 2016 was 5.2%.

In October of 2013, Hankook Tires announced the construction of its U.S. manufacturing facility in Clarksville. Hankook, a South Korean tire company, has invested approximately \$800 million in a new facility. Hankook anticipates that tire production will begin in 2017 and will result in approximately 1,800 full time jobs for the local economy. Hankook chose Clarksville due to its ideal location, strong transportation network and its proximity to automotive assembly plants owned by Nissan, Volkswagen, Toyota and General Motors.

The Clarksville market exhibits stronger growth and income demographics as compared to the communities in Western Kentucky. The 2010 census noted that Clarksville had a median household income of \$48,930 and a \$129,400 median value of owner occupied housing units. Clarksville s demographics benefit by its proximity to the Fort Campbell Army base; its proximity to Nashville, Tennessee; and the absence of a state income tax.

	2010 Census	2020 Estimated	2030 Estimated	2040 Estimated
Clarksville MSA	172,331	221,620	264,680	311,239
Ten year growth rate	27.9%	28.6%	19.4%	17.6%

Source: Center for Business and Economic Research, University of Tennessee, Knoxville

Middle Tennessee and Nashville MSA

Cheatham County (Cheatham) and Houston County (Houston) are located in Middle Tennessee. Both communities are rural and residents of both communities typically rely on employment opportunities in neighboring communities, as neither county has a sizeable base of manufacturing jobs. However, Cheatham is located within the Nashville MSA, and its three largest communities are an easy commute to downtown Nashville. Cheatham s proximity to Nashville has resulted in higher levels of income and population growth as compared to Houston. In December of 2016, the unemployment rates in Cheatham and Houston were 4.0% and 7.2%, respectively. In December of 2016, the unemployment rates in the state of Tennessee and the Nashville MSA are 4.9% and 3.8%, respectively.

The Company believes that the tables below support their views that the Clarksville and Nashville MSA provide the greatest opportunities for growth within our existing market area. The Company opened our Nashville LPO in October of 2014 and our Brentwood LPO (located in Williamson County, Tennessee) in October of 2016. The Nashville MSA has a population of approximately 1.6 million (includes Cheatham County, Tennessee) and attractive demographics outlined below:

	2010 Estimated Census Population	Population Change 2000 - 2010	Median Household Income	Median Value Owner Occupied Housing Units
Nashville TN MSA				
Robertson (Springfield)	66,283	21.8%	\$ 50,820	\$ 149,100
Sumner (Gallatin)	160,645	23.1%	\$ 54,916	\$ 169,100
Wilson (Lebanon)	113,193	28.4%	\$ 60,678	\$ 187,500
Rutherford (Murfreesboro)	262,604	44.3%	\$ 53,770	\$ 157,100
Williamson (Franklin)	183,182	44.7%	\$ 87,832	\$ 335,800
Maury (Columbia)	80,956	16.5%	\$ 46,278	\$ 137,100
Dickson	49,666	15.1%	\$ 44,554	\$ 128,700
Davidson (Nashville)	626,681	10.0%	\$ 45,668	\$ 164,700
Cheatham	39,105	9.0%	\$ 52,585	\$ 155,900

Source: United State Census 2010

	2010 Census	2020 Estimated	2030 Estimated	2040 Estimated
Nashville MSA	1,582,315	2,001,143	2,355,605	2,715,231
Ten year growth rate		26.5%	17.7%	15.3%

Source: Center for Business and Economic Research, University of Tennessee, Knoxville

In addition to the Clarksville and Nashville MSA markets, management views promising opportunities for growth in the midsize metropolitan markets near the Company's current locations. Highly desirable markets include Bowling Green, Kentucky, Hardin, Kentucky, and Louisville, Kentucky. These markets provide desirable demographic and growth opportunities as compared to the Company's current footprint. As evident in the table below, Kentucky growth opportunities may be most attractive in Bowling Green, which is approximately 65 miles from the Company's corporate headquarters. The tables below include the two largest counties by population in Kentucky and other communities in Kentucky within a two-hour drive of the Company's headquarters:

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

Equity Transactions

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

On March 2, 2015, the Company issued 600,000 shares of treasury stock to the Company's ESOP in a transaction as discussed below.

Stock Repurchases

On October 31, 2014, the Company announced that it intended to purchase an additional 300,000 shares of common stock. The Company added that it authorized the purchase of up to 1.0 million shares for general corporate purchases or employee benefit plans. The repurchase program expired on October 31, 2015. On November 16, 2015, the Company announced a new repurchase program of an additional 300,000 shares of common stock that is set to expire December 31, 2017. At December 31, 2016, the Company may purchase 92,550 shares of treasury stock under the currently active repurchase program. For the year ended December 31, 2016, the Company purchased 160,248 shares of common stock at a weighted average price of \$11.70 per share. At December 31, 2016, the Company holds a total of 1,246,136 shares of the Company's common stock as treasury stock at a weighted average price of \$12.32 per share.

2015 HopFed Bancorp, Inc. Employee Stock Ownership Plan

On March 2, 2015, the Company implemented the HopFed Bancorp, Inc. 2015 Employee Stock Ownership Plan (the ESOP) which covers substantially all employees who are at least 21 years old with at least one year of employment with the Company and the Bank. Bank contributions to the ESOP replaced matching and profit sharing contributions to the Heritage Bank 401(k) Plan sponsored by the Bank. All employees of the Company and its subsidiaries meeting the required service requirements participate in the ESOP. The Company's Board of Directors selected three individuals to serve as trustees. The Company has hired a directed corporate trustee to assist with the administration of the plan. The ESOP will be administered by a committee (the Committee) comprised of eleven employees approved by the Bank's Board of Directors.

On March 2, 2015, the ESOP entered into a loan agreement with the Company to borrow up to \$13.5 million to purchase up to 1.0 million shares common stock (ESOP loan). On the same date, the ESOP purchased an initial block of 600,000 shares from the Company at a cost of \$7,884,000 using the proceeds of the ESOP Loan. In accordance with the ESOP loan documents, the common stock purchased by the ESOP serves as collateral for the ESOP loan. The ESOP loan is being repaid from discretionary contributions by the Bank to the ESOP and by dividends paid on unearned shares held in the trust over a period ending no later than December 9, 2026. The interest rate on the ESOP Loan is 3.0%. The administrative trustee has custody of the common shares owned by the ESOP. Common shares are allocated among participants as the ESOP loan is repaid. The ESOP shares receive dividend payments and dividends on unearned shares are used to make the ESOP loan payment. For the years ended December 31, 2016, and December 31, 2015, the Company incurred compensation expense of \$553,000 and \$652,000, respectively, to fund the ESOP loan payment. For the years ended December 31, 2016, and December 31, 2015, the Company's ESOP released 48,067 and 53,587 shares of stock, respectively, to individual employees participating in the plan at December 31, 2016 and December 31, 2015, respectively.

Available Information

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

Lending Activities

General. The total gross loans, net of deferred loan fees of \$439,000, totaled \$610.4 million at December 31, 2016, representing 68.5% of total assets at that date. Substantially all loans are originated in the Bank's market area. At December 31, 2016, \$185.1 million, or 30.3% of the loan portfolio, consisted of one-to-four family, residential mortgage loans. Non-residential real estate loans total \$254.6 million, or 41.7% of the loan portfolio at December 31, 2016. At December 31, 2016, multi-family residential loans were \$34.3 million, or 5.6% of the loan portfolio. At December 31, 2016, construction loans were \$39.3 million, or 6.4% of the loan portfolio, and total consumer and commercial loans totaled \$97.6 million, or 16.0% of the loan portfolio.

Analysis of Loan Portfolio. Set forth below is selected data relating to the composition of the loan portfolio by type of loan at the dates indicated. At December 31, 2016, there were no concentrations of loans exceeding 10% of total loans other than as disclosed below.

	2016		2015		2014		2013		2012	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)										
<u>Type of Loan:</u>										
Real estate loans:										
One-to-four family residential	\$ 185,098	30.3%	181,414	32.3%	186,891	34.2%	192,603	34.9%	203,754	38.0%
Multi-family residential	34,284	5.6%	24,725	4.4%	25,991	4.8%	29,736	5.4%	33,056	6.2%
Construction	39,255	6.4%	34,878	6.2%	24,241	4.4%	10,618	1.9%	18,900	3.5%
Non-residential (1)	254,576	41.7%	214,410	38.1%	220,124	40.3%	244,241	44.2%	215,342	40.2%
Total real estate loans	513,213	84.0%	455,427	81.0%	457,247	83.7%	477,198	86.4%	471,052	87.9%
Other loans:										
Secured by deposits	2,160	0.3%	14,134	2.5%	8,136	1.5%	3,048	0.6%	3,768	0.7%
Other consumer loans	6,557	1.1%	6,190	1.1%	6,302	1.2%	8,119	1.4%	10,118	1.9%
Commercial loans	88,907	14.6%	86,743	15.4%	74,154	13.6%	64,041	11.6%	50,549	9.5%
Total other loans	97,624	16.0%	107,067	19.0%	88,592	16.3%	75,208	13.6%	64,435	12.1%
	610,837	100.0%	562,494	100.0%	545,839	100.0%	552,406	100.0%	535,487	100.0%
Deferred loan cost, net	(439)		(445)		(286)		(92)		146	
Allowance for loan losses	(6,112)		(5,700)		(6,289)		(8,682)		(10,648)	
Total	\$ 604,286		556,349		539,264		543,632		524,985	

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

Loan Maturity Schedule. The following table sets forth certain information at December 31, 2016, regarding the dollar amount of loans maturing in the portfolio based on their contractual maturity dates. Demand loans, loans having no stated schedule of repayments, loans having no stated maturity, and overdrafts are due in one year or less.

		Due the		3 through	5 through	10		
		year		5	10	through	Due 15	
	ending	December 31,		years	years	15	years	
	December 31,	2019		after	after	after	after	
	2017	2018	2019	December 31,	December 31,	December 31,	December 31,	Total
				2017	2017	2017	2017	
(Dollars In Thousands)								
One-to-four family residential	\$ 4,925	2,585	10,869	24,724	38,156	27,718	76,121	185,098
Multi-family residential	6,622	528	848	7,741	11,096	3,490	3,959	34,284
Construction	9,656	5,161	10,056	10,529	3,146	707		39,255
Non-residential	30,054	20,695	18,715	55,763	61,249	37,109	30,991	254,576
Secured by deposits	557	736	255	612				2,160
Other	33,267	5,751	20,204	14,021	19,445	2,693	83	95,464
Total	\$ 85,081	35,456	60,947	113,390	133,092	71,717	111,154	610,837

The following table sets forth at December 31, 2016, the dollar amount of all loans due after December 31, 2017, which had predetermined interest rates and had floating or adjustable interest rates.

	Predetermined Rate (Dollars In Thousands)	Floating or Adjustable Rate
One-to-four family residential	\$ 65,471	\$ 114,702
Multi-family residential	20,869	6,793
Construction	21,467	8,132
Non-residential	116,690	107,832
Other	51,270	12,530
Total	\$ 275,767	\$ 249,989

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

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

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

CRE loans secured by non-farm, non-residential CRE where the primary source of repayment is the cash flow from the ongoing operations and activities conducted by the owner of the property are excluded from the guidance. The Bank has used the FDIC's call report instructions to calculate that \$201.6 million of our loan portfolio, or 206.2% of the Bank's risk based capital, consists of properties classified as non-owner occupied commercial real estate. Non-owner occupied commercial real estate loans include all loans secured by multi-family properties, all construction and land development loans and certain other commercial real estate loans identified by regulations as non-owner occupied. Included in the definition of commercial real estate are \$39.3 million in construction loans and \$23.8 million in land development loans, representing 40.2% and 24.4% of the Bank's risk based capital, respectively. Both of our concentration categories are within regulatory guidelines and appear reasonable to management at this time.

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

	Year Ended December 31,		
	2016	2015	2014
	(Dollars In Thousands)		
Loan originations:			
One-to-four family residential	\$ 91,122	\$ 67,905	\$ 52,357
Multi-family residential	11,480	5,971	6,717
Construction	25,464	29,939	31,344
Non-residential	108,537	38,810	46,426
Other	53,021	39,097	69,300
Total loans originated	289,624	181,722	206,144
Loan reductions:			
Transfer to other real estate owned	2,935	869	1,579
(Increase) decrease in deferred loan origination fees, net of income	6	(159)	194
Increase (decrease) in allowance for loan losses	412	(589)	(2,393)
Loans sold	56,309	44,020	33,096
Transfer to loan held for sale			6,987
Loan principal payments	182,025	120,496	171,049
Net increase (decrease) in the loan portfolio	\$ 47,937	\$ 17,085	(\$ 4,368)

Loan originations are derived from a number of sources, including existing customers, referrals by real estate agents, depositors and borrowers and advertising, as well as walk-in customers. Solicitation programs consist of advertisements in local media, in addition to occasional participation in various community organizations and events. Real estate loans are originated by the Bank's loan personnel. All of the loan personnel are salaried and may receive additional compensation on a commission basis based on achieving certain performance goals. Loan applications are accepted at any of the Bank's branches.

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

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

loans.

It is the Bank's policy to record a lien on the real estate securing a loan and to obtain a title opinion from Kentucky and Tennessee counsel who provides that the property is free of prior encumbrances and other possible title defects. Title Insurance is generally required on all real estate loans with balances exceeding \$100,000 and all one-to-four family loans that are to be sold in the secondary market.

Borrowers must also obtain hazard insurance policies prior to closing and, when the property is in a flood hazard area, pay flood insurance policy premiums. The majority of real estate loan applications are underwritten and closed in accordance with the Bank's own lending guidelines, which generally do not conform to secondary market guidelines. Although such loans may not be readily saleable in the secondary market, management believes that, if necessary, such loans may be sold to private investors at a discount to par.

The Bank offers a residential fixed rate loan program with maturities of 15, 20, and 30 years. The majority of our fixed rate single-family loans are underwritten and closed in accordance with secondary market standards. The Bank originates these loans with intent to sell on the secondary market. However, the Bank may choose to maintain a certain percentage of these loans in our portfolio. The Bank offers both servicing retained and servicing released products in an attempt to meet the needs of our customers. Due to the increasing level of regulatory burden imposed on companies that provide servicing for single family home loans, our pricing strategy provides incentives for the vast majority of our customers to select a servicing released loan product. At December 31, 2016, the Bank's 1-4 family loan servicing portfolio was approximately \$19.7 million.

The Bank may lend up to 100% of the appraised value of the residential real property securing a mortgage loan. Under its lending policies, the Bank will originate a one-to-four family residential mortgage loan for owner-occupied property with a loan-to-value ratio of up to 95%. For residential properties that are not owner-occupied, the Bank generally does not lend more than 80% of the appraised value. For all residential mortgage loans, the Bank may increase its lending level on a case-by-case basis. At December 31, 2016, the Bank held approximately \$2.5 million of 1-4 family residential mortgages with a loan to value ratio exceeding 90% without private mortgage insurance. For these loans at December 31, 2016, no loans with a loan to value exceeding 90% without private mortgage insurance is in non-accrual status and \$24,000 of loans with a loan to value exceeding 90% without private mortgage insurance are past due more than 30 days but less than 89 days.

Under applicable law, with certain limited exceptions, loans and extensions of credit outstanding by a commercial bank to a person at one time shall not exceed 15% of the institution's unimpaired capital and surplus. Loans and extensions of credit fully secured by readily marketable collateral may comprise an additional 10% of unimpaired capital and surplus. Under these limits, the Bank's loans to one borrower were limited to approximately \$14.7 million at December 31, 2016. At that date, the Bank had no lending relationships in excess of the loans-to-one-borrower limit.

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

One-to-four Family Residential Lending. The Bank historically has been and continues to be an originator of one-to-four family residential real estate loans in its market area. At December 31, 2016, one-to-four family residential mortgage loans totaled approximately \$185.1 million, or 30.3% of the Bank's loan portfolio. The Bank originated approximately \$54.7 million in loans that the Bank sold in the secondary market with servicing released. At December 31, 2016, the Bank had approximately \$672,000 in one-to-four family residential real estate loans past due more than ninety days or in non-accrual status. At December 31, 2016, the Company's allowance for loan loss included \$1.1 million for one-to-four family residential lending.

As of December 31, 2016, 64.6% of one-to-four family mortgage loans in the Bank's loan portfolio carried adjustable rates or mature within one year. The Bank's one to four family loan portfolio consists of closed end first and second mortgages as well as opened ended home equity lines of credit. At December 31, 2016, approximately \$149.4 million of the Bank's residential mortgage portfolio consisted of closed end first and junior liens. Such loans are originated for 15, 20 and 30 year terms, in each case amortized on a monthly basis with principal and interest due each month. The interest rates on adjustable rate mortgages are adjusted once per year, with a maximum adjustment of 1% per adjustment period and a maximum aggregate adjustment of 5% over the life of the loan. All adjustable rate first mortgage loans use the one-year Treasury bill constant maturity (One Year CMT). In 2004, the Bank increased its margin on its adjustable rate loans to 3.00% from 2.75%.

The Bank also originates fixed-rate loans for terms up to 30 years. Fixed rate loans are secured by first mortgages on one-to-four family residential real property located in the Bank's market area. Because of the Bank's policy to mitigate its exposure to interest rate risk through the use of adjustable rate rather than fixed rate products, the Bank does not prioritize fixed-rate mortgage loans. At December 31, 2016, \$65.5 million of the Bank's loan portfolio consisted of fixed-rate one-to-four family first mortgage loans that will mature after December 31, 2017.

At December 31, 2016, the Bank had \$35.7 million in home equity lines of credit outstanding and \$31.8 million of additional credit available. Typically, these loans are for a term of fifteen years and have loan to value ratio of 80% to 100%. The home equity portfolio is priced at a spread to prime, adjusted daily, depending on the customer's loan to value ratio at the time of origination. Many of the home equity lines of credit require monthly interest payments with all unpaid interest and principal due at maturity.

The retention of adjustable rate loans in the Bank's portfolio helps reduce, but does not eliminate, the Bank's exposure to increases in prevailing market interest rates. However, there are unquantifiable credit risks resulting from potential increases in costs to borrowers in the event of upward re-pricing of adjustable-rate loans. It is possible that during periods of rising interest rates, the risk of default on adjustable rate loans may increase due to increases in interest costs to borrowers. Further, although adjustable rate loans allow the Bank to increase the sensitivity of its interest-earning assets to changes in interest rates, the extent of this interest sensitivity is limited by the initial fixed-rate period before the first adjustment and the lifetime interest rate adjustment limitations. This risk is heightened by the Bank's prior practice of offering its adjustable rate mortgages with a 2.0% limitation on annual interest rate adjustments. Accordingly, there can be no assurance that yields on the Bank's adjustable rate loans will fully adjust to compensate for increases in the Bank's cost of funds.

Finally, adjustable rate loans increase the Bank's exposure to decreases in prevailing market interest rates, although the 1.0% limitation on annual decreases in the loans' interest rate tends to offset this effect. In times of declining interest rates, borrowers often refinance into fixed rate loan products, limiting the Bank's ability to significantly increase its interest rate margin on adjustable rate loans in a declining interest rate market. In times of increasing interest rates, the 1.0% annual cap on increases in the interest rates tends to reduce refinancing activity and reduce the Bank's net interest margin.

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

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

owner-occupied or being built on a speculative basis.

The Bank also makes loans to qualified builders for the construction of one-to-four family residential housing located in established subdivisions in the Bank's market area. All construction loans are secured by a first lien on the property under construction. Loan proceeds are disbursed in increments as construction progresses and as inspections warrant. Construction/permanent loans may have adjustable or fixed interest rates and are underwritten in accordance with the same terms and requirements as the Bank's permanent mortgages.

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

Construction financing generally involves a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction or development and the estimated cost (including interest) of construction. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, the Bank may be confronted at or prior to the maturity of the loan, with a project having a value which is insufficient to assure full repayment. The ability of a developer to sell developed lots or completed dwelling units will depend on, among other things, demand, pricing, availability of comparable properties and economic conditions. The Bank has sought to minimize this risk by limiting construction lending to qualified borrowers in the Bank's market area, by requiring the involvement of qualified builders, and by limiting the aggregate amount of outstanding construction loans.

At December 31, 2016, the Bank's loan portfolio included \$39.3 million of loans secured by properties under construction, including construction/permanent loans structured to become permanent loans upon the completion of construction and interim construction loans structured to be repaid in full upon completion of construction and receipt of permanent financing. At December 31, 2016, approximately \$6.5 million of construction loans were for one-to-four family dwellings, approximately \$8.1 million of construction loans were for multi-family dwellings and \$24.7 million were for non-residential real estate. At December 31, 2016, there were no construction loans past due more than ninety days or in non-accrual status. At December 31, 2016, the Bank's allowance for loan loss included \$277,000 in the reserve for construction loans.

Multi-Family Residential and Non-Residential Real Estate Lending. The Bank's multi-family residential loan portfolio consists of fixed and adjustable rate loans secured by real estate. At December 31, 2016, the Bank had \$34.3 million of multi-family residential loans, which amounted to 5.6% of the Bank's loan portfolio at such date. The Bank's non-residential real estate portfolio generally consists of adjustable and fixed rate loans secured by first mortgages on commercial real estate, farmland, and raw land. In most cases, such property is located in the Bank's market area. At December 31, 2016, the Bank had approximately \$254.6 million of such loans, which comprised 41.7% of its loan portfolio.

At December 31, 2016, non-residential real estate loans consisted of \$47.8 million in farmland, \$104.2 million in non-owner occupied properties, and \$78.8 million in owner occupied commercial real estate and \$23.8 million in raw land. The Company currently has no land under development and all lots are completed and available for sale. At December 31, 2016, approximately \$8.2 million, or 34.5% of the Company's land portfolio, are substandard. At December 31, 2016, \$2.3 million, or 4.8% of the Company's farmland portfolio are substandard and \$10.5 million, or 5.8% of the Company's commercial real estate portfolio, are substandard.

At December 31, 2016, there were \$208,000 in non-residential real estate loans past due more than ninety days or in non-accrual status. At December 31, 2016, there were \$7.7 million in land loans past due more than ninety days or in non-accrual status. At December 31, 2016, the Company's allowance for loan loss included \$1.8 million in the reserve for land loans, \$964,000 in the reserve for non-residential real estate loans and \$778,000 in the reserve for loans secured by farmland.

At December 31, 2016, the Company has no land loans currently under development. At December 31, 2016, the inventory of land loans includes 84 fully developed lots available for sale with an aggregate loan balance of

\$2.2 million. The average lot had an average loan balance of approximately \$26,700. Also at December 31, 2016, the Company's loan portfolio includes \$14.4 million of land loans for future development currently without meaningful infrastructure in place. The Company's portfolio of land loans designated for future development represent approximately 1,198 acres of land with an average price per acre of approximately \$12,000. The remaining \$7.2 million in land loans are for personal and recreational purposes.

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

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

To minimize these risks, the Bank generally limits itself to its market area or to borrowers with which it has prior experience or who are otherwise known to the Bank. It has been the Bank's policy to obtain annual financial statements of the business of the borrower or the project for which multi-family residential real estate or non-residential real estate loans are made. At December 31, 2016, there were no multi-family loans past due more than 90 days or classified as non-accrual. At December 31, 2016, there were \$208,000 in loans secured by non-residential real estate or farmland that were past due by 90 days or more or classified as non-accrual and \$7.7 million in loans secured by raw land that were past due by 90 days or more or classified as non-accrual. At December 31, 2016, the Company's allowance for loan loss included \$412,000 in the reserve for multi-family loans, \$1.8 million in the reserve for loans secured by raw land, \$778,000 in the reserve for loans secured by farmland and \$964,000 in reserve for non-residential real estate loans.

Consumer Lending. The consumer loans currently in the Bank's loan portfolio consist of loans secured by savings deposits and other consumer loans. Savings deposit loans are usually made for up to 100% of the depositor's savings account balance. The interest rate is approximately 2.0% above the rate paid on such deposit account serving as collateral, and the account must be pledged as collateral to secure the loan. Interest on deposit secured loans are payable quarterly. At December 31, 2016, loans on deposit accounts totaled \$2.2 million, or 0.3% of the Bank's loan portfolio. Other consumer loans include automobile loans, the amount and terms of which are determined by management, and closed end home equity and home improvement loans, which are made for up to 100% of the value of the property. At December 31, 2016, all other consumer loans accounts totaled \$6.6 million, or 1.1% of total loans.

Consumer loans may entail greater credit risk than do residential mortgage loans, particularly in the case of consumer loans that are unsecured or are secured by rapidly depreciable assets, such as automobiles. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and therefore are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans. At December 31, 2016, \$3,000 in consumer loans are delinquent 90 days or more or classified as non-accrual and \$335,000 of deposit overdrafts that re-classified as consumer loans. At December 31, 2016, the Company's allowance for loan loss included \$208,000 for consumer loans.

In 2013, the Company instituted a centralized lending function for all residential real estate and consumer loans. The centralized process allows for a more standardized and consistent credit decision, a more efficient use of Company resources and provides for the concentration of the Company's compliance and documentation expertise. In 2015, the Company expanded the centralized documentation process to include all loan originations.

Commercial Lending. The Bank originates commercial loans on a secured and, to a lesser extent, unsecured basis. At December 31, 2016, the Bank's commercial loans amounted to \$88.9 million, or 14.6% of the Bank's loan portfolio. The Bank's commercial loans are secured by business assets or agricultural inventory. In addition, the Bank generally obtains guarantees from the principals of the borrower with respect to all commercial loans. At December 31, 2016, \$19.8 million of the Bank's commercial loan portfolio were loans to finance agricultural production or other loans to farmers. At December 31, 2016, there was \$516,000 in commercial loans delinquent 90 days or more or classified as non-accrual. At December 31, 2016, the Company's allowance for loan loss included \$593,000 in reserve for commercial loans.

In 2016, net charge offs totaled \$829,000, or 0.15% of average loans. In 2016, the Company charged off \$764,000 on one lending relationship that resulted in a foreclosure of numerous properties. The Company has placed the related assets as other real estate owned and is now actively marketing the properties. In 2015, the Company experienced an increase in net charge offs as compared to 2014. In 2015, the Company's net charge offs were \$1.6 million, or 0.29% of average loan balances. In 2014, the Company's net charge offs were \$120,000, which included a \$1.1 million in recoveries of previously charged off loans.

At December 31, 2016, the Company's level of classified loans to risk based capital is 29.7%. The Company seeks to maintain a level of classified assets at or below 30% of risk based capital. We will continue to focus our efforts to reduce the level of classified assets on our land portfolio, in which two land development loans account for 28.0% of the total dollar amount of our total classified assets and 8.3% of our risk based capital.

Non-accrual Loans and Other Problem Assets

The Bank's non-accrual loans totaled 1.49% of total loans at December 31, 2016. Loans are placed on a non-accrual status when the loan is past due in excess of 90 days or the collection of principal and interest is doubtful. The Bank places a high priority on contacting customers by telephone as a primary method of determining the status of delinquent loans and the action necessary to resolve any payment problem. The Bank's management performs quality reviews of problem assets to determine the necessity of establishing additional loss reserves. The Bank's total non-performing assets to total asset ratio was 1.49% at December 31, 2016.

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

	2016	2015	2014	2013	2012
	At December 31, (Dollars In Thousands)				
Accruing loans which are contractually past due 90 days or more:					
Residential real estate	\$	\$	\$	\$	\$
Non-residential real estate					
Consumer					
Commercial					
Total					
Non-Accrual Loans:					
Construction				175	
Multi-family		1,968	95		38
Residential real estate	672	2,282	1,501	948	2,313

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Land	7,675	1,553	215	1,218	2,768
Non-residential real estate	208	247	1,159	6,546	1,134
Farmland		166	115	703	648
Consumer	3	8		13	145
Commercial	516	1,198	90	463	617
Total non-accrual loans	\$ 9,074	\$ 7,422	\$ 3,175	\$ 10,066	\$ 7,663
Percentage of total loans	1.49%	1.32%	0.58%	1.82%	1.43%

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

An asset meeting one of the classification definitions set forth below may be classified and still be a performing loan. An asset is classified as substandard if it is determined to be inadequately protected by the current retained earnings and paying capacity of the obligor or of the collateral pledged, if any.

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

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

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

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

State and federal examiners may disagree with management's classifications. If management does not agree with an examiner's classification of an asset, it may appeal this determination to the appropriate supervisory examiner with the Kentucky Department of Financial Institutions (KDFI) and the FDIC. Management regularly reviews its assets to determine whether any assets require classification or re-classification. At December 31, 2016, the Bank had \$29.3 million in loans classified as substandard. Loans classified as substandard or doubtful by the Bank meet our classification of impaired loans, as defined by ASC 942-310-45-1. At December 31, 2016, and including our most recent examination, there were no material disagreements between examiners and management regarding risk grading or the funding of the allowance for loan loss account.

The tables below provide a summary of loans classified by the Bank as special mention, substandard and doubtful by category for the years ended December 31, 2016, and December 31, 2015. The table also identifies the amount of the Bank's allowance for loan loss account specifically allocated to individual loans for the specific periods below:

	Special Mention	Substandard	Doubtful	Specific Allowance for Impairment
December 31, 2016				
One-to-four family residential	\$ 744	1,253		
Home equity line of credit	25	550		
Junior lien	30	11		
Multi-family		3,004		
Construction				
Land	35	8,224		1,036
Non-residential real estate	3	10,542		
Farmland	674	2,290		
Consumer		335		84
Commercial	603	3,130		28
Total	\$ 2,114	29,339		1,148

	Special Mention	Substandard	Doubtful	Specific Allowance for Impairment
December 31, 2015				
One-to-four family residential	\$ 41	3,229		60
Home equity line of credit		169		
Junior lien	35	16		
Multi-family		3,081		138
Construction				
Land	41	10,618		69
Non-residential real estate	2,489	8,357		134
Farmland		329		
Consumer		201		49
Commercial	352	2,074		180
Total	\$ 2,958	28,074		630

Troubled Debt Restructuring

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

The classification of a loan as a TDR may represent the Company's last best chance to work with a distressed customer before foreclosure proceedings begin. At December 31, 2016, the Company had \$5.6 million in non-residential real estate loans classified as TDR and \$815,000 in multi-family loans classified as TDRs, with all such loans reported as TDRs performing as agreed by the loans modified terms. At December 31, 2015, the Company had \$5.5 million in non-residential real estate loans classified as performing TDRs. Loans classified as TDRs in both 2016 and 2015 are the result of the borrower's cash flow and the Company's concession to temporarily allow interest only payments on balances outstanding. At December 31, 2016, all non-residential real estate loans are now making monthly principal and interest payments. Of the loans classified as TDRs at December 31, 2016, \$815,000 in multi-family loans are currently making interest only payments.

The table below provides a summary of the activity of loans classified for the year ended December 31, 2016:

	Balance at December 31, 2015	New TDR	Loss on Foreclosure	Loan Amortization	Balance at December 31, 2016
(Dollars in Thousands)					
Multi-family real estate		816		(1)	815
Non-residential real estate	\$ 5,536	228		(118)	5,646
Total TDR	\$ 5,536	1,044		(119)	6,461

The table below provides a summary of the activity of loans classified for the year ended December 31, 2015:

	Balance at December 31, 2014	New TDR	Loss on Foreclosure	Loan Amortization	Balance at December 31, 2015
(Dollars in Thousands)					
Non-residential real estate	\$ 3,284	2,265		(13)	5,536
Total TDR	\$ 3,284	2,265		(13)	5,536

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

Subsequent to foreclosure, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), a valuation allowance is established if the carrying value of the property exceeds its fair value net of related selling expenses. The value of other real estate owned is periodically evaluated, no less than annually, to ascertain its current market value. Additional reductions in market value are recognized as an expense through a charge to losses on real estate owned. At December 31, 2016, the Bank's real estate and other assets owned totaled \$2.4 million.

The following table sets forth information with respect to the Bank's real estate and other assets owned at December 31, 2016, December 31, 2015, and December 31, 2014:

	2016	2015	2014
	(Dollars in Thousands)		
One-to-four family first mortgages	\$ 135	55	159
Home equity line of credit	28		
Multi-family	1,775		
Land		943	1,768
Non-residential real estate	459	738	
Total real estate and other assets owned	\$ 2,397	1,736	1,927

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

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

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

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

Financial institutions must provide adequate disclosure of the methodology used regarding maintenance of an adequate allowance for loan and lease losses and an effective loan review system. The Bank utilizes a combination of

its twelve quarter loan loss history and the sum of all impairment testing completed on individually classified loans deemed collateral dependent.

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

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

	2016	Year Ended December 31,			
		2015	2014	2013	2012
		(Dollars in thousands)			
Balance at beginning of period	\$ 5,700	6,289	8,682	10,648	11,262
Loans charged off:					
Commercial loans	(1,016)	(1,334)	(501)	(2,802)	(2,727)
Consumer loans and overdrafts	(422)	(298)	(415)	(649)	(510)
Residential real estate	(30)	(235)	(316)	(993)	(447)
Total charge-offs	(1,468)	(1,867)	(1,232)	(4,444)	(3,684)
Recoveries	639	227	1,112	874	795
Net loans charged off	(829)	(1,640)	(120)	(3,570)	(2,889)
Provision for loan losses	1,241	1,051	(2,273)	1,604	2,275
Balance at end of period	\$ 6,112	5,700	6,289	8,682	10,648
Ratio of net charge-offs to average loans outstanding during the period	0.15%	0.29%	0.03%	0.66%	0.52%

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

	2016		2015		2014		2013	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
(Dollars in thousands)								
One-to-four family	\$ 1,120	30.3%	\$ 1,239	32.3%	\$ 1,393	34.2%	\$ 2,305	34.9%
Construction	277	6.4%	377	6.2%	146	4.4%	88	1.9%
Multi-family residential	412	5.6%	227	4.4%	85	4.8%	466	5.4%
Non-residential	3,502	41.7%	2,876	38.1%	3,667	40.3%	4,534	44.2%
Secured by deposits		0.3%		2.5%		1.5%		0.6%
Other loans	801	15.7%	981	16.5%	998	14.8%	1,289	13.0%
Total allowance for loan losses	\$ 6,112	100.0%	\$ 5,700	100.0%	\$ 6,289	100.0%	8,682	100.0%

	At December 31, 2012	
	Amount	Percent of Loans in Each Category to Total Loans
(Dollars In Thousands)		
One-to-four family	\$ 3,094	38.0%
Construction	256	3.5%
Multi-family residential	524	6.2%
Non-residential	5,817	40.2%
Secured by deposits		0.7%
Other consumer loans	957	11.4%
Total allowance for loan losses	\$ 10,648	100.0%

Investment Activities

The Company makes investments in order to maintain the levels of liquid assets required by regulatory authorities and manage cash flow, diversify its assets, obtain yield and to satisfy certain requirements for favorable tax treatment. The principal objective of the investment policy is to earn as high a rate of return as possible, but to consider also financial or credit risk, liquidity risk and interest rate risk. The investment activities of the Corporation and the Bank consist primarily of investments in U.S. Government agency securities, municipal and corporate bonds, CMOs (see definition below), and mortgage-backed securities. Typical investments include federally sponsored agency mortgage pass-through and federally sponsored agency and mortgage-related securities. Investment and aggregate investment

limitations and credit quality parameters of each class of investment are prescribed in the Bank's investment policy. The Corporation and the Bank perform analyses on mortgage-related securities prior to purchase and on an ongoing basis to determine the impact on earnings and market value under various interest rate and prepayment conditions. Securities purchases must be approved by the Bank's Chief Financial Officer or President. The Board of Directors reviews all securities transactions on a monthly basis and the Investment Committee conducts more detailed analysis on a quarterly basis.

At December 31, 2016, securities with an amortized cost of \$208.7 million and an approximate market value of \$209.5 million were classified as available for sale. Management presently does not intend to sell such securities and, based on the current liquidity level and the access to borrowings through the FHLB of Cincinnati, management currently does not anticipate that the Corporation or the Bank will be placed in a position of having to sell securities with material unrealized losses.

Mortgage-Backed and Related Securities. Mortgage-backed securities represent a participation interest in a pool of one-to-four family or multi-family mortgages, the principal and interest payments on which are passed from the mortgage originators through intermediaries that pool and repackage the participation interest in the form of securities to investors such as the Bank. CMOs are a variation of mortgage-backed securities in which the mortgage pool is divided into specific classes, with different classes receiving different principal reduction streams based on numerous factors, including prepayments speeds. Such intermediaries may include quasi-governmental agencies such as FHLMC, FNMA and the Government National Mortgage Association (GNMA) which guarantees the payment of principal and interest to investors. At December 31, 2016, the Company has \$67.1 million in U.S. Government Agency mortgage-backed securities and \$14.8 million in U.S. Agency CMO securities. At December 31, 2016, this portfolio has approximately \$21.9 million that were originated through GNMA, approximately \$52.8 million that were originated through FNMA, and approximately \$6.8 million that were originated through FHLMC.

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

The yield on mortgage backed securities is based upon the interest income and the amortization of the premium or accretion of the discount related to the mortgage-backed security. Premiums and discounts on mortgage-backed securities are amortized or accreted over the estimated term of the securities using a level yield method. The prepayment assumptions used to determine the amortization period for premiums and discounts can significantly affect the yield of the mortgage-backed security, and these assumptions are reviewed periodically to reflect the actual prepayment. The actual prepayments of the underlying mortgages depend on many factors, including the type of mortgage, the coupon rate, the age of the mortgages, the geographical location of the underlying real estate collateralizing the mortgages and general levels of market interest rates. The difference between the interest rates on the underlying mortgages and the prevailing mortgage interest rates is an important determinant in the rate of prepayments. During periods of falling mortgage interest rates, prepayments generally increase, and, conversely, during periods of rising mortgage interest rates, prepayments generally decrease. If the coupon rate of the underlying mortgage significantly exceeds the prevailing market interest rates offered for mortgage loans, refinancing generally increases and accelerates the prepayment of the underlying mortgages. Prepayment experience is more difficult to estimate for adjustable-rate mortgage-backed securities.

The Company owns \$3.4 million in securities collateralized by federally insured student loans. These securities are floating rate and are indexed to one-month libor and reset each quarter. The collateral provides approximately 97% guarantee of SLMA and current have a weighted average book value equal to 95.5% of par. Beginning January 1, 2015, Basel III placed new and excessive risk weighting requirements on specific support bonds, of which the Company sold in the first quarter of 2015. The risk weightings on the \$3.4 million in bonds owned by the Company are currently 20%.

The Company currently owns a trust preferred security originally issued as a private placement by First Financial Services Corporation of Elizabethtown, Kentucky (FFKY). The security has a \$2.0 million par value, a book value of \$1.6 million and a market value of \$1.8 million. On January 1, 2015, FFKY was purchased by Community Bank Shares of Indiana (CBIN). In 2015, CBIN changed its name to Your Community Bank and its NASDAQ ticker symbol to YCB. In September 2016, Wesbanco (WSBC), a \$9.8 billion commercial bank headquartered in West

Virginia, purchased YCB. At December 31, 2016, all interest payments on this security are current. See Note 2 of the Consolidated Financial Statements for more information concerning this security.

Amortizing U.S. Agency securities owned by the Company are similar in structure to mortgage backed securities. The Company owns two types of amortizing agency securities, both of which are issued with the full faith and credit guarantee of the Small Business Administration (SBA). The Small Business Investment Corporation (SBIC) bonds include pools of SBA loans for business equipment with a ten year maturity. The Small Business Administration Participation Notes (SBAP) have a twenty year maturity and are secured by pools of commercial real estate loans guaranteed by the SBA. Both investments provide superior yields to mortgage backed securities with a credit rating equal to GNMA and superior to FHLMC and FNMA. Historically, the actual cash flows and prepayment speeds for SBIC and SBAP bonds are typically slower than similar maturities for mortgage backed securities due to the cost of refinancing SBA loans. At December 31, 2016, the Company owns \$6.1 million in SBIC notes, \$2.5 million in floating rate SBA pools and \$48.8 million at SBAP notes.

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

	At December 31,		
	2016	2015	2014
	(In thousands)		
FHLB stock, restricted	\$ 4,428	4,428	4,428
Securities available for sale:			
U.S. Treasury securities	2,001	2,000	3,980
U.S. Agency securities, non-amortizing	26,573	30,484	24,172
U.S. Agency securities, amortizing	57,439	62,449	79,080
Mortgage-backed securities	66,668	66,379	82,172
Agency CMO	14,766	19,510	27,995
Tax free municipal bonds	33,911	44,659	61,047
Taxable municipal bonds	2,727	6,177	12,043
Corporate bonds			2,007
Non-Agency CMO	3,578	3,654	9,643
Trust preferred security	1,817	1,865	1,489
Total investment securities	\$ 213,908	\$ 241,605	\$ 308,056

The following table sets forth information on the scheduled maturities, amortized cost, market values and average yields for non-amortizing U.S. Government agency securities, taxable municipal bonds, tax free municipal bonds, trust preferred securities and U.S. Treasury bonds in the investment portfolio at December 31, 2016. At such date, \$9.7 million of the non-amortizing agency securities were callable and \$4.1 million will mature on or before June 8, 2018, and \$12.8 million were not callable and mature after June 9, 2018. In addition, approximately \$57.4 million in small business administration amortizing bonds require periodic principal payments. At December 31, 2016, \$24.4 million of tax free municipals and \$1.1 million of taxable all municipal securities were callable between January 2017 and December 2022. The average yield for tax-free municipal bonds are quoted as a tax equivalent yield.

One Year or Less		One to Five Years		Five to Ten Years		After Ten Years		Total Investment Portfolio		
Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Market Value	Average Yield
(Dollars in thousands)										

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Non-amortizing U.S. agency securities	\$ 3,071	1.11%	\$ 3,926	2.19%	\$ 17,570	2.05%	\$ 2,006	4.00%	\$ 26,573	\$ 26,573	2.11%
Taxable municipal bonds	\$		\$ 1,099	3.61%	\$ 861	1.80%	\$ 767	3.12%	\$ 2,727	\$ 2,727	2.92%
Tax-free municipal bonds	\$ 1,543	6.10%	\$ 9,042	4.15%	\$ 14,313	5.10%	\$ 9,013	6.11%	\$ 33,911	\$ 33,911	5.16%
Trust preferred							\$ 1,817	10.90%	\$ 1,817	\$ 1,817	10.90%
U.S. Treasury bonds	\$ 2,001	0.84%							\$ 2,001	\$ 2,001	0.84%

Deposit Activity and Other Sources of Funds

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

In 2015 and 2014, weak loan demand and high levels of liquidity made it difficult to maintain a desirable level of profitability. Therefore, management placed an emphasis on reducing the Bank's interest expense. The reduction in interest expense resulted from a change in our deposit mix and overall funding mix of the Bank. First, we placed a strong marketing emphasis on non-interest bearing checking accounts. In each of the last five years, we opened more than 4,000 non-interest checking accounts. For the years ended December 31, 2016, 2015, and 2014, the average balance of non-interest checking accounts has increased by \$12.4 million, \$8.5 million and \$12.5 million, respectively.

In 2016, the Bank has experienced meaningful loan demand for the first time in several years. In 2017, the Bank will seek to grow its interest earning assets and interest bearing liabilities in a balanced manner. Loan growth above 5% will require us to increase the volumes of time deposits and other non-traditional funding sources as compared to interest bearing and non-interest bearing checking accounts.

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

At December 31, 2016, the Bank had \$33.4 million in brokered deposits, or 4.6% of total deposits. At December 31, 2015, the Bank had \$34.4 million in brokered deposits, or 4.7% of total deposits. The Bank utilizes brokered deposits to fill in maturity gaps in an effort to balance the amount of time deposits maturing in any one period and as an alternative source of funding. All brokered deposits are FDIC insured.

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

At December 31, 2016, the Bank had deposit programs and balances as described below:

Interest Rate*	Minimum Term	Category	Minimum Amount	Balance (In thousands)	Percentage of Total Deposits
%	None	Non-interest bearing	\$ 100	\$ 131,145	17.9%
0.05%	None	Interest checking accounts	1,500	209,347	28.6%
0.10%	None	Savings and money market	10	99,312	13.5%
				439,804	60.0%
		Certificates of Deposit			
0.35%	3 months or less	Fixed-term, fixed rate	1,000	33,657	4.6%
0.65%	3 to 12 months	Fixed-term, fixed-rate	1,000	104,250	14.2%
0.99%	12 to 24-months	Fixed-term, fixed-rate	1,000	97,986	13.4%
1.20%	24 to 36-months	Fixed-term, fixed-rate	1,000	29,945	4.1%
1.31%	36 to 48-months	Fixed-term, fixed-rate	1,000	16,811	2.3%
1.60%	48 to 60-months	Fixed-term, fixed rate	1,000	10,429	1.4%
				293,078	40.0%
				\$ 732,882	100.0%

* Represents current interest rate offered by the Bank.

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

	Year Ended December 31,					
	2016		2015		2014	
	Interest-bearing demand deposits	Time deposits	Interest-bearing demand deposits	Time deposits	Interest-bearing demand deposits	Time deposits
	(Dollars in thousands)					
Average Balance	\$ 301,231	\$ 294,478	\$ 291,927	\$ 320,889	\$ 284,607	\$ 356,069
Average Rate	0.45%	0.98%	0.44%	1.16%	0.51%	1.16%

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

	Balance at December 31, 2016	% of Deposits	Increase (Decrease) from December 31, 2015 (Dollars in thousands)	Balance at December 31, 2015	% of Deposits	Increase (Decrease) from December 31, 2014
Non-interest bearing	\$ 131,145	17.9%	6,075	125,070	16.9%	10,019
Interest checking	209,347	28.6%	5,568	203,779	27.5%	17,163
Savings and MMDA	99,312	13.5%	3,419	95,893	13.0%	(1,833)
Time deposits	293,078	40.0%	(21,586)	314,664	42.6%	(17,251)
Total	\$ 732,882	100.0%	(6,524)	739,406	100.0%	8,098

	Balance at December 31, 2014	% of Deposits	Increase (Decrease) from December 31, 2013 (Dollars in thousands)	Balance at December 31, 2013	% of Deposits
Non-interest bearing	115,051	15.7%	9,799	105,252	13.8%
Interest checking	186,616	25.5%	2,973	183,643	24.1%
Savings and MMDA	97,726	13.4%	5,620	92,106	12.1%
Time deposits	331,915	45.4%	(50,081)	381,996	50.0%
Total	731,308	100.0%	(31,689)	762,997	100.0%

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

	At December 31, 2016	2015	2014
	(In thousands)		
0.01 - 2.00%	\$ 291,516	251,085	252,416
2.01 - 4.00%	1,562	63,579	79,408
4.01 - 6.00%			91
Total	\$ 293,078	314,664	331,915

The following table sets forth the amount and maturities of time deposits at December 31, 2016.

Amount Due

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	Less Than One Year	2 Years	2-3 Years	After 3 Years	Total
	(In thousands)				
0.00 - 2.00%	\$ 137,907	97,986	29,945	25,678	291,516
2.01 - 4.00%				1,562	1,562
4.01 - 6.00%					
Total	\$ 137,907	97,986	29,945	27,240	293,078

The following table indicates the amount of the Bank's certificates of deposit of \$250,000 or more by time remaining until maturity as of December 31, 2016.

Maturity Period	Certificates of Deposit (In thousands)
Three months or less	\$ 11,312
Over three through six months	11,119
Over six through 12 months	19,150
Over 12 months	38,133
Total	\$ 79,714

At December 31, 2016, certificates of deposits included approximately \$157.0 million of deposits greater than \$100,000, as compared to \$163.9 million and \$169.3 million at December 31, 2015, and December 31, 2014, respectively. Certificates of deposit at December 31, 2016, included approximately \$79.7 million of deposits with balances of \$250,000 or more, compared to \$78.8 million and \$100.1 million at December 31, 2015, and December 31, 2014, respectively. Such time deposits may be risky because their continued presence in the Bank is dependent partially upon the rates paid by the Bank rather than any customer relationship and, therefore, may be withdrawn upon maturity if another institution offers higher interest rates. The Bank may be required to resort to other funding sources such as borrowings or sales of its securities available for sale if the Bank believes that increasing its rates to maintain such deposits would adversely affect its operating results. At this time, the Bank does not believe that it will need to pay above market rates to maintain such certificates of deposit. See Note 5 of Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
Deposits	\$ 210,672	\$ 144,381	\$ 155,837
Withdrawals	(220,595)	(140,277)	(191,863)
Net increase (decrease) before interest credited	(9,923)	4,104	(36,026)
Interest credited	3,399	3,994	4,337
Net increase (decrease) in deposits	(\$ 6,524)	\$ 8,098	(\$ 31,689)

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

As a member of the FHLB System, the Bank is required to own stock in the FHLB of Cincinnati and is authorized to apply for advances. Advances are pursuant to several different programs, each of which has its own interest rate and range of maturities. The Bank has entered into a Cash Management Advance program with FHLB. See Note 6 of

Notes to Consolidated Financial Statements. Advances from the FHLB of Cincinnati were \$11.0 million at December 31, 2016. Also at December 31, 2016, the FHLB has issued letters of credit totaling \$45.6 million for the benefit of municipalities to collateralize deposits. All FHLB advances and letters of credit are secured by a blanket security agreement in which the Bank has pledged its 1-4 family first mortgage loans held in the Bank's loan portfolio.

On September 25, 2003, the Company issued \$10,310,000 in floating rate junior subordinated debentures with a thirty year maturity and callable at the Company's discretion quarterly after September 25, 2008. The subordinated debentures are priced at a variable rate equal to the three month Libor (London Inter Bank Offering Rate) plus 3.10%. The most recent reset date for the interest rate on the subordinated debentures was January 12, 2017. On January 12, 2017, the three-month Libor rate was 1.02%. Therefore, the rate of the security is 4.12%. The securities are immediately callable in the event of a change in tax or accounting law that has a significant negative impact to issuing these securities. Otherwise, the securities are callable on a quarterly basis.

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

In October of 2008, the Bank entered into an interest rate swap agreement. The agreement called for the Bank to pay a fixed rate of 7.27% until October 8, 2015, on \$10 million and receive payment equal to the three month libor plus 3.10%. The Bank then completed an intercompany transaction that transferred the swap to the Company, providing an effective hedge for its variable rate subordinated debentures. The interest rate swap matured on October 8, 2015.

Repurchase Agreements

The Company offers cash management customers an automated sweep account of excess funds from checking accounts into repurchase accounts. Prior to 2011, this product was the preferred method to provide commercial deposit customers the opportunity to earn interest income on demand deposit accounts. Repurchase balances are overnight borrowings from customers and are not FDIC insured but are fully collateralized by specific securities in the Company's investment portfolio. At December 31, 2016, the Company's retail repurchase agreements total \$47.7 million.

Federal Taxation

The Corporation and the Bank file a consolidated federal income tax return on a calendar year basis. The Company is subject to the federal tax laws and regulations that apply to corporations generally.

Kentucky Taxation

Kentucky corporations, such as the Corporation, are subject to the Kentucky corporation income tax and the Kentucky corporation license (franchise) tax. The income tax is imposed based on the following rates: 4% of the first \$50,000 of net taxable income allocated or apportioned to Kentucky; 5% of the next \$50,000; and 6% of taxable net income over \$100,000. All dividend income received by a corporation is excluded for purposes of arriving at taxable net income.

Tennessee Taxation

The Company and all subsidiaries are subject to Tennessee Franchise and Excise tax on apportioned capital and apportioned income.

Heritage Bank USA, Inc.

State banks are not subject to the Kentucky corporation tax.

The Commonwealth of Kentucky imposes both a Kentucky Bank Franchise Tax and Local Deposits Franchise Tax. The Kentucky Bank Franchise Tax is an annual tax equal to 1.1% of net capital after apportionment, if applicable. The value of the net capital is calculated annually by deducting from total capital an amount equal to the same percentage of total as the book value of Unites States obligations bears to the book value of the total assets of the financial institution. The Bank, as a financial institution, is exempt from both corporate income and license taxes.

Competition

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

At June 30, 2016, the Bank had a 11.5% share of the deposit market in its combined markets. The Bank's most significant competition across its entire market area was Community Financial Services Bank with a 10.0% deposit market share and Planters Bank of Kentucky with a 10.4% deposit market share. At June 30, 2016, U.S. Bank N/A had a 8.5% deposit market share, Branch Bank & Trust of North Carolina had a 7.5% deposit market share and Regions Bank of Birmingham, Alabama with a 7.1% deposit market share. In addition, each market contains other community banks that provide competitive products and services within individual markets.

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

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

Employees

As of December 31, 2016, the Company and the Bank had 236 full-time equivalent employees, none of whom were represented by a collective bargaining agreement. Management considers the Bank's relationships with its employees to be good.

Executive Officers of the Registrant

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

Michael L. Woolfolk. Mr. Woolfolk has served as Executive Vice President and Chief Operations Officer of the Bank since August 2000. Mr. Woolfolk was appointed to the Board of Directors of the Company on August 15, 2012.

Prior to that, he was President of First-Star Bank-Marshall County, President and Chief Executive Officer of Bank of Marshall County and President of Mercantile Bank. Mr. Woolfolk is a member of First Baptist Church of Hopkinsville.

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

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

Bailey Chip Knight. Mr. Knight was promoted to Chief Credit Officer on January 15, 2016. Mr. Knight has served as a Market President and Senior Lender of the Company since April 2, 2012. In his position as Market President, Mr. Knight was responsible for all retail and lending functions in the three office Cheatham County, Tennessee market. As Senior Lender, Mr. Knight's responsibilities included relationships with the Company's largest commercial lending clients as well as assisting other commercial loan officers in the calling and structuring of loan agreements. Prior to April 2012, Mr. Knight was the Regional Executive and Team Lead with Capital Bank and GreenBank, where he was responsible for all retail and lending functions in eight offices located in Northern Middle Tennessee. Mr. Knight has over 25 years of commercial banking experience, all in Middle Tennessee and is a lifelong resident of Montgomery County, Tennessee.

Limitations on Capital Distributions. The FRB has issued a policy statement on the payment of cash dividends by bank holding companies, which provides that a bank holding company should pay cash dividends only to the extent that the holding company's net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the holding company's capital needs, asset quality and overall financial condition. The FRB also indicated that it would be inappropriate for a company experiencing serious financial problems to borrow funds to pay dividends. In a recent Supervisory Letter, the FRB staff has stated that, as a general matter, bank holding companies should eliminate cash dividends if net income available to shareholders for the past four quarters, net of dividends previously paid, is not sufficient to fully fund the dividend. Furthermore, under the federal prompt corrective action regulations, the FRB may prohibit a bank holding company from paying any dividends if the holding company's bank subsidiary is classified as undercapitalized.

Seasonality of Revenues and Expenses

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

Supervision and Regulation

Set forth below is a brief description of certain laws that relate to the regulation of the Company and the Bank. The description does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations.

Regulation of the Company

Under the BHCA, the Company must obtain the prior approval of the FRB before it may acquire control of another bank or bank holding company, merge or consolidate with another bank holding company, acquire all or substantially

all of the assets of another bank or bank holding company, or acquire direct or indirect ownership or control of any voting shares of any bank or bank holding company if, after such acquisition, the Company would directly or indirectly own or control more than 5% of such shares.

Non-Banking Activities. In general, the BHCA and the FRB's regulations limit the nonbanking activities permissible for bank holding companies to those activities that the FRB has determined to be so closely related to banking or managing or controlling banks to be a proper incident thereto. A bank holding company that elects to be treated as a financial holding company, however, may engage in, and acquire companies engaged in, activities that are considered financial in nature, as defined by the Gramm-Leach-Bliley Act and FRB regulations. These activities include, among other things, securities underwriting, dealing and market-making, sponsoring mutual funds and investment companies, insurance underwriting and agency activities, and merchant banking.

Source of Strength Doctrine. As a matter of policy, which has been codified by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), a bank holding company registered with the Board of Governors of the FRB System (the FRB). We are subject to examination and supervision by the FRB pursuant to the Bank Holding Company Act of 1956, as amended (the BHCA), and are required to file reports and other information regarding our business operations and the business operations of our subsidiaries with the FRB.

A bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it is the policy of the FRB that a bank holding company should stand ready to use available resources to provide adequate capital to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the FRB to be an unsafe and unsound banking practice or a violation of the FRB regulations, or both.

Regulatory Capital Requirements. The FRB has adopted regulatory capital regulations pursuant to which it assesses the adequacy of capital in examining and supervising a bank holding company and in analyzing applications to it under the BHCA. The Federal Reserve's regulatory capital requirements are similar to those imposed on the Bank by the FDIC. See Regulation of the Bank Regulatory Capital Requirements. The FRB, however, has adopted a policy statement that exempts bank holding companies with less than \$1.0 billion in consolidated assets that are not engaged in significant non-banking or off-balance sheet activities and that do not have a material amount of debt or equity securities registered with the SEC from its regulatory capital requirements. As long as their bank subsidiaries are well capitalized, such bank holding companies need only maintain a pro forma debt to equity ratio of less than 1.0 in order to pay dividends and repurchase stock and to be eligible for expedited treatment on applications.

Regulation of the Bank

General

As a Kentucky-chartered commercial bank, the Bank is subject to regulation, supervision and examination by the Kentucky Department of Financial Institutions (KDFI) and by the Federal Deposit Insurance Corporation (FDIC), which insures its deposits to the maximum extent permitted by law. The federal and state laws and regulations applicable to banks regulate, among other things, the scope of their business, their investments, the reserves required to be kept against deposits, the timing of the availability of deposited funds and the nature and amount of and collateral for certain loans. The laws and regulations governing the Bank generally have been promulgated to protect depositors and not for the purpose of protecting stockholders. This regulatory structure also gives the federal and state banking agencies extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulation, whether by the KDFI, the FDIC or the United States Congress, could have a material impact on the Company, the Bank and their operations.

Regulatory Capital Requirements. The FDIC has promulgated capital adequacy requirements for state-chartered banks that, like the Bank, are not members of the Federal Reserve System. Effective January 1, 2015, the regulatory capital rules were substantially revised to conform to the international regulatory standards agreed to by the Basel Committee on Banking Supervision in the accord often referred to as "Basel III". The final Basel III capital rule applies to all depository institutions as well as to all top-tier bank and savings and loan holding companies that are not subject to the FRB's Small Bank Holding Company Policy Statement.

Under the FDIC's revised regulatory capital regulations, the Bank is required to meet four minimum capital standards: (1) a Tier 1 or "core" capital leverage ratio equal to at least 4% of total adjusted assets, (2) a common equity Tier 1 (or CET1) capital ratio equal to 4.5% of risk-weighted assets, (3) a Tier 1 risk-based ratio equal to 6% of risk-weighted assets, and (4) a total capital ratio equal to 8% of total risk-weighted assets. CET1 capital is defined as common stock instruments, retained earnings, any common equity Tier 1 minority interest and, unless the bank has made an "opt-out" election, accumulated other comprehensive income, net of goodwill and certain other intangible assets. Tier 1 or core capital is defined as CET1 capital plus certain qualifying subordinated interests and grandfathered capital instruments. Total capital consists of Tier 1 capital plus Tier 2 or supplementary capital items, which include allowances for loan losses in an amount of up to 1.25% of risk-weighted assets, qualifying subordinated instruments and certain grandfathered capital instruments. An institution's risk-based capital requirements are measured against risk-weighted assets, which equal the sum of each on-balance-sheet asset and the credit-equivalent amount of each off-balance-sheet item after being multiplied by an assigned risk weight.

In addition to higher capital requirements, the Basel III capital rule requires banking organizations to maintain a capital conservation buffer of at least 2.5% of risk-weighted assets over and above the minimum risk-based capital requirements. Institutions that do not maintain the required capital buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to senior executive management. The capital buffer requirement will be phased in over four years beginning January 1, 2016. The fully phased-in capital buffer requirement will effectively raise the minimum required risk-based capital ratios to 7% CET1 capital, 8.5% Tier 1 capital and 10.5% total capital on a fully phased-in basis. The capital conservation buffer at December 31, 2016 is 0.625%.

In assessing an institution's capital adequacy, the FDIC takes into consideration not only the above numeric factors but also qualitative factors, and has the authority to establish higher capital requirements for individual institutions where necessary.

Prompt Correction Action. Under applicable Federal statute, the federal bank regulatory agencies are required to take prompt corrective action with respect to institutions that do not meet specified minimum capital requirements.

The prompt corrective action regulations provide for the imposition of a variety of requirements and limitations on institutions that fail to meet the above capital requirements. In particular, the FDIC may require any savings institution that is not adequately capitalized to take certain action to increase its capital ratios. If the savings institution's capital is significantly below the minimum required levels of capital or if it is unsuccessful in increasing its capital ratios, the institution's activities may be restricted.

Prompt Correction Action. Under applicable Federal statute, the federal bank regulatory agencies are required to take prompt corrective action with respect to institutions that do not meet specified minimum capital requirements. Under the FDIC's prompt corrective action regulations, as amended to incorporate the new regulatory capital standards implemented by the final Basel III capital rule, an institution is deemed to be well-capitalized if it has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 8% or greater, a Tier 1 leverage ratio of 5% or greater, and a CET1 risk-based ratio of 6.5% or greater and is not subject to a regulatory order, agreement, or directive to meet and maintain a specific capital level for any capital measure. An institution is adequately capitalized if it has a total risk-based capital ratio of 8% or greater, a Tier 1 risk-based capital ratio of 6% or greater, a Tier 1 leverage ratio of 4% or greater, and a CET1 risk-based ratio of 4.5% or greater and the institution does not meet the definition of a well-capitalized institution. An institution is under-capitalized if it does not meet one or more of the adequately-capitalized tests. An institution is deemed to be significantly under-capitalized if it has a total risk-based capital ratio that is less than 6%, a Tier 1 risk-based capital ratio that is less than 4%, a Tier 1 leverage ratio that is less than 3%, or a CET1 risk-based ratio of less than 3%. An institution is deemed to be critically under-capitalized if it has a ratio of tangible equity, as defined in the regulations, to total assets that is equal to or less than 2%.

Deposit Insurance. The Bank's deposits are insured to applicable limits by the FDIC. Under the Dodd-Frank Act, the maximum deposit insurance amount is \$250,000. The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC must seek to achieve the 1.35% ratio by June 30, 2020. It is intended that insured institutions with assets of \$10 billion or more will fund the increase.

The FDIC has adopted a risk-based premium system that provides for quarterly assessments based on an insured institution's risk rating. The assessment base is the institution's average consolidated assets less average tangible equity. Prior to July 1, 2016, insured institutions were assigned to one of four risk categories based on their examination ratings and capital ratios, and annual assessment rates ranged from 2.5 to 45 basis points of an insured institution's assessment base.

Effective July 1, 2016, the FDIC amended its assessment regulations for banks with less than \$10 billion in assets to replace the previous risk categories with updated financial ratios that are designed to better predict the risk of failure of insured institutions. The amended rules became effective during the first quarter after the reserve ratio of the Deposit Insurance Fund reached 1.15% and will remain in effect until the reserve ratio reaches 2.0%. The base deposit insurance rates for institutions with assets of less than \$10 billion now range from 1.5 to 30 basis points of an institution's assessment base. Under the amended rules, the FDIC uses an institution's weighted average CAMELS component ratings and the following financial measures to determine deposit insurance assessments: Tier 1 leverage ratio; ratio of net income before taxes to total assets; ratio of non-performing loans to gross assets; and ratio of other real estate owned to gross assets. In addition, assessments take into consideration an institution's brokered deposit ratio, one-year asset growth and a loan mix index, which measures the extent to which an institution's total assets include higher risk loans.

Dividends. The KDFI limits the amount of dividends that can be paid by a state chartered commercial bank to its holding company. The limit is established by adding the current year's net income plus the prior two years net income. The Bank must reduce the amount of accumulated net income over the last two years plus the current year by the amount of dividends paid to the Corporation during the same period of time. At December 31, 2016, the Bank could not pay an additional cash dividend to the Corporation without the prior approval of the KDFI.

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

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

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

Reserve Requirements. Pursuant to regulations of the FRB, all FDIC-insured depository institutions must maintain average daily reserves at specified levels against their transaction accounts. The Bank met these reserve requirements at December 31, 2016.

Federal Home Loan Bank System. The Federal Home Loan Bank System consists of 12 district Federal Home Loan Banks subject to supervision and regulation by the Federal Housing Finance Board (FHFB). The Federal Home Loan Banks provide a central credit facility primarily for member institutions. As a member of the FHLB, the Bank is required to acquire and hold shares of capital stock in the FHLB in an amount at least equal to 1% of the aggregate unpaid principal of its home mortgage loans, home purchase contracts, and similar obligations at the beginning of each year, or 5% of its advances (borrowings) from the FHLB, whichever is greater. The Bank was in compliance with this requirement, with a \$4.4 million investment in FHLB stock at December 31, 2016.

Bank Secrecy Act. The Bank Secrecy Act, as amended by the USA Patriot Act of 2001 and its related regulations, requires insured depository institutions to have policies, procedures, and controls to detect, prevent, and report money laundering and terrorist financing. The statute and regulations also provide for information sharing, subject to conditions, between federal law enforcement agencies and financial institutions, as well as among financial institutions, for counter-terrorism purposes. Federal banking regulators are required, when reviewing bank holding company acquisition and bank merger applications, to take into account the effectiveness of the anti-money laundering activities of the applicants. The bank regulatory agencies have increased the regulatory scrutiny of Bank Secrecy Act and anti-money laundering programs maintained by financial institutions. Significant penalties and fines, as well as other supervisory enforcement action, may be imposed on a financial institution for non-compliance with these requirements.

Consumer Protection Laws. In connection with our deposit-taking lending and other activities, the Bank is subject to a number of federal and state laws designed to protect consumers and promote lending and other financial services to various sectors of the economy and population. The Consumer Financial Protection Bureau issues regulations and standards under these federal consumer protection laws, which include, among others, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Electronic Fund Transfer Act, the Truth in Savings Act, and the Fair Credit Reporting Act. The Bank is examined by the FDIC for compliance with these consumer protection rules.

In addition, customer privacy statutes and regulations limit the ability of the Bank to disclose nonpublic consumer information to non-affiliated third parties. These laws require the Bank to provide notice to our customers regarding privacy policies and practices and to give our customers an option to prevent their non-public personal information from being shared with non-affiliated third parties or with our affiliates.

Community Reinvestment Act. All insured depository institutions have a responsibility under the Community Reinvestment Act (the CRA) and related federal regulations to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In connection with its examination of the Bank, the FDIC is required to assess our record of compliance with the CRA. Such assessment is reviewed by the FRB and/or the FDIC when the Company or the Bank makes application for approval of an expansionary proposal, such as a merger or other acquisition of another bank or the opening of a new branch office. The Bank received a satisfactory CRA rating in its most recent assessment by the FDIC.

Forward-Looking Statements

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

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

Item 1A. RISK FACTORS

The Company could experience an increase in loan losses, which would reduce the Company's earnings. Our loan portfolio includes loans with a higher risk of loss which could lead to higher loan losses and non-accrual assets.

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

Non-residential Real Estate Loans. Repayment is dependent on income being generated in amounts sufficient to cover operating expenses and debt service. These loans also involve greater risk because they may not be fully amortizing over a loan period, but may have a balloon payment due at maturity. A borrower's ability to make a balloon payment typically will depend on being able to either refinance the loan or timely sell the underlying property. As of December 31, 2016, commercial real estate loans comprised approximately 30.0% of our total loan portfolio, or 219.6% of the Company's total risk based capital. At December 31, 2016, the Company had \$10.5 million of its non-residential real estate loans classified as substandard which equaled 5.7% of that portfolio and 35.9% of total substandard loans. At December 31, 2016, the Company's allowance for loan losses included \$964,000 allocated to this portfolio.

Commercial Loans. Repayment is generally dependent upon the successful operation of the borrower's business. In addition, the collateral securing the loans may depreciate over time, be difficult to appraise, be illiquid, or fluctuate in value based on the success of the business. As of December 31, 2016, commercial loans comprised approximately 14.6% of our total loan portfolio, or 89.9% of the Company's consolidated total risk based capital. At December 31, 2016, the Company had \$3.1 million, or 3.5% of the commercial loan portfolio and 10.7% of total substandard loans, classified as substandard. At December 31, 2016, the Company's allowance for loan

losses included \$593,000 allocated to this portfolio.

Construction and Land Loans. The risk of loss is largely dependent on our initial estimate of whether the property's value at completion equals or exceeds the cost of property construction and the availability of take-out financing. During the construction phase, a number of factors can result in delays or cost overruns. If our estimate is inaccurate or if actual construction cost exceed estimates, the value of the property securing our loan may be insufficient to ensure full repayment when completed through a permanent loan, sale of property, or by seizure of collateral. As of December 31, 2016,

construction and land loans totaled \$63.1 million, or 10.3% of the Company's total loan portfolio and approximately 63.8% of the Company's consolidated total risk based capital. At December 31, 2016, the Company had \$8.2 million of its construction and land loans classified as substandard which equaled 13.0% of the Company's total loan portfolio and 28.0% of all substandard loans. At December 31, 2016, the Company's allowance for loan losses included \$2.0 million allocated to this portfolio.

Farmland. Repayment is generally dependent upon the successful operation of the borrower's farming operation. The typical risk to a farming operation include adverse weather conditions, changes to the operation's farm insurance subsidies, changes in commodity prices, sudden increases in the cost of farm production, sudden changes in the level of worldwide agricultural production and sudden changes in the value of the U.S. Dollar. In addition, the value of collateral securing the loans often fluctuates with the long-term trends of commodity prices, and may rise and fall significantly and may be illiquid in times of declining values. In the last two years, commodity prices have remained exceptionally low, making it difficult for farmers to make a profit despite favorable weather conditions. As of December 31, 2016, loans secured by farmland comprised approximately 7.8% of the Company's total loan portfolio, or 48.3% of the Company's consolidated total risk based capital. At December 31, 2016, the Company had \$2.3 million of its farmland portfolio classified as substandard, equaling 4.8% of the Company's farmland portfolio and 7.8% of total substandard loans. At December 31, 2016, The Company's allowance for loan losses included \$778,000 allocated to this portfolio.

Multi-family Real Estate Loans. Repayment is dependent on rental income generated in amounts sufficient to cover operating expenses and debt service. These loans also involve greater risk because they may not be fully amortizing over a loan period, but may have a balloon payment due at maturity. A borrower's ability to make a balloon payment typically will depend on being able to either refinance the loan or timely sell the underlying property. The success of these relationship is dependent on the operator's ability to maintain high levels of occupancy, adequately maintain the property and to collect rents when due. At December 31, 2016, multi-family loans comprised approximately 5.6% of the Company's loan portfolio and 34.7% of the Company's consolidated risk based capital. At December 31, 2016, the Company had \$3.0 million, or 8.8% of the multi-family portfolio classified as substandard. At December 31, 2016, substandard multi-family loans account for 10.2% of all substandard loans. At December 31, 2016, the Company's allowance for loan losses included \$412,000 allocated to the multi-family real estate loan portfolio.

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

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

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

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

The Company relies on dividends from the Bank as a primary source of funds. The Bank's primary source of funds is customer deposits and cash flows from investment instruments and loan repayments. While scheduled loan repayments are a relatively stable source, they are subject to the ability of the borrowers to repay their loans. The ability of the borrowers to repay their loans can be adversely affected by a number of factors, including changes in the economic conditions, adverse trends or events affecting the business environment, natural disasters and various other factors. Cash flows from the investment portfolio may be affected by changes in interest rates, resulting in excessive levels of cash flow during periods of declining interest rates and lower levels of cash flow during periods of rising interest rates. Deposit levels may be affected by a number of factors, including both the national market and local competitive interest rate environment, local and national economic conditions, natural disasters and other various events. Accordingly, the Company may be required from time to time to rely on secondary sources of liquidity to meet withdrawal demands or otherwise fund operations. Such sources include the FHLB advances, brokered deposits and federal funds lines of credit from correspondent banks. The Company may also pledge investments as collateral to borrow money from third parties. In certain cases, the Company may sell investment instruments for sizable losses to meet liquidity needs, hurting net income. While the Company believes that these sources are currently adequate, there can be no assurance they will be sufficient to meet future liquidity needs.

We could face risk from our inability to diversify into high growth markets.

The Company's management considers growth in the nearby Nashville, Tennessee, market critical for our future success. With the potential for our largest current market to experience an economic downturn, market diversification is vital to the future prosperity of our Company.

The financial industry is very competitive.

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

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

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

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

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

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

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

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

On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act is having a broad impact on the financial services industry, including significant regulatory and compliance changes. Many of the requirements called for in the Dodd-Frank Act are being implemented over time and most are subject to implementing regulations over the course of several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act are implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on our operations is unclear. The regulatory changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements, increase our regulatory compliance burden or otherwise adversely affect our business.

Further, we may be required to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements under the Dodd-Frank Act. Failure to comply with the new requirements may negatively impact our results of operations and financial condition. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to our investors.

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

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

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

The market price of the Company's common stock may fluctuate in the future, and these fluctuations may be unrelated to its performance. General market prices declines or overall market volatility in the future could adversely affect the

price of the Company's common stock, and the current market price may not be indicative of future market prices.

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

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

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

Because of significant competitive pressures in our market and the negative impact of these pressures on our deposit and loan pricing, coupled with the fact that a significant portion of our loan portfolio has variable rate pricing that moves in concert with changes to the Federal Reserve Board of Governors' federal funds rate or the London Interbank Offered Rate (LIBOR) (both of which are at extremely low levels as a result of current economic conditions), our net interest margin may be negatively impacted. Additionally, the amount of non-accrual loans and other real estate owned has been and may continue to be elevated. We also expect loan pricing to remain competitive in 2016 despite the first increase in the federal funds rates in many years and believe that economic factors affecting broader markets will likely result in historically low yields for our investment securities portfolio. As a result, our net interest margin, and consequently our profitability, may continue to be negatively impacted in 2016 and beyond.

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

The Company has issued trust preferred securities from a special purpose trust and accompanying junior subordinated debentures. At December 31, 2016, HopFed had outstanding trust preferred securities of \$10.3 million. Payments of the principal and interest on the trust preferred securities are conditionally guaranteed by the Company. Further, the accompanying junior subordinated debentures HopFed issued to the trusts are senior to our common stock. As a result, we must make payments on the junior subordinated debentures before any dividends can be paid on common stock and, in the event of the Company's dissolution or liquidation, the holders of the junior subordinated debentures must be satisfied before any distributions can be made to the Company's common shareholders. The Company has the right to defer distributions on its junior subordinated debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid on its common stock. If our consolidated financial condition deteriorates or if we do not receive required regulatory approvals, we may be required to defer distributions on our junior subordinated debentures.

New capital requirements for bank holding companies and depository institutions may negatively impact our results of operations.

In July 2013, the Board of Governors of the Federal Reserve Bank approved the final rule for BASEL III capital requirements for all commercial banks chartered in the United States of America. The rule will implement in the U.S. the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. Under the final rule, minimum requirements have increased for both the quantity and quality of capital held by banking organizations. Consistent with the international Basel framework, the rule includes a new minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5% and a common equity tier 1 capital conservation buffer of 2.5% of risk-weighted assets that will apply to all supervised financial institutions. The rule also raises the minimum ratio of tier 1 capital to risk-weighted assets from 4.0% percent to 6.0% percent and includes a minimum leverage ratio of 4.0% for all

banking organizations. The transition period for implementation of Basel III was January 1, 2015, through December 31, 2018. At December 31, 2016, the Company met all capital requirements set forth by Basel III as required at the final implementation date of December 31, 2018.

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

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

Our businesses are dependent on their ability to process and monitor, on a daily basis, a large number of transactions, many of which are highly complex, across numerous and diverse markets. These transactions, as well as the information technology services we provide to clients, often must adhere to client-specific guidelines, as well as legal and regulatory standards. Due to the breadth of our client base and our geographical reach, developing and maintaining our operational systems and infrastructure is challenging, particularly as a result of rapidly evolving legal and regulatory requirements and technological shifts.

Our financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, such as a spike in transaction volume, cyber-attack or other unforeseen catastrophic events, which may adversely affect our ability to process these transactions or provide services.

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

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

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

current and/or future customers, and litigation.

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

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

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

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

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

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

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

We face risk from further reductions in the size and makeup of the U.S. Army staffing at Fort Campbell, Kentucky.

The U.S. Army has provided a revised assessment of future staffing cuts that indicates that Fort Campbell may lose approximately a small portion of its active duty military personnel by 2020. In November of 2014, the U.S. Army announced that it was de-activating a combat battalion at Fort Campbell, Kentucky, sending its 2,400 members to other duty stations within the U.S. Army system.

At December 31, 2016, the Company's loan portfolio has approximately \$160.1 million in loans originated from its three Montgomery County, Tennessee offices and \$127.0 million in loans originated in its Christian County, Kentucky offices. The Fort Campbell military installation is the largest employer in the region and a significant reduction in the staffing of the base would have a major negative affect on the economies of Montgomery County, Tennessee and Christian County, Kentucky. The annual cost to the local economy is estimated at nearly \$1 billion.

Stockholder activists could cause a disruption to our business.

Certain institutional investors have indicated that they disagree with the strategic direction of our Company. Our business, operating results or financial condition could be adversely affected by these activists. Any such disruption may result in, among other things:

Increased operating costs, including increased legal expenses, insurance, administrative expenses and associated costs;

Affect the market price and volatility of our securities;

Uncertainties as to our future direction could result in the loss of potential business opportunities, make it more difficult to attract, retain, or motivate qualified personnel, strain relationships with investors and customers; and

Activist investors may reduce or delay our ability to effectively execute our current business strategies and the implementation of new strategies.

Our cash availability at the holding company level may limit the Company's ability to continue to pay a cash dividend to common shareholders and/or repurchase treasury stock.

At December 31, 2016, the Corporation has approximately \$1.1 million in cash on hand available to pay common dividends and repurchase treasury stock. At December 31, 2016, the Bank may not pay an additional cash dividend to the Company without regulatory approval. The Bank may not receive regulatory approval to pay the Corporation a dividend, which would limit the Company's ability to repurchase treasury stock and to continue to pay a cash dividend to common shareholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

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

ITEM 2. PROPERTIES

The following table sets forth information regarding the Bank's offices at December 31, 2016:

	Year Opened	Owned or Leased	Book Value (\$ (In thousands)	Approximate Square Footage of Office
Main Office:				
4155 Lafayette Road				
Hopkinsville, Kentucky	2006	Owned	\$ 4,078	24,072
Branch Offices:				
2700 Fort Campbell Boulevard				
Hopkinsville, Kentucky	1995	Owned	\$ 1,163	17,625
Downtown Branch Office				
605 South Virginia Street				
Hopkinsville, Kentucky	1997	Owned	\$ 143	756
Murray South Office				
210 N. 12 th Street				
Murray, Kentucky	2003	Owned	\$ 1,452	5,600
Murray North Office				
1601 North 12 th Street				
Murray, Kentucky	2007	Owned	\$ 1,027	3,400
Cadiz Branch Office				
352 Main Street				
Cadiz, Kentucky	1998	Owned	\$ 355	2,200
Elkton Branch Office				
536 W. Main Street				
Elkton, Kentucky	1976	Owned	\$ 77	3,400
Benton Branch Office				
105 W. 5 th Street				
Benton, Kentucky	2003	Owned	\$ 464	4,800
Benton Branch Office				
660 Main Street				
Benton, Kentucky	2015	Owned	\$ 3,431	n/a
Calvert City Office				
35 Oak Plaza Drive				
Calvert City, Kentucky	2003	Owned	\$ 975	3,400
Carr Plaza Office				
607 N. Highland Drive				
Fulton, Kentucky	2002	Owned	\$ 174	800
Lake Street Office				
306 Lake Street				
Fulton, Kentucky	2002	Leased	\$ 886	400
Nashville Loan Production Office				
3200 West End Avenue, Suite 500				
Nashville, Tennessee	2014	Owned	\$ 2	3,200
Clarksville Main Street				
322 Main Street				
Clarksville, Tennessee	2007	Owned	\$ 1,325	10,000

Brentwood Loan Production Office					
214 Overlook Circle, Suite 105					
Brentwood, Tennessee	2016	Leased	\$	81	1,800
Trenton Road Branch					
3845 Trenton Road					
Clarksville, Tennessee	2006	Owned	\$	2,146	3,362
Madison Street Office					
2185 Madison Street					
Clarksville, Tennessee	2007	Owned	\$	1,333	3,950
Houston County Office					
1102 West Main Street					
Erin, Tennessee	2006	Owned	\$	480	2,390
Ashland City Office					
108 Cumberland Street					
Ashland City, Tennessee	2006	Owned	\$	1,385	7,058
Pleasant View Office					
2556 Highway 49 East					
Pleasant View, Tennessee	2006	Owned	\$	817	2,433
Kingston Springs Office					
104 West Kingston Springs Road					
Kingston Springs, Tennessee	2006	Owned	\$	1,667	9,780
Total			\$	23,461	

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

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company or the Bank is a party to various legal proceedings incident to its business. At March 1, 2017, there were no legal proceedings to which the Company or the Bank was a party, or to which any of their property was subject, which were expected by management to result in a material loss to the Company or the Bank.

ITEM 4. MINE SAFETY DISCLOSURE

None

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

A cash dividend of \$0.04 per share was declared in all four quarters in 2015 and 2016. The high and low price range of the Company's common stock for 2016 and 2015 is set forth below:

	Year Ended December 31, 2016		Year Ended December 31, 2015	
	High	Low	High	Low
First Quarter	\$12.03	\$11.39	\$13.86	\$12.50
Second Quarter	\$12.40	\$10.85	\$13.09	\$11.37
Third Quarter	\$11.94	\$11.20	\$12.14	\$10.81
Fourth Quarter	\$14.01	\$11.05	\$12.24	\$11.50

At February 28, 2017, the Company estimates that it has approximately 1,200 shareholders, with approximately 770 reported in the name of the shareholder and the remainder recorded in street name.

On March 2, 2015, the Company issued 600,000 shares of treasury stock to establish the Company's ESOP. At December 31, 2016, the Company has 1,085,888 shares of common treasury stock and has an active repurchase plan in which we may purchase up to 92,550 shares of our common stock on the open market or in negotiated transactions.

The following table provides information with respect to purchases made by or on behalf of the Company or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of the Company's common stock during the three month period ended December 31, 2016:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total number of shares Purchased as part of Publically Announced Programs	Maximum Number of Shares that Yet may be Purchased Under the Program at the end of the period
October 1, 2016, to October 31, 2016	5,110	\$ 11.25	1,845,245	93,441
November 1, 2016, to November 30, 2016	414	\$ 11.00	1,845,659	93,027
December 1, 2016, to December 31, 2016	477	\$ 12.60	1,846,136	92,550
Total	6,001	\$ 11.34	1,846,136	92,550

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

ITEM 6. SELECTED FINANCIAL DATA

The information set forth under the caption "Selected Financial Information and Other Data" in the Company's Annual Report to Stockholders for the year ended December 31, 2016, (Exhibit No. 13.1) is incorporated herein by reference. See Note 13 of Notes of Consolidated Financial Statements which is incorporated herein by reference.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information set forth under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report to Stockholders for the year ended December 31, 2016, (Exhibit No. 13.1) is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information set forth under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations Interest Rate Sensitivity Analysis in the Company's Annual Report to Stockholders for the year ended December 31, 2016, (Exhibit No. 13.1) is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's Consolidated Financial Statements together with the related notes and the report of Carr, Riggs & Ingram, LLC, independent registered public accounting firm, all as set forth in the Company's Annual Report to Stockholders for the year ended December 31, 2016, (Exhibit No. 13.1) are incorporated herein by reference.

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

None

ITEM 9A. CONTROLS AND PROCEDURES

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

Management Report on Internal Control

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

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

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

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

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

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

Management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2016, based on the control criteria established in a report entitled *Internal Control – Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, we have concluded that HopFed Bancorp's internal control over financial reporting is effective as of December 31, 2016.

Carr, Riggs & Ingram, LLC, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. The report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2016, is included in this Item under the heading *Report of Independent Registered Public Accounting Firm*.

Date: March 15, 2017

By: (signed) John E. Peck
John E. Peck

President and Chief Executive Officer

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

of HopFed Bancorp, Inc.

Hopkinsville, Kentucky

We have audited HopFed Bancorp, Inc. and subsidiaries (the Company) internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013 Framework)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management Report on Internal Control*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control – Integrated Framework (2013 Framework)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows of the Company, and our report dated March 15, 2017, expressed an unqualified.

/s/ Carr, Riggs & Ingram, LLC

Nashville, Tennessee

March 15, 2017

ITEM 9B. OTHER INFORMATION

Not Applicable

PART III

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

Information regarding directors of the Company is omitted from this Report as the Company will file a definitive proxy statement (the Proxy Statement) not later than 120 days after December 31, 2016, and the information included therein under Proposal I Election of Directors is incorporated herein by reference. Information regarding the executive officers of the Company is included under separate caption in Part I of this Form 10-K

Information regarding Section 16(a) beneficial ownership reporting compliance is omitted from this Report as the Company will file the Proxy Statement not later than 120 days after December 31, 2016, and the information included therein under Section 16(a) Beneficial Ownership Reporting Compliance is incorporated herein by reference.

Information regarding audit committee financial expert compliance is omitted from this Report as the Company will file the Proxy Statement not later than 120 days after December 31, 2016, and the information contained therein under Committees of the Board of Directors is incorporated herein by reference.

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

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation is omitted from this Report as the Company will file the Proxy Statement not later than 120 days after December 31, 2016, and the information included therein under Proposal I Election of Directors is incorporated herein by reference.

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

Information required by this Item is omitted from this Report as the Company will file the Proxy Statement not later than 120 days after December 31, 2016, and the information included therein under Voting Securities and Principal Holders Thereof and Proposal I Election of Directors is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information required by this Item is omitted from this Report as the Company will file the Proxy Statement, not later than 120 days after December 31, 2016, and the information included therein under Proposal I Election of Directors is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this item is omitted from this report as the Company will file the Proxy Statement not later than 120 days after December 31, 2016, and the information included therein under Independent Registered Public Accounting Firm is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- (a) The following consolidated financial statements of the Company included in the Annual Report to Stockholders for the year ended December 31, 2016, are incorporated herein by reference in Item 8 of this Report. The remaining information appearing in the Annual Report to Stockholders is not deemed to be filed as part of this Report, except as expressly provided herein.

1. Report of Independent Registered Public Accounting Firm.
2. Consolidated Balance Sheets December 31, 2016 and December 31, 2015.
3. Consolidated Statements of Income for the Years Ended December 31, 2016, 2015 and 2014.
4. Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2016, 2015 and 2014.
5. Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2016, 2015 and 2014.
6. Consolidated Statements of Cash Flows for the Years Ended December 31, 2016, 2015 and 2014.
7. Notes to Consolidated Financial Statements.

(b) The following exhibits either are filed as part of this Report or are incorporated herein by reference:
Exhibit No. 2.1. Plan of Conversion of Hopkinsville Federal Savings Bank. Incorporated herein by reference to Exhibit No. 2 to Registrant's Registration Statement on Form S-1 (File No. 333-30215).

Exhibit No. 3.1. Certificate of Incorporation. Incorporated herein by reference to Exhibit 3.1 to Registrant's Current Report on Form 10-K for the fiscal year ended December 31, 2013.

Exhibit No. 3.2 Bylaws, as amended. Incorporated herein by reference to Exhibit No. 3.1 to Registrant's Current Report on Form 8-K dated March 1, 2015 (filed on March 4, 2015).

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

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

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

Exhibit No. 10.3. HopFed Bancorp, Inc. 2000 Stock Option Plan. Incorporated herein by reference to Exhibit 10.10 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.

Exhibit No. 10.4 HopFed Bancorp, Inc. 2004 Long Term Incentive Plan Incorporated herein by reference to Exhibit 99.3 to Registration Statement on Form S-8 (File No. 333-117956) dated August 5, 2004.

Exhibit No. 10.5 HopFed Bancorp, Inc. 2013 Long Term Incentive Plan Incorporated herein by reference to Exhibit 99.3 to Registration Statement on Form S-8 (File No. 333-117956) dated June 28, 2013.

Exhibit No. 10.6. Employment Agreement by and between Registrant and John E. Peck. Incorporated herein by reference to Exhibit No. 10.2 to Registrant's Current Report on Form 8-K dated April 17, 2008 (filed April 22, 2008).

Exhibit No. 10.7. Employment Agreement by and between Heritage Bank and John E. Peck. Incorporated herein by reference to Exhibit No. 10.2 to Registrant's Current Report on Form 8-K dated April 1, 2008 (filed April 22, 2008).

Exhibit No. 10.8. Employment Agreement by and between Registrant and Billy C. Duvall. Incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated July 1, 2013 (filed July 1, 2013).

Exhibit No. 10.9. Employment Agreement by and between Heritage Bank and Billy C. Duvall. Incorporated herein by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K dated July 1, 2013 (filed July 1, 2013).

Exhibit No. 10.10. Employment Agreement by and between Registrant and Michael L. Woolfolk. Incorporated herein by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K dated April 17, 2008 (filed April 22, 2008).

Exhibit No. 10.11. Employment Agreement by and between Heritage Bank and Michael L. Woolfolk. Incorporated herein by reference to Exhibit 10.4 to Registrant's Current Report on Form 8-K dated March 18, 2015 (filed March 18, 2015).

Exhibit No. 10.12 Employment Agreement by and between Heritage Bank and Keith Bennett. Incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated April 25, 2013 (filed April 25, 2013).

Exhibit No. 10.13 Restricted Share Award Agreement with John E. Peck. Incorporated herein by reference to Registrant's Current Report on Form 8-K dated June 23, 2010 (filed June 28, 2010).

Exhibit No. 10.14 Restricted Share Award Agreement with John E. Peck. Incorporated herein by reference to Exhibits 10.1 and 10.2, respectively, to Registrant's Current Report on Form 8-K dated June 23, 2012 (filed June 25, 2012).

Exhibit No. 10.15 Employee Stock Ownership Plan. Incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated February 27, 2015 (filed March 3, 2015).

Exhibit No. 10.16 Employee Stock Ownership Trust. Incorporated herein by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K dated February 27, 2015 (filed March 3, 2015).

Exhibit No. 99.1 Stock Purchase Agreement with Maltese Capital Management. Incorporated herein by reference to Exhibit 99.1 to Registrant's Current Report on 8-K dated February 2, 2015 (filed February 3, 2015)

Exhibit No. 13.1. Annual Report to Stockholders. Except for those portions of the Annual Report to Stockholders for the year ended December 31, 2016, which are expressly incorporated herein by reference, such Annual Report is furnished for the information of the Commission and is not to be deemed filed as part of this Report.

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

Exhibit No. 21.1 Subsidiaries of the Registrant.

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

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

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

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

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

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

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

Exhibit 101. The following materials from the Company's annual report on Form 10-K for the years ended December 31, 2016 and December 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statement of Financial Condition as of December 31, 2016 and December 31, 2015, (ii) Condensed Consolidated Statements of Income for the years ended December 31, 2016, 2015 and 2014, respectively (iii) Condensed Statements of Comprehensive Income (Loss) for the years ended December 31, 2016, 2015, and 2014, respectively (iv) Condensed Consolidated Statements of Cash Flows, for the years ended December 31, 2016, 2015 and 2014 respectively, and (v) Notes to Condensed Consolidated Financial Statements (unaudited), tagged as blocks of text.

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

SIGNATURES

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

HOPFED BANCORP, INC.
(Registrant)

Date: March 15, 2017

By: (signed) John E. Peck
John E. Peck

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

DATE: SIGNATURE AND TITLE:

(signed) John E. Peck	March 15, 2017
John E. Peck	
Director, President and Chief Executive Officer	

(Principal Executive Officer)

(signed) Billy C. Duvall	March 15, 2017
Billy C. Duvall	
Senior Vice President, Chief Financial Officer and Treasurer	
(Principal Financial and Accounting Officer)	

(signed) Dr. Harry J. Dempsey	March 15, 2017
Dr. Harry J. Dempsey	
Chairman of the Board	

(signed) Steve Hunt	March 15, 2017
Steve Hunt	
Vice-Chairman of the Board	

(signed) Michael Woolfolk	March 15, 2017
Michael Woolfolk	
Director, Board Secretary and Executive Vice President and Chief Operating Officer	

(signed) Dr. Thomas I. Miller	March 15, 2017
Dr. Thomas I. Miller	
Director	

(signed) Ted Kinsey	March 15, 2017
Ted Kinsey	
Director	

(signed) Clay Smith	March 15, 2017
Clay Smith	
Director	

(signed) Richard Perkins	March 15, 2017
Richard Perkins	
Director	

