



COMPANY UPDATE/ ESTIMATE CHANGES

Key Metrics

| | |
|-----------------------------------|-----------------|
| HFBC - NASDAQ (as of 01/26/18) | \$14.75 |
| Price Target | NA |
| 52-Week Range | \$13.51-\$16.29 |
| Shares Outstanding (mm) | 6.7 |
| Market Cap. (\$mm) | \$98 |
| 3-Mo. Average Daily Volume (000) | 8.1 |
| Institutional Ownership | 55.7% |
| Tangible Equity / Tangible Assets | 9.5% |
| ROE | 4.2% |
| Tangible Book Value Per Share | \$13.23 |
| Price/Tangible Book Value | 111.5% |
| Dividend Yield | 1.4% |
| Price/LTM Earnings | 24.6x |

Operating EPS CY 12/31

| | 2017A | Prior 2018E | Curr. 2018E | Prior 2019E | Curr. 2019E |
|------|--------|-------------|-------------|-------------|-------------|
| 1Q | \$0.12 | \$0.15 | \$0.16 | | \$0.18 |
| 2Q | \$0.18 | \$0.19 | \$0.23 | | \$0.24 |
| 3Q | \$0.21 | \$0.20 | \$0.24 | | \$0.22 |
| 4Q | \$0.20 | \$0.20 | \$0.23 | | \$0.21 |
| Year | \$0.71 | \$0.75 | \$0.86 | | \$0.86 |
| P/E | 20.8x | | 17.1x | | 17.2x |

Common Dividends

| | 2017A | Curr. 2018E | Prior % chg. | Curr. 2019E |
|------|--------|-------------|--------------|-------------|
| 1Q | \$0.04 | \$0.05 | 25.0 | \$0.05 |
| 2Q | \$0.04 | \$0.05 | 25.0 | \$0.05 |
| 3Q | \$0.05 | \$0.05 | 0.0 | \$0.05 |
| 4Q | \$0.05 | \$0.05 | 0.0 | \$0.05 |
| Year | \$0.18 | \$0.20 | 11.1 | \$0.20 |

Company Description – HopFed Bancorp, Inc. (HFBC) is a commercial banking organization headquartered in Hopkinsville, Kentucky with operations in western Kentucky and middle Tennessee. The company's banking subsidiary converted from a thrift charter to a Kentucky commercial bank charter in June 2013 and its name was changed to Heritage Bank USA, Inc. In addition to traditional retail and commercial banking products and services, HopFed offers securities brokerage and mortgage banking services.

Banks

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HopFed Bancorp, Inc.

HFBC – NASDAQ – Neutral – 3

Loan Growth Accelerates; Reaffirming Neutral Rating

- **Earnings Results:** Excluding \$0.01 of securities losses and a \$0.16 charge related to the revaluation of the company's net deferred tax assets, HFBC reported 4Q17 operating EPS of \$0.20, which were \$0.01 ahead of our estimate and the Street consensus.
- **Positive Highlights:** Operating noninterest income increased 0.5% linked-quarter (LQ) to \$1.9 million primarily due to higher mortgage origination income (11.6%). Results modestly exceeded our estimate of \$1.8 million.

Operating noninterest expense rose 0.4% LQ to \$7.2 million, which was slightly below our estimate of \$7.3 million.

End-of-period loan growth was solid at 1.9% sequentially.

The provision for loan losses plunged \$15K to \$56K LQ as asset quality metrics show material improvement. Nonperforming Assets/Assets (excluding performing restructured loans) decreased 22 bps LQ to 0.52%, while the net charge-off ratio was -0.21%. Our model projected a provision of \$74K and net charge-offs of seven bps.

- **Negative Highlights:** Net interest income fell 1.7% LQ to \$7.0 million driven by two bps of net interest margin compression to 3.41% and a 1.4% decline in average earning assets. We had projected net interest income of \$7.1 million and a margin of 3.44%.
- **Estimates & Valuation:** We are increasing our 2018 operating EPS estimate by \$0.11 to \$0.86 and introducing our 2019 estimate at \$0.86. We reaffirm our Neutral rating.

Note Important Disclosures on pages 4 and 5

Note Analyst Certification on page 4

OTHER KEY TAKEAWAYS

- Tangible book value per share declined \$0.11 to \$13.23 and was impacted by the revaluation of deferred tax assets.
- In addition to the improvements in nonperformers and net charge-offs, early stage delinquencies fell \$361K to \$393K sequentially.
- The increase in mortgage banking income was driven by hires of mortgage producers.
- Loan growth was primarily driven by solid production in Nashville and Clarksville, TN.
- The company indicated that the loan pipeline is in line with a year-ago, but it is currently closing a greater percentage of pipeline loans.
- Management anticipates the savings from tax reform to fully flow to the bottom line in coming quarters.
- Major model assumptions include two Fed rate hikes in 2018 and 2019 and continued flattening of the yield curve.

SUITABILITY

Our suitability rating on HFBC is 3 on our scale of 1 to 4 (1 = most conservative, 4 = most aggressive). Factors contributing to our suitability rating include the company's market capitalization, liquidity and trading volume, diversity of revenues and the geographic diversification of its footprint.

RISK FACTORS

- **Economy** – If the economy softens, loan demand could wane and credit quality could deteriorate.
- **Geography** – The company's operations are clustered in two states. Accordingly, its earnings are more vulnerable to any regional shock and/or slowdown.
- **Real Estate** – A significant percentage of the company's loans are real estate oriented. Any deterioration in real estate values would impair the value of the underlying real estate collateral.
- **Competition** – The industry is highly competitive and many of the company's competitors have greater resources.
- **Sector Rotation** – The share price of the company's common stock may be vulnerable to any sector rotation that might occur.
- **Regulatory Environment** – Banks operate in a highly regulated environment. Consequently, the company is vulnerable to regulatory uncertainties that could negatively impact shareholders.
- **Other** – Please see the company's financial statements for a further discussion of risks and considerations.

| | HOPFED BANCORP, INC. | | | | | | | | | | HFBC:NEUTRAL | |
|--|---------------------------------------|---------|---------|---------|---------|---------|---------|---------|-----------|-----------|--------------|-----------|
| | \$Millions, Except for Per Share Data | | | | | | | | | | YOY Change | |
| | 1Q017 A | 2Q017 A | 3Q017 A | 4Q017 A | 1Q018 E | 2Q018 E | 3Q018 E | 4Q018 E | FY 2016 A | FY 2017 A | FY 2018 E | FY 2019 E |
| Balance Sheet Data: | | | | | | | | | | | | |
| Assets | 923.3 | 912.1 | 904.1 | 917.3 | 917.3 | 925.6 | 926.5 | 931.1 | 891.5 | 917.3 | 931.1 | 912.6 |
| Gross Loans | 621.6 | 638.4 | 630.2 | 641.9 | 649.0 | 659.7 | 670.6 | 681.6 | 610.4 | 641.9 | 681.6 | 719.5 |
| Average Earning Assets | 841.5 | 845.3 | 850.0 | 836.5 | 843.9 | 847.7 | 863.5 | 866.1 | 813.9 | 843.3 | 855.3 | 859.6 |
| Deposits | 765.7 | 745.9 | 731.2 | 754.0 | 757.8 | 754.0 | 764.6 | 775.3 | 732.9 | 754.0 | 775.3 | 811.8 |
| Equity | 87.5 | 88.8 | 89.2 | 87.8 | 87.8 | 88.3 | 88.8 | 89.2 | 86.4 | 87.8 | 89.2 | 90.5 |
| Statement of Operations: | | | | | | | | | | | | |
| Net Interest Income | 6.8 | 7.0 | 7.1 | 7.0 | 7.0 | 7.1 | 7.2 | 7.2 | 26.4 | 27.8 | 28.5 | 28.7 |
| Provision for Loan Losses | 0.3 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 1.2 | 0.5 | 0.3 | 0.53 |
| Non-Interest Income: | | | | | | | | | | | | |
| Service charges | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 2.8 | 3.2 | 3.3 | 3.3 |
| Merchandise card income | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 1.2 | 1.2 | 1.2 | 1.2 | 1.3 |
| Mortgage origination revenue | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | 0.3 | 1.6 | 1.3 | 1.4 | 1.5 |
| Income from bank owned life insurance | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.3 | 0.5 | 0.3 | 0.3 |
| Financial services commission | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.6 | 0.5 | 0.5 | 0.6 |
| Other operating income | 0.5 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.8 | 1.1 | 0.8 | 0.9 |
| Securities Gains | 0.0 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.6 | 0.2 | 0.0 | 0.0 |
| Total Non-Interest Income | 2.3 | 1.8 | 2.0 | 1.9 | 1.8 | 1.9 | 2.0 | 1.9 | 7.9 | 8.0 | 7.6 | 7.9 |
| Non-Core Adjustment | -0.3 | 0.0 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (0.6) | (0.4) | 0.0 | 0.0 |
| Adjusted Non-Interest Income | 2.0 | 1.8 | 1.9 | 1.9 | 1.8 | 1.9 | 2.0 | 1.9 | 7.3 | 7.6 | 7.6 | 7.9 |
| Non-Interest Expense: | | | | | | | | | | | | |
| Salaries and benefits | 4.2 | 4.0 | 3.9 | 3.9 | 4.3 | 4.0 | 4.0 | 4.0 | 15.4 | 16.0 | 16.2 | 16.4 |
| Occupancy | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 3.2 | 2.9 | 2.8 | 2.8 |
| Data processing | 0.8 | 0.5 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 2.9 | 2.9 | 3.1 | 3.2 |
| State deposit tax | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 1.0 | 0.8 | 0.7 | 0.7 |
| Professional services | 0.3 | 0.5 | 0.4 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 | 1.4 | 1.7 | 1.7 | 1.7 |
| Advertising | 0.4 | 0.4 | 0.2 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 1.4 | 1.4 | 1.5 | 1.5 |
| Foreclosure, net | 0.1 | 0.0 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | (0.0) | 0.0 | 0.0 | 0.0 |
| Other operating | 0.8 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 4.1 | 3.6 | 3.5 | 3.5 |
| Total Non-Interest Expense | 7.7 | 7.2 | 7.2 | 7.2 | 7.6 | 7.3 | 7.3 | 7.3 | 30.0 | 29.3 | 29.5 | 29.8 |
| Non-Core Adjustment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 |
| Adjusted Non-Interest Expense | 7.7 | 7.2 | 7.2 | 7.2 | 7.6 | 7.3 | 7.3 | 7.3 | 30.0 | 29.3 | 29.5 | 29.8 |
| Pretax Income | 0.8 | 1.5 | 1.7 | 1.6 | 1.2 | 1.7 | 1.8 | 1.7 | 2.5 | 5.6 | 6.3 | 6.3 |
| Income Taxes | 0.0 | 0.4 | 0.4 | 0.4 | 0.1 | 0.3 | 0.3 | 0.3 | 0.1 | 1.2 | 1.0 | 1.0 |
| Oper. Net Income Avail. To Common | 0.8 | 1.1 | 1.3 | 1.2 | 1.0 | 1.4 | 1.5 | 1.5 | 2.4 | 4.4 | 5.3 | 5.3 |
| Share & Per Share Data: | | | | | | | | | | | | |
| Diluted EPS | 0.15 | 0.18 | 0.22 | 0.04 | 0.16 | 0.23 | 0.24 | 0.23 | 0.47 | 0.59 | 0.86 | 0.86 |
| Operating EPS | 0.12 | 0.18 | 0.21 | 0.20 | 0.16 | 0.23 | 0.24 | 0.23 | 0.38 | 0.71 | 0.86 | 0.86 |
| Dividends Per Share | 0.04 | 0.04 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.16 | 0.18 | 0.20 | 0.20 |
| Tangible Book Value | 13.02 | 14.23 | 13.34 | 13.23 | 13.32 | 13.48 | 13.65 | 13.82 | 12.87 | 13.23 | 13.82 | 14.41 |
| Common Shares Outstanding | 6,717 | 6,717 | 6,689 | 6,638 | 6,593 | 6,548 | 6,503 | 6,458 | 6,717 | 6,638 | 6,458 | 6,278 |
| Average Diluted Shares | 6,219 | 6,229 | 6,236 | 6,187 | 6,187 | 6,187 | 6,187 | 6,187 | 6,235 | 6,218 | 6,187 | 6,187 |
| Key Financial Statistics: | | | | | | | | | | | | |
| Return on Assets | 0.41% | 0.00% | 0.62% | 0.10% | 0.44% | 0.61% | 0.64% | 0.63% | 0.33% | 0.28% | 0.58% | 0.58% |
| Return on Equity | 4.28% | 0.00% | 6.29% | 1.01% | 4.59% | 6.39% | 6.71% | 6.53% | 3.26% | 2.89% | 6.05% | 5.91% |
| Net Interest Margin | 3.31% | 3.39% | 3.43% | 3.41% | 3.39% | 3.41% | 3.41% | 3.41% | 3.36% | 3.39% | 3.40% | 3.42% |
| Operating Non-Int. Inc./Operating Rev. | 23.23% | 20.74% | 21.20% | 21.20% | 20.94% | 21.52% | 21.38% | 20.65% | 21.70% | 21.50% | 21.12% | 21.58% |
| Efficiency Ratio | 84.72% | 80.86% | 80.23% | 82.20% | 84.80% | 79.29% | 78.48% | 78.68% | 85.68% | 82.00% | 80.31% | 80.05% |
| Tangible Common Ratio | 9.47% | 9.73% | 9.87% | 9.57% | 9.58% | 9.54% | 9.58% | 9.58% | 9.69% | 9.57% | 9.58% | 9.91% |
| Reserves/Loans | 0.99% | 1.12% | 1.07% | 0.76% | 0.73% | 0.70% | 0.67% | 0.65% | 1.00% | 0.75% | 0.65% | 0.57% |
| NCOs/Average Loans | 0.15% | -0.61% | 1.52% | 0.02% | 0.10% | 0.10% | 0.12% | 0.12% | 0.14% | 0.27% | 0.11% | 0.13% |

Source: Company reports and Hilliard Lyons estimates.

Additional information is available upon request.

Analyst Certification

I, Andrew W. Stapp, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

HopFed Bancorp is/was a client of Hilliard Lyons within the past 12 months, received non-investment banking securities-related services, and Hilliard Lyons received compensation for those services.

Definitions of Ratings:

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price decline in the next 12 months.

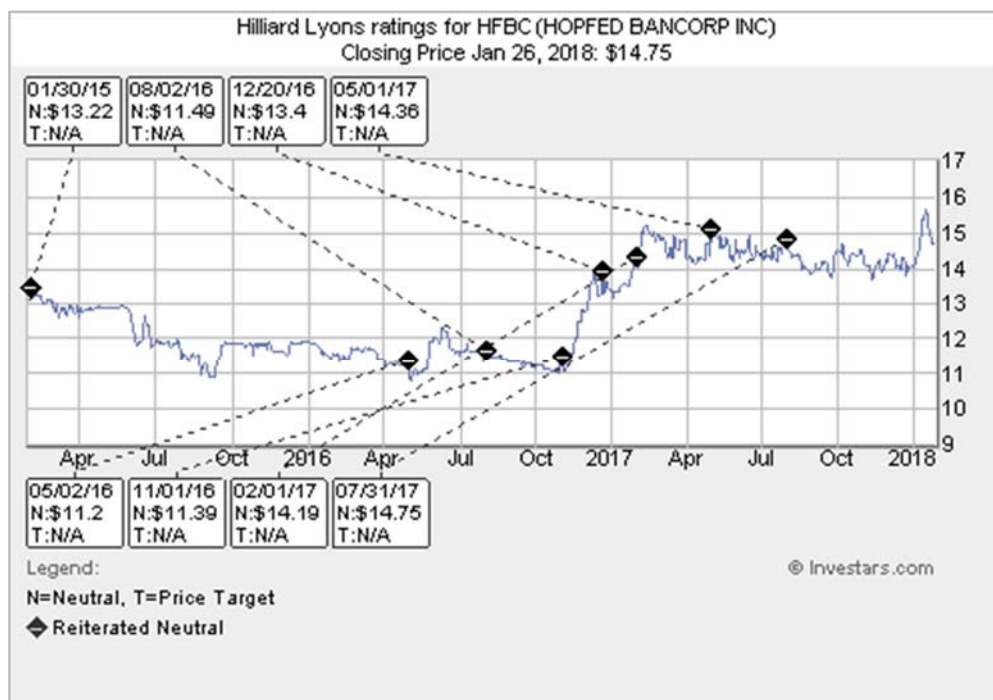
Definitions of Suitabilities:

1. A large cap, core holding with a solid history.

2. A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks.

3. An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage.

4. Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



| Rating | Hilliard Lyons Recommended Issues | | Investment Banking Provided in Past 12 Mo. | |
|--------------|-----------------------------------|---------------------|--|------------|
| | # of Stocks Covered | % of Stocks Covered | Banking | No Banking |
| Buy | 31 | 28% | 10% | 90% |
| Hold/Neutral | 75 | 67% | 9% | 91% |
| Sell | 6 | 5% | 0% | 100% |

As of 8 January 2018

Other Disclosures

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

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