HOME BANCSHARES INC
Form 10-Q
November 05, 2015
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended September 30, 2015

or

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Transition period from _____ to _____

Commission File Number: 000-51904

HOME BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Arkansas	**71-0682831**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
719 Harkrider, Suite 100, Conway, Arkansas	**72032**
(Address of principal executive offices)	**(Zip Code)**

(501) 339-2929

(Registrant s telephone number, including area code)

Not Applicable

Former name, former address and former fiscal year, if changed since last report

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 x No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practical date.

Common Stock Issued and Outstanding: 70,106,620 shares as of October 30, 2015.

Table of Contents

HOME BANCSHARES, INC.

FORM 10-Q

September 30, 2015

INDEX

		Page No.
Part I:	**Financial Information**	
Item 1:	Financial Statements	
	Consolidated Balance Sheets September 30, 2015 (Unaudited) and December 31, 2014	2
	Consolidated Statements of Income (Unaudited) Three and nine months ended September 30, 2015 and 2014	3
	Consolidated Statements of Comprehensive Income (Unaudited) Three and nine months ended September 30, 2015 and 2014	4
	Consolidated Statements of Stockholders Equity (Unaudited) Nine months ended September 30, 2015 and 2014	5
	Consolidated Statements of Cash Flows (Unaudited) Nine months ended September 30, 2015 and 2014	6
	Condensed Notes to Consolidated Financial Statements (Unaudited)	7-45
	Report of Independent Registered Public Accounting Firm	46
Item 2:	Management s Discussion and Analysis of Financial Condition and Results of Operations	47-90
Item 3:	Quantitative and Qualitative Disclosures About Market Risk	91-92
Item 4:	Controls and Procedures	93
Part II:	**Other Information**	
Item 1:	Legal Proceedings	94
Item 1A:	Risk Factors	94
Item 2:	Unregistered Sales of Equity Securities and Use of Proceeds	95
Item 3:	Defaults Upon Senior Securities	95
Item 4:	Mine Safety Disclosures	95
Item 5:	Other Information	95
Item 6:	Exhibits	95
Signatures		96

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of our statements contained in this document, including matters discussed under the caption Management s Discussion and Analysis of Financial Condition and Results of Operation, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements relate to future events or our future financial performance and include statements about the competitiveness of the banking industry, potential regulatory obligations, our entrance and expansion into other markets, including through potential acquisitions, our other business strategies and other statements that are not historical facts. Forward-looking statements are not guarantees of performance or results. When we use words like may, plan, contemplate, anticipate, believe, intend, continue, expect, project, estimate, could, should, would, and similar expressions, you should consider them as identifying forward-looking statements, although we may use other phrasing. These forward-looking statements involve risks and uncertainties and are based on our beliefs and assumptions, and on the information available to us at the time that these disclosures were prepared. These forward-looking statements involve risks and uncertainties and may not be realized due to a variety of factors, including, but not limited to, the following:

- the effects of future economic conditions, including inflation or a decrease in commercial real estate and residential housing values;
- governmental monetary and fiscal policies, as well as legislative and regulatory changes;
- the impact of the Dodd-Frank financial regulatory reform act and regulations issued thereunder;
- the risks of changes in interest rates or the level and composition of deposits, loan demand and the values of loan collateral, securities and interest sensitive assets and liabilities;
- the effects of terrorism and efforts to combat it;
- credit risks;
- the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in our market area and elsewhere, including institutions operating regionally, nationally and internationally, together with competitors offering banking products and services by mail, telephone and the Internet;
- the effect of any mergers, acquisitions or other transactions to which we or our subsidiaries may from time to time be a party, including our ability to successfully integrate any businesses that we acquire;

the failure of assumptions underlying the establishment of our allowance for loan losses; and

the failure of assumptions underlying the estimates of the fair values for our covered assets, FDIC indemnification asset and FDIC claims receivable.

All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this Cautionary Note. Our actual results may differ significantly from those we discuss in these forward-looking statements. For other factors, risks and uncertainties that could cause our actual results to differ materially from estimates and projections contained in these forward-looking statements, see the Risk Factors section of our Form 10-K filed with the Securities and Exchange Commission (the SEC) on February 27, 2015 and our Form 10-Q filed with the SEC on August 6, 2015.

Table of Contents

PART I: FINANCIAL INFORMATION

Item 1: Financial Statements

Home BancShares, Inc.

Consolidated Balance Sheets

(In thousands, except share data)	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Cash and due from banks	$ 120,262	$ 105,438
Interest-bearing deposits with other banks	108,394	7,090
Cash and cash equivalents	228,656	112,528
Federal funds sold		250
Investment securities available-for-sale	1,141,405	1,067,287
Investment securities held-to-maturity	324,949	356,790
Loans receivable not covered by loss share	5,900,175	4,817,314
Loans receivable covered by FDIC loss share	105,414	240,188
Allowance for loan losses	(63,659)	(55,011)
Loans receivable, net	5,941,930	5,002,491
Bank premises and equipment, net	205,505	206,912
Foreclosed assets held for sale not covered by loss share	18,204	16,951
Foreclosed assets held for sale covered by FDIC loss share	2,612	7,871
FDIC indemnification asset	11,290	28,409
Cash value of life insurance	75,281	74,444
Accrued interest receivable	26,977	24,075
Deferred tax asset, net	63,075	65,227
Goodwill	322,728	325,423
Core deposit and other intangibles	18,828	20,925
Other assets	134,113	93,689
Total assets	$ 8,515,553	$ 7,403,272
Liabilities and Stockholders Equity		
Deposits:		
Demand and non-interest-bearing	$ 1,409,949	$ 1,203,306
Savings and interest-bearing transaction accounts	3,230,722	2,974,850
Time deposits	1,312,343	1,245,815
Total deposits	5,953,014	5,423,971
Securities sold under agreements to repurchase	134,142	176,465
FHLB borrowed funds	1,216,152	697,957
Accrued interest payable and other liabilities	60,141	28,761
Subordinated debentures	60,826	60,826

Total liabilities		7,424,275		6,387,980
Stockholders equity:				
Common stock, par value $0.01; shares authorized 100,000,000 in 2015 and 2014; shares issued and outstanding 68,000,363 in 2015 and 67,570,610 in 2014		680		676
Capital surplus		782,500		781,328
Retained earnings		299,984		226,279
Accumulated other comprehensive income		8,114		7,009
Total stockholders equity		1,091,278		1,015,292
Total liabilities and stockholders equity	$	8,515,553	$	7,403,272

See Condensed Notes to Consolidated Financial Statements.

Table of Contents

Home BancShares, Inc.

Consolidated Statements of Income

(In thousands, except per share data)	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
	(Unaudited)			
Interest income:				
Loans	$ 88,671	$ 75,917	$ 246,518	$ 226,334
Investment securities				
Taxable	5,157	4,905	15,830	14,137
Tax-exempt	2,789	2,552	8,315	7,248
Deposits other banks	32	20	167	73
Federal funds sold	4	7	15	35
Total interest income	96,653	83,401	270,845	247,827
Interest expense:				
Interest on deposits	3,045	3,243	9,614	9,722
Federal funds purchased	1	2	3	2
FHLB borrowed funds	2,030	1,035	4,133	2,933
Securities sold under agreements to repurchase	146	186	481	536
Subordinated debentures	340	330	1,003	986
Total interest expense	5,562	4,796	15,234	14,179
Net interest income	91,091	78,605	255,611	233,648
Provision for loan losses	7,106	4,241	16,274	17,294
Net interest income after provision for loan losses	83,985	74,364	239,337	216,354
Non-interest income:				
Service charges on deposit accounts	6,250	6,275	17,724	18,379
Other service charges and fees	6,644	5,977	19,359	17,641
Trust fees	398	306	2,016	1,065
Mortgage lending income	3,132	1,901	8,019	5,215
Insurance commissions	548	984	1,755	3,334
Income from title services	28	59	98	162
Increase in cash value of life insurance	268	322	871	891
Dividends from FHLB, FRB, Bankers bank & other	433	389	1,267	1,206
Gain on acquisitions			1,635	
Gain on sale of SBA loans	151	183	151	183
Gain (loss) on sale of premises and equipment, net	(266)	(35)	(237)	419
Gain (loss) on OREO, net	(40)	529	190	1,927

Gain (loss) on securities, net			4	
FDIC indemnification accretion/(amortization), net	(1,994)	(6,947)	(8,152)	(18,313)
Other income	993	888	3,542	2,442
Total non-interest income	16,545	10,831	48,242	34,551
Non-interest expense:				
Salaries and employee benefits	22,225	19,368	63,671	57,114
Occupancy and equipment	6,540	6,234	19,267	18,711
Data processing expense	2,619	1,801	8,101	5,387
Other operating expenses	13,209	15,414	37,517	39,582
Total non-interest expense	44,593	42,817	128,556	120,794
Income before income taxes	55,937	42,378	159,023	130,111
Income tax expense	20,196	15,007	58,257	46,974
Net income	$ 35,741	$ 27,371	$ 100,766	$ 83,137
Basic earnings per share	$ 0.53	$ 0.41	$ 1.49	$ 1.27
Diluted earnings per share	$ 0.52	$ 0.41	$ 1.48	$ 1.26

See Condensed Notes to Consolidated Financial Statements.

Table of Contents

Home BancShares, Inc.

Consolidated Statements of Comprehensive Income

(In thousands)	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
	(Unaudited)			
Net income	$ 35,741	$ 27,371	$ 100,766	$ 83,137
Net unrealized (loss) gain on available-for-sale securities	3,670	1,071	1,823	15,594
Less: reclassification adjustment for realized (gains) losses included in income			(4)	
Other comprehensive (loss) income, before tax effect	3,670	1,071	1,819	15,594
Tax effect	(1,440)	(421)	(714)	(6,118)
Other comprehensive (loss) income	2,230	650	1,105	9,476
Comprehensive income	$ 37,971	$ 28,021	$ 101,871	$ 92,613

See Condensed Notes to Consolidated Financial Statements.

Table of Contents

Home BancShares, Inc.

Consolidated Statements of Stockholders Equity

Nine Months Ended September 30, 2015 and 2014

(In thousands, except share data)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2014	$ 651	$ 708,058	$ 136,386	$ (4,140)	$ 840,955
Comprehensive income:					
Net income			83,137		83,137
Other comprehensive income (loss)				9,476	9,476
Net issuance of 43,698 shares of common stock from exercise of stock options	1	207			208
Issuance of 1,316,072 shares of common stock from acquisition of Traditions, net of issuance costs of approximately $215	13	39,254			39,267
Disgorgement of profits		25			25
Tax benefit from stock options exercised		410			410
Share-based compensation		1,619			1,619
Cash dividends Common Stock, $0.25 per share			(16,416)		(16,416)
Balances at September 30, 2014 (unaudited)	665	749,573	203,107	5,336	958,681
Comprehensive income:					
Net income			29,926		29,926
Other comprehensive income (loss)				1,673	1,673
Net issuance of 76,663 shares of common stock from exercise of stock options		366			366
Issuance of 1,020,824 shares of common stock from acquisition of Broward, net of issuance costs of approximately $116	10	30,121			30,131
Tax benefit from stock options exercised		815			815
Share-based compensation	1	453			454
Cash dividends - Common Stock, $0.10 per share			(6,754)		(6,754)
Balances at December 31, 2014	676	781,328	226,279	7,009	1,015,292
Comprehensive income:					
Net income			100,766		100,766
Other comprehensive income (loss)				1,105	1,105
Net issuance of 172,501 shares of common stock from exercise of stock options	2	211			213
Repurchase of 67,332 shares of common stock	(1)	(2,014)			(2,015)
Tax benefit from stock options exercised		196			196

Share-based compensation		3	2,779			2,782
Cash dividends	Common Stock, $0.40 per share			(27,061)		(27,061)
Balances at September 30, 2015 (unaudited)		$ 680	$ 782,500	$ 299,984	$ 8,114	$ 1,091,278

See Condensed Notes to Consolidated Financial Statements.

Table of Contents

Home BancShares, Inc.

Consolidated Statements of Cash Flows

(In thousands)	Nine Months Ended September 30, 2015 (Unaudited)	2014 (Unaudited)
Operating Activities		
Net income	$ 100,766	$ 83,137
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	7,728	7,492
Amortization/(accretion)	17,091	25,647
Share-based compensation	2,782	1,619
Tax benefits from stock options exercised	(196)	(410)
(Gain) loss on assets	(100)	(2,529)
Gain on acquisitions	(1,635)	
Provision for loan losses	16,274	17,294
Deferred income tax effect	1,438	15,752
Increase in cash value of life insurance	(871)	(891)
Originations of mortgage loans held for sale	(209,056)	(169,905)
Proceeds from sales of mortgage loans held for sale	199,797	163,228
Changes in assets and liabilities:		
Accrued interest receivable	(2,902)	289
Indemnification and other assets	(31,450)	26,959
Accrued interest payable and other liabilities	31,576	19,166
Net cash provided by (used in) operating activities	131,242	186,848
Investing Activities		
Net (increase) decrease in federal funds sold	250	(39,730)
Net (increase) decrease in loans, excluding loans acquired	(639,150)	(132,688)
Purchases of investment securities available-for-sale	(249,707)	(79,543)
Proceeds from maturities of investment securities available-for-sale	172,411	212,629
Proceeds from sale of investment securities available-for-sale	931	
Purchases of investment securities held-to-maturity	(6,562)	(194,240)
Proceeds from maturities of investment securities held-to-maturity	36,743	12,194
Proceeds from foreclosed assets held for sale	21,909	34,307
Proceeds from sale of SBA loans	2,160	1,488
Proceeds from sale of insurance book of business	2,938	
Purchases of premises and equipment, net	(6,558)	(3,680)
Return of investment on cash value of life insurance	27	
Net cash proceeds (paid) received market acquisitions	140,820	13,315
Net cash provided by (used in) investing activities	(523,788)	(175,948)

Financing Activities		
Net increase (decrease) in deposits, excluding deposits acquired	61,469	(383,123)
Net increase (decrease) in securities sold under agreements to repurchase	(42,323)	(89)
Net increase (decrease) in FHLB borrowed funds	518,195	360,249
Proceeds from exercise of stock options	213	208
Repurchase of common stock	(2,015)	
Disgorgement of profits		25
Common stock issuance costs market acquisitions		(215)
Tax benefits from stock options exercised	196	410
Dividends paid on common stock	(27,061)	(16,416)
Net cash provided by (used in) financing activities	508,674	(38,951)
Net change in cash and cash equivalents	116,128	(28,051)
Cash and cash equivalents beginning of year	112,528	165,534
Cash and cash equivalents end of period	$ 228,656	$ 137,483

See Condensed Notes to Consolidated Financial Statements.

Table of Contents

Home BancShares, Inc.

Condensed Notes to Consolidated Financial Statements

(Unaudited)

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Home BancShares, Inc. (the Company or HBI) is a bank holding company headquartered in Conway, Arkansas. The Company is primarily engaged in providing a full range of banking services to individual and corporate customers through its wholly-owned community bank subsidiary Centennial Bank (sometimes referred to as Centennial or the Bank). The Bank has branch locations in Arkansas, Florida and South Alabama and a loan production office in New York City. The Company is subject to competition from other financial institutions. The Company also is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

A summary of the significant accounting policies of the Company follows:

Operating Segments

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Bank is the only significant subsidiary upon which management makes decisions regarding how to allocate resources and assess performance. Each of the branches of the Bank provide a group of similar community banking services, including such products and services as commercial, real estate and consumer loans, time deposits, and checking and savings accounts. The individual bank branches have similar operating and economic characteristics. While the chief decision maker monitors the revenue streams of the various products, services and branch locations, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the community banking services and branch locations are considered by management to be aggregated into one reportable operating segment, community banking.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, the valuation of investment securities, the valuation of foreclosed assets, the valuations of assets acquired and liabilities assumed in business combinations, covered loans and the related indemnification asset. In connection with the determination of the allowance for loan losses and the valuation of foreclosed assets, management obtains independent appraisals for significant properties.

Principles of Consolidation

The consolidated financial statements include the accounts of HBI and its subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications

Various items within the accompanying consolidated financial statements for previous years have been reclassified to provide more comparative information. These reclassifications had no effect on net earnings or stockholders equity.

Table of Contents

Interim financial information

The accompanying unaudited consolidated financial statements as of September 30, 2015 and 2014 have been prepared in condensed format, and therefore do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

The information furnished in these interim statements reflects all adjustments, which are, in the opinion of management, necessary for a fair statement of the results for each respective period presented. Such adjustments are of a normal recurring nature. The results of operations in the interim statements are not necessarily indicative of the results that may be expected for any other quarter or for the full year. The interim financial information should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s 2014 Form 10-K, filed with the Securities and Exchange Commission.

Earnings per Share

Basic earnings per share is computed based on the weighted-average number of shares outstanding during each year. Diluted earnings per share is computed using the weighted-average shares and all potential dilutive shares outstanding during the period. The following table sets forth the computation of basic and diluted earnings per share (EPS) for the following periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Net income	$ 35,741	$ 27,371	$ 100,766	$ 83,137
Average shares outstanding	67,869	66,223	67,698	65,499
Effect of common stock options	212	393	273	390
Average diluted shares outstanding	68,081	66,616	67,971	65,889
Basic earnings per share	$ 0.53	$ 0.41	$ 1.49	$ 1.27
Diluted earnings per share	$ 0.52	$ 0.41	$ 1.48	$ 1.26

2. Business Combinations

Acquisition of Pool of National Commercial Real Estate Loans

On April 1, 2015, the Company s wholly-owned bank subsidiary, Centennial, entered into an agreement with AM PR LLC, an affiliate of J.C. Flowers & Co. (collectively, the Seller) to purchase a pool of national commercial real estate loans totaling approximately $289.1 million for a purchase price of 99% of the total principal value of the acquired loans. The purchase of the loans was completed on April 1, 2015. The acquired loans were originated by the former Doral Bank within its Doral Property Finance portfolio (DPF Portfolio) and were transferred to the Seller by Banco Popular of Puerto Rico (Popular) upon its acquisition of the assets and liabilities of Doral Bank from the Federal Deposit Insurance Corporation (FDIC), as receiver for the failed Doral Bank. This pool of loans is now housed in a

division of Centennial known as the Centennial Commercial Finance Group (Centennial CFG). The Centennial CFG is responsible for servicing the acquired loan pool and originating new loan production.

In connection with this acquisition of loans, the Company opened a loan production office on April 23, 2015 in New York City. Through the loan production office, Centennial CFG plans to build out a national lending platform focusing on commercial real estate plus commercial and industrial loans.

Table of Contents

Acquisition of Doral Bank s Florida Panhandle operations

On February 27, 2015, the Company s banking subsidiary, Centennial, acquired all the deposits and substantially all the assets of Doral Bank s Florida Panhandle operations (Doral Florida) through an alliance agreement with Popular who was the successful lead bidder with the FDIC on the failed Doral Bank of San Juan, Puerto Rico. Including the effects of the purchase accounting adjustments, the acquisition provided the Company with loans of approximately $37.9 million net of loan discounts, deposits of approximately $467.6 million, plus a $428.2 million cash settlement to balance the transaction. There is no loss-share with the FDIC in the acquired assets.

Prior to the acquisition, Doral Florida operated five branch locations in Panama City, Panama City Beach and Pensacola, Florida plus a loan production office in Tallahassee, Florida. At the time of acquisition, Centennial operated 29 branch locations in the Florida Panhandle. As a result, the Company closed all five branch locations during the July 2015 systems conversion and returned the facilities back to the FDIC.

The Company has determined that the acquisition of the net assets of Doral Florida constitutes a business combination as defined by the FASB ASC Topic 805, *Business Combinations*. Accordingly, the assets acquired and liabilities assumed are presented at their fair values as required. Fair values were determined based on the requirements of FASB ASC Topic 820, *Fair Value Measurements*. In many cases, the determination of these fair values required management to make estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change. The following schedule is a breakdown of the assets acquired and liabilities assumed as of the acquisition date:

	Doral Bank s Florida Panhandle operations		
	Acquired from FDIC	Fair Value Adjustments	As Recorded by HBI
	(Dollars in thousands)		
Assets			
Cash and due from banks	$ 1,688	$ 428,214	$ 429,902
Loans receivable not covered by loss share	42,244	(4,300)	37,944
Total loans receivable	42,244	(4,300)	37,944
Core deposit intangible		1,363	1,363
Total assets acquired	$ 43,932	$ 425,277	$ 469,209
Liabilities			
Deposits			
Demand and non-interest-bearing	$ 3,130	$	$ 3,130
Savings and interest-bearing transaction accounts	119,865		119,865
Time deposits	343,271	1,308	344,579
Total deposits	466,266	1,308	467,574
Total liabilities assumed	$ 466,266	$ 1,308	$ 467,574

Pre-tax gain on acquisition	$ 1,635

The following is a description of the methods used to determine the fair values of significant assets and liabilities presented above:

Cash and due from banks The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets. The $428.2 million adjustment is the cash settlement received from Popular for the net equity received, assets discount bid and other customary closing adjustments.

Loans Fair values for loans were based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and current discount rates. The discount rates used for loans are based on current market rates for new originations of comparable loans and include adjustments for liquidity concerns.

Table of Contents

The Company evaluated $36.9 million of the loans purchased in conjunction with the acquisition in accordance with the provisions of FASB ASC Topic 310-20, *Nonrefundable Fees and Other Costs*, and were recorded with a $3.4 million discount. As a result, the fair value discount on these loans is being accreted into interest income over the weighted-average life of the loans using a constant yield method. The remaining approximately $5.3 million of loans evaluated were considered purchased credit impaired loans with in the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, and were recorded with a $950,000 discount. These purchased credit impaired loans will recognize interest income through accretion of the difference between the carrying amount of the loans and the expected cash flows.

Core deposit intangible This intangible asset represents the value of the relationships that Doral Florida had with its deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the deposit base, and the net maintenance cost attributable to customer deposits. The Company recorded $1.4 million of core deposit intangible.

Deposits The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition, equal the amount payable on demand at the acquisition date. The Bank was able to reset deposit rates. However, the Bank did not lower the deposit rates as low as the market rates currently offered. As a result, a $1.3 million fair value adjustment was applied for time deposits because the estimated weighted-average interest rate of Doral Florida s certificates of deposits were still estimated to be above the current market rates after the rate reset.

The Company s operating results for the period ended September 30, 2015, include the operating results of the acquired assets and assumed liabilities subsequent to the acquisition date. Due to the fair value adjustments recorded and the fact Doral Florida total assets acquired excluding the cash settlement received is less than 1% of total assets as of acquisition date, historical results are not believed to be material to the Company s results, and thus no pro-forma information is presented.

Acquisition of Broward Financial Holdings, Inc.

On October 23, 2014, the Company completed its acquisition of Broward Financial Holdings, Inc. (Broward), parent company of Broward Bank of Commerce, pursuant to a previously announced definitive agreement and plan of merger whereby a wholly-owned acquisition subsidiary (Acquisition Sub II) of HBI merged with and into Broward, resulting in Broward becoming a wholly-owned subsidiary of HBI. Immediately thereafter, Broward Bank of Commerce was merged into Centennial. Under the terms of the Agreement and Plan of Merger dated July 30, 2014 by and among HBI, Centennial, Broward, Broward Bank of Commerce and Acquisition Sub II, HBI issued 1,020,824 shares of its common stock valued at approximately $30.2 million as of October 23, 2014, plus $3.3 million in cash in exchange for all outstanding shares of Broward common stock. HBI has also agreed to pay the Broward shareholders, at an undetermined date, up to approximately $751,000 in additional consideration. The amount and timing of the additional payment, if any, will depend on future payments received or losses incurred by Centennial from certain current Broward Bank of Commerce loans. At September 30, 2015 and December 31, 2014, the Company had recorded a fair value of zero for the potential additional consideration.

Prior to the acquisition, Broward Bank of Commerce operated two banking locations in Fort Lauderdale, Florida. Including the effects of the purchase accounting adjustments, Broward had approximately $184.4 million in total assets, $121.1 million in total loans after $3.0 million of loan discounts, and $134.2 million in deposits.

As of the acquisition date, Broward s common equity totaled $20.4 million and the Company paid a purchase price to the Broward shareholders of approximately $33.6 million for the Broward acquisition. As a result, the Company paid a multiple of 1.62 of Broward s book value per share and tangible book value per share.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2014 for an additional discussion regarding the acquisition of Broward.

Acquisition of Florida Traditions Bank

On July 17, 2014, the Company completed the acquisition of all of the issued and outstanding shares of common stock of Florida Traditions Bank (Traditions) and merged Traditions into Centennial. Under the terms of the

Table of Contents

Agreement and Plan of Merger dated April 25, 2014, by and among the Company, Centennial, and Traditions, the shareholders of Traditions received approximately $39.5 million of the Company s common stock valued at the time of closing, in exchange for all outstanding shares of Traditions common stock.

Prior to the acquisition, Traditions operated eight banking locations in Central Florida, including its main office in Dade City, Florida. Including the effects of the purchase accounting adjustments, Traditions had $310.5 million in total assets, $241.6 million in loans after $8.5 million of loan discounts, and $267.3 million in deposits.

The transaction was accretive to the Company s book value per common share and tangible book value per common share by $0.31 per share and $0.21 per share, respectively.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2014 for an additional discussion regarding the acquisition of Traditions.

3. Investment Securities

The amortized cost and estimated fair value of investment securities that are classified as available-for-sale and held-to-maturity are as follows:

	September 30, 2015 Available-for-Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 407,861	$ 3,375	$ (784)	$ 410,452
Mortgage-backed securities	480,457	5,736	(542)	485,651
State and political subdivisions	186,732	6,633	(180)	193,185
Other securities	53,003	210	(1,096)	52,117
Total	$ 1,128,053	$ 15,954	$ (2,602)	$ 1,141,405

	Held-to-Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 7,760	$ 54	$ (28)	$ 7,786
Mortgage-backed securities	142,537	1,367	(74)	143,830
State and political subdivisions	174,652	4,090	(136)	178,606
Total	$ 324,949	$ 5,511	$ (238)	$ 330,222

11

Table of Contents

	December 31, 2014 Available-for-Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 333,880	$ 2,467	$ (269)	$ 336,078
Mortgage-backed securities	500,292	4,235	(1,445)	503,082
State and political subdivisions	170,207	6,522	(88)	176,641
Other securities	51,375	437	(326)	51,486
Total	$ 1,055,754	$ 13,661	$ (2,128)	$ 1,067,287

	Held-to-Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 4,724	$ 2	$ (11)	$ 4,715
Mortgage-backed securities	161,051	580	(193)	161,438
State and political subdivisions	191,015	5,178	(74)	196,119
Total	$ 356,790	$ 5,760	$ (278)	$ 362,272

Assets, principally investment securities, having a carrying value of approximately $1.18 billion and $1.23 billion at September 30, 2015 and December 31, 2014, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. Also, investment securities pledged as collateral for repurchase agreements totaled approximately $134.1 million and $176.5 million at September 30, 2015 and December 31, 2014, respectively.

The amortized cost and estimated fair value of securities classified as available-for-sale and held-to-maturity at September 30, 2015, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In thousands)			
Due in one year or less	$ 324,213	$ 325,998	$ 71,087	$ 71,991
Due after one year through five years	639,384	648,881	186,329	190,339
Due after five years through ten years	123,420	123,869	27,081	27,438
Due after ten years	41,036	42,657	40,452	40,454

Total	$ 1,128,053	$ 1,141,405	$ 324,949	$ 330,222

For purposes of the maturity tables, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on anticipated maturities. The mortgage-backed securities may mature earlier than their weighted-average contractual maturities because of principal prepayments.

During the three-month period ended September 30, 2015, no available-for-sale securities were sold. During the nine-month period ended September 30, 2015, approximately $931,000, in available-for-sale securities were sold. The gross realized gain on the sale for the nine-month period ended September 30, 2015 totaled approximately $4,000. The income tax expense/benefit to net security gains and losses was 39.225% of the gross amounts.

During the three and nine-month periods ended September 30, 2014, no available-for-sale securities were sold.

Table of Contents

The Company evaluates all securities quarterly to determine if any unrealized losses are deemed to be other than temporary. In completing these evaluations the Company follows the requirements of FASB ASC 320, *Investments - Debt and Equity Securities.* Certain investment securities are valued less than their historical cost. These declines are primarily the result of the rate for these investments yielding less than current market rates. Based on evaluation of available evidence, management believes the declines in fair value for these securities are temporary. The Company does not intend to sell or believe it will be required to sell these investments before recovery of their amortized cost bases, which may be maturity. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

During the nine-month period ended September 30, 2015, no securities were deemed to have other-than-temporary impairment besides securities for which impairment was taken in prior periods.

As of September 30, 2015, the Company had investment securities with a fair value of approximately $800,000 in unrealized losses, which have been in continuous loss positions for more than twelve months. Excluding impairment write downs taken in prior periods, the Company s assessments indicated that the cause of the market depreciation was primarily the change in interest rates and not the issuer s financial condition, or downgrades by rating agencies. In addition, approximately 84.0% of the Company s investment portfolio matures in five years or less. As a result, the Company has the ability and intent to hold such securities until maturity.

The following shows gross unrealized losses and estimated fair value of investment securities classified as available-for-sale and held-to-maturity with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position as of September 30, 2015 and December 31, 2014:

	September 30, 2015					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. government-sponsored enterprises	$ 96,280	$ (795)	$ 4,813	$ (17)	$ 101,093	$ (812)
Mortgage-backed securities	56,751	(336)	42,320	(280)	99,071	(616)
State and political subdivisions	38,235	(289)	3,217	(27)	41,452	(316)
Other securities	25,007	(620)	11,870	(476)	36,877	(1,096)
Total	$ 216,273	$ (2,040)	$ 62,220	$ (800)	$ 278,493	$ (2,840)

	December 31, 2014					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. government-sponsored enterprises	$ 22,004	$ (113)	$ 27,616	$ (167)	$ 49,620	$ (280)

Mortgage-backed securities	221,171	(812)	76,596	(826)	297,767	(1,638)
State and political subdivisions	15,171	(106)	10,038	(56)	25,209	(162)
Other securities	10,054	(51)	12,390	(275)	22,444	(326)
Total	$ 268,400	$ (1,082)	$ 126,640	$ (1,324)	$ 395,040	$ (2,406)

Table of Contents

Income earned on securities for the three and nine months ended September 30, 2015 and 2014, is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Taxable:				
Available-for-sale	$ 4,265	$ 4,295	$ 13,020	$ 13,214
Held-to-maturity	892	610	2,810	923
Non-taxable:				
Available-for-sale	1,457	1,391	4,178	4,330
Held-to-maturity	1,332	1,161	4,137	2,918
Total	$ 7,946	$ 7,457	$ 24,145	$ 21,385

4. Loans Receivable Not Covered by Loss Share

The various categories of loans not covered by loss share are summarized as follows:

	September 30, 2015	December 31, 2014
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 2,655,882	$ 1,987,890
Construction/land development	805,003	700,139
Agricultural	75,233	72,211
Residential real estate loans		
Residential 1-4 family	1,055,504	963,990
Multifamily residential	392,483	250,222
Total real estate	4,984,105	3,974,452
Consumer	46,677	56,720
Commercial and industrial	749,846	670,124
Agricultural	78,217	48,833
Other	41,330	67,185
Loans receivable not covered by loss share	$ 5,900,175	$ 4,817,314

During the three and nine-month periods ended September 30, 2015, the Company sold $2.2 million of the guaranteed portion of SBA loans, which resulted in a gain of approximately $151,000. During the three and nine-month periods ended September 30, 2014, the Company sold $1.3 million of the guaranteed portion of SBA loans, which resulted in a gain of approximately $183,000.

Mortgage loans held for sale of approximately $39.4 million and $33.1 million at September 30, 2015 and December 31, 2014, respectively, are included in residential 1-4 family loans. Mortgage loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis. Gains and losses resulting from sales of mortgage loans are recognized when the respective loans are sold to investors. Gains and losses are determined by the difference between the selling price and the carrying amount of the loans sold, net of discounts collected or paid. The Company obtains forward commitments to sell mortgage loans to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. The forward commitments acquired by the Company for mortgage loans in process of origination are not mandatory forward commitments. These commitments are structured on a best efforts basis; therefore the Company is not required to substitute another loan or to buy back the commitment if the original loan does not fund. Typically, the Company delivers the mortgage loans within a few days after the loans are funded. These commitments are derivative instruments and their fair values at September 30, 2015 and December 31, 2014 were not material.

Table of Contents

5. Loans Receivable Covered by FDIC Loss Share

The Company evaluated loans purchased in conjunction with the acquisitions under purchase and assumption agreements with the FDIC for impairment in accordance with the provisions of FASB ASC Topic 310-30. Purchased covered loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected.

The following table reflects the carrying value of all purchased FDIC covered impaired loans as of September 30, 2015 and December 31, 2014 for the Company:

	September 30, 2015	December 31, 2014
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 25,903	$ 93,979
Construction/land development	7,836	39,946
Agricultural	735	943
Residential real estate loans		
Residential 1-4 family	66,447	87,309
Multifamily residential	1,200	8,617
Total real estate	102,121	230,794
Consumer	10	16
Commercial and industrial	2,682	8,651
Other	601	727
Loans receivable covered by FDIC loss share	$ 105,414	$ 240,188

The acquired loans were grouped into pools based on common risk characteristics and were recorded at their estimated fair values, which incorporated estimated credit losses at the acquisition dates. These loan pools are systematically reviewed by the Company to determine material changes in cash flow estimates from those identified at the time of the acquisition. Techniques used in determining risk of loss are similar to the Centennial non-covered loan portfolio, with most focus being placed on those loan pools which include the larger loan relationships and those loan pools which exhibit higher risk characteristics. As of September 30, 2015 and December 31, 2014, $5.2 million and $22.5 million, respectively, were accruing loans past due 90 days or more.

Table of Contents

6. Allowance for Loan Losses, Credit Quality and Other

The following table presents a summary of changes in the allowance for loan losses for the non-covered and covered loan portfolios for the nine months ended September 30, 2015:

	For Loans Not Covered by Loss Share	For Loans Covered by FDIC Loss Share	Total
		(In thousands)	
Allowance for loan losses:			
Beginning balance	$ 52,471	$ 2,540	$ 55,011
Loans charged off	(10,455)	(1,023)	(11,478)
Recoveries of loans previously charged off	2,260	133	2,393
Net loans recovered (charged off)	(8,195)	(890)	(9,085)
Provision for loan losses for non-covered loans	15,276		15,276
Reclass of provision for loan losses attributable to FDIC loss share agreements	1,029		1,029
Provision for loan losses forecasted outside of loss share			
Provision for loan losses before benefit attributable to FDIC loss share agreements		2,457	2,457
Change attributable to FDIC loss share agreements		(1,459)	(1,459)
Net provision for loan losses for covered loans		998	998
Reclass of provision for loan losses attributable to FDIC loss share agreements		(1,029)	(1,029)
Increase in FDIC indemnification asset		1,459	1,459
Balance, September 30, 2015	$ 60,581	$ 3,078	$ 63,659

Table of Contents

Allowance for Loan Losses and Credit Quality for Non-Covered Loans

The following tables present the balance in the allowance for loan losses for the non-covered loan portfolio for the three and nine-month periods ended September 30, 2015 and the allowance for loan losses and recorded investment in loans not covered by loss share based on portfolio segment by impairment method as of September 30, 2015. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories. Additionally, the Company s discount for credit losses on non-covered loans acquired was $134.1 million, $139.7 million and $148.2 million at September 30, 2015, December 31, 2014 and September 30, 2014, respectively.

	Three Months Ended September 30, 2015						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Beginning balance	$ 9,403	$ 19,982	$ 12,934	$ 7,534	$ 5,011	$ 1,013	$ 55,877
Loans charged off	(64)	(1,534)	(1,043)	(355)	(970)		(3,966)
Recoveries of loans previously charged off	13	(4)	179	159	188		535
Net loans recovered (charged off)	(51)	(1,538)	(864)	(196)	(782)		(3,431)
Provision for loan losses	(805)	3,927	1,920	1,303	514	247	7,106
Reclass of provision for loan losses attributable to FDIC loss share agreements	745	1,033	(738)	(6)	(5)		1,029
Balance, September 30	$ 9,292	$ 23,404	$ 13,252	$ 8,635	$ 4,738	$ 1,260	$ 60,581

	Nine Months Ended September 30, 2015						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Beginning balance	$ 8,116	$ 17,227	$ 13,446	$ 5,950	$ 5,798	$ 1,934	$ 52,471
Loans charged off	(541)	(3,190)	(2,995)	(1,774)	(1,955)		(10,455)
Recoveries of loans previously charged off	79	697	428	395	661		2,260

Net loans recovered (charged off)	(462)	(2,493)	(2,567)	(1,379)	(1,294)		(8,195)
Provision for loan losses	893	7,637	3,111	4,070	239	(674)	15,276
Reclass of provision for loan losses attributable to FDIC loss share agreements	745	1,033	(738)	(6)	(5)		1,029
Balance, September 30	$ 9,292	$ 23,404	$ 13,252	$ 8,635	$ 4,738	$ 1,260	$ 60,581

	As of September 30, 2015						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 1,195	$ 2,036	$ 1,244	$ 988	$	$	$ 5,463
Loans collectively evaluated for impairment	8,096	21,200	11,963	7,646	4,737	1,260	54,902
Loans evaluated for impairment balance, September 30	9,291	23,236	13,207	8,634	4,737	1,260	60,365
Purchased credit impaired loans acquired	1	168	45	1	1		216
Balance, September 30	$ 9,292	$ 23,404	$ 13,252	$ 8,635	$ 4,738	$ 1,260	$ 60,581
Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 21,247	$ 53,676	$ 18,240	$ 6,361	$ 7,202	$	$ 106,726
Loans collectively evaluated for impairment	767,683	2,581,800	1,378,584	730,753	157,664		5,616,484
Loans evaluated for impairment balance, September 30	788,930	2,635,476	1,396,824	737,114	164,866		5,723,210
Purchased credit impaired loans acquired	16,073	95,639	51,163	12,732	1,358		176,965
Balance, September 30	$ 805,003	$ 2,731,115	$ 1,447,987	$ 749,846	$ 166,224	$	$ 5,900,175

17

Table of Contents

The following tables present the balances in the allowance for loan losses for the non-covered loan portfolio for the nine-month period ended September 30, 2014 and the year ended December 31, 2014, and the allowance for loan losses and recorded investment in loans not covered by loss share based on portfolio segment by impairment method as of December 31, 2014. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories.

	Year Ended December 31, 2014						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Beginning balance	$ 6,282	$ 15,100	$ 8,889	$ 1,933	$ 2,563	$ 4,255	$ 39,022
Loans charged off	(553)	(1,148)	(2,045)	(1,600)	(2,148)		(7,494)
Recoveries of loans previously charged off	68	230	385	255	935		1,873
Net loans recovered (charged off)	(485)	(918)	(1,660)	(1,345)	(1,213)		(5,621)
Provision for loan losses	733	4,117	5,160	2,763	3,965	556	17,294
Balance, September 30	6,530	18,299	12,389	3,351	5,315	4,811	50,695
Loans charged off	(420)	(1,174)	(1,004)	(566)	(647)		(3,811)
Recoveries of loans previously charged off	274	12	564	51	220		1,121
Net loans recovered (charged off)	(146)	(1,162)	(440)	(515)	(427)		(2,690)
Provision for loan losses	1,732	90	1,497	3,114	910	(2,877)	4,466
Balance, December 31	$ 8,116	$ 17,227	$ 13,446	$ 5,950	$ 5,798	$ 1,934	$ 52,471

	As of December 31, 2014						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							

Period end amount allocated to:							
Loans individually evaluated for impairment	$ 1,477	$ 3,080	$ 2,183	$ 6	$	$	$ 6,746
Loans collectively evaluated for impairment	6,624	12,447	10,827	5,880	5,798	1,934	43,510
Loans evaluated for impairment balance, December 31	8,101	15,527	13,010	5,886	5,798	1,934	50,256
Purchased credit impaired loans acquired	15	1,700	436	64			2,215
Balance, December 31	$ 8,116	$ 17,227	$ 13,446	$ 5,950	$ 5,798	$ 1,934	$ 52,471
Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 19,037	$ 48,065	$ 21,734	$ 4,084	$ 484	$	$ 93,404
Loans collectively evaluated for impairment	659,465	1,900,472	1,131,021	650,163	169,815		4,510,936
Loans evaluated for impairment balance, December 31	678,502	1,948,537	1,152,755	654,247	170,299		4,604,340
Purchased credit impaired loans acquired	21,637	111,564	61,457	15,877	2,439		212,974
Balance, December 31	$ 700,139	$ 2,060,101	$ 1,214,212	$ 670,124	$ 172,738	$	$ 4,817,314

Table of Contents

The following is an aging analysis for the non-covered loan portfolio as of September 30, 2015 and December 31, 2014:

	September 30, 2015						
	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due	Current Loans	Total Loans Receivable	Accruing Loans Past Due 90 Days or More
	(In thousands)						
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$ 2,080	$ 2,225	$ 19,685	$ 23,990	$ 2,631,892	$ 2,655,882	$ 2,694
Construction/land development	2,051	411	3,396	5,858	799,145	805,003	1,130
Agricultural	465		30	495	74,738	75,233	30
Residential real estate loans							
Residential 1-4 family	4,410	1,666	17,164	23,240	1,032,264	1,055,504	4,668
Multifamily residential			1,328	1,328	391,155	392,483	1
Total real estate	9,006	4,302	41,603	54,911	4,929,194	4,984,105	8,523
Consumer	298	76	210	584	46,093	46,677	7
Commercial and industrial	1,043	491	5,693	7,227	742,619	749,846	2,860
Agricultural and other	550	5	1,289	1,844	117,703	119,547	
Total	$ 10,897	$ 4,874	$ 48,795	$ 64,566	$ 5,835,609	$ 5,900,175	$ 11,390

	December 31, 2014						
	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due	Current Loans	Total Loans Receivable	Accruing Loans Past Due 90 Days or More
	(In thousands)						
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$ 5,942	$ 1,311	$ 14,781	$ 22,034	$ 1,965,856	$ 1,987,890	$ 5,880
Construction/land development	2,696	847	1,660	5,203	694,936	700,139	734
Agricultural	307		34	341	71,870	72,211	34
Residential real estate loans							
Residential 1-4 family	4,680	1,494	16,077	22,251	941,739	963,990	4,128
Multifamily residential			2,035	2,035	248,187	250,222	691

Total real estate	13,625	3,652	34,587	51,864	3,922,588	3,974,452	11,467
Consumer	368	149	858	1,375	55,345	56,720	579
Commercial and industrial	1,669	549	3,933	6,151	663,973	670,124	2,825
Agricultural and other	463	16	184	663	115,355	116,018	
Total	$ 16,125	$ 4,366	$ 39,562	$ 60,053	$ 4,757,261	$ 4,817,314	$ 14,871

Non-accruing loans not covered by loss share at September 30, 2015 and December 31, 2014 were $37.4 million and $24.7 million, respectively.

Table of Contents

The following is a summary of the non-covered impaired loans as of September 30, 2015 and December 31, 2014:

	September 30, 2015						
				Three Months Ended		Nine Months Ended	
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
	(In thousands)						
Loans without a specific valuation allowance							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$	$	$	$	$	$	$
Construction/land development							
Agricultural							
Residential real estate loans							
Residential 1-4 family				13		6	
Multifamily residential							
Total real estate				13		6	
Consumer							
Commercial and industrial							
Agricultural and other							
Total loans without a specific valuation allowance				13		6	
Loans with a specific valuation allowance							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	48,876	47,836	2,036	45,056	269	43,661	828
Construction/land development	13,807	12,987	1,195	13,113	44	16,263	214
Agricultural	53	30		30		51	
Residential real estate loans							
Residential 1-4 family	19,531	18,142	83	18,360	102	16,851	305
Multifamily residential	3,645	3,644	1,161	3,653	4	3,811	30
Total real estate	85,912	82,639	4,475	80,212	419	80,637	1,377
Consumer	217	211		415		640	6
Commercial and industrial	10,252	8,076	988	6,662	37	5,387	85
Agricultural and other	1,289	1,289		836		509	4
	97,670	92,215	5,463	88,125	456	87,173	1,472

Total loans with a specific valuation allowance							
Total impaired loans							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	48,876	47,836	2,036	45,056	269	43,661	828
Construction/land development	13,807	12,987	1,195	13,113	44	16,263	214
Agricultural	53	30		30		51	
Residential real estate loans							
Residential 1-4 family	19,531	18,142	83	18,373	102	16,857	305
Multifamily residential	3,645	3,644	1,161	3,653	4	3,811	30
Total real estate	85,912	82,639	4,475	80,225	419	80,643	1,377
Consumer	217	211		415		640	6
Commercial and industrial	10,252	8,076	988	6,662	37	5,387	85
Agricultural and other	1,289	1,289		836		509	4
Total impaired loans	$ 97,670	$ 92,215	$ 5,463	$ 88,138	$ 456	$ 87,179	$ 1,472

Note: Purchased non-covered loans acquired with deteriorated credit quality are accounted for on a pooled basis under ASC 310-30. All of these pools are currently considered to be performing resulting in none of the purchased non-covered loans acquired with deteriorated credit quality being classified as non-covered impaired loans as of September 30, 2015.

Table of Contents

	December 31, 2014			Year Ended	
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses	Average Recorded Investment	Interest Recognized
			(In thousands)		
Loans without a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	$	$	$	$ 676	$ 14
Construction/land development					
Agricultural					
Residential real estate loans					
Residential 1-4 family				25	2
Multifamily residential					
Total real estate				701	16
Consumer					
Commercial and industrial					
Agricultural and other					
Total loans without a specific valuation allowance				701	16
Loans with a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	44,242	41,670	3,080	43,556	1,379
Construction/land development	18,369	18,075	1,477	21,142	656
Agricultural	53	33		60	1
Residential real estate loans					
Residential 1-4 family	18,052	16,051	1,065	16,701	407
Multifamily residential	4,614	4,327	1,118	4,037	120
Total real estate	85,330	80,156	6,740	85,496	2,563
Consumer	890	857		407	14
Commercial and industrial	5,916	4,246	6	5,059	151
Agricultural and other	185	185		114	
Total loans with a specific valuation allowance	92,321	85,444	6,746	91,076	2,728
Total impaired loans					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	44,242	41,670	3,080	44,232	1,393
Construction/land development	18,369	18,075	1,477	21,142	656
Agricultural	53	33		60	1
Residential real estate loans					
Residential 1-4 family	18,052	16,051	1,065	16,726	409
Multifamily residential	4,614	4,327	1,118	4,037	120

Total real estate	85,330	80,156	6,740	86,197	2,579
Consumer	890	857		407	14
Commercial and industrial	5,916	4,246	6	5,059	151
Agricultural and other	185	185		114	
Total impaired loans	$ 92,321	$ 85,444	$ 6,746	$ 91,777	$ 2,744

Note: Purchased non-covered loans acquired with deteriorated credit quality are accounted for on a pooled basis under ASC 310-30. All of these pools are currently considered to be performing resulting in none of the purchased non-covered loans acquired with deteriorated credit quality being classified as non-covered impaired loans as of December 31, 2014.

Interest recognized on non-covered impaired loans during the three months ended September 30, 2015 and 2014 was approximately $456,000 and $688,000, respectively. Interest recognized on non-covered impaired loans during the nine months ended September 30, 2015 and 2014 was approximately $1.5 million and $2.3 million, respectively. The amount of interest recognized on non-covered impaired loans on the cash basis is not materially different than the accrual basis.

Table of Contents

Credit Quality Indicators. As part of the on-going monitoring of the credit quality of the Company s loan portfolio, management tracks certain credit quality indicators including trends related to (i) the risk rating of loans, (ii) the level of classified loans, (iii) net charge-offs, (iv) non-performing loans and (v) the general economic conditions in Florida, Arkansas and Alabama.

The Company utilizes a risk rating matrix to assign a risk rating to each of its loans. Loans are rated on a scale from 1 to 8. Descriptions of the general characteristics of the 8 risk ratings are as follows:

Risk rating 1 Excellent. Loans in this category are to persons or entities of unquestionable financial strength, a highly liquid financial position, with collateral that is liquid and well margined. These borrowers have performed without question on past obligations, and the Bank expects their performance to continue. Internally generated cash flow covers current maturities of long-term debt by a substantial margin. Loans secured by bank certificates of deposit and savings accounts, with appropriate holds placed on the accounts, are to be rated in this category.

Risk rating 2 Good. These are loans to persons or entities with strong financial condition and above-average liquidity that have previously satisfactorily handled their obligations with the Bank. Collateral securing the Bank s debt is margined in accordance with policy guidelines. Internally generated cash flow covers current maturities of long-term debt more than adequately. Unsecured loans to individuals supported by strong financial statements and on which repayment is satisfactory may be included in this classification.

Risk rating 3 Satisfactory. Loans to persons or entities with an average financial condition, adequate collateral margins, adequate cash flow to service long-term debt, and net worth comprised mainly of fixed assets are included in this category. These entities are minimally profitable now, with projections indicating continued profitability into the foreseeable future. Closely held corporations or businesses where a majority of the profits are withdrawn by the owners or paid in dividends are included in this rating category. Overall, these loans are basically sound.

Risk rating 4 Watch. Borrowers who have marginal cash flow, marginal profitability or have experienced an unprofitable year and a declining financial condition characterize these loans. The borrower has in the past satisfactorily handled debts with the Bank, but in recent months has either been late, delinquent in making payments, or made sporadic payments. While the Bank continues to be adequately secured, margins have decreased or are decreasing, despite the borrower s continued satisfactory condition. Other characteristics of borrowers in this class include inadequate credit information, weakness of financial statement and repayment capacity, but with collateral that appears to limit exposure. Included in this category are loans to borrowers in industries that are experiencing elevated risk.

Risk rating 5 Other Loans Especially Mentioned (OLEM). A loan criticized as OLEM has potential weaknesses that deserve management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution s

credit position at some future date. OLEM assets are not adversely classified and do not expose the institution to sufficient risk to warrant adverse classification.

Risk rating 6 Substandard. A loan classified as substandard is inadequately protected by the sound worth and paying capacity of the borrower or the collateral pledged. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual assets.

Risk rating 7 Doubtful. A loan classified as doubtful has all the weaknesses inherent in a loan classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. These are poor quality loans in which neither the collateral, if any, nor the financial condition of the borrower presently ensure collectability in full in a reasonable period of time; in fact, there is permanent impairment in the collateral securing the loan.

Table of Contents

Risk rating 8 *Loss.* Assets classified as loss are considered uncollectible and of such little value that the continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather, it is not practical or desirable to defer writing off this basically worthless asset, even though partial recovery may occur in the future. This classification is based upon current facts, not probabilities. Assets classified as loss should be charged-off in the period in which they became uncollectible.

The Company s classified loans include loans in risk ratings 6, 7 and 8. The following is a presentation of classified non-covered loans (excluding loans accounted for under ASC Topic 310-30) by class as of September 30, 2015 and December 31, 2014:

	September 30, 2015			
	Risk Rated 6	Risk Rated 7	Risk Rated 8	Classified Total
	(In thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	$ 38,335	$ 992	$	$ 39,327
Construction/land development	15,951			15,951
Agricultural				
Residential real estate loans				
Residential 1-4 family	14,538	728		15,266
Multifamily residential	3,679			3,679
Total real estate	72,503	1,720		74,223
Consumer	275	20		295
Commercial and industrial	4,579	26		4,605
Agricultural and other	1,194			1,194
Total	$ 78,551	$ 1,766	$	$ 80,317

	December 31, 2014			
	Risk Rated 6	Risk Rated 7	Risk Rated 8	Classified Total
	(In thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	$ 34,698	$ 24	$	$ 34,722
Construction/land development	16,112			16,112
Agricultural				
Residential real estate loans				
Residential 1-4 family	15,622	343		15,965
Multifamily residential	3,382			3,382
Total real estate	69,814	367		70,181
Consumer	903	19		922
Commercial and industrial	2,244	5		2,249

Agricultural and other	178			178
Total	$ 73,139	$ 391	$	$ 73,530

Loans may be classified, but not considered impaired, due to one of the following reasons: (1) The Company has established minimum dollar amount thresholds for loan impairment testing. All loans over $2.0 million that are rated 5 8 are individually assessed for impairment on a quarterly basis. Loans rated 5 8 that fall under the threshold amount are not individually tested for impairment and therefore are not included in impaired loans; (2) of the loans that are above the threshold amount and tested for impairment, after testing, some are considered to not be impaired and are not included in impaired loans.

Table of Contents

The following is a presentation of non-covered loans by class and risk rating as of September 30, 2015 and December 31, 2014:

	September 30, 2015						
	Risk Rated 1	Risk Rated 2	Risk Rated 3	Risk Rated 4	Risk Rated 5	Classified Total	Total
	(In thousands)						
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$ 497	$ 5,873	$ 1,798,471	$ 695,047	$ 21,543	$ 39,327	$ 2,560,758
Construction/land development	66	86	259,744	508,606	4,477	15,951	788,930
Agricultural		325	47,461	26,724	208		74,718
Residential real estate loans							
Residential 1-4 family	998	2,116	793,058	185,911	14,224	15,266	1,011,573
Multifamily residential		406	261,268	117,588	2,310	3,679	385,251
Total real estate	1,561	8,806	3,160,002	1,533,876	42,762	74,223	4,821,230
Consumer	13,967	273	20,750	10,424	124	295	45,833
Commercial and industrial	12,367	6,783	429,100	279,122	5,137	4,605	737,114
Agricultural and other	4,469	844	60,360	46,330	5,836	1,194	119,033
Total risk rated loans	$ 32,364	$ 16,706	$ 3,670,212	$ 1,869,752	$ 53,859	$ 80,317	5,723,210
Purchased credit impaired loans acquired							176,965
Total non-covered loans							$ 5,900,175

	December 31, 2014						
	Risk Rated 1	Risk Rated 2	Risk Rated 3	Risk Rated 4	Risk Rated 5	Classified Total	Total
	(In thousands)						
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$ 3,674	$ 15,914	$ 1,300,835	$ 501,931	$ 20,115	$ 34,722	$ 1,877,191
Construction/land development	15	355	241,659	415,380	4,981	16,112	678,502
Agricultural		610	35,539	34,469	728		71,346
Residential real estate loans							
Residential 1-4 family	494	3,505	714,278	165,464	11,730	15,965	911,436
Multifamily residential		400	192,687	42,578	2,272	3,382	241,319
Total real estate	4,183	20,784	2,484,998	1,159,822	39,826	70,181	3,779,794

Consumer	14,560	215	29,238	10,543	175	922	55,653
Commercial and industrial	13,081	16,957	430,026	189,318	2,616	2,249	654,247
Agricultural and other	573	790	87,347	25,237	521	178	114,646
Total risk rated loans	$ 32,397	$ 38,746	$ 3,031,609	$ 1,384,920	$ 43,138	$ 73,530	4,604,340
Purchased credit impaired loans acquired							212,974
Total non-covered loans							$ 4,817,314

Table of Contents

The following is a presentation of non-covered troubled debt restructurings (TDRs) by class as of September 30, 2015 and December 31, 2014:

	September 30, 2015					
	Number of Loans	Pre-Modification Outstanding Balance	Rate Modification	Term Modification	Rate & Term Modification	Post-Modification Outstanding Balance
			(Dollars in thousands)			
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	14	$ 23,075	$ 8,939	$ 8,806	$ 4,649	$ 22,394
Construction/land development	3	3,040	1,018	1,612		2,630
Residential real estate loans						
Residential 1-4 family	6	2,867	813	1,818	165	2,796
Multifamily residential	2	3,182	2,027		290	2,317
Total real estate	25	32,164	12,797	12,236	5,104	30,137
Total	25	$ 32,164	$ 12,797	$ 12,236	$ 5,104	$ 30,137

	December 31, 2014					
	Number of Loans	Pre-Modification Outstanding Balance	Rate Modification	Term Modification	Rate & Term Modification	Post-Modification Outstanding Balance
			(Dollars in thousands)			
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	7	$ 17,340	$ 2,596	$ 8,647	$ 5,644	$ 16,887
Construction/land development	2	8,213	5,671	1,668		7,339
Residential real estate loans						
Residential 1-4 family	1	61		58		58
Multifamily residential	2	3,183	2,002		291	2,293
Total real estate	12	28,797	10,269	10,373	5,935	26,577
Commercial and industrial	1	380			315	315
Total	13	$ 29,177	$ 10,269	$ 10,373	$ 6,250	$ 26,892

The following is a presentation of non-covered TDRs on non-accrual status as of September 30, 2015 and December 31, 2014 because they are not in compliance with the modified terms:

	September 30, 2015		December 31, 2014	
	Number of Loans	Recorded Balance	Number of Loans	Recorded Balance
	(Dollars in thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	3	$ 1,619		$
Residential real estate loans				
Residential 1-4 family	2	1,818		
Total real estate	5	3,437		
Total	5	$ 3,437		$

Table of Contents

In addition to the TDRs that occurred during the period provided in the preceding tables, the Company had TDRs with pre-modification loan balances of $3.4 million and zero as of September 30, 2015 and December 31, 2014, respectively, for which other real estate owned (OREO) was received in full or partial satisfaction of the loans. The majority of such TDRs were in commercial real estate and residential real estate as of September 30, 2015 and December 31, 2014, respectively. At September 30, 2015, the Company had $3.1 million of OREO secured by residential real estate properties.

The following is a presentation of non-covered foreclosed assets as of September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
	(In thousands)	
Commercial real estate loans		
Non-farm/non-residential	$ 9,495	$ 6,894
Construction/land development	5,560	6,189
Agricultural		
Residential real estate loans		
Residential 1-4 family	2,882	3,381
Multifamily residential	267	487
Total foreclosed assets held for sale	$ 18,204	$ 16,951

Allowance for Loan Losses and Credit Quality for Covered Loans

During the 2015 quarterly impairment testing on the estimated cash flows of the covered loans, the Company established that certain pools evaluated had experienced material projected credit deterioration. As a result, the Company recorded a $998,000 net provision for loan losses to the allowance for loan losses related to the purchased credit impaired loans during the nine months ended September 30, 2015 on a net basis. The Company also recorded a provision for loan loss of $2.5 million before benefit attributable to FDIC loss share agreements. Since these loans are covered by loss share with the FDIC, the Company was able to increase the related indemnification asset by $1.5 million.

Table of Contents

The following tables present the balance in the allowance for loan losses for the covered loan portfolio for the three and nine-month periods ended September 30, 2015, and the allowance for loan losses and recorded investment in loans covered by FDIC loss share based on portfolio segment by impairment method as of September 30, 2015.

	Three Months Ended September 30, 2015						
	Construction Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Beginning balance	$ 953	$ 1,267	$ 1,882	$ 258	$ 21	$	$ 4,381
Loans charged off		(251)					(251)
Recoveries of loans previously charged off	(103)	(78)	(137)				(318)
Net loans recovered (charged off)	(103)	(329)	(137)				(569)
Provision for loan losses forecasted outside of loss share	230	318	(232)	(21)			295
Provision for loan losses before benefit attributable to FDIC loss share agreements	(102)	(154)	237	16	3		
Change attributable to FDIC loss share agreements	(128)	(164)	(5)	5	(3)		(295)
Net provision for loan losses							
Reclass of provision for loan losses attributable to FDIC loss share agreements	(745)	(1,033)	738	6	5		(1,029)
Increase in FDIC indemnification asset	128	164	5	(5)	3		295
Balance, September 30	$ 233	$ 69	$ 2,488	$ 259	$ 29	$	$ 3,078

	Nine Months Ended September 30, 2015						
	Construction Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Beginning balance	$ 432	$ 930	$ 1,161	$ 16	$ 1	$	$ 2,540
Loans charged off		(942)	(81)				(1,023)
Recoveries of loans previously charged off	68	31	34				133

Net loans recovered (charged off)	68	(911)	(47)				(890)
Provision for loan losses forecasted outside of loss share							
Provision for loan losses before benefit attributable to FDIC loss share agreements	478	1,083	636	237	23		2,457
Change attributable to FDIC loss share agreements	(384)	(695)	(169)	(192)	(19)		(1,459)
Net provision for loan losses	94	388	467	45	4		998
Reclass of provision for loan losses attributable to FDIC loss share agreements	(745)	(1,033)	738	6	5		(1,029)
Increase in FDIC indemnification asset	384	695	169	192	19		1,459
Balance, September 30	$ 233	$ 69	$ 2,488	$ 259	$ 29	$	$ 3,078

	As of September 30, 2015						
	Construction Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$	$	$	$	$	$	$
Loans collectively evaluated for impairment							
Loans evaluated for impairment balance, September 30							
Purchased credit impaired loans acquired	233	69	2,488	259	29		3,078
Balance, September 30	$ 233	$ 69	$ 2,488	$ 259	$ 29	$	$ 3,078
Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$	$	$	$	$	$	$
Loans collectively evaluated for impairment							
Loans evaluated for impairment balance, September 30							

Purchased credit impaired loans acquired	7,836	26,638	67,647	2,682	611	105,414
Balance, September 30	$ 7,836	$ 26,638	$ 67,647	$ 2,682	$ 611	$ $ 105,414

Table of Contents

The following tables present the balance in the allowance for loan losses for the covered loan portfolio for the nine-month period ended September 30, 2014 and the year ended December 31, 2014, and the allowance for loan losses and recorded investment in loans covered by FDIC loss share based on portfolio segment by impairment method as of December 31, 2014.

	Year Ended December 31, 2014						
	Construction Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Beginning balance	$ 1,707	$ 838	$ 2,113	$ 135	$	$	$ 4,793
Loans charged off	(126)	(1,569)	(62)	(157)			(1,914)
Recoveries of loans previously charged off	73	6	306		4		389
Net loans recovered (charged off)	(53)	(1,563)	244	(157)	4		(1,525)
Provision for loan losses forecasted outside of loss share	11	106	148	15			280
Provision for loan losses before benefit attributable to FDIC loss share agreements	(1,522)	1,388	(1,285)	22	(2)		(1,399)
Change attributable to FDIC loss share agreements	1,511	(1,494)	1,137	(37)	2		1,119
Net provision for loan losses							
Increase in FDIC indemnification asset	(1,511)	1,494	(1,137)	37	(2)		(1,119)
Balance, September 30	143	769	1,220	15	2		2,149
Loans charged off		(485)	(373)				(858)
Recoveries of loans previously charged off	59	31	255				345
Net loans recovered (charged off)	59	(454)	(118)				(513)
Provision for loan losses forecasted outside of loss share	361	483	58	1	1		904
Provision for loan losses before benefit attributable to FDIC loss share agreements	(131)	132	1		(2)		
Change attributable to FDIC loss share agreements	131	(131)	(1)		1		
Net provision for loan losses	361	484	58	1			904
	(131)	131	1		(1)		

Increase in FDIC indemnification asset							
Balance, December 31	$ 432	$ 930	$ 1,161	$ 16	$ 1	$	$ 2,540

	As of December 31, 2014						
	Construction Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$	$	$	$	$	$	$
Loans collectively evaluated for impairment							
Loans evaluated for impairment balance, December 31							
Purchased credit impaired loans acquired	432	930	1,161	16	1		2,540
Balance, December 31	$ 432	$ 930	$ 1,161	$ 16	$ 1	$	$ 2,540
Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$	$	$	$	$	$	$
Loans collectively evaluated for impairment							
Loans evaluated for impairment balance, December 31							
Purchased credit impaired loans acquired	39,946	94,922	95,926	8,651	743		240,188
Balance, December 31	$ 39,946	$ 94,922	$ 95,926	$ 8,651	$ 743	$	$ 240,188

Table of Contents

Changes in the carrying amount of the accretable yield for purchased credit impaired loans acquired were as follows for the nine-month period ended September 30, 2015 for the Company s covered and non-covered acquisitions:

	Accretable Yield	Carrying Amount of Loans
	(In thousands)	
Balance at beginning of period	$ 114,707	$ 453,162
Reforecasted future interest payments for loan pools	12,347	
Accretion recorded to interest income	(34,732)	34,732
Reclassification out of purchased credit impaired loans (1)	(61,824)	(106,612)
Adjustment to yield	28,522	
Transfers to foreclosed assets held for sale		(17,521)
Payments received, net		(81,382)
Balance at end of period	$ 59,020	$ 282,379

(1) At acquisition, 100% of the loans acquired from Old Southern, Key West, Coastal and Bayside were recorded for as purchased credit impaired loans on a pool by pool basis during 2010. During the first quarter of 2015, the five-year loss-share for Old Southern and Key West ended. During the third quarter of 2015, the five-year loss-share for Coastal and Bayside ended. Since the five-year covered loan loss-share has ended, the pools have been reevaluated and are no longer deemed to have a material projected credit impairment. As such, the remaining loans in these pools are performing and have been reclassified out of purchased credit impaired loans.

The non-covered purchased credit impaired loans acquired during the 2015 Doral Florida acquisition were deemed immaterial and as a result were not included in the table above.

The loan pools were evaluated by the Company and are currently forecasted to have a slower run-off than originally expected. As a result, the Company has reforecast the total accretable yield expectations for those loan pools by $12.3 million. This updated forecast does not change the expected weighted-average yields on the loan pools.

7. Goodwill and Core Deposits and Other Intangibles

On January 1, 2015, Centennial Insurance Agency sold the insurance book of business of the former Town and Country Insurance to Stephens Insurance, LLC of Little Rock. This disposal was completed at the Company s book value with no gain or loss. The net profit on this book of business was immaterial.

Changes in the carrying amount and accumulated amortization of the Company s goodwill and core deposits and other intangibles at September 30, 2015 and December 31, 2014, were as follows:

	September 30, 2015	December 31, 2014
	(In thousands)	
Goodwill		
Balance, beginning of period	$ 325,423	$ 301,736
Acquisitions		23,687
Sale of insurance book of business	(2,695)	
Balance, end of period	$ 322,728	$ 325,423

	September 30, 2015	December 31, 2014
	(In thousands)	
Core Deposit and Other Intangibles		
Balance, beginning of period	$ 20,925	$ 22,298
Acquisition	1,363	2,173
Sale of insurance book of business	(243)	
Amortization expense	(3,217)	(3,467)
Balance, September 30	$ 18,828	21,004
Acquisitions		1,084
Amortization expense		(1,163)
Balance, end of year		$ 20,925

Table of Contents

The carrying basis and accumulated amortization of core deposits and other intangibles at September 30, 2015 and December 31, 2014 were:

	September 30, 2015	December 31, 2014
	(In thousands)	
Gross carrying basis	$ 47,901	$ 46,781
Accumulated amortization	(29,073)	(25,856)
Net carrying amount	$ 18,828	$ 20,925

Core deposit and other intangible amortization expense was approximately $988,000 and $1.2 million for the three-months ended September 30, 2015 and 2014, respectively. Core deposit and other intangible amortization expense was approximately $3.2 million and $3.5 million for the nine-months ended September 30, 2015 and 2014, respectively. Including all of the mergers completed as of September 30, 2015, HBI s estimated amortization expense of core deposits and other intangibles for each of the years 2015 through 2019 is approximately: 2015 - $4.0 million; 2016 - $2.8 million; 2017 - $2.7 million; 2018 - $2.6 million; 2019 - $2.5 million.

The carrying amount of the Company s goodwill was $322.7 million and $325.4 million at September 30, 2015 and December 31, 2014, respectively. Goodwill is tested annually for impairment during the fourth quarter. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

8. Other Assets

Other assets consists primarily of FDIC claims receivable, equity securities without a readily determinable fair value and other miscellaneous assets. As of September 30, 2015 and December 31, 2014 other assets were $134.1 million and $93.7 million, respectively.

An indemnification asset was created when the Company acquired FDIC covered loans. The indemnification asset represents the carrying amount of the right to receive payments from the FDIC for losses incurred on specified assets acquired from failed insured depository institutions or otherwise purchased from the FDIC that are covered by loss sharing agreements with the FDIC. When the Company experiences a loss on the covered loans and subsequently requests reimbursement of the loss from the FDIC, the indemnification asset is reduced by the FDIC reimbursable amount. A corresponding claim receivable is consequently recorded in other assets until the cash is received from the FDIC. The FDIC claims receivable was $5.2 million and $14.0 million at September 30, 2015 and December 31, 2014, respectively.

The Company has equity securities without readily determinable fair values. These equity securities are outside the scope of ASC Topic 320, *Investments-Debt and Equity Securities*. They include items such as stock holdings in Federal Home Loan Bank, Federal Reserve Bank, Bankers Bank and other miscellaneous holdings. The equity securities without a readily determinable fair value were $90.9 million and $66.7 million at September 30, 2015 and December 31, 2014, respectively, and are accounted for at cost.

9. Deposits

The aggregate amount of time deposits with a minimum denomination of $250,000 was $391.4 million and $272.5 million at September 30, 2015 and December 31, 2014, respectively. The aggregate amount of time deposits with a minimum denomination of $100,000 was $759.6 million and $705.4 million at September 30, 2015 and December 31, 2014, respectively. Interest expense applicable to certificates in excess of $100,000 totaled $1.2 million and $1.1 million for the three months ended September 30, 2015 and 2014, respectively. Interest expense applicable to certificates in excess of $100,000 totaled $3.8 million and $3.3 million for the nine months ended September 30, 2015 and 2014, respectively. As of September 30, 2015 and December 31, 2014, brokered deposits were $170.3 million and $33.6 million, respectively.

Table of Contents

Deposits totaling approximately $1.06 billion and $1.02 billion at September 30, 2015 and December 31, 2014, respectively, were public funds obtained primarily from state and political subdivisions in the United States.

10. Securities Sold Under Agreements to Repurchase

At September 30, 2015 and December 31, 2014, securities sold under agreements to repurchase totaled $134.1 million and $176.5 million, respectively. For the three-month periods ended September 30, 2015 and 2014, securities sold under agreements to repurchase daily weighted-average totaled $143.7 million and $150.2 million, respectively. For the nine-month periods ended September 30, 2015 and 2014, securities sold under agreements to repurchase daily weighted-average totaled $163.7 million and $145.3 million, respectively.

The gross amount of recognized liabilities for securities sold under agreements to repurchase was $134.1 million and $176.5 million at September 30, 2015 and December 31, 2014, respectively. The remaining contractual maturity of securities sold under agreements to repurchase in the consolidated balance sheets as of September 30, 2015 and December 31, 2014 is presented at par value in the following tables:

	September 30, 2015				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
	(In thousands)				
Securities sold under agreements to repurchase:					
U.S. government-sponsored enterprises	$ 14,088	$	$	$	$ 14,088
Mortgage-backed securities	59,214				59,214
State and political subdivisions	72,128				72,128
Other securities	1,609				1,609
Total borrowings	$ 147,039	$	$	$	$ 147,039

	December 31, 2014				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
	(In thousands)				
Securities sold under agreements to repurchase:					
U.S. government-sponsored enterprises	$ 22,171	$	$	$	$ 22,171
Mortgage-backed securities	71,155				71,155
State and political subdivisions	87,297				87,297
Other securities	1,674				1,674
Total borrowings	$ 182,297	$	$	$	$ 182,297

11. FHLB Borrowed Funds

The Company s Federal Home Loan Bank (FHLB) borrowed funds were $1.22 billion and $698.0 million at September 30, 2015 and December 31, 2014, respectively. At September 30, 2015, all $1.22 billion of the outstanding balance were issued as long-term advances. At December 31, 2014, $515.0 million and $183.0 million of the outstanding balances were short-term and long-term advances, respectively. The FHLB advances mature from the current year to 2025 with fixed interest rates ranging from 0.135% to 5.960% and are secured by loans and investments securities. Maturities of borrowings as of September 30, 2015 include: 2015 $11.0 million; 2016 $15.1 million; 2017 $760.5 million; 2018 $169.4 million; 2019 $128.2 million; after 2019 $131.9 million. Expected maturities will differ from contractual maturities because FHLB may have the right to call or HBI may have the right to prepay certain obligations.

Additionally, the Company had $250.1 million and $144.0 million at September 30, 2015 and December 31, 2014, respectively, in letters of credit under a FHLB blanket borrowing line of credit, which are used to collateralize public deposits at September 30, 2015 and December 31, 2014, respectively.

Table of Contents

12. Subordinated Debentures

Subordinated debentures at September 30, 2015 and December 31, 2014 consisted of guaranteed payments on trust preferred securities with the following components:

	As of September 30, 2015	As of December 31, 2014
	(In thousands)	
Subordinated debentures, issued in 2006, due 2036, fixed rate of 6.75% during the first five years and at a floating rate of 1.85% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	$ 3,093	$ 3,093
Subordinated debentures, issued in 2004, due 2034, fixed rate of 6.00% during the first five years and at a floating rate of 2.00% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	15,464	15,464
Subordinated debentures, issued in 2005, due 2035, fixed rate of 5.84% during the first five years and at a floating rate of 1.45% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	25,774	25,774
Subordinated debentures, issued in 2004, due 2034, fixed rate of 4.29% during the first five years and at a floating rate of 2.50% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	16,495	16,495
Total	$ 60,826	$ 60,826

The Company holds $60.8 million of trust preferred securities which are currently callable without penalty based on the terms of the specific agreements. The trust preferred securities are tax-advantaged issues that qualify for Tier 1 capital treatment subject to certain limitations. Distributions on these securities are included in interest expense. Each of the trusts is a statutory business trust organized for the sole purpose of issuing trust securities and investing the proceeds in the Company s subordinated debentures, the sole asset of each trust. The trust preferred securities of each trust represent preferred beneficial interests in the assets of the respective trusts and are subject to mandatory redemption upon payment of the subordinated debentures held by the trust. The Company wholly owns the common securities of each trust. Each trust s ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related subordinated debentures. The Company s obligations under the subordinated securities and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of each respective trust s obligations under the trust securities issued by each respective trust.

13. Other Borrowings

During the third quarter of 2015, the parent company took out a $20.0 million line of credit for general corporate purposes. The balance on this line of credit at September 30, 2015 was zero.

Table of Contents

14. Income Taxes

The following is a summary of the components of the provision (benefit) for income taxes for the three and nine-month periods ended September 30, 2015 and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Current:				
Federal	$ 18,873	$ 8,191	$ 47,403	$ 26,048
State	3,749	1,627	9,416	5,174
Total current	22,622	9,818	56,819	31,222
Deferred:				
Federal	(2,024)	4,329	1,200	13,142
State	(402)	860	238	2,610
Total deferred	(2,426)	5,189	1,438	15,752
Income tax expense	$ 20,196	$ 15,007	$ 58,257	$ 46,974

The reconciliation between the statutory federal income tax rate and effective income tax rate is as follows for the three and nine-month periods ended September 30, 2015 and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Statutory federal income tax rate	35.00%	35.00%	35.00%	35.00%
Effect of nontaxable interest income	(1.89)	(2.21)	(1.94)	(2.06)
Cash value of life insurance	(0.17)	(0.27)	(0.19)	(0.24)
State income taxes, net of federal benefit	4.02	3.92	4.01	3.92
Other	(0.86)	(1.03)	(0.25)	(0.52)
Effective income tax rate	36.10%	35.41%	36.63%	36.10%

Table of Contents

The types of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts that give rise to deferred income tax assets and liabilities, and their approximate tax effects, are as follows:

	September 30, 2015	December 31, 2014
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 24,970	$ 21,578
Deferred compensation	2,797	2,781
Stock options	1,530	1,428
Real estate owned	1,719	3,257
Loan discounts	24,040	25,807
Tax basis premium/discount on acquisitions	16,017	19,121
Investments	2,655	2,692
Other	7,474	7,721
Gross deferred tax assets	81,202	84,385
Deferred tax liabilities:		
Accelerated depreciation on premises and equipment	4,498	2,249
Unrealized gain on securities available-for-sale	5,238	4,524
Core deposit intangibles	4,842	5,382
Indemnification asset	598	3,823
FHLB dividends	1,671	1,602
Other	1,280	1,578
Gross deferred tax liabilities	18,127	19,158
Net deferred tax assets	$ 63,075	$ 65,227

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and the states of Arkansas, Alabama and Florida and will be filing one with the state of New York during 2016. With a few exceptions, the Company is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2010. During 2015, the State of Florida s examination of the Company s Florida State income tax returns for the 2010, 2011, 2012 and 2013 tax years was completed with no change to the financial position.

15. Common Stock and Compensation Plans

Stock Compensation Plans

The Company has a stock option and performance incentive plan known as the Amended and Restated 2006 Stock Option and Performance Incentive Plan (the Plan). The purpose of the Plan is to attract and retain highly qualified officers, directors, key employees, and other persons, and to motivate those persons to improve the Company s business results. The Plan provides for the granting of incentive and non-qualified stock options to and other equity

awards, including the issuance of restricted shares. The maximum total number of shares of the Company s common stock available for grants under the Plan is 4,644,000. At September 30, 2015, the Company has approximately 559,000 shares of common stock remaining available for future grants and approximately 1,948,000 shares of common stock reserved for issuance under the Plan.

The intrinsic value of the stock options outstanding and stock options vested at September 30, 2015 was $22.2 million and $15.6 million, respectively. Total unrecognized compensation cost, net of income tax benefit, related to non-vested stock option awards, which are expected to be recognized over the vesting periods, was approximately $6.5 million as of September 30, 2015. For the first nine months of 2015, the Company has expensed approximately $509,000 for the non-vested awards.

Table of Contents

The table below summarizes the stock option transactions under the Plan at September 30, 2015 and December 31, 2014 and changes during the nine-month period and year then ended:

	For the Nine Months Ended September 30, 2015		For the Year Ended December 31, 2014	
	Shares (000)	Weighted-Average Exercisable Price	Shares (000)	Weighted-Average Exercisable Price
Outstanding, beginning of year	905	$ 11.80	966	$ 9.57
Granted	683	35.92	70	33.54
Forfeited/Expired	(1)	4.34	(11)	30.89
Exercised	(198)	5.85	(120)	4.77
Outstanding, end of period	1,389	24.52	905	11.80
Exercisable, end of period	505	$ 9.63	645	$ 7.52

Stock-based compensation expense for stock-based compensation awards granted is based on the grant-date fair value. For stock option awards, the fair value is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. Additionally, there may be other factors that would otherwise have a significant effect on the value of employee stock options granted but are not considered by the model. Accordingly, while management believes that the Black-Scholes option-pricing model provides a reasonable estimate of fair value, the model does not necessarily provide the best single measure of fair value for the Company s employee stock options. The weighted-average fair value of options granted during the nine months ended September 30, 2015 was $8.47 per share. The weighted-average fair value of options granted during the year ended December 31, 2014 was $10.73 per share. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model based on the weighted-average assumptions for expected dividend yield, expected stock price volatility, risk-free interest rate, and expected life of options granted.

	For the Nine Months Ended September 30, 2015	For the Year Ended December 31, 2014
Expected dividend yield	1.61%	0.89%
Expected stock price volatility	25.95%	30.94%
Risk-free interest rate	1.73%	2.31%
Expected life of options	6.5 years	6.5 years

Table of Contents

The following is a summary of currently outstanding and exercisable options at September 30, 2015:

	Options Outstanding			Options Exercisable	
Exercise Prices	Options Outstanding Shares (000)	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Options Exercisable Shares (000)	Weighted-Average Exercise Price
$3.50 to $4.21	13	1.05	$ 4.03	13	$ 4.03
$4.92 to $5.33	36	2.28	5.16	36	5.16
$5.54 to $5.54	199	0.45	5.54	199	5.54
$8.54 to $8.60	77	2.29	8.57	77	8.57
$9.25 to $9.31	10	1.65	9.29	10	9.29
$10.16 to $13.12	127	4.24	11.91	91	11.43
$17.25 to $19.08	150	7.44	18.23	60	18.23
$29.42 to $33.72	135	9.00	32.05	12	33.54
$34.25 to $34.80	117	9.13	34.39	7	34.74
$36.91 to $36.91	525	9.90	36.91		
	1,389			505	

The table below summarized the activity for the Company s restricted stock issued and outstanding at September 30, 2015 and December 31, 2014 and changes during the period and year then ended:

	As of September 30, 2015	As of December 31, 2014
	(In thousands)	
Beginning of year	257	256
Issued	331	43
Vested	(102)	(30)
Forfeited	(6)	(12)
End of period	480	257
Amount of expense for nine months and twelve months ended, respectively	$ 1,678	$ 1,524

On June 4, 2013, 12,666 shares of restricted common stock were issued to a then regional president of the Company s bank subsidiary. Of these issued shares, 9,666 shares will vest equally each year over three years beginning on the first anniversary of the issuance. The remaining 3,000 shares are subject to performance based vesting (2012 Performance Shares). The 2012 Performance Shares are set up to cliff vest on the third annual anniversary of the date that the performance goal is met. As of September 30, 2013, the performance goal was met when the Company averaged $0.3125 diluted earnings per share for the past four consecutive quarters or total diluted earnings per share of $1.25 during the same period. In accordance with the vesting terms of the 2012 Performance Shares agreements, the issued shares are due to fully vest on September 30, 2016.

On January 17, 2014, the Company granted 40,000 shares of the Company s restricted common stock to the Chairman, which will vest in three equal annual installments beginning on January 17, 2015, plus 3,000 restricted shares of HBI s common stock to a then regional president of the Company s bank subsidiary, which will cliff vest on January 17, 2017.

On June 23, 2014, the Company granted 500 shares of HBI s restricted common stock to an employee, which will vest in five equal annual installments beginning on June 23, 2015.

Table of Contents

On January 16, 2015, the Company granted 60,000 shares of the Company s restricted common stock to the Chairman, 9,000 shares of restricted common stock to nine non-employee members of the Board of Directors and 3,992 shares of restricted common stock to a group of employees of the Company s bank subsidiary for a total issuance of 72,992 shares of restricted common stock. The restricted stock issued will cliff vest on January 16, 2018.

On May 28, 2015, the Company granted a total of 37,000 shares of the Company s restricted common stock to a group of employees of the Company s bank subsidiary. Of these issued shares, 18,500 shares will vest equally each year over three years beginning on the third anniversary of the grant. The remaining 18,500 shares are subject to performance based vesting (2015 Performance Shares). The 2015 Performance Shares are set up to vest over three years beginning on the third anniversary of the date that the performance goal is met. The performance goal will be met when the Company averages $0.625 diluted earnings per share for four consecutive quarters or total diluted earnings per share of $2.50 during the same period.

On August 6, 2015, the Company granted a total of 1,000 shares of the Company s restricted common stock to its recently named Chief Accounting Officer. The restricted stock issued will cliff vest on August 6, 2018.

On August 24, 2015, the Company granted a total of 220,000 shares of the Company s restricted common stock to a group of employees of the Company s bank subsidiary. Of these issued shares, 110,000 shares will vest equally each year over three years beginning on the third anniversary of the grant. The remaining 110,000 shares are subject to performance based vesting (2015 Performance Shares). The 2015 Performance Shares are set up to vest over three years beginning on the third anniversary of the date that the performance goal is met. The performance goal will be met when the Company averages $0.625 diluted earnings per share for four consecutive quarters or total diluted earnings per share of $2.50 during the same period.

During the first nine months of 2015, the Company utilized a portion of its previously approved stock repurchase program. This program authorized the repurchase of 2,376,000 shares of the Company s common stock. During first quarter of 2015, the Company repurchased a total of 67,332 shares with a weighted-average stock price of $29.89 per share. No shares were repurchased during the second or third quarters of 2015. The 2015 earnings were used to fund the repurchases during the year. Shares repurchased to date under the program total 1,578,228 shares. The remaining balance available for repurchase is 797,772 shares at September 30, 2015.

Table of Contents

16. Non-Interest Expense

The table below shows the components of non-interest expense for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Salaries and employee benefits	$ 22,225	$ 19,368	$ 63,671	$ 57,114
Occupancy and equipment	6,540	6,234	19,267	18,711
Data processing expense	2,619	1,801	8,101	5,387
Other operating expenses:				
Advertising	906	673	2,342	1,776
Merger and acquisition expenses	474	3,772	1,891	4,727
Amortization of intangibles	988	1,153	3,217	3,467
Electronic banking expense	1,352	1,307	3,883	3,957
Directors fees	233	236	809	669
Due from bank service charges	291	200	792	604
FDIC and state assessment	1,276	972	3,844	3,144
Insurance	617	657	1,900	1,853
Legal and accounting	338	510	1,491	1,346
Other professional fees	947	716	1,995	1,806
Operating supplies	464	468	1,407	1,455
Postage	293	323	897	1,002
Telephone	444	548	1,418	1,465
Other expense	4,586	3,879	11,631	12,311
Total other operating expenses	13,209	15,414	37,517	39,582
Total non-interest expense	$ 44,593	$ 42,817	$ 128,556	$ 120,794

17. Concentration of Credit Risks

The Company s primary market areas are in Arkansas, Florida and South Alabama. The Company primarily grants loans to customers located within these geographical areas unless the borrower has an established relationship with the Company.

The diversity of the Company s economic base tends to provide a stable lending environment. Although the Company has a loan portfolio that is diversified in both industry and geographic area, a substantial portion of its debtors ability to honor their contracts is dependent upon real estate values, tourism demand and the economic conditions prevailing in its market areas.

18. Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses and certain concentrations of credit risk are reflected in Note 6, while deposit concentrations are reflected in Note 9.

Although the Company has a diversified loan portfolio, at September 30, 2015 and December 31, 2014, non-covered commercial real estate loans represented 59.9% and 57.3% of non-covered loans, respectively, and 324.0% and 271.9% of total stockholders equity, respectively. Non-covered residential real estate loans represented 24.5% and 25.2% of non-covered loans and 132.7% and 119.6% of total stockholders equity at September 30, 2015 and December 31, 2014, respectively.

Table of Contents

Approximately 86.6% of the Company s loans as of September 30, 2015, are to borrowers in Alabama, Arkansas and Florida, the three states in which the Company has its branch locations. Additionally, the Company has 84.7% of its loans as real estate loans primarily in Arkansas, Florida and South Alabama.

Although general economic conditions in our market areas have improved, both nationally and locally, over the past three years and have shown signs of continued improvement, financial institutions still face circumstances and challenges which, in some cases, have resulted and could potentially result, in large declines in the fair values of investments and other assets, constraints on liquidity and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans. The financial statements have been prepared using values and information currently available to the Company.

Given the volatility of economy in the latter years of the last decade, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses and capital that could negatively impact the Company s ability to meet regulatory capital requirements and maintain sufficient liquidity.

19. Commitments and Contingencies

In the ordinary course of business, the Company makes various commitments and incurs certain contingent liabilities to fulfill the financing needs of their customers. These commitments and contingent liabilities include lines of credit and commitments to extend credit and issue standby letters of credit. The Company applies the same credit policies and standards as they do in the lending process when making these commitments. The collateral obtained is based on the assessed creditworthiness of the borrower.

At September 30, 2015 and December 31, 2014, commitments to extend credit of $1.19 billion and $851.8 million, respectively, were outstanding. A percentage of these balances are participated out to other banks; therefore, the Company can call on the participating banks to fund future draws. Since some of these commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

Outstanding standby letters of credit are contingent commitments issued by the Company, generally to guarantee the performance of a customer in third-party borrowing arrangements. The term of the guarantee is dependent upon the creditworthiness of the borrower, some of which are long-term. The amount of collateral obtained, if deemed necessary, is based on management s credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments. The maximum amount of future payments the Company could be required to make under these guarantees at September 30, 2015 and December 31, 2014, is $22.1 million and $23.2 million, respectively.

The Company and/or its bank subsidiary have various unrelated legal proceedings, most of which involve loan foreclosure activity pending, which, in the aggregate, are not expected to have a material adverse effect on the financial position or results of operations or cash flows of the Company and its subsidiary.

20. Regulatory Matters

The Bank is subject to a legal limitation on dividends that can be paid to the parent company without prior approval of the applicable regulatory agencies. Arkansas bank regulators have specified that the maximum dividend limit state banks may pay to the parent company without prior approval is 75% of the current year earnings plus 75% of the retained net earnings of the preceding year. Since the Bank is also under supervision of the Federal Reserve, it is further limited if the total of all dividends declared in any calendar year by the Bank exceeds the Bank s net profits to date for that year combined with its retained net profits for the preceding two years. During the first nine months of 2015, the Company requested approximately $66.3 million in regular dividends from its banking subsidiary. This dividend is equal to approximately 72.3% of the Company s banking subsidiary s first nine months earnings.

Table of Contents

In July 2013, the Federal Reserve Board and the other federal bank regulatory agencies issued a final rule to revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to make them consistent with the agreements that were reached by the Basel Committee on Banking Supervision in Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems and certain provisions of the Dodd-Frank Act (Basel III). Basel III applies to all depository institutions, bank holding companies with total consolidated assets of $500 million or more, and savings and loan holding companies. Among other things, the rule establishes a new minimum common equity Tier 1 capital requirement of 4.5% of risk-weighted assets, raises the minimum Tier 1 risk-based capital requirement to 6% of risk-weighted assets and assigns higher risk weightings (150%) to exposures that are more than 90 days past due or are on non-accrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property.

Basel III permanently grandfathers trust preferred securities and other non-qualifying capital instruments that were issued and outstanding as of May 19, 2010 in the Tier 1 capital of bank holding companies with total consolidated assets of less than $15 billion as of December 31, 2009. The rule phases out of Tier 1 capital these non-qualifying capital instruments issued before May 19, 2010 by all other bank holding companies. Basel III also limits a banking organization s capital distributions and certain discretionary bonus payments if the banking organization does not hold a capital conservation buffer of 2.5% of common equity tier 1 capital to risk-weighted assets, which is in addition to the amount necessary to meet its minimum risk-based capital requirements. Basel III became effective for the Company and its bank subsidiary on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016. The phase-in period ends on January 1, 2019 when the full capital conservation buffer requirement becomes effective.

Basel III amended the prompt corrective action rules to incorporate a common equity Tier 1 capital requirement and to raise the capital requirements for certain capital categories. In order to be adequately capitalized for purposes of the prompt corrective action rules, a banking organization will be required to have at least a 4.5% common equity Tier 1 risk-based capital ratio, a 4% Tier 1 leverage capital ratio, a 6% Tier 1 risk-based capital ratio and an 8% total risk-based capital ratio.

The Federal Reserve Board s risk-based capital guidelines include the definitions for (1) a well-capitalized institution, (2) an adequately-capitalized institution, and (3) an undercapitalized institution. Under Basel III, the criteria for a well-capitalized institution are now: a 6.5% common equity Tier 1 risk-based capital ratio, a 5% Tier 1 leverage capital ratio, an 8% Tier 1 risk-based capital ratio, and a 10% total risk-based capital ratio. As of September 30, 2015, the Bank met the capital standards for a well-capitalized institution. The Company s common equity Tier 1 risk-based capital ratio, Tier 1 leverage capital ratio, Tier 1 risk-based capital ratio, and total risk-based capital ratio were 10.80%, 10.28%, 11.65%, and 12.56%, respectively, as of September 30, 2015.

21. Additional Cash Flow Information

In connection with the Doral Florida acquisition, accounted for using the purchase method, the Company acquired approximately $39.3 million in assets, assumed $467.6 million in liabilities, issued no equity and received net funds of $429.9 million during the first quarter of 2015. As a result, the Company recorded a bargain purchase gain of $1.6 million.

The following is a summary of the Company s additional cash flow information during the nine-month periods ended:

	September 30,	
	2015	2014
	(In thousands)	
Interest paid	$ 14,759	$ 14,323
Income taxes paid	53,310	16,650
Assets acquired by foreclosure	17,521	14,238

Table of Contents

22. Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Available-for-sale securities are the only material instruments valued on a recurring basis which are held by the Company at fair value. The Company does not have any Level 1 securities. Primarily all of the Company s securities are considered to be Level 2 securities. These Level 2 securities consist primarily of U.S. government-sponsored enterprises, mortgage-backed securities plus state and political subdivisions. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions, among other things. As of September 30, 2015 and December 31, 2014, Level 3 securities were immaterial. In addition, there were no material transfers between hierarchy levels during 2015 and 2014.

The Corporation reviews the prices supplied by the independent pricing service, as well as their underlying pricing methodologies, for reasonableness and to ensure such prices are aligned with traditional pricing matrices. In general, the Company does not purchase investment portfolio securities with complicated structures. Pricing for the Company s investment securities is fairly generic and is easily obtained.

Impaired loans that are collateral dependent are the only material financial assets valued on a non-recurring basis which are held by the Company at fair value. Loan impairment is reported when full payment under the loan terms is not expected. Impaired loans are carried at the net realizable value of the collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require an increase, such increase is reported as a component of the provision for loan losses. The fair value of loans with specific allocated losses was $86.8 million and $78.7 million as of September 30, 2015 and December 31, 2014, respectively. This valuation is considered Level 3, consisting of appraisals of underlying collateral. The Company reversed approximately $218,000 and $183,000 of accrued interest receivable when non-covered impaired loans were put on non-accrual status during the three months ended September 30, 2015 and 2014, respectively. The Company reversed approximately $524,000 and $746,000 of accrued interest receivable when non-covered impaired loans were put on non-accrual status during the nine months ended September 30, 2015 and 2014, respectively.

Foreclosed assets held for sale are the only material non-financial assets valued on a non-recurring basis which are held by the Company at fair value, less estimated costs to sell. At foreclosure, if the fair value, less estimated costs to sell, of the real estate acquired is less than the Company s recorded investment in the related loan, a write-down is recognized through a charge to the allowance for loan losses. Additionally, valuations are periodically performed by management and any subsequent reduction in value is recognized by a charge to income. The fair value of foreclosed

assets held for sale is estimated using Level 3 inputs based on appraisals of underlying collateral. As of September 30, 2015 and December 31, 2014, the fair value of foreclosed assets held for sale not covered by loss share, less estimated costs to sell, was $18.2 million and $17.0 million, respectively.

Table of Contents

The significant unobservable (Level 3) inputs used in the fair value measurement of collateral for collateral-dependent impaired loans and foreclosed assets primarily relate to customized discounting criteria applied to the customer s reported amount of collateral. The amount of the collateral discount depends upon the condition and marketability of the underlying collateral. As the Company s primary objective in the event of default would be to monetize the collateral to settle the outstanding balance of the loan, less marketable collateral would receive a larger discount. During the reported periods, collateral discounts ranged from 20% to 50% for commercial and residential real estate collateral.

Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating fair values of financial instruments as disclosed in these notes:

Cash and cash equivalents and federal funds sold For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Investment securities held-to-maturity These securities consist primarily of mortgage-backed securities plus state and political subdivisions. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions, among other things.

Loans receivable not covered by loss share, net of non-covered impaired loans and allowance For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are assumed to approximate the carrying amounts. The fair values for fixed-rate loans are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics.

Loans receivable covered by FDIC loss share, net of allowance Fair values for loans are based on a discounted cash flow methodology that considers factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan, current discount rates and whether or not the loan is amortizing. Loans are grouped together according to similar characteristics and are treated in the aggregate when applying various valuation techniques. The discount rates used for loans are based on current market rates for new originations of comparable loans and include adjustments for liquidity concerns. The discount rate does not include a factor for credit losses as that has been included in the estimated cash flows.

FDIC indemnification asset Although this asset is a contractual receivable from the FDIC, there is no effective interest rate. The Bank will collect this asset over the next several years. The amount ultimately collected will depend on the timing and amount of collections and charge-offs on the acquired assets covered by the loss sharing agreement.

Accrued interest receivable The carrying amount of accrued interest receivable approximates its fair value.

Deposits and securities sold under agreements to repurchase The fair values of demand deposits, savings deposits and securities sold under agreements to repurchase are, by definition, equal to the amount payable on demand and, therefore, approximate their carrying amounts. The fair values for time deposits are estimated using a discounted cash flow calculation that utilizes interest rates currently being offered on time deposits with similar contractual maturities.

FHLB borrowed funds For short-term instruments, the carrying amount is a reasonable estimate of fair value. The fair value of long-term debt is estimated based on the current rates available to the Company for debt with similar terms and remaining maturities.

Accrued interest payable The carrying amount of accrued interest payable approximates its fair value.

Table of Contents

Subordinated debentures The fair value of subordinated debentures is estimated using the rates that would be charged for subordinated debentures of similar remaining maturities.

Commitments to extend credit, letters of credit and lines of credit The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. The fair value of these commitments is not material.

The following table presents the estimated fair values of the Company s financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

	September 30, 2015		
	Carrying Amount	Fair Value	Level
	(In thousands)		
Financial assets:			
Cash and cash equivalents	$ 228,656	$ 228,656	1
Federal funds sold			N/A
Investment securities held-to-maturity	324,949	330,222	2
Loans receivable not covered by loss share, net of non-covered impaired loans and allowance	5,752,842	5,741,390	3
Loans receivable covered by FDIC loss share, net of allowance	102,336	102,336	3
FDIC indemnification asset	11,290	11,290	3
Accrued interest receivable	26,977	26,977	1
Financial liabilities:			
Deposits:			
Demand and non-interest bearing	$ 1,409,949	$ 1,409,949	1
Savings and interest-bearing transaction accounts	3,230,722	3,230,722	1
Time deposits	1,312,343	1,304,184	3
Federal funds purchased			N/A
Securities sold under agreements to repurchase	134,142	134,142	1
FHLB borrowed funds	1,216,152	1,224,474	2
Accrued interest payable	1,595	1,595	1
Subordinated debentures	60,826	60,826	3

Table of Contents

	December 31, 2014		
	Carrying Amount	Fair Value	Level
	(In thousands)		
Financial assets:			
Cash and cash equivalents	$ 112,528	$ 112,528	1
Federal funds sold	250	250	1
Investment securities held-to-maturity	356,790	362,272	2
Loans receivable not covered by loss share, net of non-covered impaired loans and allowance	4,686,145	4,671,941	3
Loans receivable covered by FDIC loss share, net of allowance	237,648	237,648	3
FDIC indemnification asset	28,409	28,409	3
Accrued interest receivable	24,075	24,075	1
Financial liabilities:			
Deposits:			
Demand and non-interest bearing	$ 1,203,306	$ 1,203,306	1
Savings and interest-bearing transaction accounts	2,974,850	2,974,850	1
Time deposits	1,245,815	1,240,802	3
Federal funds purchased			N/A
Securities sold under agreements to repurchase	176,465	176,465	1
FHLB borrowed funds	697,957	705,219	2
Accrued interest payable	1,120	1,120	1
Subordinated debentures	60,826	60,826	3

23. Recent Accounting Pronouncements

In June 2014, the FASB issued ASU No. 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period,* impacting FASB ASC 860, *Transfers and Servicing*. Generally, an award with a performance target requires an employee also render service once the performance target is achieved. In some cases, however, the terms of an award may provide that the performance target could be achieved after an employee completes the requisite service period. The amendments in this update require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. An entity should apply this guidance as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period for which the service has already been rendered. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a significant effect on the Company s financial statements.

Table of Contents

In August 2014, the FASB issued ASU No. 2014-14, *Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure,* impacting FASB ASC 310-40, *Receivables Troubled Debt Restructuring by Creditors*. This update affects creditors that hold government-guaranteed mortgage loans. The amendments in this update require that a mortgage loan be derecognized and that a separate other receivable be recognized if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure; (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under the claim; (3) at the time of foreclosure, the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this update became effective for annual periods and interim periods within those annual periods beginning after December 15, 2014. The Company has adopted the new guidance on the consolidated financial statements, which has made no impact to the Company s financial statements.

Presently, the Company is not aware of any changes from the Financial Accounting Standards Board that will have a material impact on the Company s present or future financial statements.

24. Subsequent Events

Business Combination Florida Business BancGroup, Inc. On October 1, 2015, the Company completed its acquisition of Florida Business BancGroup, Inc. (FBBI), parent company of Bay Cities Bank (Bay Cities), pursuant to a previously announced definitive agreement and plan of merger whereby FBBI merged with and into HBI and, immediately thereafter, Bay Cities merged with and into Centennial. The Company paid a purchase price to the FBBI shareholders of $104.1 million for the FBBI acquisition. Under the terms of the agreement, shareholders of FBBI received approximately 2,080,000 shares of its common stock valued at approximately $83.8 million as of October 1, 2015, plus approximately $20.3 million in cash in exchange for all outstanding shares of FBBI common stock. A portion of the cash consideration, $2.0 million, has been placed into escrow, and FBBI shareholders will have a contingent right to receive their pro-rata portions of such amount. The amount, if any, of such escrowed funds to be released to FBBI shareholders will depend upon the amount of losses that HBI incurs in the two years following the completion of the merger related to two class action lawsuits that are pending against Bay Cities.

FBBI formerly operated six branch locations and a loan production office in the Tampa Bay area and in Sarasota, Florida. Excluding the effects of any purchase accounting adjustments, as of October 1, 2015, FBBI had approximately $531.6 million in total assets, $422.4 million in loans, $470.8 million in deposits and $52.6 million in common equity.

Certain fair value measurements and the purchase price allocation have not been completed due to the timing of the acquisition and the number of assets acquired and liabilities assumed. We will continue to review the estimated fair values of property and equipment, intangible assets, and other assets and liabilities, and to evaluate the assumed tax positions and contingencies.

Table of Contents

Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders

Home BancShares, Inc.

Conway, Arkansas

We have reviewed the accompanying condensed consolidated balance sheet of Home BancShares, Inc. (the Company) as of September 30, 2015, the related condensed consolidated statements of income and comprehensive income for the three and nine-month periods ended September 30, 2015 and 2014 and the related statements of stockholders equity and cash flows for the nine-month periods ended September 30, 2015 and 2014. These interim financial statements are the responsibility of the Company s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2014, and the related consolidated statements of income, comprehensive income, stockholders equity and cash flows for the year then ended (not presented herein); and in our report dated February 27, 2015, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2014, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ BKD, LLP

Little Rock, Arkansas

November 5, 2015

Table of Contents

Item 2: MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our Form 10-K, filed with the Securities and Exchange Commission on February 27, 2015, which includes the audited financial statements for the year ended December 31, 2014. *Unless the context requires otherwise, the terms Company , us , we , and our refer to Home BancShares, Inc. on a consolidated basis.*

General

We are a bank holding company headquartered in Conway, Arkansas, offering a broad array of financial services through our wholly-owned bank subsidiary, Centennial Bank (sometimes referred to as Centennial or the Bank). As of September 30, 2015, we had, on a consolidated basis, total assets of $8.52 billion, loans receivable, net of $5.94 billion, total deposits of $5.95 billion, and stockholders equity of $1.09 billion.

We generate most of our revenue from interest on loans and investments, service charges, and mortgage banking income. Deposits and FHLB borrowed funds are our primary source of funding. Our largest expenses are interest on our funding sources, salaries and related employee benefits and occupancy and equipment. We measure our performance by calculating our return on average common equity, return on average assets and net interest margin. We also measure our performance by our efficiency ratio, which is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income.

Table 1: Key Financial Measures

	As of or for the Three Months Ended September 30,		As of or for the Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Dollars in thousands, except per share data)			
Total assets	$ 8,515,553	$ 7,196,371	$ 8,515,553	$ 7,196,371
Loans receivable not covered by loss share	5,900,175	4,583,015	5,900,175	4,583,015
Loans receivable covered by FDIC loss share	105,414	250,970	105,414	250,970
Allowance for loan losses	63,659	52,844	63,659	52,844
FDIC claims receivable	5,231	12,781	5,231	12,781
Total deposits	5,953,014	5,277,271	5,953,014	5,277,271
Total stockholders equity	1,091,278	958,681	1,091,278	958,681
Net income	35,741	27,371	100,766	83,137
Basic earnings per share	0.53	0.41	1.49	1.27
Diluted earnings per share	0.52	0.41	1.48	1.26
Diluted earnings per share excluding intangible amortization (1)	0.53	0.42	1.51	1.29
Annualized net interest margin FTE	5.03%	5.26%	4.99%	5.41%
Efficiency ratio	39.79	45.70	40.49	42.95
Annualized return on average assets	1.72	1.56	1.71	1.63
Annualized return on average common equity	13.23	11.58	12.86	12.48

(1) See Table 27 Diluted Earnings Per Share Excluding Intangible Amortization for a reconciliation to GAAP for diluted earnings per share excluding intangible amortization.

Table of Contents

Overview

Credit Improvement in Purchased Credit Impaired Loan Pools

Impairment testing on the estimated cash flows of the purchased credit impaired loan pools is performed each quarter. Because the economy has improved since the impaired loans were acquired, quite often the impairment test has revealed a projected credit improvement in certain loan pools. As a result of these improvements, the Company is recognizing additional adjustments to yield over the weighted-average life of the loans. When there are improvements in credit quality for covered loans, it decreases the basis in the related indemnification asset and increases our FDIC true-up liability. These positive events are reducing the indemnification asset and increasing our FDIC true-up liability. The indemnification asset reduction is being amortized over the weighted-average life of the shared-loss agreements. This amortization is being shown as a reduction to FDIC indemnification non-interest income. The true-up liability is being expensed over the remaining true-up measurement date as other non-interest expense.

Tables 2 and 3 summarize the recognition of these positive events and the financial impact to the three and nine-month periods ended September 30, 2015 and 2014:

Table 2: Overall Estimated Impact to Financial Statements Initially Reported

	Additional Adjustment to Yield	Reduction of Indemnification Asset	Increase of FDIC True-up Liability
		(In thousands)	
Periods Tested:			
Prior to 2014	$ 34,649	$ 24,718	$ 3,490
March 31, 2014	11,432	8,346	1,143
June 30, 2014	23,428	17,330	1,128
September 30, 2014[(1)]	13,769	8,141	1,003
December 31, 2014			
March 31, 2015			
June 30, 2015			
September 30, 2015	28,522		
Total	$ 111,800	$ 58,535	$ 6,764

(1) Includes credit improvement in non-covered purchased credit impaired loans of $4.7 million.

Table 3: Financial Impact for the Three and Nine Months Ended September 30, 2015 and 2014

	Yield Accretion Income	Amortization of Indemnification Asset	FDIC True-up Expense
		(In thousands)	

Three Months Ended:			
September 30, 2014	$ 7,866	$ (7,112)	$ (383)
September 30, 2015	7,347	(2,109)	(383)
Additional income/expense	$ (519)	$ 5,003	$
Nine Months Ended:			
September 30, 2014	$ 21,211	$ (18,880)	$ (1,020)
September 30, 2015	16,239	(8,485)	(1,148)
Additional income/expense	$ (4,972)	$ 10,395	$ (128)

Table of Contents

Results of Operations for Three Months Ended September 30, 2015 and 2014

Our net income increased $8.3 million, or 30.6%, to $35.7 million for the three-month period ended September 30, 2015, from $27.4 million for the same period in 2014. On a diluted earnings per share basis, our earnings were $0.52 and $0.41 per share for the three-month periods ended September 30, 2015 and 2014, respectively. Excluding the $474,000 of merger expenses associated with the acquisition of Florida Business BancGroup, Inc. (FBBI), net income was $36.0 million and diluted earnings per share for the three months ended September 30, 2015 was $0.53 per share. Excluding the $3.8 million of merger expenses associated with the 2014 acquisition of Florida Traditions Bank (Traditions), net income was $29.7 million and diluted earnings per share for the three months ended September 30, 2014 was $0.45 per share. The $6.3 million increase in net income excluding merger expenses is primarily associated with additional net interest income largely resulting from our acquisitions and our organic loan growth plus the reduced amortization of the indemnification asset when compared to the same period in 2014. These improvements were partially offset by an increase in provision for loan losses in third quarter of 2015 and a modest increase in the costs associated with the asset growth when compared to the same period in 2014.

Each quarter we perform credit impairment tests on the loans acquired in our FDIC loss-sharing and non-loss-sharing acquisitions. During the third quarter impairment tests on the estimated cash flows of non-loss-share loans, the Company established that several non-covered loan pools were determined to have a materially projected credit improvement. As a result of this improvement, the Company will recognize approximately $28.5 million as an additional adjustment to yield over the weighted average life of the loans. For the three months ended September 30, 2015 and 2014, the Company recognized $7.3 million and $7.9 million, respectively, of additional accretion income related to the positive results of the impairment tests. For the three months ended September 30, 2015 and 2014, the Company recognized $13.1 million and $13.5 million, respectively in total net accretion for loans and deposits. Consequently, with a growth of average loan balance of $1.14 billion, yields on total loans and net interest margin for the quarter just ended are reduced when compared to the third quarter of 2014.

Our annualized net interest margin, on a fully taxable equivalent basis, was 5.03% for the three months ended September 30, 2015, compared to 5.26% for the same period in 2014. The non-GAAP margin excluding accretion income was, however, relatively flat at 4.24% and 4.21% for the three months ended September 30, 2015 and 2014, respectively. The effective yield on non-covered loans for the three months ended September 30, 2015 and 2014 was 5.77% and 5.84%, respectively. The effective yield on covered loans for the three months ended September 30, 2015 and 2014 was 19.04% and 17.23%, respectively.

Our annualized return on average assets was 1.72% for the three months ended September 30, 2015, compared to 1.56% for the same period in 2014. Our annualized return on average common equity was 13.23% for the three months ended September 30, 2015, compared to 11.58% for the same period in 2014. Excluding merger expenses, our annualized return on average assets was 1.74% for the three months ended September 30, 2015, compared to 1.69% for the same period in 2014. Excluding merger expenses, our annualized return on average common equity was 13.34% for the three months ended September 30, 2015, compared to 12.55% for the same period in 2014. We have been making notable progress in improving the performance of our legacy and acquired franchises. As a result, excluding merger expenses there was an improvement in our return on average assets and return on average common equity from 2014 to 2015.

Our efficiency ratio was 39.79% for the three months ended September 30, 2015, compared to 45.70% for the same period in 2014. For the third quarter of 2015, our core efficiency ratio was 39.30% which is improved from the 41.88% reported for third quarter of 2014. The improvement in the core efficiency ratio is primarily associated with additional net interest income resulting from our organic loan growth and acquisitions plus the realized cost savings from these acquisitions combined with the reduced costs from our recent branch closures. Core efficiency ratio is

calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income excluding non-fundamental items such as merger expenses and/or gains and losses.

Additional information and analysis for our earnings can be found in Table 22 of our Non-GAAP Financial Measurements section of the Management Discussion and Analysis.

Table of Contents

Results of Operations for Nine Months Ended September 30, 2015 and 2014

Our net income increased $17.7 million, or 21.2%, to $100.8 million for the nine-month period ended September 30, 2015, from $83.1 million for the same period in 2014. On a diluted earnings per share basis, our earnings were $1.48 and $1.26 per share for the nine-month periods ended September 30, 2015 and 2014, respectively. Excluding the $1.6 million of one-time gain on acquisition offset by $1.9 million of merger expenses associated with the acquisitions of Doral Bank s Florida Panhandle operations (Doral Florida) and FBBI, net income was $100.9 million and diluted earnings per share for the first nine months of 2015 was $1.48 per share. Excluding the $4.7 million of merger expenses associated with the 2014 acquisition of Traditions, net income was $86.0 million and diluted earnings per share for the nine months ended September 30, 2014 was $1.31 per share. The $14.9 million increase in net income excluding merger expenses and acquisition gain is primarily associated with additional net interest income largely resulting from our acquisitions and organic loan growth plus a slight decrease in provision for loan losses in the first nine months of 2015 combined with reduced amortization of the indemnification asset when compared to the same period in 2014. These improvements were partially offset by a modest increase in the costs associated with the asset growth when compared to the same period in 2014.

Each quarter we perform credit impairment tests on the loans acquired in our FDIC loss-sharing and non-loss-sharing acquisitions. During 2015, the quarterly impairment testing on the estimated cash flows of our FDIC loss-share loans noted a slight decline in asset quality in several of our covered loan pools, which resulted in a net covered provision for loan loss of $998,000. Conversely, during the 2015 impairment tests on the estimated cash flows of non-loss-share loans, the Company established that several non-covered loan pools were determined to have a materially projected credit improvement. As a result of this improvement, the Company will recognize approximately $28.5 million as an additional adjustment to yield over the weighted average life of the loans. For the nine months ended September 30, 2015 and 2014, the Company recognized $16.2 million and $21.2 million, respectively, of additional accretion income related to the positive results of the impairment tests. For the nine months ended September 30, 2015 and 2014, the Company recognized $34.4 million and $45.1 million, respectively in total net accretion for loans and deposits. Consequently, with a growth of average loan balance of $962.9 million, yields on total loans and net interest margin for the nine months ended September 30, 2015 are reduced when compared to the nine months ended September 30, 2014.

Our annualized net interest margin, on a fully taxable equivalent basis, was 4.99% for the nine months ended September 30, 2015, compared to 5.41% for the same period in 2014. The non-GAAP margin excluding accretion income was, however, relatively flat at 4.23% and 4.20% for the nine months ended September 30, 2015 and 2014, respectively. The effective yield on non-covered loans for the nine months ended September 30, 2015 and 2014 was 5.69% and 6.06%, respectively. The effective yield on covered loans for the nine months ended September 30, 2015 and 2014 was 16.99% and 17.53%, respectively.

Our annualized return on average assets was 1.71% for the nine months ended September 30, 2015, compared to 1.63% for the same period in 2014. Our annualized return on average common equity was 12.86% for the nine months ended September 30, 2015, compared to 12.48% for the same period in 2014. Excluding merger expenses and gain on acquisition, our annualized return on average assets was 1.71% for the nine months ended September 30, 2015, compared to 1.69% for the same period in 2014. Excluding merger expenses and gain on acquisition, our annualized return on average common equity was 12.88% for the nine months ended September 30, 2015, compared to 12.91% for the same period in 2014. We have been making notable progress in improving the performance of our legacy and acquired franchises. As a result, excluding merger expenses and acquisition gain, there was a slight improvement in our return on average assets from 2014 to 2015, while return on average common equity excluding merger expenses and acquisition gain remained relatively flat.

Our efficiency ratio was 40.49% for the nine months ended September 30, 2015, compared to 42.95% for the same period in 2014. For the first nine months of 2015, our core efficiency ratio was 40.11% which is improved from the 41.61% reported for the first nine months of 2014. The improvement in the core efficiency ratio is primarily associated with additional net interest income resulting from our organic loan growth and acquisitions plus the realized cost savings from these acquisitions combined with the reduced costs from our recent branch closures. Core efficiency ratio is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income excluding non-fundamental items such as merger expenses and/or gains and losses.

Table of Contents

Additional information and analysis for our earnings can be found in Table 22 of our Non-GAAP Financial Measurements section of the Management Discussion and Analysis.

Financial Condition as of and for the Period Ended September 30, 2015 and December 31, 2014

Our total assets as of September 30, 2015 increased $1.11 billion to $8.52 billion from the $7.40 billion reported as of December 31, 2014. Our loan portfolio not covered by loss share increased by $1.08 billion to $5.90 billion as of September 30, 2015, from $4.82 billion as of December 31, 2014. This increase is primarily associated with the first quarter of 2015 acquisition of $37.9 million of Doral Florida non-covered loans, net of the $4.3 million discount, the first quarter of 2015 migration of $56.3 million net covered loans to non-covered status, the second quarter of 2015 acquisition of $289.1 million in national commercial real estate loans, the third quarter of 2015 migration of $50.3 million net covered loans to non-covered status plus $649.3 million of organic loan growth since December 31, 2014. Our loan portfolio covered by loss share decreased by $134.8 million to $105.4 million as of September 30, 2015, from $240.2 million as of December 31, 2014. This decrease is primarily associated with the first and third quarter of 2015 migration of a total of $106.6 million net covered loans to non-covered status plus normal pay-downs and payoffs. Stockholders equity increased $76.0 million to $1.09 billion as of September 30, 2015, compared to $1.02 billion as of December 31, 2014. The annualized improvement in stockholders equity for the first nine months of 2015 was 10.0%. The increase in stockholders equity is primarily associated with the $101.9 million of comprehensive income less the $27.1 million of dividends paid for the first nine months of 2015.

As of September 30, 2015, our non-performing non-covered loans increased to $48.8 million, or 0.83%, of total non-covered loans from $39.6 million, or 0.82%, of total non-covered loans as of December 31, 2014. The allowance for loan losses for non-covered loans as a percent of non-performing non-covered loans decreased to 124.15% as of September 30, 2015, compared to 132.63% as of December 31, 2014. Non-performing non-covered loans in Arkansas were $29.4 million at September 30, 2015 compared to $24.5 million as of December 31, 2014. Non-performing non-covered loans in Florida were $18.4 million at September 30, 2015 compared to $14.8 million as of December 31, 2014. Non-performing non-covered loans in Alabama were $985,000 at September 30, 2015 compared to $302,000 as of December 31, 2014.

As of September 30, 2015, our non-performing non-covered assets increased to $67.0 million, or 0.80%, of total non-covered assets from $56.5 million, or 0.79%, of total non-covered assets as of December 31, 2014. Non-performing non-covered assets in Arkansas were $41.4 million at September 30, 2015 compared to $39.2 million as of December 31, 2014. Non-performing non-covered assets in Florida were $24.7 million at September 30, 2015 compared to $17.0 million as of December 31, 2014. Non-performing non-covered assets in Alabama were $985,000 at September 30, 2015 compared to $317,000 as of December 31, 2014.

Critical Accounting Policies

Overview. We prepare our consolidated financial statements based on the selection of certain accounting policies, generally accepted accounting principles and customary practices in the banking industry. These policies, in certain areas, require us to make significant estimates and assumptions. Our accounting policies are described in detail in the notes to our consolidated financial statements included as part of this document.

We consider a policy critical if (i) the accounting estimate requires assumptions about matters that are highly uncertain at the time of the accounting estimate; and (ii) different estimates that could reasonably have been used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on our financial statements. Using these criteria, we believe that the accounting policies most critical to us are those associated with our lending practices, including the accounting for the allowance for loan

losses, foreclosed assets, investments, intangible assets, income taxes and stock options.

Investments Available-for-sale. Securities available-for-sale are reported at fair value with unrealized holding gains and losses reported as a separate component of stockholders equity and other comprehensive income (loss), net of taxes. Securities that are held as available-for-sale are used as a part of our asset/liability management strategy. Securities that may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital, and other similar factors are classified as available-for-sale.

Table of Contents

Investments Held-to-Maturity. Securities held-to-maturity, which include any security for which the Company has the positive intent and ability to hold until maturity, are reported at historical cost adjusted for amortization of premiums and accretion of discounts. Premiums and discounts are amortized and accreted, respectively, to interest income using the constant yield method over the period to maturity.

Loans Receivable Not Covered by Loss Share and Allowance for Loan Losses. Except for loans acquired during our acquisitions, substantially all of our loans receivable not covered by loss share are reported at their outstanding principal balance adjusted for any charge-offs, as it is management s intent to hold them for the foreseeable future or until maturity or payoff, except for mortgage loans held for sale. Interest income on loans is accrued over the term of the loans based on the principal balance outstanding.

The allowance for loan losses is established through a provision for loan losses charged against income. The allowance represents an amount that, in management s judgment, will be adequate to absorb probable credit losses on identifiable loans that may become uncollectible and probable credit losses inherent in the remainder of the loan portfolio. The amounts of provisions for loan losses are based on management s analysis and evaluation of the loan portfolio for identification of problem credits, internal and external factors that may affect collectability, relevant credit exposure, particular risks inherent in different kinds of lending, current collateral values and other relevant factors.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical charge-off experience and expected loss given default derived from the Bank s internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

Loans considered impaired, under FASB ASC 310-10-35, are loans for which, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company applies this policy even if delays or shortfalls in payment are expected to be insignificant. The aggregate amount of impairment of loans is utilized in evaluating the adequacy of the allowance for loan losses and amount of provisions thereto. Losses on impaired loans are charged against the allowance for loan losses when in the process of collection it appears likely that such losses will be realized. The accrual of interest on impaired loans is discontinued when, in management s opinion the collection of interest is doubtful, or generally when loans are 90 days or more past due. When accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group s historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans.

Loans are placed on non-accrual status when management believes that the borrower s financial condition, after giving consideration to economic and business conditions and collection efforts, is such that collection of interest is doubtful, or generally when loans are 90 days or more past due. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. Accrued interest related to non-accrual loans is generally charged against the allowance for loan losses when accrued in prior years and reversed from interest income

if accrued in the current year. Interest income on non-accrual loans may be recognized to the extent cash payments are received, although the majority of payments received are usually applied to principal. Non-accrual loans are generally returned to accrual status when principal and interest payments are less than 90 days past due, the customer has made required payments for at least six months, and we reasonably expect to collect all principal and interest.

Table of Contents

Acquisition Accounting, Acquired Loans and Related Indemnification Asset. The Company accounts for its acquisitions under ASC Topic 805, *Business Combinations*, which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date as the fair value of the loans acquired incorporates assumptions regarding credit risk. All loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820. For covered acquired loans fair value is exclusive of the shared-loss agreements with the Federal Deposit Insurance Corporation (FDIC). The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

Over the life of the purchased credit impaired loans acquired, the Company continues to estimate cash flows expected to be collected on pools of loans sharing common risk characteristics, which are treated in the aggregate when applying various valuation techniques. The Company evaluates at each balance sheet date whether the present value of its pools of loans determined using the effective interest rates has decreased and if so, recognizes a provision for loan loss in its consolidated statement of income. For any increases in cash flows expected to be collected, the Company adjusts the amount of accretable yield recognized on a prospective basis over the pool s remaining life.

Because the FDIC will reimburse the Company for certain acquired loans should the Company experience a loss, an indemnification asset is recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectability or contractual limitations. The shared-loss agreements on the acquisition date reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties.

For our FDIC-assisted transactions, shared-loss agreements continue to be measured on the same basis as the related indemnified loans. Because the acquired loans are subject to the accounting prescribed by ASC Topic 310, subsequent changes to the basis of the shared-loss agreements also follow that model. Deterioration in the credit quality of the loans (immediately recorded as an adjustment to the allowance for loan losses) would immediately increase the basis of the shared-loss agreements, with the offset recorded through the consolidated statement of income as a reduction of the provision for loan losses. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the weighted-average remaining life of the loans) decrease the basis of the shared-loss agreements, with such decrease being amortized into income over 1) the same period or 2) the life of the shared-loss agreements, whichever is shorter. Loss assumptions used in the basis of the indemnified loans are consistent with the loss assumptions used to measure the indemnification asset. Fair value accounting incorporates into the fair value of the indemnification asset an element of the time value of money, which is accreted back into income over the life of the shared-loss agreements.

Upon the determination of an incurred loss, the indemnification asset will be reduced by the amount owed by the FDIC. A corresponding claim receivable is recorded until cash is received from the FDIC.

Foreclosed Assets Held for Sale. Real estate and personal properties acquired through or in lieu of loan foreclosure are to be sold and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Valuations are periodically performed by management, and the real estate and personal properties are carried at fair value less costs to sell. Gains and losses from the sale of other real estate and personal properties are recorded in non-interest income, and expenses used to maintain the properties are included in non-interest expenses.

Intangible Assets. Intangible assets consist of goodwill and core deposit intangibles. Goodwill represents the excess purchase price over the fair value of net assets acquired in business acquisitions. The core deposit intangible represents the excess intangible value of acquired deposit customer relationships as determined by valuation

specialists. The core deposit intangibles are being amortized over 48 to 120 months on a straight-line basis. Goodwill is not amortized but rather is evaluated for impairment on at least an annual basis. We perform an annual impairment test of goodwill and core deposit intangibles as required by FASB ASC 350, *Intangibles - Goodwill and Other,* in the fourth quarter.

Table of Contents

Income Taxes. The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management s judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company and its subsidiary file consolidated tax returns. Its subsidiary provides for income taxes on a separate return basis, and remits to the Company amounts determined to be currently payable.

Stock Options. In accordance with FASB ASC 718, *Compensation - Stock Compensation,* and FASB ASC 505-50, *Equity-Based Payments to Non-Employees*, the fair value of each option award is estimated on the date of grant. The Company recognizes compensation expense for the grant-date fair value of the option award over the vesting period of the award.

Acquisitions

Acquisition of Pool of National Commercial Real Estate Loans

On April 1, 2015, the Company s wholly-owned bank subsidiary, Centennial, entered into an agreement with AM PR LLC, an affiliate of J.C. Flowers & Co. (collectively, the Seller), to purchase a pool of national commercial real estate loans totaling approximately $289.1 million for a purchase price of 99% of the total principal value of the acquired loans. The purchase of the loans was completed on April 1, 2015. The acquired loans were originated by the former Doral Bank within its Doral Property Finance portfolio (DPF Portfolio) and were transferred to the Seller by Banco Popular of Puerto Rico (Popular) upon its acquisition of the assets and liabilities of Doral Bank from the FDIC, as receiver for the failed Doral Bank. This pool of loans is now housed in a division of Centennial known as the Centennial CFG. The Centennial CFG is responsible for servicing the acquired loan pool and originating new loan production.

In connection with this acquisition of loans, the Company opened a loan production office on April 23, 2015 in New York City. Through the loan production office, Centennial CFG plans to build out a national lending platform focusing on commercial real estate plus commercial and industrial loans.

Acquisition of Doral Bank s Florida Panhandle operations

On February 27, 2015, the Company s bank subsidiary, Centennial, acquired all the deposits and substantially all the assets of Doral Florida through an alliance agreement with Popular who was the successful lead bidder with the FDIC on the failed Doral Bank of San Juan, Puerto Rico. Including the effects of the purchase accounting adjustments, the acquisition provided the Company with loans of approximately $37.9 million net of loan discounts, deposits of approximately $467.6 million, plus a $428.2 million cash settlement to balance the transaction. There is no loss-share with the FDIC in the acquired assets. The Company recorded a bargain purchase gain of $1.6 million, in connection with the Doral Florida acquisition.

Table of Contents

Prior to the acquisition, Doral Florida operated five branch locations in Panama City, Panama City Beach and Pensacola, Florida plus a loan production office in Tallahassee, Florida. At the time of acquisition, Centennial operated 29 branch locations in the Florida Panhandle. As a result, the Company closed all five branch locations during the July 2015 systems conversion and returned the facilities back to the FDIC.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements for an additional discussion regarding the acquisition of Doral Florida.

Acquisition of Broward Financial Holdings, Inc.

On October 23, 2014, the Company completed its acquisition of Broward Financial Holdings, Inc. (Broward), parent company of Broward Bank of Commerce, pursuant to a previously announced definitive agreement and plan of merger whereby a wholly-owned acquisition subsidiary (Acquisition Sub II) of HBI merged with and into Broward, resulting in Broward becoming a wholly-owned subsidiary of HBI. Immediately thereafter, Broward Bank of Commerce was merged into Centennial. Under the terms of the Agreement and Plan of Merger dated July 30, 2014 by and among HBI, Centennial, Broward, Broward Bank of Commerce and Acquisition Sub II, HBI issued 1,020,824 shares of its common stock valued at approximately $30.2 million as of October 23, 2014, plus $3.3 million in cash in exchange for all outstanding shares of Broward common stock. HBI has also agreed to pay the Broward shareholders at an undetermined date up to approximately $751,000 in additional consideration. The amount and timing of the additional payment, if any, will depend on future payments received or losses incurred by Centennial from certain current Broward Bank of Commerce loans. At September 30, 2015 and December 31, 2014, the Company had recorded a fair value of zero for the potential additional consideration.

Prior to the acquisition, Broward Bank of Commerce operated two banking locations in Fort Lauderdale, Florida. Including the effects of the purchase accounting adjustments, Broward had approximately $184.4 million in total assets, $121.1 million in total loans after $3.0 million of loan discounts, and $134.2 million in deposits.

As of the acquisition date, Broward s common equity totaled $20.4 million and the Company paid a purchase price to the Broward shareholders of approximately $33.6 million for the Broward acquisition. As a result, the Company paid a multiple of 1.62 of Broward s book value per share and tangible book value per share.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements for an additional discussion regarding the acquisition of Broward.

Acquisition of Florida Traditions Bank

On July 17, 2014, the Company completed the acquisition of all of the issued and outstanding shares of common stock of Traditions and merged Traditions into Centennial. Under the terms of the Agreement and Plan of Merger dated April 25, 2014, by and among the Company, Centennial, and Traditions, the shareholders of Traditions received approximately $39.5 million of the Company s common stock valued at the time of closing, in exchange for all outstanding shares of Traditions common stock.

Prior to the acquisition, Traditions operated eight banking locations in Central Florida, including its main office in Dade City, Florida. Including the effects of the purchase accounting adjustments, Traditions had $310.5 million in total assets, $241.6 million in loans after $8.5 million of loan discounts, and $267.3 million in deposits.

The transaction was accretive to the Company s book value per common share and tangible book value per common share by $0.31 per share and $0.21 per share, respectively.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements for an additional discussion regarding the acquisition of Traditions.

Table of Contents

FDIC Indemnification Asset

In conjunction with the 2010 FDIC-assisted transactions, the Company entered into loss share agreements with the FDIC. These agreements cover realized losses on loans, foreclosed real estate and certain other assets. These loss share assets are measured separately from the loan portfolios because they are not contractually embedded in the loans and are not transferable with the loans should the Company choose to dispose of them. Fair values at the acquisition dates were estimated based on projected cash flows available for loss-share based on the credit adjustments estimated for each loan pool and the loss share percentages. The loss share assets are also separately measured from the related loans and foreclosed real estate and recorded as FDIC indemnification assets on the Consolidated Balance Sheets. Subsequent to the acquisition date, reimbursements received from the FDIC for actual incurred losses will reduce the loss share assets. Reductions to expected credit losses, to the extent such reductions to expected credit losses are the result of an improvement to the actual or expected cash flows from the covered assets, will also reduce the loss share assets. Increases in expected credit losses will require an increase to the allowance for loan losses and a corresponding increase to the loss share assets. As the loss share agreements approach the various expiration dates there could be unexpected volatility as future expected loan losses might become projected to occur outside of the loss share coverage reimbursement window.

During the first quarter of 2015, the five-year covered loan loss-share agreements on the commercial real estate and commercial and industrial loans acquired through the FDIC-assisted acquisitions of Old Southern and Key West concluded. Since the five-year covered loan loss-share has ended, the pools have been reevaluated and are no longer deemed to have a material projected credit impairment. As such, the remaining loans in these pools are performing and have been reclassified out of purchased credit impaired loans and are included in non-covered loans as of September 30, 2015.

During the third quarter of 2015, the five-year covered loan loss-share agreements on the commercial real estate and commercial and industrial loans acquired through the FDIC-assisted acquisitions of Coastal and Bayside concluded. Since the five-year covered loan loss-share has ended, the pools have been reevaluated and are no longer deemed to have a material projected credit impairment. As such, the remaining loans in these pools are performing and have been reclassified out of purchased credit impaired loans and are included in non-covered loans as of September 30, 2015.

Table 4 summarizes the activity in the Company s FDIC indemnification asset during the periods indicated:

Table 4: Changes in FDIC Indemnification Asset

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Beginning balance	$ 15,874	$ 56,626	$ 28,409	$ 89,611
Incurred claims for FDIC covered credit losses	(2,885)	(7,575)	(10,426)	(30,313)
FDIC indemnification accretion/(amortization)	(1,994)	(6,947)	(8,152)	(18,313)
Reduction in provision for loan losses:				
Benefit attributable to FDIC loss share agreements	295		1,459	1,119
Ending balance	$ 11,290	$ 42,104	$ 11,290	$ 42,104

56

Table of Contents

FDIC-Assisted Acquisitions True-up

Our purchase and assumption agreements in connection with our 2010 FDIC-assisted acquisitions allow the FDIC to recover a portion of the loss share funds previously paid out under the indemnification agreements in the event losses fail to reach the expected loss under a claw back provision. Should the markets associated with any of the banks we acquired through FDIC-assisted transactions perform better than initially projected, the Bank is required to pay this clawback (or true-up) payment to the FDIC on a specified date following the tenth anniversary of such acquisition (the True-Up Measurement Date).

Specifically, in connection with the Old Southern and Key West acquisitions, such true-up payments would be equal to 50% of the excess, if any, of (i) 20% of a stated threshold of $110.0 million in the case of Old Southern and $23.0 million in the case of Key West, less (ii) the sum of (A) 25% of the asset premium (discount) plus (B) 25% of the Cumulative Shared Loss Payments (defined as the aggregate of all of the payments made or payable to Centennial minus the aggregate of all of the payments made or payable to the FDIC) plus (C) the Period Servicing Amounts for any twelve-month period prior to and ending on the True-Up Measurement Date (defined as the product of the simple average of the principal amount of shared loss loans and shared loss assets (other than shared loss securities) at the beginning and end of such period times 1%).

In connection with the Coastal-Bayside, Wakulla and Gulf State acquisitions, the true-up payments would be equal to 50% of the excess, if any, of (i) 20% of an intrinsic loss estimate of $121.0 million in the case of Coastal, $24.0 million in the case of Bayside, $73.0 million in the case of Wakulla and $35.0 million in the case of Gulf State, less (ii) the sum of (A) 20% of the net loss amount (the sum of all losses less the sum of all recoveries on covered assets) plus (B) 25% of the asset premium (discount) plus (C) 3.5% of the total loans subject to loss sharing under the loss sharing agreements as specified in the schedules to the agreements.

The amount of FDIC-assisted acquisitions true-up accrued at September 30, 2015 and December 31, 2014 was $10.6 million and $9.4 million, respectively.

Branches

We intend to continue opening new (commonly referred to as *de novo*) branches in our current markets and in other attractive market areas if opportunities arise. In an effort to achieve efficiencies primarily from the acquisitions prior to 2015, the Company closed two Arkansas, one Alabama and two Florida locations during the third quarter of 2015 and has plans to close one Arkansas and three Florida locations during the fourth quarter of 2015.

During 2014, we initiated a branch efficiency study. Since that time, we have gathered data and evaluated over 40 branch locations across the Company. The branch efficiency study considers many variables, such as proximity to other branches, deposits, transactions, market share and profitability. The results of the evaluation have narrowed our current focus to approximately eleven branch locations. Throughout the remainder of the year, it is expected we will announce strategic consolidations where it improves efficiency in certain markets. These closures are expected to result in closing expenses.

The Company currently has 79 branches in Arkansas, 61 branches in Florida, 6 branches in Alabama and a loan production office in New York City.

Table of Contents

Results of Operations

For Three and Nine Months Ended September 30, 2015 and 2014

Our net income increased $8.3 million, or 30.6%, to $35.7 million for the three-month period ended September 30, 2015, from $27.4 million for the same period in 2014. On a diluted earnings per share basis, our earnings were $0.52 and $0.41 per share for the three-month periods ended September 30, 2015 and 2014, respectively. Excluding the $474,000 of merger expenses associated with the acquisition of FBBI, net income was $36.0 million and diluted earnings per share for the three months ended September 30, 2015 was $0.53 per share. Excluding the $3.8 million of merger expenses associated with the 2014 acquisition of Traditions, net income was $29.7 million and diluted earnings per share for the three months ended September 30, 2014 was $0.45 per share. The $6.3 million increase in net income excluding merger expenses is primarily associated with additional net interest income largely resulting from our acquisitions and our organic loan growth plus the reduced amortization of the indemnification asset when compared to the same period in 2014. These improvements were partially offset by an increase in provision for loan losses in third quarter of 2015 and a modest increase in the costs associated with the asset growth when compared to the same period in 2014.

Our net income increased $17.7 million, or 21.2%, to $100.8 million for the nine-month period ended September 30, 2015, from $83.1 million for the same period in 2014. On a diluted earnings per share basis, our earnings were $1.48 and $1.26 per share for the nine-month periods ended September 30, 2015 and 2014, respectively. Excluding the $1.6 million of one-time gain on acquisition offset by $1.9 million of merger expenses associated with the acquisitions of Doral Florida and FBBI, net income was $100.9 million and diluted earnings per share for the first nine months of 2015 was $1.50 per share. Excluding the $4.7 million of merger expenses associated with the 2014 acquisition of Traditions, net income was $86.0 million and diluted earnings per share for the nine months ended September 30, 2014 was $1.31 per share. The $14.9 million increase in net income excluding merger expenses and acquisition gain is primarily associated with additional net interest income largely resulting from our acquisitions and organic loan growth plus a slight decrease in provision for loan losses in the first nine months of 2015 combined with reduced amortization of the indemnification asset when compared to the same period in 2014. These improvements were partially offset by a modest increase in the costs associated with the asset growth when compared to the same period in 2014.

Net Interest Income

Net interest income, our principal source of earnings, is the difference between the interest income generated by earning assets and the total interest cost of the deposits and borrowings obtained to fund those assets. Factors affecting the level of net interest income include the volume of earning assets and interest-bearing liabilities, yields earned on loans and investments, rates paid on deposits and other borrowings, the level of non-performing loans and the amount of non-interest-bearing liabilities supporting earning assets. Net interest income is analyzed in the discussion and tables below on a fully taxable equivalent basis. The adjustment to convert certain income to a fully taxable equivalent basis consists of dividing tax-exempt income by one minus the combined federal and state income tax rate (39.225% for the three and nine-month periods ended September 30, 2015 and 2014).

The Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. The Federal Funds rate, which is the cost to banks of immediately available overnight funds, was lowered on December 16, 2008 to a historic low of 0.25% to 0% where it has remained since that time.

Each quarter we perform credit impairment tests on the loans acquired in our FDIC loss-sharing and non-loss-sharing acquisitions. During the third quarter impairment tests on the estimated cash flows of non-loss-share loans, the Company established that several non-covered loan pools were determined to have a materially projected credit improvement. As a result of this improvement, the Company will recognize approximately $28.5 million as an additional adjustment to yield over the weighted average life of the loans. For the three months ended September 30, 2015 and 2014, the Company recognized $7.3 million and $7.9 million, respectively, of additional accretion income related to the positive results of the impairment tests. For the three months ended September 30, 2015 and 2014, the Company recognized $13.1 million and $13.5 million, respectively in total net accretion for loans and deposits. Consequently, with a growth of average loan balance of $1.14 billion, yields on total loans and net interest margin for the quarter just ended are reduced when compared to the third quarter of 2014.

Table of Contents

Each quarter we perform credit impairment tests on the loans acquired in our FDIC loss-sharing and non-loss-sharing acquisitions. During 2015, the quarterly impairment testing on the estimated cash flows of our FDIC loss-share loans noted a slight decline in asset quality in several of our covered loan pools, which resulted in a net covered provision for loan loss of $998,000. Conversely, during the 2015 impairment tests on the estimated cash flows of non-loss-share loans, the Company established that several non-covered loan pools were determined to have a materially projected credit improvement. As a result of this improvement, the Company will recognize approximately $28.5 million as an additional adjustment to yield over the weighted average life of the loans. For the nine months ended September 30, 2015 and 2014, the Company recognized $16.2 million and $21.2 million, respectively, of additional accretion income related to the positive results of the impairment tests. For the nine months ended September 30, 2015 and 2014, the Company recognized $34.4 million and $45.1 million, respectively in total net accretion for loans and deposits. Consequently, with a growth of average loan balance of $962.9 million, yields on total loans and net interest margin for the nine months ended September 30, 2015 are reduced when compared to the nine months ended September 30, 2014.

The effective yield on non-covered loans for the three months ended September 30, 2015 and 2014 was 5.77% and 5.84%, respectively. The effective yield on non-covered loans for the nine months ended September 30, 2015 and 2014 was 5.69% and 6.06%, respectively. The effective yield on covered loans for the three months ended September 30, 2015 and 2014 was 19.04% and 17.23%, respectively. The effective yield on covered loans for the nine months ended September 30, 2015 and 2014 was 16.99% and 17.53%, respectively.

Net interest income on a fully taxable equivalent basis increased $12.7 million, or 15.82%, to $93.0 million for the three-month period ended September 30, 2015, from $80.3 million for the same period in 2014. This increase in net interest income was the result of a $13.5 million increase in interest income combined with a $766,000 increase in interest expense. The $13.5 million increase in interest income was primarily the result of a higher level of earning assets offset by lower yields on our loans. The $766,000 increase in interest expense for the three-month period ended September 30, 2015, is primarily the result of an increase in higher level of our interest bearing liabilities from our acquisitions offset by our interest bearing liabilities repricing in the lower interest rate environment. The higher level of our interest bearing liabilities resulted in an increase in interest expense of approximately $1.2 million. The repricing of our interest bearing liabilities in the lower interest rate environment resulted in a $460,000 decrease in interest expense.

Net interest income on a fully taxable equivalent basis increased $22.7 million, or 9.52%, to $261.3 million for the nine-month period ended September 30, 2015, from $238.6 million for the same period in 2014. This increase in net interest income was the result of a $23.8 million increase in interest income combined with a $1.1 million increase in interest expense. The $23.8 million increase in interest income was primarily the result of a higher level of earning assets offset by lower yields on our loans. The $1.1 million increase in interest expense for the nine-month period ended September 30, 2015, is primarily the result of an increase in higher level of our interest bearing liabilities from our acquisitions offset by our interest bearing liabilities repricing in the lower interest rate environment. The higher level of our interest bearing liabilities resulted in an increase in interest expense of approximately $2.4 million. The repricing of our interest bearing liabilities in the lower interest rate environment resulted in a $1.3 million decrease in interest expense.

Net interest margin, on a fully taxable equivalent basis, was 5.03% and 4.99% for the three and nine months ended September 30, 2015, respectively, compared to 5.26% and 5.41% for the same period in 2014.

Additional information and analysis for our net interest margin can be found in Tables 23 through 25 of our Non-GAAP Financial Measurements section of the Management Discussion and Analysis.

59

Table of Contents

Tables 5 and 6 reflect an analysis of net interest income on a fully taxable equivalent basis for the three and nine-month periods ended September 30, 2015 and 2014, as well as changes in fully taxable equivalent net interest margin for the three and nine-month periods ended September 30, 2015, compared to the same period in 2014.

Table 5: Analysis of Net Interest Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Interest income	$ 96,653	$ 83,401	$ 270,845	$ 247,827
Fully taxable equivalent adjustment	1,951	1,729	5,685	4,944
Interest income fully taxable equivalent	98,604	85,130	276,530	252,771
Interest expense	5,562	4,796	15,234	14,179
Net interest income fully taxable equivalent	$ 93,042	$ 80,334	$ 261,296	$ 238,592
Yield on earning assets fully taxable equivalent	5.33%	5.57%	5.28%	5.73%
Cost of interest-bearing liabilities	0.39	0.39	0.37	0.39
Net interest spread fully taxable equivalent	4.94	5.18	4.91	5.34
Net interest margin fully taxable equivalent	5.03	5.26	4.99	5.41

Table 6: Changes in Fully Taxable Equivalent Net Interest Margin

	Three Months Ended September 30, 2015 vs. 2014	Nine Months Ended September 30, 2015 vs. 2014
	(In thousands)	
Increase (decrease) in interest income due to change in earning assets	$ 18,396	$ 47,609
Increase (decrease) in interest income due to change in earning asset yields	(4,922)	(23,850)
(Increase) decrease in interest expense due to change in interest-bearing liabilities	(1,226)	(2,404)
(Increase) decrease in interest expense due to change in interest rates paid on interest-bearing liabilities	460	1,349
Increase (decrease) in net interest income	$ 12,708	$ 22,704

Table of Contents

Table 7 shows, for each major category of earning assets and interest-bearing liabilities, the average amount outstanding, the interest income or expense on that amount and the average rate earned or expensed for the three and nine-month periods ended September 30, 2015 and 2014, respectively. The table also shows the average rate earned on all earning assets, the average rate expensed on all interest-bearing liabilities, the net interest spread and the net interest margin for the same periods. The analysis is presented on a fully taxable equivalent basis. Non-accrual loans were included in average loans for the purpose of calculating the rate earned on total loans.

Table 7: Average Balance Sheets and Net Interest Income Analysis

	Three Months Ended September 30,					
	2015			2014		
	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
	(Dollars in thousands)					
ASSETS						
Earnings assets						
Interest-bearing balances due from banks	$ 78,783	$ 32	0.16%	$ 40,723	$ 20	0.19%
Federal funds sold	5,293	4	0.30	13,604	7	0.20
Investment securities taxable	1,129,453	5,157	1.81	1,044,732	4,905	1.86
Investment securities non-taxable	326,069	4,557	5.54	302,859	4,174	5.47
Loans receivable	5,800,688	88,854	6.08	4,661,600	76,024	6.47
Total interest-earning assets	7,340,286	98,604	5.33	6,063,518	85,130	5.57
Non-earning assets	890,551			907,407		
Total assets	$ 8,230,837			$ 6,970,925		
LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities						
Interest-bearing liabilities						
Savings and interest-bearing transaction accounts	$ 3,157,279	$ 1,514	0.19%	$ 2,835,267	$ 1,376	0.19%
Time deposits	1,320,995	1,531	0.46	1,315,772	1,867	0.56
Total interest-bearing deposits	4,478,274	3,045	0.27	4,151,039	3,243	0.31
Federal funds purchased	1,250	1	0.32	2,364	2	0.34
Securities sold under agreement to repurchase	143,672	146	0.40	150,239	186	0.49
FHLB borrowed funds	1,044,369	2,030	0.77	494,650	1,035	0.83
Subordinated debentures	60,826	340	2.22	60,826	330	2.15
Total interest-bearing liabilities	5,728,391	5,562	0.39	4,859,118	4,796	0.39

Non-interest bearing liabilities					
Non-interest bearing deposits	1,371,924		1,148,923		
Other liabilities	58,729		25,090		
Total liabilities	7,159,044		6,033,131		
Stockholders equity	1,071,793		937,794		
Total liabilities and stockholders equity	$ 8,230,837		$ 6,970,925		
Net interest spread		4.94%			5.18%
Net interest income and margin		$ 93,042	5.03%	$ 80,334	5.26%

Table of Contents

Table 7: Average Balance Sheets and Net Interest Income Analysis

	Nine Months Ended September 30,					
	2015			2014		
	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
	(Dollars in thousands)					
ASSETS						
Earnings assets						
Interest-bearing balances due from banks	$ 104,764	$ 167	0.21%	$ 52,741	$ 73	0.19%
Federal funds sold	8,276	15	0.24	22,746	35	0.21
Investment securities taxable	1,097,901	15,830	1.93	1,029,496	14,137	1.84
Investment securities non-taxable	327,040	13,604	5.56	292,349	11,852	5.42
Loans receivable	5,461,573	246,914	6.04	4,498,643	226,674	6.74
Total interest-earning assets	6,999,554	276,530	5.28	5,895,975	252,771	5.73
Non-earning assets	894,092			923,800		
Total assets	$ 7,893,646			$ 6,819,775		
LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities						
Interest-bearing liabilities						
Savings and interest-bearing transaction accounts	$ 3,116,308	$ 4,564	0.20%	$ 2,809,963	$ 3,882	0.18%
Time deposits	1,358,539	5,050	0.50	1,407,255	5,840	0.55
Total interest-bearing deposits	4,474,847	9,614	0.29	4,217,218	9,722	0.31
Federal funds purchased	863	3	0.46	1,001	2	0.27
Securities sold under agreement to repurchase	163,718	481	0.39	145,348	536	0.49
FHLB borrowed funds	788,393	4,133	0.70	416,531	2,933	0.94
Subordinated debentures	60,826	1,003	2.20	60,826	986	2.17
Total interest-bearing liabilities	5,488,647	15,234	0.37	4,840,924	14,179	0.39
Non-interest bearing liabilities						
Non-interest bearing deposits	1,315,160			1,068,626		
Other liabilities	41,982			19,642		
Total liabilities	6,845,789			5,929,192		
Stockholders equity	1,047,857			890,583		

Total liabilities and stockholders equity	$ 7,893,646		$ 6,819,775		
Net interest spread		4.91%			5.34%
Net interest income and margin	$ 261,296	4.99%	$ 238,592		5.41%

Table of Contents

Table 8 shows changes in interest income and interest expense resulting from changes in volume and changes in interest rates for the three and nine-month periods ended September 30, 2015 compared to the same periods in 2014, on a fully taxable basis. The changes in interest rate and volume have been allocated to changes in average volume and changes in average rates, in proportion to the relationship of absolute dollar amounts of the changes in rates and volume.

Table 8: Volume/Rate Analysis

	Three Months Ended September 30, 2015 over 2014			Nine Months Ended September 30, 2015 over 2014		
	Volume	Yield/Rate	Total	Volume	Yield/Rate	Total
	(In thousands)					
Increase (decrease) in:						
Interest income:						
Interest-bearing balances due from banks	$ 15	$ (3)	$ 12	$ 82	$ 12	$ 94
Federal funds sold	(5)	2	(3)	(25)	5	(20)
Investment securities taxable	390	(138)	252	966	727	1,693
Investment securities non-taxable	323	60	383	1,436	316	1,752
Loans receivable	17,673	(4,843)	12,830	45,150	(24,910)	20,240
Total interest income	18,396	(4,922)	13,474	47,609	(23,850)	23,759
Interest expense:						
Interest-bearing transaction and savings deposits	154	(16)	138	439	243	682
Time deposits	7	(343)	(336)	(197)	(593)	(790)
Federal funds purchased	(1)		(1)	1		1
Securities sold under agreement to repurchase	(8)	(32)	(40)	63	(118)	(55)
FHLB borrowed funds	1,074	(79)	995	2,098	(898)	1,200
Subordinated debentures		10	10		17	17
Total interest expense	1,226	(460)	766	2,404	(1,349)	1,055
Increase (decrease) in net interest income	$ 17,170	$ (4,462)	$ 12,708	$ 45,205	$ (22,501)	$ 22,704

Provision for Loan Losses

Our management assesses the adequacy of the allowance for loan losses by applying the provisions of FASB ASC 310-10-35. Specific allocations are determined for loans considered to be impaired and loss factors are assigned to the remainder of the loan portfolio to determine an appropriate level in the allowance for loan losses. The allowance is increased, as necessary, by making a provision for loan losses. The specific allocations for impaired loans are assigned based on an estimated net realizable value after a thorough review of the credit relationship. The potential loss factors associated with the remainder of the loan portfolio are based on an internal net loss experience, as well as management s review of trends within the portfolio and related industries.

While general economic trends have improved, we cannot be certain that the current economic conditions will considerably improve in the near future. Recent and ongoing events at the national and international levels can create uncertainty in the financial markets. Despite these economic uncertainties, we continue to follow our historically conservative procedures for lending and evaluating the provision and allowance for loan losses. Our practice continues to be primarily traditional real estate lending with strong loan-to-value ratios.

Generally, commercial, commercial real estate, and residential real estate loans are assigned a level of risk at origination. Thereafter, these loans are reviewed on a regular basis. The periodic reviews generally include loan payment and collateral status, the borrowers financial data, and key ratios such as cash flows, operating income, liquidity, and leverage. A material change in the borrowers credit analysis can result in an increase or decrease in the loan s assigned risk grade. Aggregate dollar volume by risk grade is monitored on an on-going basis.

Table of Contents

Our management reviews certain key loan quality indicators on a monthly basis, including current economic conditions, delinquency trends and ratios, portfolio mix changes, and other information management deems necessary. This review process provides a degree of objective measurement that is used in conjunction with periodic internal evaluations. To the extent that this review process yields differences between estimated and actual observed losses, adjustments are made to the loss factors used to determine the appropriate level of the allowance for loan losses.

Our Company is primarily a real estate lender in the markets we serve. As such, we are subject to declines in asset quality when real estate prices fall during a recession. The recession in the latter years of the last decade harshly impacted the real estate market in Florida. The economic conditions particularly in our Florida market have improved recently, although not to pre-recession levels. Our Arkansas market s economy has been fairly stable over the past several years with no boom or bust. As a result, the Arkansas economy fared better with its real estate values during this time period.

The provision for loan losses represents management s determination of the amount necessary to be charged against the current period s earnings, to maintain the allowance for loan losses at a level that is considered adequate in relation to the estimated risk inherent in the loan portfolio.

The third quarter 2015 impairment testing noted our covered loan pools required zero provision for loan losses. During the first nine months of 2015, the quarterly impairment testing on the estimated cash flows of our FDIC loss-share loans noted a slight decline in asset quality in several of our covered loan pools, which resulted in a net covered provision for loan loss of $998,000. There was zero provision for covered loans for the three and nine months ended September 30, 2014.

There was $7.1 million and $4.2 million of provision for non-covered loans for the three months ended September 30, 2015 and 2014, respectively. There was $15.3 million and $17.3 million of provision for non-covered loans for the nine months ended September 30, 2015 and 2014, respectively.

The Company experienced a $2.9 million increase and a $2.0 million decrease in the provision for loan losses for non-covered loans during the third quarter and nine months of 2015 versus the third quarter and nine months of 2014, respectively. The increase from the third quarter of 2014 is primarily a result of provisioning for our third quarter 2015 organic loan growth. The expected decrease from the nine months ended 2014 is primarily a reflection of a slowdown from 2014 to 2015 in the migration of the acquired Liberty loans from purchased-loan accounting treatment to originated-loan accounting treatment offset by provisioning for 2015 organic loan growth.

Based upon current accounting guidance, the allowance for loan losses is not carried over in an acquisition. As a result, none of the acquired loans had any allocation of the allowance for loan losses at merger date. This is the result of all loans acquired being recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820. However, as the acquired loans payoff or renew and the acquired footprint originates new loan production, it is necessary to establish an allowance which represents an amount that, in management s judgment, will be adequate to absorb credit losses. Traditionally, there is a large migration of these loans during the first year after acquisition, which can create an elevated provision for loan losses as was the case during 2014 with respect to the Liberty acquisition. The allowance for loan loss methodology for all originated loans as disclosed in Note 1 to the Notes to Consolidated Financial Statements in our Form 10-K was used for these loans. Our current or historical provision levels should not be relied upon as a predictor or indicator of future levels going forward.

Table of Contents

Non-Interest Income

Total non-interest income was $16.5 million and $48.2 million for the three and nine-month periods ended September 30, 2015, compared to $10.8 million and $34.6 million for the same period in 2014, respectively. Our recurring non-interest income includes service charges on deposit accounts, other service charges and fees, trust fees, mortgage lending, insurance, title fees, increase in cash value of life insurance, dividends and FDIC indemnification accretion/amortization.

Table 9 measures the various components of our non-interest income for the three and nine-month periods ended September 30, 2015 and 2014, respectively, as well as changes for the three and nine-month periods ended September 30, 2015 compared to the same periods in 2014.

Table 9: Non-Interest Income

	Three Months Ended September 30,		2015 Change from 2014		Nine Months Ended September 30,		2015 Change from 2014	
	2015	2014			2015	2014		
	(Dollars in thousands)							
Service charges on deposit accounts	$ 6,250	$ 6,275	$ (25)	(0.4)%	$ 17,724	$ 18,379	$ (655)	(3.6)%
Other service charges and fees	6,644	5,977	667	11.2	19,359	17,641	1,718	9.7
Trust fees	398	306	92	30.1	2,016	1,065	951	89.3
Mortgage lending income	3,132	1,901	1,231	64.8	8,019	5,215	2,804	53.8
Insurance commissions	548	984	(436)	(44.3)	1,755	3,334	(1,579)	(47.4)
Income from title services	28	59	(31)	(52.5)	98	162	(64)	(39.5)
Increase in cash value of life insurance	268	322	(54)	(16.8)	871	891	(20)	(2.2)
Dividends from FHLB, FRB, Bankers bank & other	433	389	44	11.3	1,267	1,206	61	5.1
Gain on acquisitions					1,635		1,635	
Gain on sale of SBA loans	151	183	(32)	(17.5)	151	183	(32)	(17.5)
Gain (loss) on sale of premises and equipment, net	(266)	(35)	(231)	660.0	(237)	419	(656)	(156.6)
Gain (loss) on OREO, net	(40)	529	(569)	(107.6)	190	1,927	(1,737)	(90.1)
Gain (loss) on securities, net					4		4	100.0
FDIC indemnification accretion/(amortization), net	(1,994)	(6,947)	4,953	(71.3)	(8,152)	(18,313)	10,161	(55.5)
Other income	993	888	105	11.8	3,542	2,442	1,100	45.0
Total non-interest income	$ 16,545	$ 10,831	$ 5,714	52.8%	$ 48,242	$ 34,551	$ 13,691	39.6%

Non-interest income increased $5.7 million, or 52.8%, to $16.5 million for the three-month period ended September 30, 2015 from $10.8 million for the same period in 2014. Non-interest income increased $13.7 million, or 39.6%, to $48.2 million for the nine-month period ended September 30, 2015 from $34.6 million for the same period in 2014. Non-interest income excluding gain on acquisitions increased $12.1 million, or 34.9%, to $46.6 million for the nine months ended September 30, 2015 from $34.6 million for the same period in 2014.

Excluding gain on acquisitions, the primary factors that resulted in this increase were improvements related to other service charges and fees, trust fees, mortgage lending, amortization on our FDIC indemnification asset and other income offset by a decrease in service charges on deposits, insurance, net changes in sale of premises and equipment gains and losses, and net changes in OREO gains and losses.

Table of Contents

Additional details for the three months ended September 30, 2015 on some of the more significant changes are as follows:

Although we have had acquisitions during the last twelve months, we have experienced a $25,000 decrease in service charges on deposit accounts. This decrease is primarily the result of an improving economy where the banking industry is experiencing fewer overdraft fees.

The $667,000 increase in other service charges and fees is primarily from our acquisitions plus additional loan payoff fees generated by the Centennial CFG.

The $1.2 million increase in mortgage lending income is from the additional lending volume from our acquisitions combined with the organic growth during 2015. The Company hired a mortgage lending president during 2014 to oversee this product offering. This additional management position is responsible for improved pricing and efficiencies which is ultimately generating more revenue from the organic growth.

The $436,000 decrease in insurance commissions is primarily from the sale of an insurance book of business. Effective January 1, 2015, Centennial Insurance Agency sold the insurance book of business of the former Town and Country Insurance to Stephens Insurance, LLC of Little Rock. This disposal was completed at our book value with no gain or loss. The net profit on this book of business was immaterial.

The $5.0 million improvement in FDIC indemnification accretion/amortization, net is primarily associated with the approaching conclusion of the five-year covered loan loss-share agreements plus a lack of recent additional credit improvements in the covered loan portfolio which has not created additional FDIC indemnification asset amortization. For further discussion and analysis, reference Tables 2 and 3 in this Management s Discussion and Analysis.

Additional details for the nine months ended September 30, 2015 on some of the more significant changes are as follows:

Although we have had acquisitions during the last twelve months, we have experienced a $655,000 decrease in service charges on deposit accounts. This decrease is primarily the result of an improving economy where the banking industry is experiencing fewer overdraft fees.

The $1.7 million increase in other service charges and fees is primarily from our acquisitions plus additional loan payoff fees generated by the Centennial CFG.

The $951,000 increase in trust fees is primarily associated with $865,000 in 12B-1 trust fees during the second quarter of 2015, of which the Company anticipates only approximately $77,000 will be received on a recurring basis.

The $2.8 million increase in mortgage lending income is from the additional lending volume from our acquisitions combined with the organic growth during 2015. The Company hired a mortgage lending president during 2014 to oversee this product offering. This additional management position is responsible for improved pricing and efficiencies which is ultimately generating more revenue from the organic growth.

The $1.6 million decrease in insurance commissions is primarily from the sale of insurance book of business. Effective January 1, 2015, Centennial Insurance Agency sold the insurance book of business of the former Town and Country Insurance to Stephens Insurance, LLC of Little Rock. This disposal was completed at our book value with no gain or loss. The net profit on this book of business was immaterial.

The $10.2 million improvement in FDIC indemnification accretion/amortization, net is primarily associated with the approaching conclusion of the five-year covered loan loss-share agreements plus a lack of recent additional credit improvements in the covered loan portfolio which has not created additional FDIC indemnification asset amortization. For further discussion and analysis, reference Tables 2 and 3 in this Management s Discussion and Analysis.

Table of Contents

The $1.1 million increase in other income is primarily associated with two loan recoveries on two of our FDIC covered transactions. We were able to collect a total recovery of approximately $3.2 million in the first nine months of 2015 on two loans that were charged-off prior to the acquired bank being closed by the FDIC. Our agreement with the FDIC requires us to share 80% of these type recoveries with the FDIC and we are able to retain the remaining 20%. As a result, we recorded approximately $626,000 in other income for these two recoveries. The remaining increase in other income is primarily associated with our acquisitions.

Non-Interest Expense

Non-interest expense consists of salaries and employee benefits, occupancy and equipment, data processing, and other expenses such as advertising, merger and acquisition expenses, amortization of intangibles, electronic banking expense, FDIC and state assessment, insurance, legal and accounting fees and other professional fees.

Table 10 below sets forth a summary of non-interest expense for the three and nine-month periods ended September 30, 2015 and 2014, as well as changes for the three and nine-month periods ended September 30, 2015 compared to the same periods in 2014.

Table 10: Non-Interest Expense

	Three Months Ended September 30,		2015 Change from 2014		Nine Months Ended September 30,		2015 Change from 2014	
	2015	2014			2015	2014		
	(Dollars in thousands)							
Salaries and employee benefits	$ 22,225	$ 19,368	$ 2,857	14.8%	$ 63,671	$ 57,114	$ 6,557	11.5%
Occupancy and equipment	6,540	6,234	306	4.9	19,267	18,711	556	3.0
Data processing expense	2,619	1,801	818	45.4	8,101	5,387	2,714	50.4
Other operating expenses:								
Advertising	906	673	233	34.6	2,342	1,776	566	31.9
Merger and acquisition expenses	474	3,772	(3,298)	(87.4)	1,891	4,727	(2,836)	(60.0)
Amortization of intangibles	988	1,153	(165)	(14.3)	3,217	3,467	(250)	(7.2)
Electronic banking expense	1,352	1,307	45	3.4	3,883	3,957	(74)	(1.9)
Directors fees	233	236	(3)	(1.3)	809	669	140	20.9
Due from bank service charges	291	200	91	45.5	792	604	188	31.1
FDIC and state assessment	1,276	972	304	31.3	3,844	3,144	700	22.3
Insurance	617	657	(40)	(6.1)	1,900	1,853	47	2.5
Legal and accounting	338	510	(172)	(33.7)	1,491	1,346	145	10.8
Other professional fees	947	716	231	32.3	1,995	1,806	189	10.5
Operating supplies	464	468	(4)	(0.9)	1,407	1,455	(48)	(3.3)

Postage	293	323	(30)	(9.3)	897	1,002	(105)	(10.5)
Telephone	444	548	(104)	(19.0)	1,418	1,465	(47)	(3.2)
Other expense	4,586	3,879	707	18.2	11,631	12,311	(680)	(5.5)
Total non-interest expense	$ 44,593	$ 42,817	$ 1,776	4.1%	$ 128,556	$ 120,794	$ 7,762	6.4%

Non-interest expense for the three months ended September 30, 2015 was $44.6 million compared to $42.8 million for the three months ended September 30, 2014. Non-interest expense, excluding merger expenses, was $44.1 million for the three months ended September 30, 2015 compared to $39.0 million for the same quarter in 2014. Non-interest expense for the nine months ended September 30, 2015 was $128.6 million compared to $120.8 million for the nine months ended September 30, 2014. Non-interest expense, excluding merger expenses, was $126.7 million for the nine months ended September 30, 2015 compared to $116.1 million for the same quarter in 2014.

The change in non-interest expense this quarter and the nine months was 4.1% and 6.4%, respectively, when compared to a year ago due to the completion of our acquisitions and the opening of the Centennial CFG loan production office. While the cost of doing business in New York City is significantly higher than our Arkansas, Florida and Alabama markets, the Company is still committed to cost-saving measures while achieving our goals of growing the Company.

Table of Contents

Income Taxes

The income tax expense increased $5.2 million, or 34.6%, to $20.2 million for the three-month period ended September 30, 2015, from $15.0 million as of September 30, 2014. The income tax expense increased $11.3 million, or 24.0%, to $58.3 million for the nine-month period ended September 30, 2015, from $47.0 million as of September 30, 2014. The effective income tax rate was 36.1% and 36.6% for the three and nine-month periods ended September 30, 2015, compared to 35.4% and 36.1% for the same periods in 2014, respectively. The primary cause of the increase in taxes is the result of our higher earnings at our marginal tax rate of 39.225%.

Financial Condition as of and for the Period Ended September 30, 2015 and December 31, 2014

Our total assets as of September 30, 2015 increased $1.11 billion to $8.52 billion from the $7.40 billion reported as of December 31, 2014. Our loan portfolio not covered by loss share increased by $1.08 billion to $5.90 billion as of September 30, 2015, from $4.82 billion as of December 31, 2014. This increase is primarily associated with the first quarter of 2015 acquisition of $37.9 million of Doral Florida non-covered loans, net of the $4.3 million discount, the first quarter of 2015 migration of $56.3 million net covered loans to non-covered status, the second quarter of 2015 acquisition of $289.1 million in national commercial real estate loans, the third quarter of 2015 migration of $50.3 million net covered loans to non-covered status plus $649.3 million of organic loan growth since December 31, 2014. Our loan portfolio covered by loss share decreased by $134.8 million to $105.4 million as of September 30, 2015, from $240.2 million as of December 31, 2014. This decrease is primarily associated with the first and third quarter of 2015 migration of a total of $106.6 million net covered loans to non-covered status plus normal pay-downs and payoffs. Stockholders equity increased $76.0 million to $1.09 billion as of September 30, 2015, compared to $1.02 billion as of December 31, 2014. The annualized improvement in stockholders equity for the first nine months of 2015 was 10.0%. The increase in stockholders equity is primarily associated with the $101.9 million of comprehensive income less the $27.1 million of dividends paid for the first nine months of 2015.

Loan Portfolio

Loans Receivable Not Covered by Loss Share

On April 1, 2015, the Company acquired a pool of national commercial real estate loans from J.C. Flowers & Co. LLC totaling approximately $289.1 million. The Company produced approximately $630.8 million of organic non-covered loan growth since March 31, 2015, of which $526.7 million is associated with Centennial CFG with the remaining $104.1 million being associated with loan originations in the legacy footprint.

During the first quarter of 2015, the five-year loss share agreements on the commercial real estate and commercial and industrial loans acquired through the FDIC-assisted acquisitions of Old Southern and Key West concluded. As a result, $56.3 million of these loans including their associated discounts previously classified as covered loans have migrated to non-covered loans status.

During the third quarter of 2015, the five-year loss share agreements on the commercial real estate and commercial and industrial loans acquired through the FDIC-assisted acquisitions of Coastal and Bayside concluded. As a result, $50.3 million of these loans including their associated discounts previously classified as covered loans have migrated to non-covered loans status.

Our non-covered loan portfolio averaged $5.67 billion and $4.40 billion during the three-month periods ended September 30, 2015 and 2014, respectively. Our non-covered loan portfolio averaged $5.29 billion and $4.23 billion during the nine-month periods ended September 30, 2015 and 2014, respectively. Non-covered loans were $5.90

billion as of September 30, 2015 compared to $4.82 billion as of December 31, 2014, which is a $1.08 billion, or 30.05%, annualized increase. Excluding the acquisition of Doral Florida, the migration of Old Southern, Key West, Coastal & Bayside loans from loans covered by FDIC loss share to loans not covered by loss share status, and the acquisition of national commercial real estate loans, the loans increased $649.3 million or an annualized increase of 18.02%.

Table of Contents

The most significant components of the non-covered loan portfolio were commercial real estate, residential real estate, consumer, and commercial and industrial loans. These non-covered loans are primarily originated within our market areas of Arkansas, Florida and South Alabama, and are generally secured by residential or commercial real estate or business or personal property within our market areas. Non-covered loans were approximately $3.45 billion, $1.69 billion and $238.2 million as of September 30, 2015 in Arkansas, Florida and Alabama, respectively.

As of September 30, 2015, we had $435.4 million of construction land development loans which were collateralized by land. This consisted of $250.8 million for raw land and $184.5 million for land with commercial and or residential lots.

Table 11 presents our loan balances not covered by loss share by category as of the dates indicated.

Table 11: Loan Portfolio Not Covered by Loss Share

	As of September 30, 2015	As of December 31, 2014
	(In thousands)	
Real estate:		
Commercial real estate loans:		
Non-farm/non-residential	$ 2,655,882	$ 1,987,890
Construction/land development	805,003	700,139
Agricultural	75,233	72,211
Residential real estate loans:		
Residential 1-4 family	1,055,504	963,990
Multifamily residential	392,483	250,222
Total real estate	4,984,105	3,974,452
Consumer	46,677	56,720
Commercial and industrial	749,846	670,124
Agricultural	78,217	48,833
Other	41,330	67,185
Loans receivable not covered by loss share	$ 5,900,175	$ 4,817,314

As of acquisition date, the Company evaluated $1.61 billion of net loans ($1.67 billion gross loans less $62.1 million discount) purchased in conjunction with the acquisition of Liberty in accordance with the provisions of FASB ASC Topic 310-20, *Nonrefundable Fees and Other Costs*. As of September 30, 2015, the net loan balance of the Liberty ASC Topic 310-20 purchased loans is $860.1 million ($881.1 million gross loans less $21.0 million discount). The fair value discount is being accreted into interest income over the weighted-average life of the loans using a constant yield method.

As of acquisition date, the Company evaluated $120.5 million of net loans ($162.4 million gross loans less $41.9 million discount) purchased in conjunction with the acquisition of Liberty in accordance with the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. As of September 30, 2015, the net loan balance of the Liberty ASC Topic 310-30 purchased loans is $75.8 million ($110.6 million gross loans less $34.8 million discount). These purchased non-covered loans are considered impaired if there is evidence of credit

deterioration since origination and if it is probable that not all contractually required payments will be collected. During the latter part of the second quarter of 2014 the Company received a $6.0 million unexpected recovery from one large commercial loan that was significantly charged down prior to the acquisition date. Since the Liberty impaired loans are accounted for on a pool basis, this recovery is increasing the yield on the impaired loans over the weighted-average life of the loans in the pool going forward by $4.7 million.

Table of Contents

Non-Covered Commercial Real Estate Loans. In our market areas, we originate non-farm and non-residential loans, which are primarily secured by commercial real estate, and construction/land development loans and agricultural loans, which are generally secured by real estate. Our commercial mortgage loans are generally collateralized by first liens on real estate and amortized over a 15 to 25 year period with balloon payments due at the end of one to five years. These loans are generally underwritten by assessing cash flow (debt service coverage), primary and secondary sources of repayment, the financial strength of any guarantor, the strength of the tenant (if any), the borrower s liquidity and leverage, management experience, ownership structure, economic conditions, industry specific trends and collateral. Generally, we will loan up to 85% of the value of improved property, 65% of the value of raw land and 75% of the value of land to be acquired and developed. A first lien on the property and assignment of lease is required if the collateral is rental property, with second lien positions considered on a case-by-case basis.

As of September 30, 2015, non-covered commercial real estate loans totaled $3.54 billion, or 59.9% of our non-covered loan portfolio, as compared to $2.76 billion, or 57.3% of our non-covered loan portfolio, as of December 31, 2014. Our Arkansas, Florida and Alabama non-covered commercial real estate loans were $1.86 billion, $1.09 billion and $142.2 million at September 30, 2015, respectively.

Non-Covered Residential Real Estate Loans. We originate one to four family, owner occupied residential mortgage loans, which are generally secured by property located in our primary market areas. The majority of our non-covered residential mortgage loans consist of loans secured by owner occupied, single family residences. Non-covered residential real estate loans generally have a loan-to-value ratio of up to 90%. These loans are underwritten by giving consideration to the borrower s ability to pay, stability of employment or source of income, debt-to-income ratio, credit history and loan-to-value ratio.

As of September 30, 2015, non-covered residential real estate loans totaled $1.45 billion, or 24.5% of our non-covered loan portfolio, compared to $1.21 billion, or 25.2% of our non-covered loan portfolio, as of December 31, 2014. Our Arkansas, Florida and Alabama non-covered residential real estate loans were $932.9 million, $390.2 million and $68.4 million at September 30, 2015, respectively.

Non-Covered Consumer Loans. Our non-covered consumer loan portfolio is composed of secured and unsecured loans originated by our bank. The performance of consumer loans will be affected by the local and regional economies as well as the rates of personal bankruptcies, job loss, divorce and other individual-specific characteristics.

As of September 30, 2015, our non-covered consumer loan portfolio totaled $46.7 million, or 0.8% of our total non-covered loan portfolio, as compared to the $56.7 million, or 1.2% of our non-covered loan portfolio as of December 31, 2014. Our Arkansas, Florida and Alabama non-covered consumer loans were $31.1 million, $14.3 million and $1.2 million at September 30, 2015, respectively.

Non-Covered Commercial and Industrial Loans. Commercial and industrial loans are made for a variety of business purposes, including working capital, inventory, equipment and capital expansion. The terms for commercial loans are generally one to seven years. Commercial loan applications must be supported by current financial information on the borrower and, where appropriate, by adequate collateral. Commercial loans are generally underwritten by addressing cash flow (debt service coverage), primary and secondary sources of repayment, the financial strength of any guarantor, the borrower s liquidity and leverage, management experience, ownership structure, economic conditions, industry specific trends and collateral. The loan-to-value ratio depends on the type of collateral. Generally speaking, accounts receivable are financed at between 50% and 80% of accounts receivable less than 60 days past due. Inventory financing will range between 50% and 60% (with no work in process) depending on the borrower and nature of inventory. We require a first lien position for those loans.

As of September 30, 2015, non-covered commercial and industrial loans outstanding totaled $749.8 million, or 12.7% of our non-covered loan portfolio, as compared to $670.1 million, or 13.9% of our non-covered loan portfolio, as of December 31, 2014. Our Arkansas, Florida and Alabama non-covered commercial and industrial loans were $520.4 million, $177.3 million and $24.9 million at September 30, 2015, respectively.

Table of Contents

Total Loans Receivable

Table 12 presents total loans receivable by category.

Table 12: Total Loans Receivable

As of September 30, 2015

	Loans Receivable Not Covered by Loss Share	Loans Receivable Covered by FDIC Loss Share	Total Loans Receivable
		(In thousands)	
Real estate:			
Commercial real estate loans			
Non-farm/non-residential	$ 2,655,882	$ 25,903	$ 2,681,785
Construction/land development	805,003	7,836	812,839
Agricultural	75,233	735	75,968
Residential real estate loans			
Residential 1-4 family	1,055,504	66,447	1,121,951
Multifamily residential	392,483	1,200	393,683
Total real estate	4,984,105	102,121	5,086,226
Consumer	46,677	10	46,687
Commercial and industrial	749,846	2,682	752,528
Agricultural	78,217		78,217
Other	41,330	601	41,931
Total	$ 5,900,175	$ 105,414	$ 6,005,589

Non-Performing Assets Not Covered by Loss Share

We classify our non-covered problem loans into three categories: past due loans, special mention loans and classified loans (accruing and non-accruing).

When management determines that a loan is no longer performing, and that collection of interest appears doubtful, the loan is placed on non-accrual status. Loans that are 90 days past due are placed on non-accrual status unless they are adequately secured and there is reasonable assurance of full collection of both principal and interest. Our management closely monitors all loans that are contractually 90 days past due, treated as special mention or otherwise classified or on non-accrual status.

We have non-covered loans acquired with deteriorated credit quality in our September 30, 2015 financial statements as a result of our historical acquisitions plus the migration of loans covered by FDIC loss share to loans not covered by loss share status. The credit metrics most heavily impacted by our acquisitions of acquired non-covered loans with

deteriorated credit quality were the following credit quality indicators listed in Table 13 below:

Allowance for loan losses for non-covered loans to non-performing non-covered loans;

Non-performing non-covered loans to total non-covered loans; and

Non-performing non-covered assets to total non-covered assets.

On the date of acquisition, acquired credit-impaired loans are initially recognized at fair value, which incorporates the present value of amounts estimated to be collectible. As a result of the application of this accounting methodology, certain credit-related ratios, including those referenced above, may not necessarily be directly comparable with periods prior to the acquisition of the credit-impaired non-covered loans and non-covered non-performing assets, or comparable with other institutions.

Table of Contents

Table 13 sets forth information with respect to our non-performing non-covered assets as of September 30, 2015 and December 31, 2014. As of these dates, all non-performing non-covered restructured loans are included in non-accrual non-covered loans.

Table 13: Non-performing Assets Not Covered by Loss Share

	As of September 30, 2015	As of December 31, 2014
	(Dollars in thousands)	
Non-accrual non-covered loans	$ 37,405	$ 24,691
Non-covered loans past due 90 days or more (principal or interest payments)	11,390	14,871
Total non-performing non-covered loans	48,795	39,562
Other non-performing non-covered assets		
Non-covered foreclosed assets held for sale, net	18,204	16,951
Other non-performing non-covered assets	14	
Total other non-performing non-covered assets	18,218	16,951
Total non-performing non-covered assets	$ 67,013	$ 56,513
Allowance for loan losses for non-covered loans to non- performing non-covered loans	124.15%	132.63%
Non-performing non-covered loans to total non-covered loans	0.83	0.82
Non-performing non-covered assets to total non-covered assets	0.80	0.79

Our non-performing non-covered loans are comprised of non-accrual non-covered loans and accruing non-covered loans that are contractually past due 90 days. Our bank subsidiary recognizes income principally on the accrual basis of accounting. When loans are classified as non-accrual, the accrued interest is charged off and no further interest is accrued, unless the credit characteristics of the loan improve. If a loan is determined by management to be uncollectible, the portion of the loan determined to be uncollectible is then charged to the allowance for loan losses.

Total non-performing non-covered loans were $48.8 million as of September 30, 2015, compared to $39.6 million as of December 31, 2014, for an increase of $9.2 million. Of the $9.2 million increase in non-performing loans, $5.0 million is from an increase in non-performing loans in our Arkansas market combined with a $3.6 million increase in non-performing loans in our Florida market and a $683,000 increase in non-performing loans in our Alabama market. Non-performing loans at September 30, 2015 are approximately $29.4 million, $18.4 million and $985,000 in the Arkansas, Florida and Alabama markets, respectively.

Although the current state of the real estate market has improved, uncertainties still present in the economy may continue to increase our level of non-performing non-covered loans. While we believe our allowance for loan losses is adequate and our purchased loans are adequately discounted at September 30, 2015, as additional facts become known

about relevant internal and external factors that affect loan collectability and our assumptions, it may result in us making additions to the provision for loan losses during 2015. Our current or historical provision levels should not be relied upon as a predictor or indicator of future levels going forward.

Table of Contents

Troubled debt restructurings (TDRs) generally occur when a borrower is experiencing, or is expected to experience, financial difficulties in the near term. As a result, the Bank will work with the borrower to prevent further difficulties, and ultimately to improve the likelihood of recovery on the loan. In those circumstances it may be beneficial to restructure the terms of a loan and work with the borrower for the benefit of both parties, versus forcing the property into foreclosure and having to dispose of it in an unfavorable and depressed real estate market. When we have modified the terms of a loan, we usually either reduce the monthly payment and/or interest rate for generally about three to twelve months. For our troubled debt restructurings that accrue interest at the time the loan is restructured, it would be a rare exception to have charged-off any portion of the loan. Only non-performing restructured loans are included in our non-performing non-covered loans. As of September 30, 2015, we had $26.7 million of non-covered restructured loans that are in compliance with the modified terms and are not reported as past due or non-accrual in Table 13. Our Florida market contains $13.4 million of these non-covered restructured loans.

To facilitate this process, a loan modification that might not otherwise be considered may be granted, resulting in classification as a troubled debt restructuring. These loans can involve loans remaining on non-accrual, moving to non-accrual, or continuing on an accrual status, depending on the individual facts and circumstances of the borrower. Generally, a non-accrual loan that is restructured remains on non-accrual for a period of six months to demonstrate that the borrower can meet the restructured terms. However, performance prior to the restructuring, or significant events that coincide with the restructuring, are considered in assessing whether the borrower can pay the new terms and may result in the loan being returned to an accrual status after a shorter performance period. If the borrower s ability to meet the revised payment schedule is not reasonably assured, the loan will remain in a non-accrual status.

The majority of the Bank s loan modifications relate to commercial lending and involve reducing the interest rate, changing from a principal and interest payment to interest-only, lengthening the amortization period, or a combination of some or all of the three. In addition, it is common for the Bank to seek additional collateral or guarantor support when modifying a loan. At September 30, 2015, the amount of troubled debt restructurings was $30.1 million, an increase of 12.1% from $26.9 million at December 31, 2014. As of September 30, 2015 and December 31, 2014, 88.6% and 100.0%, respectively, of all restructured loans were performing to the terms of the restructure.

Total foreclosed assets held for sale not covered by loss share were $18.2 million as of September 30, 2015, compared to $17.0 million as of December 31, 2014 for an increase of $1.2 million. The foreclosed assets held for sale not covered by loss share as of September 30, 2015 are comprised of $11.9 million of assets located in Arkansas, $6.3 million of assets located in Florida and none located in Alabama.

During the first nine months of 2015, we had three non-covered foreclosed properties with a carrying value greater than $1.0 million. One of these three properties is a non-farm/non-residential property in the Florida Panhandle and holds a carrying value of $1.0 million at September 30, 2015. Another non-farm/non-residential property was acquired in the Liberty acquisition and holds an aggregate carrying value of $3.2 million at September 30, 2015. The remaining property is a development loan in Northwest Arkansas which has been foreclosed since the first quarter of 2011. The carrying value was $2.0 million at September 30, 2015. The Company does not currently anticipate any additional losses on these properties. As of September 30, 2015, no other foreclosed assets held for sale not covered by loss share have a carrying value greater than $1.0 million.

Table of Contents

Table 14 shows the summary of foreclosed assets held for sale as of September 30, 2015 and December 31, 2014.

Table 14: Total Foreclosed Assets Held For Sale

	As of September 30, 2015			As of December 31, 2014		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
	(In thousands)					
Commercial real estate loans						
Non-farm/non-residential	$ 9,495	$ 1,397	$ 10,892	$ 6,894	$ 3,935	$ 10,829
Construction/land development	5,560	72	5,632	6,189	2,847	9,036
Agricultural					3	3
Residential real estate loans						
Residential 1-4 family	2,882	1,143	4,025	3,381	1,086	4,467
Multifamily residential	267		267	487		487
Total foreclosed assets held for sale	$ 18,204	$ 2,612	$ 20,816	$ 16,951	$ 7,871	$ 24,822

A loan is considered impaired when it is probable that we will not receive all amounts due according to the contracted terms of the loans. Impaired loans include non-performing loans (loans past due 90 days or more and non-accrual loans), criticized and/or classified loans with a specific allocation, loans categorized as TDRs and certain other loans identified by management that are still performing (loans included in multiple categories are only included once). As of September 30, 2015, average non-covered impaired loans were $87.2 million compared to $91.8 million as of December 31, 2014. As of September 30, 2015, non-covered impaired loans were $92.2 million compared to $85.4 million as of December 31, 2014, for an increase of $6.8 million. This increase is primarily associated with the improvements in loan balances with a specific allocation offset by an increase in the level of loans categorized as TDRs. As of September 30, 2015, our Arkansas, Florida and Alabama markets accounted for approximately $51.4 million, $39.2 million and $1.6 million of the non-covered impaired loans, respectively.

We evaluated loans purchased in conjunction with our historical acquisitions for impairment in accordance with the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Purchased loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected. Purchased impaired non-covered loans are not classified as non-performing non-covered assets for the recognition of interest income as the pools are considered to be performing. However, for the purpose of calculating the non-performing credit metrics, the Company has included all of the non-covered loans which are contractually 90 days past due and still accruing, including those in performing pools. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all purchased impaired loans.

All non-covered loans acquired with deteriorated credit quality are considered impaired loans at the date of acquisition. Since the loans are accounted for on a pooled basis under ASC 310-30, individual loans are not classified as impaired. Since the loans are accounted for on a pooled basis under ASC 310-30, individual loans subsequently restructured within the pools are not classified as TDRs in accordance with ASC 310-30-40. For non-covered loans acquired with deteriorated credit quality that were deemed TDRs prior to the Company s acquisition of them, these

loans are also not considered TDRs as they are accounted for under ASC 310-30.

As of September 30, 2015 and December 31, 2014, there were no non-covered loans acquired with deteriorated credit quality on non-accrual status as a result of the loans being accounted for on the pool basis and the pools are considered to be performing for the accruing of interest income. Also, acquired loans contractually past due 90 days or more are accruing interest because the pools are considered to be performing for the purpose of accruing interest income.

Table of Contents

Past Due and Non-Accrual Loans

Table 15 shows the summary non-accrual loans as of September 30, 2015 and December 31, 2014:

Table 15: Total Non-Accrual Loans

	As of September 30, 2015			As of December 31, 2014		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
	(In thousands)					
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	$ 16,991	$	$ 16,991	$ 8,901	$	$ 8,901
Construction/land development	2,266		2,266	926		926
Agricultural						
Residential real estate loans						
Residential 1-4 family	12,496		12,496	11,949		11,949
Multifamily residential	1,327		1,327	1,344		1,344
Total real estate	33,080		33,080	23,120		23,120
Consumer	203		203	279		279
Commercial and industrial	2,833		2,833	1,108		1,108
Other	1,289		1,289	184		184
Total non-accrual loans	$ 37,405	$	$ 37,405	$ 24,691	$	$ 24,691

If the non-covered non-accrual loans had been accruing interest in accordance with the original terms of their respective agreements, interest income of approximately $509,000 and $361,000 for the three-month periods ended September 30, 2015 and 2014, respectively, would have been recorded. If the non-covered non-accrual loans had been accruing interest in accordance with the original terms of their respective agreements, interest income of approximately $1.4 million and $946,000 for the nine-month periods ended September 30, 2015 and 2014, respectively, would have been recorded. The interest income recognized on the non-covered non-accrual loans for the three and nine-month periods ended September 30, 2015 and 2014 was considered immaterial.

Table 16 shows the summary of accruing past due loans 90 days or more as of September 30, 2015 and December 31, 2014:

Table 16: Total Loans Accruing Past Due 90 Days or More

	As of September 30, 2015			As of December 31, 2014		
	Not Covered	Covered by FDIC	Total	Not Covered	Covered by FDIC	Total

	by Loss Share	Loss Share		by Loss Share	Loss Share	
			(In thousands)			
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	$ 2,694	$ 867	$ 3,561	$ 5,880	$ 9,029	$ 14,909
Construction/land development	1,130	85	1,215	734	4,376	5,110
Agricultural	30	75	105	34	72	106
Residential real estate loans						
Residential 1-4 family	4,668	3,953	8,621	4,128	7,597	11,725
Multifamily residential	1		1	691		691
Total real estate	8,523	4,980	13,503	11,467	21,074	32,541
Consumer	7		7	579		579
Commercial and industrial	2,860	190	3,050	2,825	1,387	4,212
Other					32	32
Total loans accruing past due 90 days or more	$ 11,390	$ 5,170	$ 16,560	$ 14,871	$ 22,493	$ 37,364

Table of Contents

The Company s total past due and non-accrual covered loans to total covered loans was 4.9% and 9.4% as of September 30, 2015 and December 31, 2014, respectively.

Allowance for Loan Losses for Non-Covered Loans

Overview. The allowance for loan losses for non-covered loans is maintained at a level which our management believes is adequate to absorb all probable losses on loans in the loan portfolio. The amount of the allowance is affected by: (i) loan charge-offs, which decrease the allowance; (ii) recoveries on loans previously charged off, which increase the allowance; and (iii) the provision of possible loan losses charged to income, which increases the allowance. In determining the provision for possible loan losses, it is necessary for our management to monitor fluctuations in the allowance resulting from actual charge-offs and recoveries and to periodically review the size and composition of the loan portfolio in light of current and anticipated economic conditions. If actual losses exceed the amount of allowance for loan losses for non-covered loans, our earnings could be adversely affected.

As we evaluate the allowance for loan losses for non-covered loans, we categorize it as follows: (i) specific allocations; (ii) allocations for criticized and classified assets not individually evaluated for impairment; (iii) general allocations; and (iv) miscellaneous allocations.

Specific Allocations. As a general rule, if a specific allocation is warranted, it is the result of an analysis of a previously classified credit or relationship. Typically, when it becomes evident through the payment history or a financial statement review that a loan or relationship is no longer supported by the cash flows of the asset and/or borrower and has become collateral dependent, we will use appraisals or other collateral analysis to determine if collateral impairment has occurred. The amount or likelihood of loss on this credit may not yet be evident, so a charge-off would not be prudent. However, if the analysis indicates that an impairment has occurred, then a specific allocation will be determined for this loan. If our existing appraisal is outdated or the collateral has been subject to significant market changes, we will obtain a new appraisal for this impairment analysis. The majority of the Company s impaired loans are collateral dependent at the present time, so third-party appraisals were used to determine the necessary impairment for these loans. Cash flow available to service debt was used for the other impaired loans. This analysis is performed each quarter in connection with the preparation of the analysis of the adequacy of the allowance for loan losses for non-covered loans, and if necessary, adjustments are made to the specific allocation provided for a particular loan.

For collateral dependent loans, we do not consider an appraisal outdated simply due to the passage of time. However, if an appraisal is older than 13 months and if market or other conditions have deteriorated and we believe that the current market value of the property is not within approximately 20% of the appraised value, we will consider the appraisal outdated and order a new appraisal for the impairment analysis. The recognition of any provision or related charge-off on a collateral dependent loan is either through annual credit analysis or, many times, when the relationship becomes delinquent. If the borrower is not current, we will update our credit and cash flow analysis to determine the borrower s repayment ability. If we determine this ability does not exist and it appears that the collection of the entire principal and interest is not likely, then the loan could be placed on non-accrual status. In any case, loans are classified as non-accrual no later than 105 days past due. If the loan requires a quarterly impairment analysis, this analysis is completed in conjunction with the completion of the analysis of the adequacy of the allowance for loan losses for non-covered loans. Any exposure identified through the impairment analysis is shown as a specific reserve on the individual impairment. If it is determined that a new appraisal is required, it is ordered and will be taken into consideration during completion of the next impairment analysis.

In estimating the net realizable value of the collateral, management may deem it appropriate to discount the appraisal based on the applicable circumstances. In such case, the amount charged off may result in loan principal outstanding

being below fair value as presented in the appraisal.

Between the receipt of the original appraisal and the updated appraisal, we monitor the loan s repayment history. If the loan is over $1.0 million or the total loan relationship is over $2.0 million, our policy requires an annual credit review. In addition, we update all financial information and calculate the global repayment ability of the borrower/guarantors.

As a general rule, when it becomes evident that the full principal and accrued interest of a loan may not be collected, or by law at 105 days past due, we will reflect that loan as non-performing. It will remain non-performing until it performs in a manner that it is reasonable to expect that we will collect the full principal and accrued interest.

Table of Contents

When the amount or likelihood of a loss on a loan has been determined, a charge-off should be taken in the period it is determined. If a partial charge-off occurs, the quarterly impairment analysis will determine if the loan is still impaired, and thus continues to require a specific allocation.

Allocations for Criticized and Classified Assets not Individually Evaluated for Impairment. We establish allocations for loans rated special mention through loss in accordance with the guidelines established by the regulatory agencies. A percentage rate is applied to each loan category to determine the level of dollar allocation.

General Allocations. We establish general allocations for each major loan category. This section also includes allocations to loans, which are collectively evaluated for loss such as residential real estate, commercial real estate, consumer loans and commercial and industrial loans. The allocations in this section are based on a historical review of loan loss experience and past due accounts. We give consideration to trends, changes in loan mix, delinquencies, prior losses, and other related information.

Miscellaneous Allocations. Allowance allocations other than specific, classified, and general are included in our miscellaneous section.

Loans Collectively Evaluated for Impairment. Non-covered loans collectively evaluated for impairment was $5.62 billion and $4.51 billion at September 30, 2015 and December 31, 2014, respectively. The percentage of the allowance for loan losses for non-covered loans allocated to non-covered loans collectively evaluated for impairment to the total non-covered loans collectively evaluated for impairment increased from 0.96% at December 31, 2014 to 0.98% at September 30, 2015. This increase is the result of the normal changes associated with the calculation of the allocation of the allowance for loan losses and includes routine changes from the previous year end reporting period such as organic loan growth, unallocated allowance, individual loan impairments, asset quality and net charge-offs.

Charge-offs and Recoveries. Total non-covered charge-offs increased to $4.0 million and $10.5 million for the three and nine months ended September 30, 2015, respectively, compared to $2.5 million and $7.5 million for the same periods in 2014, respectively. Total non-covered recoveries increased to $535,000 for the three months ended September 30, 2015, compared to $750,000 for the same period in 2014. Total non-covered recoveries increased to $2.3 million for the nine months ended September 30, 2015, compared to $1.9 million for the same period in 2014. For the three months ended September 30, 2015, the net charge-offs were $2.0 million for Arkansas, $1.1 million for Florida and $346,000 for Alabama, equaling a net charge-off position of $3.4 million. For the nine months ended September 30, 2015, the net charge-offs were $6.2 million for Arkansas, $1.6 million for Florida and $367,000 for Alabama, equaling a net charge-off position of $8.2 million.

During the first nine months of 2015, there were $10.5 million in non-covered charge-offs and $2.3 million in non-covered recoveries. While these charge-offs and recoveries consisted of many relationships, there were no individual relationships consisting of charge-offs greater than $1.0 million.

We have not charged off an amount less than what was determined to be the fair value of the collateral as presented in the appraisal (for collateral dependent loans) for any period presented. Loans partially charged-off are placed on non-accrual status until it is proven that the borrower s repayment ability with respect to the remaining principal balance can be reasonably assured. This is usually established over a period of 6-12 months of timely payment performance.

Table of Contents

Table 17 shows the allowance for loan losses, charge-offs and recoveries for non-covered loans as of and for the three and nine-month periods ended September 30, 2015 and 2014.

Table 17: Analysis of Allowance for Loan Losses for Non-Covered Loans

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Balance, beginning of period	$ 55,877	$ 48,248	$ 52,471	$ 39,022
Loans charged off				
Real estate:				
Commercial real estate loans:				
Non-farm/non-residential	1,534	480	3,190	1,148
Construction/land development	64	386	541	553
Agricultural				
Residential real estate loans:				
Residential 1-4 family	1,043	562	2,995	1,779
Multifamily residential				266
Total real estate	2,641	1,428	6,726	3,746
Consumer	401	85	507	283
Commercial and industrial	355	416	1,774	1,600
Agricultural				
Other	569	615	1,448	1,865
Total loans charged off	3,966	2,544	10,455	7,494
Recoveries of loans previously charged off				
Real estate:				
Commercial real estate loans:				
Non-farm/non-residential	(4)	9	697	230
Construction/land development	13	23	79	68
Agricultural				
Residential real estate loans:				
Residential 1-4 family	179	329	428	375
Multifamily residential		3		10
Total real estate	188	364	1,204	683
Consumer	18	16	58	230
Commercial and industrial	159	190	395	255
Agricultural				
Other	170	180	603	705
Total recoveries	535	750	2,260	1,873

Net loans charged off (recovered)	3,431	1,794	8,195	5,621
Provision for loan losses for non-covered loans	7,106	4,241	15,276	17,294
Reclass of provision for loan losses attributable to FDIC loss share agreements	1,029		1,029	
Balance, September 30	$ 60,581	$ 50,695	$ 60,581	$ 50,695
Net charge-offs (recoveries) on loans not covered by loss share to average non-covered loans	0.24%	0.16%	0.21%	0.18%
Allowance for loan losses for non-covered loans to total non-covered loans[(1)]	1.03	1.11	1.03	1.11
Allowance for loan losses for non-covered loans to net charge-offs (recoveries)	445	712	553	675

(1) See Management s Discussion and Analysis of Financial Condition and Results of Operations Table 26, for additional information on non-GAAP tabular disclosure.

Table of Contents

Allocated Allowance for Loan Losses for Non-Covered Loans. We use a risk rating and specific reserve methodology in the calculation and allocation of our allowance for loan losses for non-covered loans. While the allowance is allocated to various loan categories in assessing and evaluating the level of the allowance, the allowance is available to cover charge-offs incurred in all loan categories. Because a portion of our portfolio has not matured to the degree necessary to obtain reliable loss data from which to calculate estimated future losses, the unallocated portion of the allowance is an integral component of the total allowance. Although unassigned to a particular credit relationship or product segment, this portion of the allowance is vital to safeguard against the imprecision inherent in estimating credit losses.

The changes for the period ended September 30, 2015 and the year ended December 31, 2014 in the allocation of the allowance for loan losses for non-covered loans for the individual types of loans are primarily associated with changes in the ASC 310 calculations, both individual and aggregate, and changes in the ASC 450 calculations. These calculations are affected by changes in individual loan impairments, changes in asset quality, net charge-offs during the period and normal changes in the outstanding loan portfolio, as well any changes to the general allocation factors due to changes within the actual characteristics of the loan portfolio.

Table 18 presents the allocation of allowance for loan losses for non-covered loans as of September 30, 2015 and December 31, 2014.

Table 18: Allocation of Allowance for Loan Losses for Non-Covered Loans

	As of September 30, 2015		As of December 31, 2014	
	Allowance Amount	% of loans[(1)]	Allowance Amount	% of loans[(1)]
	(Dollars in thousands)			
Real estate:				
Commercial real estate loans:				
Non-farm/non-residential	$ 22,946	45.0%	$ 16,872	41.3%
Construction/land development	9,292	13.6	8,116	14.5
Agricultural	458	1.3	355	1.5
Residential real estate loans:				
Residential 1-4 family	9,480	17.9	9,909	20.0
Multifamily residential	3,772	6.7	3,537	5.2
Total real estate	45,948	84.5	38,789	82.5
Consumer	644	0.8	763	1.2
Commercial and industrial	8,635	12.7	5,950	13.9
Agricultural	4,094	1.3	5,035	1.0
Other		0.7		1.4
Unallocated	1,260		1,934	
Total	$ 60,581	100.0%	$ 52,471	100.0%

(1) Percentage of loans in each category to loans receivable not covered by loss share.

79

Table of Contents

Allowance for Loan Losses for Covered Loans

Allowance for loan losses for covered loans were $3.1 million and $2.5 million at September 30, 2015 and December 31, 2014, respectively.

Total covered charge-offs decreased to $251,000 for the three months ended September 30, 2015, compared to $863,000 for the same period in 2014. Total covered recoveries decreased to a negative $318,000 for the three months ended September 30, 2015, compared to $87,000 for the same period in 2014. There was no provision for loan losses taken on covered loans during the three months ended September 30, 2015 and 2014, respectively.

Total charge-offs decreased to $1.0 million for the nine months ended September 30, 2015, compared to $1.9 million for the same period in 2014. Total recoveries decreased to $133,000 for the nine months ended September 30, 2015, compared to $389,000 for the same period in 2014. There was $998,000 provision for loan losses taken on covered loans during the nine months ended September 30, 2015. There was zero provision for loan losses taken on covered loans during the nine months ended September 30, 2014.

Investments and Securities

Our securities portfolio is the second largest component of earning assets and provides a significant source of revenue. Securities within the portfolio are classified as held-to-maturity, available-for-sale, or trading based on the intent and objective of the investment and the ability to hold to maturity. Fair values of securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities. The estimated effective duration of our securities portfolio was 2.6 years as of September 30, 2015.

As of September 30, 2015 and December 31, 2014 we had $324.9 million and $356.8 million of held-to-maturity securities, respectively. Of the $324.9 million of held-to-maturity securities, $142.5 million were invested in mortgage-backed securities, $174.6 million were invested in state and political subdivisions, and $7.8 million were invested in obligations of U.S. Government-sponsored enterprises as of September 30, 2015. Of the $356.8 million of held-to-maturity securities, $161.1 million were invested in mortgage-backed securities, $191.0 million were invested in state and political subdivisions, and $4.7 million were invested in U.S. Government-sponsored enterprises as of December 31, 2014.

Securities available-for-sale are reported at fair value with unrealized holding gains and losses reported as a separate component of stockholders equity as other comprehensive income. Securities that are held as available-for-sale are used as a part of our asset/liability management strategy. Securities that may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital, and other similar factors are classified as available-for-sale. Available-for-sale securities were $1.14 billion and $1.07 billion as of September 30, 2015 and December 31, 2014, respectively.

As of September 30, 2015, $485.7 million, or 42.5%, of our available-for-sale securities were invested in mortgage-backed securities, compared to $503.1 million, or 47.1%, of our available-for-sale securities as of December 31, 2014. To reduce our income tax burden, $193.2 million, or 16.9%, of our available-for-sale securities portfolio as of September 30, 2015, was primarily invested in tax-exempt obligations of state and political subdivisions, compared to $176.6 million, or 16.6%, of our available-for-sale securities as of December 31, 2014. Also, we had approximately $410.5 million, or 36.0%, invested in obligations of U.S. Government-sponsored enterprises as of September 30, 2015, compared to $336.1 million, or 31.5%, of our available-for-sale securities as of December 31, 2014.

80

Table of Contents

Certain investment securities are valued at less than their historical cost. These declines are primarily the result of the rate for these investments yielding less than current market rates. Based on evaluation of available evidence, we believe the declines in fair value for these securities are temporary. It is our intent to hold these securities to recovery. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other than temporary impairment is identified.

See Note 3 Investment Securities in the Condensed Notes to Consolidated Financial Statements for the carrying value and fair value of investment securities.

Deposits

Our deposits averaged $5.85 billion and $5.79 billion for the three and nine-month periods ended September 30, 2015. Total deposits as of September 30, 2015 were $5.95 billion, for an annualized increase of 13.0% from December 31, 2014. Deposits are our primary source of funds. We offer a variety of products designed to attract and retain deposit customers. Those products consist of checking accounts, regular savings deposits, NOW accounts, money market accounts and certificates of deposit. Deposits are gathered from individuals, partnerships and corporations in our market areas. In addition, we obtain deposits from state and local entities and, to a lesser extent, U.S. Government and other depository institutions.

Our policy also permits the acceptance of brokered deposits. From time to time, when appropriate in order to fund strong loan demand, we accept brokered time deposits, generally in denominations of less than $250,000, from a regional brokerage firm, and other national brokerage networks. Additionally, we participate in the Certificates of Deposit Account Registry Service (CDARS), which provides for reciprocal (two-way) transactions among banks for the purpose of giving our customers the potential for FDIC insurance of up to $50.0 million. Although classified as brokered deposits for regulatory purposes, funds placed through the CDARS program are our customer relationships that management views as core funding. We also participate in the One-Way Buy Insured Cash Sweep (ICS) service, which provides for one-way buy transactions among banks for the purpose of purchasing cost-effective floating-rate funding without collateralization or stock purchase requirements. Management believes these sources represent a reliable and cost efficient alternative funding source for the Company. However, to the extent that our condition or reputation deteriorates, or to the extent that there are significant changes in market interest rates which we do not elect to match, we may experience an outflow of brokered deposits. In that event we would be required to obtain alternate sources for funding.

Table 19 reflects the classification of the brokered deposits as of September 30, 2015 and December 31, 2014.

Table 19: Brokered Deposits

	September 30, 2015	December 31, 2014
	(In thousands)	
Time Deposits	$ 55,000	$ 5,000
CDARS	28,851	28,551
ICS Checking Deposits	61,591	
ICS Savings Deposits	24,898	
Total Brokered Deposits	$ 170,340	$ 33,551

The interest rates paid are competitively priced for each particular deposit product and structured to meet our funding requirements. We will continue to manage interest expense through deposit pricing. We may allow higher rate deposits to run off during periods of limited loan demand. We believe that additional funds can be attracted and deposit growth can be realized through deposit pricing if we experience increased loan demand or other liquidity needs.

Table of Contents

The Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. The Federal Funds rate, which is the cost to banks of immediately available overnight funds, was lowered on December 16, 2008 to a historic low of 0.25% to 0% where it has remained since that time.

Table 20 reflects the classification of the average deposits and the average rate paid on each deposit category, which is in excess of 10 percent of average total deposits, for the three and nine-month periods ended September 30, 2015 and 2014.

Table 20: Average Deposit Balances and Rates

	Three Months Ended September 30,			
	2015		2014	
	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
	(Dollars in thousands)			
Non-interest-bearing transaction accounts	$ 1,371,924	%	$ 1,148,923	%
Interest-bearing transaction accounts	2,717,417	0.01	2,437,794	0.21
Savings deposits	439,862	1.30	397,473	0.11
Time deposits:				
$100,000 or more	762,285	0.50	697,821	0.68
Other time deposits	558,710	0.40	617,951	0.43
Total	$ 5,850,198	0.21%	$ 5,299,962	0.24%

	Nine Months Ended September 30,			
	2015		2014	
	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
	(Dollars in thousands)			
Non-interest-bearing transaction accounts	$ 1,315,160	%	$ 1,068,626	%
Interest-bearing transaction accounts	2,695,967	0.01	2,444,111	0.20
Savings deposits	420,341	1.39	365,852	0.08
Time deposits:				
$100,000 or more	745,071	0.56	753,874	0.66
Other time deposits	613,468	0.42	653,381	0.43
Total	$ 5,790,007	0.22%	$ 5,285,844	0.25%

Securities Sold Under Agreements to Repurchase

We enter into short-term purchases of securities under agreements to resell (resale agreements) and sales of securities under agreements to repurchase (repurchase agreements) of substantially identical securities. The amounts advanced

under resale agreements and the amounts borrowed under repurchase agreements are carried on the balance sheet at the amount advanced. Interest incurred on repurchase agreements is reported as interest expense. Securities sold under agreements to repurchase decreased $42.3 million, or 24.0%, from $176.5 million as of December 31, 2014 to $134.1 million as of September 30, 2015.

FHLB Borrowed Funds

Our FHLB borrowed funds were $1.22 billion and $698.0 million at September 30, 2015 and December 31, 2014, respectively. At September 30, 2015, all $1.22 billion of the outstanding balance were issued as long-term advances. At December 31, 2014, $515.0 million and $183.0 million of the outstanding balance were issued as short-term and long-term advances, respectively. Our remaining FHLB borrowing capacity was $654.9 million and $905.6 million as of September 30, 2015 and December 31, 2014, respectively. Maturities of borrowings as of September 30, 2015 include: 2015 $11.0 million; 2016 $15.1 million; 2017 $760.5 million; 2018 $169.4 million; 2019 $128.2 million; after 2019 $131.9 million. Expected maturities will differ from contractual maturities because FHLB may have the right to call or we may have the right to prepay certain obligations.

Table of Contents

Subordinated Debentures

Subordinated debentures, which consist of guaranteed payments on trust preferred securities, were $60.8 million as of September 30, 2015 and December 31, 2014.

The trust preferred securities are tax-advantaged issues that qualify for Tier 1 capital treatment subject to certain limitations. Distributions on these securities are included in interest expense. Each of the trusts is a statutory business trust organized for the sole purpose of issuing trust securities and investing the proceeds in our subordinated debentures, the sole asset of each trust. The trust preferred securities of each trust represent preferred beneficial interests in the assets of the respective trusts and are subject to mandatory redemption upon payment of the subordinated debentures held by the trust. We wholly own the common securities of each trust. Each trust s ability to pay amounts due on the trust preferred securities is solely dependent upon our making payment on the related subordinated debentures. Our obligations under the subordinated securities and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by us of each respective trust s obligations under the trust securities issued by each respective trust.

Stockholders Equity

Stockholders equity was $1.09 billion at September 30, 2015 compared to $1.02 billion at December 31, 2014, an annualized increase of 10.0%. As of September 30, 2015 and December 31, 2014, our equity to asset ratio was 12.8% and 13.7%, respectively. Book value per share was $16.05 as of September 30, 2015, compared to $15.03 as of December 31, 2014, a 9.1% annualized increase.

Common Stock Cash Dividends. We declared cash dividends on our common stock of $0.15 per share and $0.10 per share for each of the three-month periods ended September 30, 2015 and 2014, respectively. We declared cash dividends on our common stock of $0.40 per share and $0.25 per share for each of the nine-month periods ended September 30, 2015 and 2014, respectively. The common stock dividend payout ratio for the three months ended September 30, 2015 and 2014 was 28.44% and 24.28%, respectively. The common stock dividend payout ratio for the nine months ended September 30, 2015 and 2014 was 26.86% and 19.75%, respectively. For the fourth quarter of 2015, the Board of Directors declared a regular $0.15 per share quarterly cash dividend payable December 2, 2015, to shareholders of record November 11, 2015.

Stock Repurchase Program. During the first nine months of 2015, the Company utilized a portion of its previously approved stock repurchase program. This program authorized the repurchase of 2,376,000 shares of the Company s common stock. During the first quarter of 2015, the Company repurchased a total of 67,332 shares with a weighted-average stock price of $29.89 per share. No shares were repurchased during the second or third quarters of 2015. The 2015 earnings were used to fund these repurchases. Shares repurchased to date under the program total 1,578,228 shares. The remaining balance available for repurchase is 797,772 shares at September 30, 2015.

Liquidity and Capital Adequacy Requirements

Risk-Based Capital. We, as well as our bank subsidiary, are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and other discretionary actions by regulators that, if enforced, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Our capital amounts and classifications are also subject to qualitative judgments by the regulators as to components, risk weightings and other factors.

In July 2013, the Federal Reserve Board and the other federal bank regulatory agencies issued a final rule to revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets (Basel III). Basel III became effective for the Company and its bank subsidiary on January 1, 2015.

Table of Contents

Basel III applies to all depository institutions, bank holding companies with total consolidated assets of $500 million or more, and savings and loan holding companies. Among other things, Basel III establishes a new minimum and well-capitalized common equity Tier 1 capital requirement of 4.5% and 6.5% of risk-weighted assets, respectively. It also raises the minimum and well-capitalized Tier 1 risk-based capital requirement to 6% and 8% of risk-weighted assets, respectively. Basel III changes assigned higher risk weightings (150%) to exposures that are more than 90 days past due or are on non-accrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property.

Basel III permanently grandfathers trust preferred securities and other non-qualifying capital instruments that were issued and outstanding as of May 19, 2010 in the Tier 1 capital of bank holding companies with total consolidated assets of less than $15.00 billion as of December 31, 2009.

Quantitative measures established by regulation to ensure capital adequacy require us to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes that, as of September 30, 2015 and December 31, 2014, we met all regulatory capital adequacy requirements to which we were subject.

Table 21 presents our risk-based capital ratios as of September 30, 2015 and December 31, 2014.

Table 21: Risk-Based Capital

	As of September 30, 2015	As of December 31, 2014
	(Dollars in thousands)	
Tier 1 capital		
Stockholders equity	$ 1,091,278	$ 1,015,292
Goodwill and core deposit intangibles, net	322,162	(345,762)
Unrealized (gain) loss on available-for-sale securities	8,114	(7,009)
Deferred tax assets		
Total common equity Tier 1 capital	1,421,554	662,521
Qualifying trust preferred securities	59,000	59,000
Total Tier 1 capital	1,480,554	721,521
Tier 2 capital		
Qualifying allowance for loan losses	63,659	55,011
Total Tier 2 capital	63,659	55,011
Total risk-based capital	$ 1,544,213	$ 776,532
Average total assets for leverage ratio	$ 7,901,144	$ 7,000,248
Risk weighted assets	$ 6,973,465	$ 5,747,191

Ratios at end of period		
Common equity Tier 1 capital	10.80%	N/A
Leverage ratio	10.28	10.31%
Tier 1 risk-based capital	11.65	12.55
Total risk-based capital	12.56	13.51
Minimum guidelines		
Common equity Tier 1 capital	4.50%	N/A
Leverage ratio	4.00	4.00%
Tier 1 risk-based capital	6.00	4.00
Total risk-based capital	8.00	8.00
Well-capitalized guidelines		
Common equity Tier 1 capital	6.50%	N/A
Leverage ratio	5.00	5.00%
Tier 1 risk-based capital	8.00	6.00
Total risk-based capital	10.00	10.00

Table of Contents

As of the most recent notification from regulatory agencies, our bank subsidiary was well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized , we, as well as our banking subsidiary, must maintain minimum leverage, Tier 1 risk-based capital, and total risk-based capital ratios as set forth in the table. There are no conditions or events since that notification that we believe have changed the bank subsidiary s category.

Non-GAAP Financial Measurements

Our accounting and reporting policies conform to generally accepted accounting principles in the United States (GAAP) and the prevailing practices in the banking industry. However, due to the application of purchase accounting from the Company s significant number of historical acquisitions (especially Liberty), we believe certain non-GAAP measures and ratios that exclude the impact of these items are useful to the investors and users of our financial statements to evaluate our performance, including net income, earnings per share, net interest margin and the allowance for loan losses for non-covered loans to total non-covered loans.

Because of the Company s significant number of historical acquisitions, our net income, earnings per share, net interest margin and the allowance for loan losses for non-covered loans to total non-covered loans were significantly impacted by accretion and amortization of the fair value adjustments recorded in purchase accounting combined with the recording of provision for loan losses as loans migrate from purchased loan accounting treatment to originated loan accounting treatment. The accretion, amortization and provision for loan losses affect our net income, earnings per share and certain operating ratios as we accrete loan discounts to interest income; amortize premiums and discounts on time deposits to interest expense; amortize impairments of the indemnification assets to non-interest income; amortize intangible assets and accrue FDIC true-up liability to non-interest expense; expense merger and acquisition costs and make provision for loan losses to cover new loans originated which are replacing the purchased loans acquired.

The Company experienced a $2.9 million increase in the provision for loan losses for non-covered loans during the third quarter of 2015 versus 2014. This expected increase is primarily a reflection of the organic loan growth generated during 2015. The Company experienced a $2.0 million decrease in the provision for loan losses for non-covered loans during the first nine months of 2015 versus 2014. Included in the 2014 three and nine-month periods was $2.9 million of provision for loan losses associated with purchased credit impaired loans acquired. The expected decrease from the nine months ended 2014, is primarily a reflection of a slowdown from 2014 to 2015 in the migration of the acquired Liberty loans from purchased-loan accounting treatment to originated-loan accounting treatment offset by the organic loan growth generated during 2015. Based upon current accounting guidance, the allowance for loan losses is not carried over in an acquisition. As a result, none of the acquired loans had any allocation of the allowance for loan losses at merger date. This is the result of all loans acquired being recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820. However, as the acquired loans payoff or renew and the acquired footprint originates new loan production, it is necessary to establish an allowance which represents an amount that, in management s judgment, will be adequate to absorb credit losses. Traditionally, there is a large migration of these loans during the first year after acquisition, which can create an elevated provision for loan losses as was the case during 2014 with respect to the Liberty acquisition. As the acquired loans mature and are renewed as new credits, management evaluates the credit risk associated with these new credit decisions and determines the required allowance for loan loss for these new originated loans using the allowance for loan loss methodology for all originated loans as disclosed in Note 1 to the Notes to Consolidated Financial Statements in our Form 10-K.

We had $1.36 billion of purchased non-covered loans, which includes $134.1 million of discount for credit losses on non-covered loans acquired, at September 30, 2015. We had $1.77 billion of purchased non-covered loans, which includes $139.7 million of discount for credit losses on non-covered loans acquired, at December 31, 2014. For

purchased credit-impaired financial assets, GAAP requires a discount embedded in the purchase price that is attributable to the expected credit losses at the date of acquisition, which is a different approach from non-purchased-credit-impaired assets. While the discount for credit losses on purchased non-covered loans is not available for credit losses on non-purchased non-covered loans, management believes it is useful information to show the same accounting as if applied to all loans, including those acquired in a business combination.

Table of Contents

We believe these non-GAAP measures and ratios, when taken together with the corresponding GAAP measures and ratios, provide meaningful supplemental information regarding our performance. We believe investors benefit from referring to these non-GAAP measures and ratios in assessing our operating results and related trends, and when planning and forecasting future periods. However, these non-GAAP measures and ratios should be considered in addition to, and not as a substitute for or preferable to, ratios prepared in accordance with GAAP. In Tables 22 through 26 below, we have provided a reconciliation of, where applicable, the most comparable GAAP financial measures and ratios to the non-GAAP financial measures and ratios, or a reconciliation of the non-GAAP calculation of the financial measure for the periods indicated:

Table 22: Non-GAAP Earnings

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands, except per share data)			
GAAP net income	$ 35,741	$ 27,371	$ 100,766	$ 83,137
Accretion to net interest income	(13,086)	(13,465)	(34,388)	(45,120)
Provision for loan losses	3,606	1,315	8,976	14,368
FDIC indemnification amortization	1,994	6,947	8,152	18,313
FDIC true-up accrual	383	383	1,148	1,020
Amortization of intangible assets	988	1,153	3,217	3,467
Gain on acquisitions			1,635	
Merger and acquisition expenses	474	3,772	1,891	4,727
Tax impact of the above items	3,428	(64)	5,694	1,960
Non-GAAP impact to net income	(2,213)	41	(3,675)	(1,265)
Non-GAAP net income	$ 33,528	$ 27,412	$ 97,091	$ 81,872
GAAP diluted earnings per share	$ 0.52	$ 0.41	$ 1.48	$ 1.26
Impact of purchase accounting, net of tax	(0.03)		(0.05)	(0.02)
Non-GAAP diluted earnings per share	$ 0.49	$ 0.41	$ 1.43	$ 1.24
Average diluted shares outstanding	68,081	66,616	67,971	65,889

(1) Provision for loan losses is shown net of provision for purchased credit impaired loans.

Table 23: Average Yield on Loans

	Three Months Ended September 30,	Nine Months Ended September 30,

	2015	2014	2015	2014
	(Dollars in thousands)			
Interest income on loans receivable FTE	$ 88,854	$ 76,024	$ 246,914	$ 226,674
Purchase accounting accretion	12,852	13,326	33,755	44,710
Non-GAAP interest income on loans receivable FTE	$ 76,002	$ 62,698	$ 213,159	$ 181,964
Average loans	$ 5,800,688	$ 4,661,600	$ 5,461,573	$ 4,498,643
Average purchase accounting loan discounts [1]	148,747	233,014	163,984	257,205
Average loans (non-GAAP)	$ 5,949,435	$ 4,894,614	$ 5,625,557	$ 4,755,848
Average yield on loans (reported)	6.08%	6.47%	6.04%	6.74%
Average contractual yield on loans (non-GAAP)	5.07	5.08	5.07	5.12

(1) Balance includes $134.1 million of discount of credit losses for non-covered loans acquired as of September 30, 2015.

Table of Contents

Table 24: Average Cost of Deposits

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Interest expense on deposits	$ 3,045	$ 3,243	$ 9,614	$ 9,722
Amortization of time deposit (premiums)/discounts, net	234	139	633	410
Non-GAAP interest expense on deposits	$ 3,279	$ 3,382	$ 10,247	$ 10,132
Average deposits	$ 4,478,274	$ 4,151,039	$ 4,474,847	$ 4,217,218
Average unamortized CD (premium)/discount, net	(1,107)	(262)	(1,062)	(126)
Average deposits (non-GAAP)	$ 4,477,167	$ 4,150,777	$ 4,473,785	$ 4,217,092
Average cost of deposits (reported)	0.27%	0.31%	0.29%	0.31%
Average contractual cost of deposits (non-GAAP)	0.29	0.32	0.31	0.32

Table 25: Net Interest Margin

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Net interest income FTE	$ 93,042	$ 80,334	$ 261,296	$ 238,592
Total purchase accounting accretion	13,086	13,465	34,388	45,120
Non-GAAP net interest income FTE	$ 79,956	$ 66,869	$ 226,908	$ 193,472
Average interest-earning assets	$ 7,340,286	$ 6,063,518	$ 6,999,554	$ 5,895,975
Average purchase accounting loan discounts [(1)]	148,747	233,014	163,984	257,205
Average interest-earning assets (non-GAAP)	$ 7,489,033	$ 6,296,532	$ 7,163,538	$ 6,153,180
Net interest margin (reported)	5.03%	5.26%	4.99%	5.41%
Net interest margin (non-GAAP)	4.24	4.21	4.23	4.20

(1)

Balance includes $134.1 million of discount of credit losses for non-covered loans acquired as of September 30, 2015.

Table of Contents

Table 26: Allowance for Loan Losses for Non-Covered Loans to Total Non-Covered Loans

	As of September 30, 2015		
	Non-Covered Loans	Purchased Non-Covered Loans	Total
	(Dollars in thousands)		
Loan balance reported (A)	$ 4,543,413	$ 1,356,762	$ 5,900,175
Loan balance reported plus discount (B)	4,543,413	1,490,893	6,034,306
Allowance for loan losses for non-covered loans (C)	60,581		60,581
Discount for credit losses on non-covered loans acquired (D)		134,131	134,131
Total allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired (E)	$ 60,581	$ 134,131	$ 194,712
Allowance for loan losses for non-covered loans to total non-covered loans (C/A)	1.33%	N/A	1.03%
Discount for credit losses on non-covered loans acquired to non-covered loans acquired plus discount for credit losses on non-covered loans acquired (D/B)	N/A	9.00%	N/A
Allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired to total non-covered loans plus discount for credit losses on non-covered loans acquired (E/B)	N/A	N/A	3.23%

Note: Discount for credit losses on purchased credit impaired loans acquired are accounted for on a pool by pool basis and are not available to cover credit losses on non-acquired loans or other pools.

	As of December 31, 2014		
	Non-Covered Loans	Purchased Non-Covered Loans	Total
	(Dollars in thousands)		
Loan balance reported (A)	$ 3,044,153	$ 1,773,161	$ 4,817,314
Loan balance reported plus discount (B)	3,044,153	1,912,881	4,957,034
Allowance for loan losses for non-covered loans (C)	52,471		52,471
Discount for credit losses on non-covered loans acquired (D)		139,720	139,720

Total allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired (E)	$ 52,471	$ 139,720	$ 192,191
Allowance for loan losses for non-covered loans to total non-covered loans (C/A)	1.72%	N/A	1.09%
Discount for credit losses on non-covered loans acquired to non-covered loans acquired plus discount for credit losses on non-covered loans acquired (D/B)	N/A	7.30%	N/A
Allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired to total non-covered loans plus discount for credit losses on non-covered loans acquired (E/B)	N/A	N/A	3.88%

Note: Discount for credit losses on purchased credit impaired loans acquired are accounted for on a pool by pool basis and are not available to cover credit losses on non-acquired loans or other pools.

Table of Contents

We had $341.6 million, $346.3 million, and $334.3 million total goodwill, core deposit intangibles and other intangible assets as of September 30, 2015, December 31, 2014 and September 30, 2014, respectively. Because of our level of intangible assets and related amortization expenses, management believes diluted earnings per share excluding intangible amortization, tangible book value per share, return on average assets excluding intangible amortization, return on average tangible equity excluding intangible amortization and tangible equity to tangible assets are useful in evaluating our company. These calculations, which are similar to the GAAP calculation of diluted earnings per share, tangible book value, return on average assets, return on average equity, and equity to assets, are presented in Tables 27 through 31, respectively.

Table 27: Diluted Earnings Per Share Excluding Intangible Amortization

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Dollars in thousands, except per share data)			
GAAP net income	$ 35,741	$ 27,371	$ 100,766	$ 83,137
Intangible amortization after-tax	600	701	1,955	2,107
Earnings excluding intangible amortization	$ 36,341	$ 28,072	$ 102,721	$ 85,244
GAAP diluted earnings per share	$ 0.52	$ 0.41	$ 1.48	$ 1.26
Intangible amortization after-tax	0.01	0.01	0.03	0.03
Diluted earnings per share excluding intangible amortization	$ 0.53	$ 0.42	$ 1.51	$ 1.29

Table 28: Tangible Book Value Per Share

	As of September 30, 2015	As of December 31, 2014
	(In thousands, except per share data)	
Book value per share: A/B	$ 16.05	$ 15.03
Tangible book value per share: (A-C-D)/B	11.03	9.90
(A) Total equity	$ 1,091,278	$ 1,015,292
(B) Shares outstanding	68,000	67,571
(C) Goodwill	$ 322,728	$ 325,423
(D) Core deposit and other intangibles	18,828	20,925

Table 29: Return on Average Assets Excluding Intangible Amortization

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Return on average assets: A/C	1.72%	1.56%	1.71%	1.63%
Return on average assets excluding intangible amortization: B/(C-D)	1.83	1.68	1.82	1.76
(A) Net income	$ 35,741	$ 27,371	$ 100,766	$ 83,137
Intangible amortization after-tax	600	701	1,955	2,107
(B) Earnings excluding intangible amortization	$ 36,341	$ 28,072	$ 102,721	$ 85,244
(C) Average assets	$ 8,230,837	$ 6,970,925	$ 7,893,646	$ 6,819,775
(D) Average goodwill, core deposits and other intangible assets	342,009	334,413	343,099	326,747

Table of Contents

Table 30: Return on Average Tangible Equity Excluding Intangible Amortization

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Return on average equity: A/C	13.23%	11.58%	12.86%	12.48%
Return on average tangible equity excluding intangible amortization: B/(C-D)	19.76	18.46	19.49	20.21
(A) Net income	$ 35,741	$ 27,371	$ 100,766	$ 83,137
(B) Earnings excluding intangible amortization	36,341	28,072	102,721	85,244
(C) Average equity	1,071,793	937,794	1,047,857	890,583
(D) Average goodwill, core deposits and other intangible assets	342,009	334,413	343,099	326,747

Table 31: Tangible Equity to Tangible Assets

	As of September 30, 2015	As of December 31, 2014
	(Dollars in thousands)	
Equity to assets: B/A	12.82%	13.71%
Tangible equity to tangible assets: (B-C-D)/(A-C-D)	9.17	9.48
(A) Total assets	$ 8,515,553	$ 7,403,272
(B) Total equity	1,091,278	1,015,292
(C) Goodwill	322,728	325,423
(D) Core deposit and other intangibles	18,828	20,925

Recently Issued Accounting Pronouncements

See Note 22 in the Condensed Notes to Consolidated Financial Statements for a discussion of certain recently issued and recently adopted accounting pronouncements.

Table of Contents

Item 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Liquidity and Market Risk Management

Liquidity Management. Liquidity refers to the ability or the financial flexibility to manage future cash flows to meet the needs of depositors and borrowers and fund operations. Maintaining appropriate levels of liquidity allows us to have sufficient funds available for reserve requirements, customer demand for loans, withdrawal of deposit balances and maturities of deposits and other liabilities. Our primary source of liquidity at our holding company is dividends paid by our bank subsidiary. Applicable statutes and regulations impose restrictions on the amount of dividends that may be declared by our bank subsidiary. Further, any dividend payments are subject to the continuing ability of the bank subsidiary to maintain compliance with minimum federal regulatory capital requirements and to retain its characterization under federal regulations as a well-capitalized institution.

Our bank subsidiary has potential obligations resulting from the issuance of standby letters of credit and commitments to fund future borrowings to our loan customers. Many of these obligations and commitments to fund future borrowings to our loan customers are expected to expire without being drawn upon; therefore, the total commitment amounts do not necessarily represent future cash requirements affecting our liquidity position.

Liquidity needs can be met from either assets or liabilities. On the asset side, our primary sources of liquidity include cash and due from banks, federal funds sold, available-for-sale investment securities and scheduled repayments and maturities of loans. We maintain adequate levels of cash and cash equivalents to meet our day-to-day needs. As of September 30, 2015, our cash and cash equivalents were $228.7 million, or 2.7% of total assets, compared to $112.5 million, or 1.5% of total assets, as of December 31, 2014. Our available-for-sale investment securities and federal funds sold were $1.14 billion as of September 30, 2015 and $1.07 billion as of December 31, 2014.

Our investment portfolio is comprised of approximately 84.0% or $1.23 billion of securities which mature in less than five years. As of September 30, 2015 and December 31, 2014, $1.18 billion and $1.23 billion, respectively, of securities were pledged as collateral for various public fund deposits and securities sold under agreements to repurchase.

On the liability side, our principal sources of liquidity are deposits, borrowed funds, and access to capital markets. Customer deposits are our largest sources of funds. As of September 30, 2015, our total deposits were $5.95 billion, or 69.9% of total assets, compared to $5.42 billion, or 73.3% of total assets, as of December 31, 2014. We attract our deposits primarily from individuals, business, and municipalities located in our market areas.

We may occasionally use our Fed funds lines of credit in order to temporarily satisfy short-term liquidity needs. We have Fed funds lines with two other financial institutions pursuant to which we could have borrowed up to $35.0 million on an unsecured basis as of both September 30, 2015 and December 31, 2014. These lines may be terminated by the respective lending institutions at any time.

We also maintain lines of credit with the Federal Home Loan Bank. Our FHLB borrowed funds were $1.22 billion and $698.0 million at September 30, 2015 and December 31, 2014, respectively. At September 30, 2015, all $1.22 billion of the outstanding balance were issued as long-term advances. At December 31, 2014, $515.0 million and $183.0 million of the outstanding balance were short-term and long-term advances, respectively. Our FHLB borrowing capacity was $654.9 million and $905.6 million as of September 30, 2015 and December 31, 2014, respectively.

We believe that we have sufficient liquidity to satisfy our current operations.

Market Risk Management. Our primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on a large portion of our assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which possess a short term to maturity. We do not hold market risk sensitive instruments for trading purposes.

Table of Contents

Asset/Liability Management. Our management actively measures and manages interest rate risk. The asset/liability committees of the boards of directors of our holding company and bank subsidiary are also responsible for approving our asset/liability management policies, overseeing the formulation and implementation of strategies to improve balance sheet positioning and earnings, and reviewing our interest rate sensitivity position.

One of the tools that our management uses to measure short-term interest rate risk is a net interest income simulation model. This analysis calculates the difference between net interest income forecasted, using base market rates and using a rising and a falling interest rate scenario. The income simulation model includes various assumptions regarding the re-pricing relationships for each of our products. Many of our assets are floating rate loans, which are assumed to re-price immediately, and proportional to the change in market rates, depending on their contracted index. Some loans and investments include the opportunity of prepayment (embedded options), and accordingly the simulation model uses indexes to estimate these prepayments and reinvest their proceeds at current yields. Our non-term deposit products re-price more slowly, usually changing less than the change in market rates and at our discretion.

This analysis indicates the impact of changes in net interest income for the given set of rate changes and assumptions. It assumes the balance sheet remains static and that its structure does not change over the course of the year. It does not account for all factors that impact this analysis, including changes by management to mitigate the impact of interest rate changes or secondary impacts such as changes to our credit risk profile as interest rates change.

Furthermore, loan prepayment rate estimates and spread relationships change regularly. Interest rate changes create changes in actual loan prepayment rates that will differ from the market estimates incorporated in this analysis. Changes that vary significantly from the assumptions may have significant effects on our net interest income.

Interest Rate Sensitivity. Our primary business is banking and the resulting earnings, primarily net interest income, are susceptible to changes in market interest rates. It is management s goal to maximize net interest income within acceptable levels of interest rate and liquidity risks.

A key element in the financial performance of financial institutions is the level and type of interest rate risk assumed. The single most significant measure of interest rate risk is the relationship of the repricing periods of earning assets and interest-bearing liabilities. The more closely the repricing periods are correlated, the less interest rate risk we assume. We use repricing gap and simulation modeling as the primary methods in analyzing and managing interest rate risk.

Gap analysis attempts to capture the amounts and timing of balances exposed to changes in interest rates at a given point in time. As of September 30, 2015, our gap position was liability sensitive with a one-year cumulative repricing gap as a percentage of total earning assets of 0.5%. During this period, the amount of change our asset base realizes in relation to the total change in market interest rates is lower than that of the liability base. As a result, our net interest income will have a negative effect in an environment of modestly rising rates.

We have a portion of our securities portfolio invested in mortgage-backed securities. Mortgage-backed securities are included based on their final maturity date. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Table of Contents

Table 32 presents a summary of the repricing schedule of our interest-earning assets and interest-bearing liabilities (gap) as of September 30, 2015.

Table 32: Interest Rate Sensitivity

	Interest Rate Sensitivity Period							
	0-30 Days	31-90 Days	91-180 Days	181-365 Days	1-2 Years	2-5 Years	Over 5 Years	Total
	(Dollars in thousands)							
Earning assets								
Interest-bearing deposits due from banks	$ 108,394	$	$	$	$	$	$	$ 108,394
Federal funds sold								
Investment securities	170,830	92,266	70,709	89,419	164,745	455,410	422,975	1,466,354
Loans receivable, net	1,346,451	434,938	497,261	872,580	934,544	1,494,136	362,020	5,941,930
Total earning assets	1,625,675	527,204	567,970	961,999	1,099,289	1,949,546	784,995	7,516,678
Interest-bearing liabilities								
Interest-bearing transaction and savings deposits	221,444	269,909	404,864	809,728	520,914	506,403	497,460	3,230,722
Time deposits	190,047	179,067	247,211	419,931	187,667	85,700	2,720	1,312,343
Federal funds purchased								
Securities sold under repurchase agreements	134,142							134,142
FHLB borrowed funds	690,054	5,115	166	15,349	75,467	426,495	3,506	1,216,152
Subordinated debentures	60,826							60,826
Total interest-bearing liabilities	1,296,513	454,091	652,241	1,245,008	784,048	1,018,598	503,686	5,954,185
Interest rate sensitivity gap	$ 329,162	$ 73,113	$ (84,271)	$ (283,009)	$ 315,241	$ 930,948	$ 281,309	$ 1,562,493

Cumulative interest rate sensitivity gap	$ 329,162	$ 402,275	$ 318,004	$ 34,995	$ 350,236	$ 1,281,184	$ 1,562,493
Cumulative rate sensitive assets to rate sensitive liabilities	125.4%	123.0%	113.2%	101.0%	107.9%	123.5%	126.2%
Cumulative gap as a % of total earning assets	4.4%	5.4%	4.2%	0.5%	4.7%	17.0%	20.8%

Item 4: CONTROLS AND PROCEDURES

Article I. Evaluation of Disclosure Controls

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, the Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Additionally, our disclosure controls and procedures were also effective in ensuring that information required to be disclosed in our Exchange Act report is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

Article II. Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company s internal controls over financial reporting during the quarter ended September 30, 2015, which have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Table of Contents

PART II: OTHER INFORMATION

Item 1: Legal Proceedings

There are no material pending legal proceedings, other than ordinary routine litigation incidental to its business, to which the Company or its subsidiaries are a party or of which any of their property is the subject.

Item 1A: Risk Factors

Except for the risk factors set for below, there were no material changes from the risk factors set forth in Part I, Item 1A, Risk Factors, of our Form 10-K for the year ended December 31, 2014. See the discussion of our risk factors in the Form 10-K, as filed with the SEC. The risks described are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

The loss of key officers may materially and adversely affect us.

Our success depends significantly on our Chairman, John W. Allison, and our executive officers, especially C. Randall Sims, Brian S. Davis and Kevin D. Hester plus Centennial Bank s Chief Executive Officer and President, Tracy M. French, and our regional Centennial Bank presidents, Robert F. Birch, Russell D. Carter, III and Jim F. Haynes, Jr. Centennial Bank, in particular, relies heavily on its management team s relationships in its local communities to generate business. Because we do not have employment agreements or non-compete agreements with our executive officers and regional bank presidents, these employees are free to resign at any time and accept an employment offer from another company, including a competitor. The loss of services from a member of our current management team may materially and adversely affect our business, financial condition, results of operations and future prospects.

If our bank subsidiary s assets exceed $10 billion in the future, its change in status under the federal bank regulatory framework will result in increased compliance costs for the bank subsidiary, which could affect our operating results.

Among other things, the Dodd-Frank Act created the Consumer Financial Protection Bureau (the CFPB), which has broad regulatory and enforcement powers over consumer financial products and services. Banks with total assets of more than $10 billion are subject to certain capital testing regulations which are not applicable to smaller banks, and further, the CFPB has exclusive or primary authority to examine banks with more than $10 billion for, and enforce compliance with, the federal consumer financial protection laws. As of September 30, 2015, our bank subsidiary had $8.48 billion in assets. On a pro-forma basis, excluding the effects of any purchase accounting adjustments, our bank subsidiary would have had $9.01 billion in assets as of September 30, 2015. In the event that our bank subsidiary s total assets exceed $10 billion at the end of four consecutive quarters in the future, the bank subsidiary would become subject to additional requirements and regulations and CFPB supervision, examination and enforcement. We expect that our bank subsidiary would have increased compliance costs as a result of such a change in status, which could affect our operating results.

Table of Contents

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

Not applicable.

Item 3: Defaults Upon Senior Securities

Not applicable.

Item 4: Mine Safety Disclosures

Not applicable.

Item 5: Other Information

Not applicable.

Item 6: Exhibits

12.1	Computation of Ratios of Earnings to Fixed Charges*
15	Awareness of Independent Registered Public Accounting Firm*
31.1	CEO Certification Pursuant Rule 13a-14(a)/15d-14(a)*
31.2	CFO Certification Pursuant Rule 13a-14(a)/15d-14(a)*
32.1	CEO Certification Pursuant 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes Oxley Act of 2002*
32.2	CFO Certification Pursuant 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes Oxley Act of 2002*
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*

* Filed herewith

Table of Contents

SIGNATURES

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

HOME BANCSHARES, INC.

(Registrant)

Date: November 5, 2015 /s/ C. Randall Sims
C. Randall Sims, Chief Executive Officer

Date: November 5, 2015 /s/ Brian S. Davis
Brian S. Davis, Chief Financial Officer