

HOME BANCSHARES INC  
Form 10-Q  
November 06, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**

**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Quarterly Period Ended September 30, 2014**

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**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**71-0682831**  
**(I.R.S. Employer**  
**Identification No.)**

**719 Harkrider, Suite 100, Conway, Arkansas**  
**(Address of principal executive offices)**  
**(501) 328-4770**

**72032**  
**(Zip Code)**

**(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  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  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  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

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: 67,530,400 shares as of October 31, 2014.



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**HOME BANCSHARES, INC.**

**FORM 10-Q**

**September 30, 2014**

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**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 on February 28, 2014.

**Table of Contents****PART I: FINANCIAL INFORMATION****Item 1: Financial Statements****Home BancShares, Inc.****Consolidated Balance Sheets**

| (In thousands, except share data)                          | September 30, 2014<br>(Unaudited) | December 31, 2013   |
|--|-----------------------------------|---------------------|
| <b>Assets</b>  |                                   |                     |
| Cash and due from banks                                    | \$ 109,067                        | \$ 104,005          |
| Interest-bearing deposits with other banks                 | 28,416                            | 61,529              |
| Cash and cash equivalents                                  | 137,483                           | 165,534             |
| Federal funds sold   | 44,275                            | 4,275               |
| Investment securities available-for-sale                   | 1,067,617                         | 1,175,484           |
| Investment securities held-to-maturity                     | 296,036                           | 114,621             |
| Loans receivable not covered by loss share                 | 4,583,015                         | 4,194,437           |
| Loans receivable covered by FDIC loss share                | 250,970                           | 282,516             |
| Allowance for loan losses                                  | (52,844)                          | (43,815)            |
| Loans receivable, net                                      | 4,781,141                         | 4,433,138           |
| Bank premises and equipment, net                           | 211,726                           | 197,224             |
| Foreclosed assets held for sale not covered by loss share  | 19,367                            | 29,869              |
| Foreclosed assets held for sale covered by FDIC loss share | 13,513                            | 20,999              |
| FDIC indemnification asset                                 | 42,104                            | 89,611              |
| Cash value of life insurance                               | 70,913                            | 63,501              |
| Accrued interest receivable                                | 23,366                            | 22,944              |
| Deferred tax asset, net                                    | 68,070                            | 89,412              |
| Goodwill   | 313,320                           | 301,736             |
| Core deposit and other intangibles                         | 21,004                            | 22,298              |
| Other assets   | 86,436                            | 81,215              |
| <b>Total assets</b>  | <b>\$ 7,196,371</b>               | <b>\$ 6,811,861</b> |
| <b>Liabilities and Stockholders Equity</b>                 |                                   |                     |
| Deposits:  |                                   |                     |
| Demand and non-interest-bearing                            | \$ 1,170,441                      | \$ 991,161          |
| Savings and interest-bearing transaction accounts          | 2,830,829                         | 2,792,423           |
| Time deposits  | 1,276,001                         | 1,609,462           |
| Total deposits   | 5,277,271                         | 5,393,046           |
| Securities sold under agreements to repurchase             | 160,895                           | 160,984             |
| FHLB borrowed funds  | 713,553                           | 350,661             |



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|   |                     |                     |
|---|---------------------|---------------------|
| Accrued interest payable and other liabilities  | 25,145              | 5,389               |
| Subordinated debentures   | 60,826              | 60,826              |
| <b>Total liabilities</b>  | <b>6,237,690</b>    | <b>5,970,906</b>    |
| <b>Stockholders equity:</b>   |                     |                     |
| Common stock, par value \$0.01; shares authorized 100,000,000 in 2014 and 2013; shares issued and outstanding 66,483,123 in 2014 and 65,081,853 in 2013 | 665                 | 651                 |
| Capital surplus   | 749,573             | 708,058             |
| Retained earnings   | 203,107             | 136,386             |
| Accumulated other comprehensive income (loss)   | 5,336               | (4,140)             |
| <b>Total stockholders equity</b>  | <b>958,681</b>      | <b>840,955</b>      |
| <b>Total liabilities and stockholders equity</b>  | <b>\$ 7,196,371</b> | <b>\$ 6,811,861</b> |

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<br>Ended<br>September 30, |               | Nine Months Ended<br>September 30, |                |
|--|--|---------------|------------------------------------|----------------|
|  | 2014                                   | 2013          | 2014                               | 2013           |
|  | (Unaudited)                            |               |                                    |                |
| <b>Interest income:</b>                                    |  |               |                                    |                |
| Loans  | \$ 75,917                              | \$ 45,003     | \$ 226,334                         | \$ 133,198     |
| Investment securities                                      |  |               |                                    |                |
| Taxable  | 4,905                                  | 2,645         | 14,137                             | 7,538          |
| Tax-exempt   | 2,552                                  | 1,507         | 7,248                              | 4,455          |
| Deposits other banks                                       | 20                                     | 19            | 73                                 | 203            |
| Federal funds sold   | 7                                      | 2             | 35                                 | 15             |
| Total interest income                                      | 83,401                                 | 49,176        | 247,827                            | 145,409        |
| <b>Interest expense:</b>                                   |  |               |                                    |                |
| Interest on deposits                                       | 3,243                                  | 1,810         | 9,722                              | 6,424          |
| Federal funds purchased                                    | 2                                      | 3             | 2                                  | 3              |
| FHLB borrowed funds  | 1,035                                  | 910           | 2,933                              | 2,926          |
| Securities sold under agreements to repurchase             | 186                                    | 87            | 536                                | 253            |
| Subordinated debentures                                    | 330                                    | 16            | 986                                | 263            |
| Total interest expense                                     | 4,796                                  | 2,826         | 14,179                             | 9,869          |
| <b>Net interest income</b>                                 | <b>78,605</b>                          | <b>46,350</b> | <b>233,648</b>                     | <b>135,540</b> |
| Provision for loan losses                                  | 4,241                                  |               | 17,294                             | 850            |
| <b>Net interest income after provision for loan losses</b> | <b>74,364</b>                          | <b>46,350</b> | <b>216,354</b>                     | <b>134,690</b> |
| <b>Non-interest income:</b>                                |  |               |                                    |                |
| Service charges on deposit accounts                        | 6,275                                  | 4,072         | 18,379                             | 11,869         |
| Other service charges and fees                             | 5,977                                  | 3,671         | 17,641                             | 10,587         |
| Trust fees   | 306                                    | 15            | 1,065                              | 51             |
| Mortgage lending income                                    | 1,901                                  | 1,527         | 5,215                              | 4,518          |
| Insurance commissions                                      | 984                                    | 519           | 3,334                              | 1,642          |
| Income from title services                                 | 59                                     | 156           | 162                                | 401            |
| Increase in cash value of life insurance                   | 322                                    | 203           | 891                                | 601            |
| Dividends from FHLB, FRB, Bankers bank & other             | 389                                    | 179           | 1,206                              | 755            |
| Gain on sale of SBA loans                                  | 183                                    | 79            | 183                                | 135            |
| Gain (loss) on sale of premises and equipment, net         | (35)                                   | 303           | 419                                | 712            |
| Gain (loss) on OREO, net                                   | 529                                    | 777           | 1,927                              | 1,304          |
| Gain (loss) on securities, net                             |  |               |                                    | 111            |

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|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| FDIC indemnification accretion/(amortization), net | (6,947)   | (3,177)   | (18,313)  | (7,452)   |
| Other income                                       | 888       | 994       | 2,442     | 2,914     |
| Total non-interest income                          | 10,831    | 9,318     | 34,551    | 28,148    |
| <b>Non-interest expense:</b>                       |           |           |           |           |
| Salaries and employee benefits                     | 19,368    | 12,981    | 57,114    | 38,890    |
| Occupancy and equipment                            | 6,234     | 4,010     | 18,711    | 11,498    |
| Data processing expense                            | 1,801     | 1,114     | 5,387     | 3,855     |
| Other operating expenses                           | 15,414    | 8,610     | 39,582    | 24,190    |
| Total non-interest expense                         | 42,817    | 26,715    | 120,794   | 78,433    |
| <b>Income before income taxes</b>                  | 42,378    | 28,953    | 130,111   | 84,405    |
| Income tax expense                                 | 15,007    | 10,590    | 46,974    | 30,835    |
| <b>Net income</b>                                  | \$ 27,371 | \$ 18,363 | \$ 83,137 | \$ 53,570 |
| <b>Basic earnings per share</b>                    | \$ 0.41   | \$ 0.33   | \$ 1.27   | \$ 0.96   |
| <b>Diluted earnings per share</b>                  | \$ 0.41   | \$ 0.33   | \$ 1.26   | \$ 0.95   |

See Condensed Notes to Consolidated Financial Statements.

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## Home BancShares, Inc.

## Consolidated Statements of Comprehensive Income

| (In thousands)   | Three Months Ended |                    | Nine Months Ended  |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | September 30, 2014 | September 30, 2013 | September 30, 2014 | September 30, 2013 |
|  | (Unaudited)        |                    |                    |                    |
| Net income   | \$ 27,371          | \$ 18,363          | \$ 83,137          | \$ 53,570          |
| Net unrealized gain (loss) on available-for-sale securities                      | 1,071              | (5,505)            | 15,594             | (21,882)           |
| Less: reclassification adjustment for realized (gains) losses included in income |                    |                    |                    | (111)              |
| Other comprehensive income (loss), before tax effect                             | 1,071              | (5,505)            | 15,594             | (21,993)           |
| Tax effect   | (421)              | 2,160              | (6,118)            | 8,628              |
| Other comprehensive income (loss)  | 650                | (3,345)            | 9,476              | (13,365)           |
| Comprehensive income   | \$ 28,021          | \$ 15,018          | \$ 92,613          | \$ 40,205          |

## Home BancShares, Inc.

## Consolidated Statements of Stockholders Equity

## Nine Months Ended September 30, 2014 and 2013

| (In thousands, except share data)                  | Common Stock | Capital Surplus | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total      |
|--|--------------|-----------------|-------------------|---|------------|
| <b>Balance at January 1, 2013</b>                  | \$ 281       | \$ 416,354      | \$ 86,837         | \$ 12,001                                     | \$ 515,473 |
| Comprehensive income:                              |              |                 |                   |   |            |
| Net income   |              |                 | 53,570            |   | 53,570     |
| Other comprehensive income (loss)                  |              |                 |                   | (13,365)                                      | (13,365)   |
| Net issuance of 46,225 shares of common stock from |              |                 |                   |   |            |
| exercise of stock options                          | 1            | 275             |                   |   | 276        |
| 2-for-1 stock split during June 2013               | 281          | (281)           |                   |   |            |
| Tax benefit from stock options exercised           |              | 339             |                   |   | 339        |
| Share-based compensation                           |              | 940             |                   |   | 940        |
| Cash dividends Common Stock, \$0.215 per share     |              |                 | (12,091)          |   | (12,091)   |

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|   |        |            |            |          |            |
|---|--------|------------|------------|----------|------------|
| <b>Balances at September 30, 2013 (unaudited)</b>   | 563    | 417,627    | 128,316    | (1,364)  | 545,142    |
| Comprehensive income:   |        |            |            |          |            |
| Net income  |        |            | 12,950     |          | 12,950     |
| Other comprehensive income (loss)   |        |            |            | (2,776)  | (2,776)    |
| Net issuance of 39,976 shares of common stock from exercise of stock options  |        | 155        |            |          | 155        |
| Issuance of 8,763,930 shares of common stock from acquisition of Liberty, net of issuance costs of approximately \$577    | 88     | 289,421    |            |          | 289,509    |
| Tax benefit from stock options exercised  |        | 497        |            |          | 497        |
| Share-based compensation  |        | 358        |            |          | 358        |
| Cash dividends Common Stock, \$0.075 per share  |        |            | (4,880)    |          | (4,880)    |
| <b>Balances at December 31, 2013</b>  | 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)   |
| <b>Balances at September 30, 2014 (unaudited)</b>   | \$ 665 | \$ 749,573 | \$ 203,107 | \$ 5,336 | \$ 958,681 |

See Condensed Notes to Consolidated Financial Statements.

**Table of Contents****Home BancShares, Inc.****Consolidated Statements of Cash Flows**

| (In thousands)  | Nine Months Ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2014                               | 2013      |
|   | (Unaudited)                        |           |
| <b>Operating Activities</b>   |                                    |           |
| Net income  | \$ 83,137                          | \$ 53,570 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                    |           |
| Depreciation  | 7,492                              | 4,908     |
| Amortization/(accretion)  | 25,647                             | (732)     |
| Share-based compensation  | 1,619                              | 940       |
| Tax benefits from stock options exercised   | (410)                              | (339)     |
| (Gain) loss on assets   | (2,529)                            | (2,588)   |
| Provision for loan losses   | 17,294                             | 850       |
| Deferred income tax effect  | 15,752                             | 9,581     |
| Increase in cash value of life insurance  | (891)                              | (601)     |
| Originations of mortgage loans held for sale  | (169,905)                          | (167,903) |
| Proceeds from sales of mortgage loans held for sale   | 163,228                            | 162,917   |
| Changes in assets and liabilities:  |                                    |           |
| Accrued interest receivable   | 289                                | 2,030     |
| Indemnification and other assets  | 26,959                             | 54,427    |
| Accrued interest payable and other liabilities  | 19,166                             | 5,381     |
| Net cash provided by (used in) operating activities   | 186,848                            | 122,441   |
| <b>Investing Activities</b>   |                                    |           |
| Net (increase) decrease in federal funds sold   | (39,730)                           | 6,448     |
| Net (increase) decrease in loans, excluding loans acquired                                  | (131,200)                          | 6,868     |
| Purchases of investment securities available-for-sale                                       | (79,543)                           | (299,305) |
| Proceeds from maturities of investment securities available-for-sale                        | 212,629                            | 159,613   |
| Proceeds from sale of investment securities available-for-sale                              |                                    | 167       |
| Purchases of investment securities held-to-maturity   | (194,240)                          | (9,536)   |
| Proceeds from maturities of investment securities held-to-maturity                          | 12,194                             |           |
| Proceeds from foreclosed assets held for sale   | 34,307                             | 27,352    |
| Proceeds from sale of SBA loans   |                                    | 2,085     |
| Purchases of premises and equipment, net  | (3,680)                            | (9,950)   |
| Death benefits received   |                                    | 540       |
| Net cash proceeds (paid) received market acquisitions                                       | 13,315                             |           |
| Net cash provided by (used in) investing activities   | (175,948)                          | (115,718) |
| <b>Financing Activities</b>   |                                    |           |

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|   |                   |                   |
|---|-------------------|-------------------|
| Net increase (decrease) in deposits, excluding deposits acquired          | (383,123)         | (234,634)         |
| Net increase (decrease) in securities sold under agreements to repurchase | (89)              | 5,029             |
| Net increase (decrease) in FHLB borrowed funds                            | 360,249           | 139,844           |
| Retirement of subordinated debentures                                     |                   | (25,000)          |
| Proceeds from exercise of stock options                                   | 208               | 276               |
| Disgorgement of profits   | 25                |                   |
| Common stock issuance costs – market acquisitions                         | (215)             |                   |
| Tax benefits from stock options exercised                                 | 410               | 339               |
| Dividends paid on common stock  | (16,416)          | (12,091)          |
| <b>Net cash provided by (used in) financing activities</b>                | <b>(38,951)</b>   | <b>(126,237)</b>  |
| <b>Net change in cash and cash equivalents</b>                            | <b>(28,051)</b>   | <b>(119,514)</b>  |
| <b>Cash and cash equivalents – beginning of year</b>                      | <b>165,534</b>    | <b>231,855</b>    |
| <b>Cash and cash equivalents – end of period</b>                          | <b>\$ 137,483</b> | <b>\$ 112,341</b> |

See Condensed Notes to Consolidated Financial Statements.

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**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 (the Bank ). The Bank has locations in Arkansas, Florida and South Alabama. 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, 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, 2014 and 2013 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 2013 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:

|                                    | <b>Three Months<br/>Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|------------------------------------|---|-------------|--|-------------|
|                                    | <b>2014</b>                                     | <b>2013</b> | <b>2014</b>                                | <b>2013</b> |
|                                    | <b>(In thousands, except per share data)</b>    |             |  |             |
| Net income                         | \$ 27,371                                       | \$ 18,363   | \$ 83,137                                  | \$ 53,570   |
| Average shares outstanding         | 66,223  | 56,256      | 65,499                                     | 56,238      |
| Effect of common stock options     | 393   | 364         | 390  | 339         |
| Average diluted shares outstanding | 66,616  | 56,620      | 65,889                                     | 56,577      |
| Basic earnings per share           | \$ 0.41   | \$ 0.33     | \$ 1.27                                    | \$ 0.96     |
| Diluted earnings per share         | \$ 0.41   | \$ 0.33     | \$ 1.26                                    | \$ 0.95     |

**2. Business Combinations*****Acquisition Florida Traditions Bank***

On July 17, 2014, the Company completed its acquisition of Florida Traditions Bank ( Traditions ) pursuant to a previously announced definitive agreement and plan of merger whereby Traditions merged with and into Centennial Bank ( Centennial ). Under the terms of the Agreement and Plan of Merger dated April 25, 2014, by and among HBI, Centennial, and Traditions, HBI issued 1,316,072 shares of its common stock valued at approximately \$39.5 million as of July 17, 2014, 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. As of acquisition date, Traditions had \$297.6 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.

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The Company has determined that the acquisition of the net assets of Traditions 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:

|   | <b>Florida Traditions Bank</b>      |                                   |                               |
|---|-------------------------------------|-----------------------------------|-------------------------------|
|   | <b>Acquired<br/>from Traditions</b> | <b>Fair Value<br/>Adjustments</b> | <b>As Recorded<br/>by HBI</b> |
|   | <b>(Dollars in thousands)</b>       |                                   |                               |
| <b>Assets</b>   |                                     |                                   |                               |
| Cash and due from banks                                   | \$ 5,169                            | \$ (5)                            | \$ 5,164                      |
| Interest-bearing deposits with other banks                | 8,151                               |                                   | 8,151                         |
| Federal funds sold  | 270                                 |                                   | 270                           |
| Investment securities                                     | 12,942                              | (81)                              | 12,861                        |
| Loans not covered by loss share                           | 250,129                             | (8,500)                           | 241,629                       |
| Allowance for loan losses                                 | (4,532)                             | 4,532                             |                               |
| <b>Total loans receivable</b>                             | <b>245,597</b>                      | <b>(3,968)</b>                    | <b>241,629</b>                |
| Bank premises and equipment, net                          | 15,791                              | 2,104                             | 17,895                        |
| Foreclosed assets held for sale not covered by loss share | 100                                 |                                   | 100                           |
| Cash value of life insurance                              | 6,535                               |                                   | 6,535                         |
| Accrued interest receivable                               | 711                                 |                                   | 711                           |
| Deferred tax asset  | 1,206                               | (678)                             | 528                           |
| Goodwill  |                                     | 11,584                            | 11,584                        |
| Core deposit intangible                                   |                                     | 2,173                             | 2,173                         |
| Other assets  | 1,157                               | 1,715                             | 2,872                         |
| <b>Total assets acquired</b>                              | <b>\$ 297,629</b>                   | <b>\$ 12,844</b>                  | <b>\$ 310,473</b>             |
| <b>Liabilities</b>  |                                     |                                   |                               |
| <b>Deposits</b>   |                                     |                                   |                               |
| Demand and non-interest-bearing                           | \$ 50,503                           | \$                                | \$ 50,503                     |
| Savings and interest-bearing transaction accounts         | 147,814                             |                                   | 147,814                       |
| Time deposits   | 69,031                              |                                   | 69,031                        |
| <b>Total deposits</b>                                     | <b>267,348</b>                      |                                   | <b>267,348</b>                |
| FHLB borrowed funds                                       | 2,643                               |                                   | 2,643                         |
| Accrued interest payable and other liabilities            | 1,155                               | (155)                             | 1,000                         |
| <b>Total liabilities assumed</b>                          | <b>271,146</b>                      | <b>(155)</b>                      | <b>270,991</b>                |

| <b>Equity</b>                               |                   |                  |                   |
|---|-------------------|------------------|-------------------|
| Common stock                                | 26                | (13)             | 13                |
| Capital surplus                             | 25,799            | 13,670           | 39,469            |
| Retained earnings                           | 632               | (632)            |                   |
| Accumulated other comprehensive income      | 26                | (26)             |                   |
| <b>Total equity assumed</b>                 | <b>26,483</b>     | <b>12,999</b>    | <b>39,482</b>     |
| <b>Total liabilities and equity assumed</b> | <b>\$ 297,629</b> | <b>\$ 12,844</b> | <b>\$ 310,473</b> |

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, interest-bearing deposits with other banks and federal funds sold The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets. The \$5,000 adjustment is the cash settlement paid to Traditions shareholders for cash-in-lieu of fractional shares.

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**Investment securities** Investment securities were acquired from Traditions with an \$81,000 adjustment to market value based upon quoted market prices.

**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.

The Company evaluated all 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*. None of the 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*. As a result, the fair value discount is being accreted into interest income over the weighted average life of the loans using a constant yield method.

**Bank premises and equipment** Bank premises and equipment were acquired from Traditions with a \$2.1 million adjustment to market value. This represents the difference between current appraisal completed in connection with the acquisition and book value acquired.

**Foreclosed assets held for sale not covered by loss share** These assets are presented at the estimated fair values that management expects to receive when the properties are sold, net of related costs of disposal.

**Cash value of life insurance** Cash value of life insurance was acquired from Traditions at market value.

**Accrued interest receivable** Accrued interest receivable was acquired from Traditions at market value.

**Deferred tax asset** The current and deferred income tax assets and liabilities are recorded to reflect the differences in the carrying values of the acquired assets and assumed liabilities for financial reporting purposes and the cost basis for federal income tax purposes, at the Company's statutory federal and state income tax rate of 39.225%.

**Goodwill** The consideration paid as a result of the acquisition exceeded the fair value of the assets acquired; therefore, the Company recorded \$11.6 million of goodwill.

**Core deposit intangible** This intangible asset represents the value of the relationships that Traditions 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 \$2.2 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. No fair value adjustment was applied for time deposits because the weighted average interest rate of Traditions' certificates of deposits were at the market rates of similar funding at the time of acquisition.

**FHLB borrowed funds** The fair value of FHLB borrowed funds is estimated based on borrowing rates currently available to the Company for borrowings with similar terms and maturities.

**Accrued interest payable and other liabilities** The fair value used represents the adjustment of certain estimated liabilities from Traditions.

The purchase price allocation and certain fair value measurements remain preliminary due to the timing of the acquisition. We will continue to review the estimated fair values of loans, deposits, property and equipment, intangible assets, and other assets and liabilities, and to evaluate the assumed tax positions and contingencies.

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The Company's operating results for the period ended September 30, 2014, 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 Traditions total assets acquired are less than 5% of total assets as of September 30, 2014 excluding Traditions as recorded by HBI 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 Liberty Bancshares, Inc.**

On October 24, 2013, Home BancShares, Inc. acquired Liberty Bancshares, Inc. (Liberty), parent company of Liberty Bank of Arkansas (Liberty Bank). HBI issued 8,763,930 shares of its common stock valued at approximately \$290.1 million as of October 23, 2013, plus \$30.0 million in cash in exchange for all outstanding shares of Liberty common stock. Additionally, the Company also repurchased all of Liberty's SBLF preferred stock held by the U.S. Treasury in connection with the closing.

Prior to the acquisition, Liberty Bank operated 46 banking offices located in northeast Arkansas, north central Arkansas and northwest Arkansas. Including the effects of the purchase accounting adjustments, the Company acquired approximately \$2.82 billion in assets, approximately \$1.73 billion in loans including loan discounts and approximately \$2.13 billion of deposits. The merger significantly increased the Company's deposit market share in Arkansas.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2013 for an additional discussion of the acquisition of Liberty.

**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:

|                                       | Amortized<br>Cost   | September 30, 2014<br>Available-for-Sale |                                 | Estimated<br>Fair Value |
|---------------------------------------|---------------------|--|---------------------------------|-------------------------|
|                                       |                     | Gross<br>Unrealized<br>Gains             | Gross<br>Unrealized<br>(Losses) |                         |
|                                       |                     | (In thousands)                           |                                 |                         |
| U.S. government-sponsored enterprises | \$ 342,131          | \$ 1,921                                 | \$ (635)                        | \$ 343,417              |
| Mortgage-backed securities            | 493,996             | 3,567                                    | (2,357)                         | 495,206                 |
| State and political subdivisions      | 170,678             | 6,369                                    | (346)                           | 176,701                 |
| Other securities                      | 52,031              | 640                                      | (378)                           | 52,293                  |
| <b>Total</b>                          | <b>\$ 1,058,836</b> | <b>\$ 12,497</b>                         | <b>\$ (3,716)</b>               | <b>\$ 1,067,617</b>     |

| Amortized<br>Cost | Held-to-Maturity    |                     | Estimated<br>Fair |
|-------------------|---------------------|---------------------|-------------------|
|                   | Gross<br>Unrealized | Gross<br>Unrealized |                   |



|                                  |                   | <b>Gains</b>          | <b>(Losses)</b> | <b>Value</b>      |
|----------------------------------|-------------------|-----------------------|-----------------|-------------------|
|                                  |                   | <b>(In thousands)</b> |                 |                   |
| Mortgage-backed securities       | \$ 117,850        | \$ 232                | \$ (225)        | \$ 117,857        |
| State and political subdivisions | 178,186           | 4,098                 | (118)           | 182,166           |
| <b>Total</b>                     | <b>\$ 296,036</b> | <b>\$ 4,330</b>       | <b>\$ (343)</b> | <b>\$ 300,023</b> |

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|                                       | <b>December 31, 2013</b>  |                   |                    |                     |
|---------------------------------------|---------------------------|-------------------|--------------------|---------------------|
|                                       | <b>Available-for-Sale</b> |                   | <b>Gross</b>       |                     |
|                                       | <b>Amortized</b>          | <b>Unrealized</b> | <b>Unrealized</b>  | <b>Estimated</b>    |
|                                       | <b>Cost</b>               | <b>Gains</b>      | <b>(Losses)</b>    | <b>Fair Value</b>   |
|                                       | <b>(In thousands)</b>     |                   |                    |                     |
| U.S. government-sponsored enterprises | \$ 467,535                | \$ 1,330          | \$ (5,324)         | \$ 463,541          |
| Mortgage-backed securities            | 462,510                   | 3,343             | (4,265)            | 461,588             |
| State and political subdivisions      | 196,472                   | 3,085             | (4,045)            | 195,512             |
| Other securities                      | 55,780                    | 216               | (1,153)            | 54,843              |
| <b>Total</b>                          | <b>\$ 1,182,297</b>       | <b>\$ 7,974</b>   | <b>\$ (14,787)</b> | <b>\$ 1,175,484</b> |

|                                  | <b>Held-to-Maturity</b> |                   |                   |                   |
|----------------------------------|-------------------------|-------------------|-------------------|-------------------|
|                                  | <b>Gross</b>            |                   | <b>Gross</b>      |                   |
|                                  | <b>Amortized</b>        | <b>Unrealized</b> | <b>Unrealized</b> | <b>Estimated</b>  |
|                                  | <b>Cost</b>             | <b>Gains</b>      | <b>(Losses)</b>   | <b>Fair Value</b> |
|                                  | <b>(In thousands)</b>   |                   |                   |                   |
| State and political subdivisions | \$ 114,621              | \$ 361            | \$ (1,081)        | \$ 113,901        |
| <b>Total</b>                     | <b>\$ 114,621</b>       | <b>\$ 361</b>     | <b>\$ (1,081)</b> | <b>\$ 113,901</b> |

Assets, principally investment securities, having a carrying value of approximately \$1.14 billion and \$1.13 billion at September 30, 2014 and December 31, 2013, 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 \$160.9 million and \$161.0 million at September 30, 2014 and December 31, 2013, respectively.

The amortized cost and estimated fair value of securities classified as available-for-sale and held-to-maturity at September 30, 2014, 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.

|  | <b>Available-for-Sale</b> |                     | <b>Held-to-Maturity</b> |                   |
|--|---------------------------|---------------------|-------------------------|-------------------|
|  | <b>Amortized</b>          | <b>Estimated</b>    | <b>Amortized</b>        | <b>Estimated</b>  |
|  | <b>Cost</b>               | <b>Fair Value</b>   | <b>Cost</b>             | <b>Fair Value</b> |
|  | <b>(In thousands)</b>     |                     |                         |                   |
| Due in one year or less                | \$ 307,892                | \$ 309,364          | \$ 63,466               | \$ 64,341         |
| Due after one year through five years  | 595,946                   | 600,534             | 142,024                 | 144,203           |
| Due after five years through ten years | 133,306                   | 135,305             | 57,500                  | 58,407            |
| Due after ten years                    | 21,692                    | 22,414              | 33,046                  | 33,072            |
| <b>Total</b>                           | <b>\$ 1,058,836</b>       | <b>\$ 1,067,617</b> | <b>\$ 296,036</b>       | <b>\$ 300,023</b> |

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

During the three-month period ended September 30, 2013, no available-for-sale securities were sold. During the nine-month period ended September 30, 2013, \$167,000 in available-for-sale securities were sold. The gross realized gains on these sales totaled approximately \$111,000. The income tax expense/benefit to net security gains and losses was 39.225% of the gross amounts.

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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, 2014, no securities were deemed to have other-than-temporary impairment besides securities for which impairment was taken in prior periods.

As of September 30, 2014, the Company had approximately \$2.6 million 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 81.8% 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, 2014 and December 31, 2013:

|                                       | <b>September 30, 2014</b>  |                          |                          |                          |                   |                          |
|---------------------------------------|----------------------------|--------------------------|--------------------------|--------------------------|-------------------|--------------------------|
|                                       | <b>Less Than 12 Months</b> |                          | <b>12 Months or More</b> |                          | <b>Total</b>      |                          |
|                                       | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b>        | <b>Unrealized Losses</b> | <b>Fair Value</b> | <b>Unrealized Losses</b> |
|                                       | <b>(In thousands)</b>      |                          |                          |                          |                   |                          |
| U.S. government-sponsored enterprises | \$ 25,839                  | \$ (70)                  | \$ 27,305                | \$ (565)                 | \$ 53,144         | \$ (635)                 |
| Mortgage-backed securities            | 245,228                    | (1,276)                  | 75,480                   | (1,306)                  | 320,708           | (2,582)                  |
| State and political subdivisions      | 12,613                     | (121)                    | 19,155                   | (343)                    | 31,768            | (464)                    |
| Other securities                      |                            |                          | 14,228                   | (378)                    | 14,228            | (378)                    |
| <b>Total</b>                          | <b>\$ 283,680</b>          | <b>\$ (1,467)</b>        | <b>\$ 136,168</b>        | <b>\$ (2,592)</b>        | <b>\$ 419,848</b> | <b>\$ (4,059)</b>        |

|  | <b>December 31, 2013</b>   |                          |                          |                          |                   |                          |
|--|----------------------------|--------------------------|--------------------------|--------------------------|-------------------|--------------------------|
|  | <b>Less Than 12 Months</b> |                          | <b>12 Months or More</b> |                          | <b>Total</b>      |                          |
|  | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b>        | <b>Unrealized Losses</b> | <b>Fair Value</b> | <b>Unrealized Losses</b> |
|  | <b>(In thousands)</b>      |                          |                          |                          |                   |                          |

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|                                       |                   |                    |                  |                 |                   |                    |
|---------------------------------------|-------------------|--------------------|------------------|-----------------|-------------------|--------------------|
| U.S. government-sponsored enterprises | \$ 312,674        | \$ (5,205)         | \$ 6,529         | \$ (119)        | \$ 319,203        | \$ (5,324)         |
| Mortgage-backed securities            | 267,105           | (3,968)            | 11,749           | (297)           | 278,854           | (4,265)            |
| State and political subdivisions      | 130,718           | (4,831)            | 4,042            | (295)           | 134,760           | (5,126)            |
| Other securities                      | 36,125            | (1,153)            |                  |                 | 36,125            | (1,153)            |
| <b>Total</b>                          | <b>\$ 746,622</b> | <b>\$ (15,157)</b> | <b>\$ 22,320</b> | <b>\$ (711)</b> | <b>\$ 768,942</b> | <b>\$ (15,868)</b> |

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Income earned on securities for the three and nine months ended September 30, 2014 and 2013, is as follows:

|                     | Three Months Ended    |                 | Nine Months Ended     |                  |
|---------------------|-----------------------|-----------------|-----------------------|------------------|
|                     | September 30,<br>2014 | 2013            | September 30,<br>2014 | 2013             |
|                     | (In thousands)        |                 |                       |                  |
| <b>Taxable:</b>     |                       |                 |                       |                  |
| Available-for-sale  | \$ 4,295              | \$ 2,644        | \$ 13,214             | \$ 7,537         |
| Held-to-maturity    | 610                   | 1               | 923                   | 1                |
| <b>Non-taxable:</b> |                       |                 |                       |                  |
| Available-for-sale  | 1,391                 | 1,479           | 4,330                 | 4,427            |
| Held-to-maturity    | 1,161                 | 28              | 2,918                 | 28               |
| <b>Total</b>        | <b>\$ 7,457</b>       | <b>\$ 4,152</b> | <b>\$ 21,385</b>      | <b>\$ 11,993</b> |

**4. Loans Receivable Not Covered by Loss Share**

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

|   | September 30,<br>2014 | December 31,<br>2013 |
|---|-----------------------|----------------------|
|   | (In thousands)        |                      |
| <b>Real estate:</b>                               |                       |                      |
| Commercial real estate loans                      |                       |                      |
| Non-farm/non-residential                          | \$ 1,918,827          | \$ 1,739,668         |
| Construction/land development                     | 660,107               | 562,667              |
| Agricultural                                      | 78,243                | 81,618               |
| Residential real estate loans                     |                       |                      |
| Residential 1-4 family                            | 935,547               | 913,332              |
| Multifamily residential                           | 251,726               | 213,232              |
| <b>Total real estate</b>                          | <b>3,844,450</b>      | <b>3,510,517</b>     |
| Consumer  | 57,821                | 69,570               |
| Commercial and industrial                         | 547,706               | 511,421              |
| Agricultural                                      | 64,875                | 37,129               |
| Other   | 68,163                | 65,800               |
| <b>Loans receivable not covered by loss share</b> | <b>\$ 4,583,015</b>   | <b>\$ 4,194,437</b>  |

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.

During the three and nine-month periods ended September 30, 2013, the Company sold \$1.4 million and \$1.9 million, respectively, of the guaranteed portion of SBA loans, which resulted in a gain of approximately \$79,000 and

\$135,000, respectively.

Mortgage loans held for sale of approximately \$37.2 million and \$30.5 million at September 30, 2014 and December 31, 2013, 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, 2014 and December 31, 2013 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, 2014 and December 31, 2013 for the Company:

|  | September 30, 2014 | December 31, 2013 |
|--|--------------------|-------------------|
|  | (In thousands)     |                   |
| Real estate:                                       |                    |                   |
| Commercial real estate loans                       |                    |                   |
| Non-farm/non-residential                           | \$ 99,518          | \$ 117,164        |
| Construction/land development                      | 42,713             | 48,388            |
| Agricultural                                       | 1,039              | 1,232             |
| Residential real estate loans                      |                    |                   |
| Residential 1-4 family                             | 90,088             | 98,403            |
| Multifamily residential                            | 8,263              | 10,378            |
| <b>Total real estate</b>                           | <b>241,621</b>     | <b>275,565</b>    |
| Consumer   | 22                 | 20                |
| Commercial and industrial                          | 8,295              | 5,852             |
| Other  | 1,032              | 1,079             |
| <b>Loans receivable covered by FDIC loss share</b> | <b>\$ 250,970</b>  | <b>\$ 282,516</b> |

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 Bank 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, 2014 and December 31, 2013, \$29.0 million and \$35.8 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, 2014:

|   | <b>For Loans<br/>Not Covered<br/>by Loss Share</b> | <b>For Loans<br/>Covered by FDIC<br/>Loss Share<br/>(In thousands)</b> | <b>Total</b> |
|---|--|--|--------------|
| <b>Allowance for loan losses:</b>   |  |  |              |
| Beginning balance   | \$ 39,022  | \$ 4,793   | \$ 43,815    |
| Loans charged off   | (7,494)  | (1,914)  | (9,408)      |
| Recoveries of loans previously charged off  | 1,873  | 389  | 2,262        |
| Net loans recovered (charged off)   | (5,621)  | (1,525)  | (7,146)      |
| Provision for loan losses for non-covered loans                                     | 17,294   |  | 17,294       |
| Provision for loan losses forecasted outside of loss share                          |  | 280  | 280          |
| Provision for loan losses before benefit attributable to FDIC loss share agreements |  | (1,399)  | (1,399)      |
| Benefit attributable to FDIC loss share agreements                                  |  | 1,119  | 1,119        |
| Net provision for loan losses for covered loans                                     |  |  |              |
| Increase in FDIC indemnification asset  |  | (1,119)  | (1,119)      |
| Balance, September 30   | \$ 50,695  | \$ 2,149   | \$ 52,844    |

***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, 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 September 30, 2014. 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 \$148.2 million, \$174.6 million and \$77.4 million at September 30, 2014, December 31, 2013 and September 30, 2013, respectively.

During the third quarter 2014 quarterly impairment testing on the estimated cash flows of the purchased credit impaired loans, the Company established two non-loss sharing pools evaluated from our Premier Bank acquisition during 2012 had experienced material projected credit deterioration and one non-covered loan pool evaluated from our Liberty acquisition during 2013 had experience a material projected credit improvement. As a result, the Company recorded a \$2.9 million provision for loan losses to the allowance for loan losses related to the purchased credit impaired loans during the period ended September 30, 2014 and is recognizing \$4.7 million of additional yield over

the weighted average life of the loans.

**Table of Contents****Three Months Ended September 30, 2014**

|  | <b>Other</b>          |                   |                    |                   |                    |                    |              |
|--|-----------------------|-------------------|--------------------|-------------------|--------------------|--------------------|--------------|
|  | <b>Construction/</b>  | <b>Commercial</b> | <b>Residential</b> | <b>Commercial</b> | <b>Consumer</b>    |                    |              |
|  | <b>Land</b>           | <b>Real</b>       | <b>Real</b>        | <b>&amp;</b>      | <b>&amp; Other</b> | <b>Unallocated</b> | <b>Total</b> |
|  | <b>Development</b>    | <b>Estate</b>     | <b>Estate</b>      | <b>Industrial</b> | <b>&amp; Other</b> |                    |              |
|  | <b>(In thousands)</b> |                   |                    |                   |                    |                    |              |
| <b>Allowance for loan losses:</b>          |                       |                   |                    |                   |                    |                    |              |
| Beginning balance                          | \$ 6,657              | \$ 19,570         | \$ 10,016          | \$ 3,714          | \$ 3,864           | \$ 4,427           | \$ 48,248    |
| Loans charged off                          | (386)                 | (480)             | (562)              | (416)             | (700)              |                    | (2,544)      |
| Recoveries of loans previously charged off | 23                    | 9                 | 332                | 190               | 196                |                    | 750          |
| Net loans recovered (charged off)          | (363)                 | (471)             | (230)              | (226)             | (504)              |                    | (1,794)      |
| Provision for loan losses                  | 236                   | (800)             | 2,603              | (137)             | 1,955              | 384                | 4,241        |
| Balance, September 30                      | \$ 6,530              | \$ 18,299         | \$ 12,389          | \$ 3,351          | \$ 5,315           | \$ 4,811           | \$ 50,695    |

**Nine Months Ended September 30, 2014**

|  | <b>Other</b>          |                   |                    |                   |                    |                    |              |
|--|-----------------------|-------------------|--------------------|-------------------|--------------------|--------------------|--------------|
|  | <b>Construction/</b>  | <b>Commercial</b> | <b>Residential</b> | <b>Commercial</b> | <b>Consumer</b>    |                    |              |
|  | <b>Land</b>           | <b>Real</b>       | <b>Real</b>        | <b>&amp;</b>      | <b>&amp; Other</b> | <b>Unallocated</b> | <b>Total</b> |
|  | <b>Development</b>    | <b>Estate</b>     | <b>Estate</b>      | <b>Industrial</b> | <b>&amp; Other</b> |                    |              |
|  | <b>(In thousands)</b> |                   |                    |                   |                    |                    |              |
| <b>Allowance for loan losses:</b>          |                       |                   |                    |                   |                    |                    |              |
| 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    |

**As of September 30, 2014**

|                                   | <b>Other</b>          |                   |                    |                         |                    |                    |              |
|-----------------------------------|-----------------------|-------------------|--------------------|-------------------------|--------------------|--------------------|--------------|
|                                   | <b>Construction/</b>  | <b>Commercial</b> | <b>Residential</b> | <b>Commercial</b>       | <b>Consumer</b>    |                    |              |
|                                   | <b>Land</b>           | <b>Real</b>       | <b>Real</b>        | <b>&amp;</b>            | <b>&amp; Other</b> | <b>Unallocated</b> | <b>Total</b> |
|                                   | <b>Development</b>    | <b>Estate</b>     | <b>Estate</b>      | <b>&amp; Industrial</b> | <b>&amp; Other</b> |                    |              |
|                                   | <b>(In thousands)</b> |                   |                    |                         |                    |                    |              |
| <b>Allowance for loan losses:</b> |                       |                   |                    |                         |                    |                    |              |

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|  |          |           |           |          |          |          |    |           |
|--|----------|-----------|-----------|----------|----------|----------|----|-----------|
| Period end amount allocated to:                      |          |           |           |          |          |          |    |           |
| Loans individually evaluated for impairment          | \$ 2,076 | \$ 7,487  | \$ 3,419  | \$ 9     | \$       | \$       | \$ | \$ 12,991 |
| Loans collectively evaluated for impairment          | 4,394    | 8,435     | 8,842     | 2,981    | 5,315    | 4,811    |    | 34,778    |
| Loans evaluated for impairment balance, September 30 | 6,470    | 15,922    | 12,261    | 2,990    | 5,315    | 4,811    |    | 47,769    |
| Purchased credit impaired loans acquired             | 60       | 2,377     | 128       | 361      |          |          |    | 2,926     |
| Balance, September 30                                | \$ 6,530 | \$ 18,299 | \$ 12,389 | \$ 3,351 | \$ 5,315 | \$ 4,811 |    | \$ 50,695 |

**Loans receivable:**

|  |            |              |              |            |            |    |    |              |
|--|------------|--------------|--------------|------------|------------|----|----|--------------|
| Period end amount allocated to:                      |            |              |              |            |            |    |    |              |
| Loans individually evaluated for impairment          | \$ 24,540  | \$ 54,385    | \$ 22,935    | \$ 4,084   | \$ 300     | \$ | \$ | \$ 106,244   |
| Loans collectively evaluated for impairment          | 609,691    | 1,823,217    | 1,098,476    | 528,217    | 187,861    |    |    | 4,247,462    |
| Loans evaluated for impairment balance, September 30 | 634,231    | 1,877,602    | 1,121,411    | 532,301    | 188,161    |    |    | 4,353,706    |
| Purchased credit impaired loans acquired             | 25,876     | 119,468      | 65,862       | 15,405     | 2,698      |    |    | 229,309      |
| Balance, September 30                                | \$ 660,107 | \$ 1,997,070 | \$ 1,187,273 | \$ 547,706 | \$ 190,859 | \$ | \$ | \$ 4,583,015 |

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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, 2013 and the year ended December 31, 2013, 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, 2013. 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, 2013 |           |             |              |          |             |           |
|--|------------------------------|-----------|-------------|--------------|----------|-------------|-----------|
|  | Other                        |           | Residential | Commercial   | Consumer | Unallocated | Total     |
|  | Construction/                | Real      |             |              |          |             |           |
|  | Commercial                   | Estate    | Real Estate | & Industrial | & Other  |             |           |
|  | Development                  | Estate    | Real Estate | & Industrial | & Other  | Unallocated | Total     |
| (In thousands)                             |                              |           |             |              |          |             |           |
| <b>Allowance for loan losses:</b>          |                              |           |             |              |          |             |           |
| Beginning balance                          | \$ 5,816                     | \$ 19,974 | \$ 13,813   | \$ 3,870     | \$ 1,288 | \$ 409      | \$ 45,170 |
| Loans charged off                          | (560)                        | (3,844)   | (5,004)     | (619)        | (1,753)  |             | (11,780)  |
| Recoveries of loans previously charged off | 19                           | 2,052     | 852         | 49           | 530      |             | 3,502     |
| Net loans recovered (charged off)          | (541)                        | (1,792)   | (4,152)     | (570)        | (1,223)  |             | (8,278)   |
| Provision for loan losses                  | 1,200                        | (1,424)   | (1,598)     | (1,110)      | 986      | 2,696       | 750       |
| Balance, September 30                      | 6,475                        | 16,758    | 8,063       | 2,190        | 1,051    | 3,105       | 37,642    |
| Loans charged off                          | (438)                        | (210)     | (1,304)     | 82           | (547)    |             | (2,417)   |
| Recoveries of loans previously charged off | 15                           | 19        | 130         | 23           | 171      |             | 358       |
| Net loans recovered (charged off)          | (423)                        | (191)     | (1,174)     | 105          | (376)    |             | (2,059)   |
| Provision for loan losses                  | 230                          | (1,467)   | 2,000       | (362)        | 1,888    | 1,150       | 3,439     |
| Balance, December 31                       | \$ 6,282                     | \$ 15,100 | \$ 8,889    | \$ 1,933     | \$ 2,563 | \$ 4,255    | \$ 39,022 |

|                                   | As of December 31, 2013 |          |             |              |          |             |           |
|-----------------------------------|-------------------------|----------|-------------|--------------|----------|-------------|-----------|
|                                   | Other                   |          | Residential | Commercial   | Consumer | Unallocated | Total     |
|                                   | Construction/           | Real     |             |              |          |             |           |
|                                   | Commercial              | Estate   | Real Estate | & Industrial | & Other  |             |           |
|                                   | Development             | Estate   | Real Estate | & Industrial | & Other  | Unallocated | Total     |
| (In thousands)                    |                         |          |             |              |          |             |           |
| <b>Allowance for loan losses:</b> |                         |          |             |              |          |             |           |
| Period end amount allocated to:   | \$ 3,826                | \$ 8,359 | \$ 2,347    | \$ 5         | \$       | \$          | \$ 14,537 |

|   |            |              |              |            |            |          |              |
|---|------------|--------------|--------------|------------|------------|----------|--------------|
| Loans individually evaluated for impairment         |            |              |              |            |            |          |              |
| Loans collectively evaluated for impairment         | 2,456      | 6,741        | 6,542        | 1,928      | 2,563      | 4,255    | 24,485       |
| Loans evaluated for impairment balance, December 31 | 6,282      | 15,100       | 8,889        | 1,933      | 2,563      | 4,255    | 39,022       |
| Purchased credit impaired loans acquired            |            |              |              |            |            |          |              |
| Balance, December 31                                | \$ 6,282   | \$ 15,100    | \$ 8,889     | \$ 1,933   | \$ 2,563   | \$ 4,255 | \$ 39,022    |
| <b>Loans receivable:</b>                            |            |              |              |            |            |          |              |
| Period end amount allocated to:                     |            |              |              |            |            |          |              |
| Loans individually evaluated for impairment         | \$ 32,560  | \$ 76,559    | \$ 20,112    | \$ 5,563   | \$ 223     | \$       | \$ 135,017   |
| Loans collectively evaluated for impairment         | 500,279    | 1,592,343    | 1,027,093    | 484,036    | 164,224    |          | 3,767,975    |
| Loans evaluated for impairment balance, December 31 | 532,839    | 1,668,902    | 1,047,205    | 489,599    | 164,447    |          | 3,902,992    |
| Purchased credit impaired loans acquired            | 29,828     | 152,384      | 79,359       | 21,822     | 8,052      |          | 291,445      |
| Balance, December 31                                | \$ 562,667 | \$ 1,821,286 | \$ 1,126,564 | \$ 511,421 | \$ 172,499 | \$       | \$ 4,194,437 |

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The following is an aging analysis for the non-covered loan portfolio as of September 30, 2014 and December 31, 2013:

|                               | September 30, 2014              |                                 |  |  |                  |                              |  |
|-------------------------------|---------------------------------|---------------------------------|--|--|------------------|------------------------------|--|
|                               | Loans<br>Past Due<br>30-59 Days | Loans<br>Past Due<br>60-89 Days | Loans<br>Past<br>Due<br>90 Days<br>or More | Total<br>Past<br>Due<br>(In thousands) | Current<br>Loans | Total<br>Loans<br>Receivable | Accruing<br>Loans<br>Past<br>Due<br>90 Days<br>or More |
| Real estate:                  |                                 |                                 |  |  |                  |                              |  |
| Commercial real estate loans  |                                 |                                 |  |  |                  |                              |  |
| Non-farm/non-residential      | \$ 418                          | \$ 2,604                        | \$ 14,059                                  | \$ 17,081                              | \$ 1,901,746     | \$ 1,918,827                 | \$ 6,720   |
| Construction/land             |                                 |                                 |  |  |                  |                              |  |
| development                   | 453                             | 454                             | 4,745                                      | 5,652                                  | 654,455          | 660,107                      | 3,174  |
| Agricultural                  |                                 |                                 | 34   | 34                                     | 78,209           | 78,243                       | 34   |
| Residential real estate loans |                                 |                                 |  |  |                  |                              |  |
| Residential 1-4 family        | 4,258                           | 3,391                           | 16,037                                     | 23,686                                 | 911,861          | 935,547                      | 4,181  |
| Multifamily residential       | 223                             | 20                              | 1,904                                      | 2,147                                  | 249,579          | 251,726                      | 1,904  |
| Total real estate             | 5,352                           | 6,469                           | 36,779                                     | 48,600                                 | 3,795,850        | 3,844,450                    | 16,013   |
| Consumer                      | 457                             | 77                              | 300  | 834                                    | 56,987           | 57,821                       | 50   |
| Commercial and industrial     | 754                             | 600                             | 3,762                                      | 5,116                                  | 542,590          | 547,706                      | 2,581  |
| Agricultural and other        | 830                             | 89                              | 184  | 1,103                                  | 131,935          | 133,038                      |  |
| Total                         | \$ 7,393                        | \$ 7,235                        | \$ 41,025                                  | \$ 55,653                              | \$ 4,527,362     | \$ 4,583,015                 | \$ 18,644  |

|                               | December 31, 2013                  |                                 |   |  |                  |                              |   |
|-------------------------------|------------------------------------|---------------------------------|---|--|------------------|------------------------------|---|
|                               | Loans<br>Past<br>Due<br>30-59 Days | Loans<br>Past Due<br>60-89 Days | Loans<br>Past<br>Due<br>90 Days<br>or<br>More | Total<br>Past<br>Due<br>(In thousands) | Current<br>Loans | Total<br>Loans<br>Receivable | Accruing<br>Loans<br>Past<br>Due<br>90 Days<br>or<br>More |
| Real estate:                  |                                    |                                 |   |  |                  |                              |   |
| Commercial real estate loans  |                                    |                                 |   |  |                  |                              |   |
| Non-farm/non-residential      | \$ 4,849                           | \$ 2,275                        | \$ 13,007                                     | \$ 20,131                              | \$ 1,719,537     | \$ 1,739,668                 | \$ 7,914  |
| Construction/land             |                                    |                                 |   |  |                  |                              |   |
| development                   | 2,206                              | 352                             | 5,959   | 8,517                                  | 554,150          | 562,667                      | 4,879   |
| Agricultural                  | 1,040                              | 1,082                           | 89  | 2,211                                  | 79,407           | 81,618                       |   |
| Residential real estate loans |                                    |                                 |   |  |                  |                              |   |

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|                           |           |          |           |           |              |              |           |
|---------------------------|-----------|----------|-----------|-----------|--------------|--------------|-----------|
| Residential 1-4 family    | 7,936     | 2,676    | 13,775    | 24,387    | 888,945      | 913,332      | 6,492     |
| Multifamily residential   |           | 1,437    | 2         | 1,439     | 211,793      | 213,232      | 1         |
| Total real estate         | 16,031    | 7,822    | 32,832    | 56,685    | 3,453,832    | 3,510,517    | 19,286    |
| Consumer                  | 717       | 226      | 224       | 1,167     | 68,403       | 69,570       | 100       |
| Commercial and industrial | 4,363     | 405      | 5,218     | 9,986     | 501,435      | 511,421      | 3,755     |
| Agricultural and other    | 778       | 110      |           | 888       | 102,041      | 102,929      |           |
| Total                     | \$ 21,889 | \$ 8,563 | \$ 38,274 | \$ 68,726 | \$ 4,125,711 | \$ 4,194,437 | \$ 23,141 |

Non-accruing loans not covered by loss share at September 30, 2014 and December 31, 2013 were \$22.4 million and \$15.1 million, respectively.



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The following is a summary of the non-covered impaired loans as of September 30, 2014 and December 31, 2013:

|   |                                      |                           | September 30, 2014                      |                             | December 31, 2013           |                             |                             |
|---|--------------------------------------|---------------------------|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|   | Unpaid Contractual Principal Balance | Total Recorded Investment | Allocation of Allowance for Loan Losses | Average Recorded Investment | Average Interest Recognized | Average Recorded Investment | Average Interest Recognized |
| (In thousands)                                      |                                      |                           |   |                             |                             |                             |                             |
| <b>Loans without a specific valuation allowance</b> |                                      |                           |   |                             |                             |                             |                             |
| Real estate:  |                                      |                           |   |                             |                             |                             |                             |
| Commercial real estate loans                        |                                      |                           |   |                             |                             |                             |                             |
| Non-farm/non-residential                            | \$                                   | \$                        | \$                                      | \$                          | \$                          | \$ 845                      | \$ 14                       |
| Construction/land development                       |                                      |                           |   |                             |                             |                             |                             |
| Agricultural  |                                      |                           |   |                             |                             |                             |                             |
| Residential real estate loans                       |                                      |                           |   |                             |                             |                             |                             |
| Residential 1-4 family                              | 6                                    | 6                         |   | 6                           |                             | 32                          | 2                           |
| Multifamily residential                             |                                      |                           |   |                             |                             |                             |                             |
| Total real estate                                   | 6                                    | 6                         |   | 6                           |                             | 877                         | 16                          |
| Consumer  |                                      |                           |   |                             |                             |                             |                             |
| Commercial and industrial                           |                                      |                           |   |                             |                             |                             |                             |
| Agricultural and other                              |                                      |                           |   |                             |                             |                             |                             |
| Total loans without a specific valuation allowance  | 6                                    | 6                         |   | 6                           |                             | 877                         | 16                          |
| <b>Loans with a specific valuation allowance</b>    |                                      |                           |   |                             |                             |                             |                             |
| Real estate:  |                                      |                           |   |                             |                             |                             |                             |
| Commercial real estate loans                        |                                      |                           |   |                             |                             |                             |                             |
| Non-farm/non-residential                            | 45,736                               | 42,915                    | 7,487                                   | 39,202                      | 363                         | 44,028                      | 1,156                       |
| Construction/land development                       | 17,030                               | 15,335                    | 2,076                                   | 21,758                      | 148                         | 21,909                      | 563                         |
| Agricultural  | 52                                   | 33                        |   | 50                          |                             | 67                          |                             |
| Residential real estate loans                       |                                      |                           |   |                             |                             |                             |                             |
| Residential 1-4 family                              | 18,409                               | 16,197                    | 2,236                                   | 16,797                      | 97                          | 16,862                      | 350                         |
| Multifamily residential                             | 4,497                                | 4,216                     | 1,183                                   | 4,270                       | 47                          | 3,965                       | 108                         |
| Total real estate                                   | 85,724                               | 78,696                    | 12,982                                  | 82,077                      | 655                         | 86,831                      | 2,177                       |
| Consumer  |                                      |                           |   |                             |                             |                             |                             |
| Commercial and industrial                           | 335                                  | 300                       |   | 336                         | 1                           | 295                         | 5                           |
| Agricultural and other                              | 5,758                                | 4,084                     | 9                                       | 4,764                       | 32                          | 5,262                       | 116                         |
| Total consumer                                      | 6,093                                | 4,384                     | 9                                       | 5,100                       | 33                          | 5,557                       | 121                         |
| Total loans with a specific valuation allowance     | 91,817                               | 83,080                    | 12,991                                  | 87,177                      | 688                         | 92,388                      | 2,298                       |
| Total non-covered impaired loans                    | 91,823                               | 83,086                    | 12,991                                  | 87,183                      | 721                         | 92,484                      | 2,314                       |

Total loans with a specific valuation allowance

**Total impaired loans**

Real estate:

Commercial real estate loans

|                               |        |        |       |        |     |        |       |
|-------------------------------|--------|--------|-------|--------|-----|--------|-------|
| Non-farm/non-residential      | 45,736 | 42,915 | 7,487 | 39,202 | 363 | 44,873 | 1,170 |
| Construction/land development | 17,030 | 15,335 | 2,076 | 21,758 | 148 | 21,909 | 563   |
| Agricultural                  | 52     | 33     |       | 50     |     | 67     |       |

Residential real estate loans

|                         |        |        |       |        |    |        |     |
|-------------------------|--------|--------|-------|--------|----|--------|-----|
| Residential 1-4 family  | 18,415 | 16,203 | 2,236 | 16,803 | 97 | 16,894 | 352 |
| Multifamily residential | 4,497  | 4,216  | 1,183 | 4,270  | 47 | 3,965  | 108 |

|                           |        |        |        |        |     |        |       |
|---------------------------|--------|--------|--------|--------|-----|--------|-------|
| Total real estate         | 85,730 | 78,702 | 12,982 | 82,083 | 655 | 87,708 | 2,193 |
| Consumer                  | 335    | 300    |        | 336    | 1   | 295    | 5     |
| Commercial and industrial | 5,758  | 4,084  | 9      | 4,764  | 32  | 5,262  | 116   |
| Agricultural and other    | 184    | 184    |        | 192    |     | 96     |       |

|                      |           |           |           |           |        |           |          |
|----------------------|-----------|-----------|-----------|-----------|--------|-----------|----------|
| Total impaired loans | \$ 92,007 | \$ 83,270 | \$ 12,991 | \$ 87,375 | \$ 688 | \$ 93,361 | \$ 2,314 |
|----------------------|-----------|-----------|-----------|-----------|--------|-----------|----------|

*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, 2014.

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|   | December 31, 2013                             |                                 |  | Year Ended                        |                        |
|---|---|---------------------------------|--|-----------------------------------|------------------------|
|   | Unpaid<br>Contractual<br>Principal<br>Balance | Total<br>Recorded<br>Investment | Allocation<br>of Allowance<br>for Loan<br>Losses<br>(In thousands) | Average<br>Recorded<br>Investment | Interest<br>Recognized |
| <b>Loans without a specific valuation allowance</b> |   |                                 |  |                                   |                        |
| Real estate:  |   |                                 |  |                                   |                        |
| Commercial real estate loans                        |   |                                 |  |                                   |                        |
| Non-farm/non-residential                            | \$ 1,449                                      | \$                              | \$   | \$ 3,958                          | \$ 177                 |
| Construction/land development                       |   |                                 |  | 106                               | 8                      |
| Agricultural  |   |                                 |  |                                   |                        |
| Residential real estate loans                       |   |                                 |  |                                   |                        |
| Residential 1-4 family                              | 6   | 6                               |  | 1,016                             | 34                     |
| Multifamily residential                             |   |                                 |  | 534                               | 1                      |
| Total real estate                                   | 1,455   | 6                               |  | 5,614                             | 220                    |
| Consumer  |   |                                 |  |                                   |                        |
| Commercial and industrial                           |   |                                 |  | 132                               | 6                      |
| Agricultural and other                              |   |                                 |  |                                   |                        |
| Total loans without a specific valuation allowance  | 1,455   | 6                               |  | 5,746                             | 226                    |
| <b>Loans with a specific valuation allowance</b>    |   |                                 |  |                                   |                        |
| Real estate:  |   |                                 |  |                                   |                        |
| Commercial real estate loans                        |   |                                 |  |                                   |                        |
| Non-farm/non-residential                            | 56,465  | 54,707                          | 8,359  | 55,361                            | 2,205                  |
| Construction/land development                       | 29,461  | 27,231                          | 3,826  | 23,121                            | 878                    |
| Agricultural  | 89  | 89                              |  | 83                                |                        |
| Residential real estate loans                       |   |                                 |  |                                   |                        |
| Residential 1-4 family                              | 19,188  | 16,599                          | 1,265  | 13,248                            | 373                    |
| Multifamily residential                             | 2,065   | 2,065                           | 1,082  | 3,683                             | 100                    |
| Total real estate                                   | 107,268                                       | 100,691                         | 14,532   | 95,496                            | 3,556                  |
| Consumer  |   |                                 |  |                                   |                        |
| Commercial and industrial                           | 254   | 223                             |  | 385                               | 5                      |
| Agricultural and other                              | 7,059   | 5,563                           | 5  | 2,503                             | 67                     |
| Total loans with a specific valuation allowance     | 114,581                                       | 106,477                         | 14,537   | 98,384                            | 3,628                  |
| <b>Total impaired loans</b>                         |   |                                 |  |                                   |                        |
| Real estate:  |   |                                 |  |                                   |                        |
| Commercial real estate loans                        |   |                                 |  |                                   |                        |
| Non-farm/non-residential                            | 57,914  | 54,707                          | 8,359  | 59,319                            | 2,382                  |
| Construction/land development                       | 29,461  | 27,231                          | 3,826  | 23,227                            | 886                    |
| Agricultural  | 89  | 89                              |  | 83                                |                        |
| Residential real estate loans                       |   |                                 |  |                                   |                        |

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|                           |            |            |           |            |          |
|---------------------------|------------|------------|-----------|------------|----------|
| Residential 1-4 family    | 19,194     | 16,605     | 1,265     | 14,264     | 407      |
| Multifamily residential   | 2,065      | 2,065      | 1,082     | 4,217      | 101      |
| Total real estate         | 108,723    | 100,697    | 14,532    | 101,110    | 3,776    |
| Consumer                  | 254        | 223        |           | 385        | 5        |
| Commercial and industrial | 7,059      | 5,563      | 5         | 2,635      | 73       |
| Agricultural and other    |            |            |           |            |          |
| Total impaired loans      | \$ 116,036 | \$ 106,483 | \$ 14,537 | \$ 104,130 | \$ 3,854 |

*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, 2013.

Interest recognized on non-covered impaired loans during the three months ended September 30, 2014 and 2013 was approximately \$688,000 and \$896,000, respectively. Interest recognized on non-covered impaired loans during the nine months ended September 30, 2014 and 2013 was approximately \$2.3 million and \$2.8 million, respectively. The amount of interest recognized on non-covered impaired loans on the cash basis is not materially different than the accrual basis.

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*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.

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*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, 2014 and December 31, 2013:

|                               | <b>September 30, 2014</b> |                     |                     |                         |
|-------------------------------|---------------------------|---------------------|---------------------|-------------------------|
|                               | <b>Risk Rated 6</b>       | <b>Risk Rated 7</b> | <b>Risk Rated 8</b> | <b>Classified Total</b> |
|                               | <b>(In thousands)</b>     |                     |                     |                         |
| <b>Real estate:</b>           |                           |                     |                     |                         |
| Commercial real estate loans  |                           |                     |                     |                         |
| Non-farm/non-residential      | \$ 39,804                 | \$ 26               | \$                  | \$ 39,830               |
| Construction/land development | 18,482                    | 3                   |                     | 18,485                  |
| <b>Agricultural</b>           |                           |                     |                     |                         |
| Residential real estate loans |                           |                     |                     |                         |
| Residential 1-4 family        | 15,888                    | 62                  |                     | 15,950                  |
| Multifamily residential       | 3,298                     |                     |                     | 3,298                   |
| <b>Total real estate</b>      | <b>77,472</b>             | <b>91</b>           |                     | <b>77,563</b>           |
| Consumer                      | 346                       | 18                  |                     | 364                     |
| Commercial and industrial     | 2,565                     | 5                   |                     | 2,570                   |
| Agricultural and other        | 209                       |                     |                     | 209                     |
| <b>Total</b>                  | <b>\$ 80,592</b>          | <b>\$ 114</b>       | <b>\$</b>           | <b>\$ 80,706</b>        |

|                               | <b>December 31, 2013</b> |                     |                     |                         |
|-------------------------------|--------------------------|---------------------|---------------------|-------------------------|
|                               | <b>Risk Rated 6</b>      | <b>Risk Rated 7</b> | <b>Risk Rated 8</b> | <b>Classified Total</b> |
|                               | <b>(In thousands)</b>    |                     |                     |                         |
| <b>Real estate:</b>           |                          |                     |                     |                         |
| Commercial real estate loans  |                          |                     |                     |                         |
| Non-farm/non-residential      | \$ 55,874                | \$ 1                | \$                  | \$ 55,875               |
| Construction/land development | 19,140                   |                     |                     | 19,140                  |
| Agricultural                  | 89                       |                     |                     | 89                      |
| Residential real estate loans |                          |                     |                     |                         |
| Residential 1-4 family        | 12,747                   | 196                 |                     | 12,943                  |
| Multifamily residential       | 2,064                    |                     |                     | 2,064                   |
| <b>Total real estate</b>      | <b>89,914</b>            | <b>197</b>          |                     | <b>90,111</b>           |
| Consumer                      | 454                      |                     |                     | 454                     |
| Commercial and industrial     | 2,620                    | 2                   |                     | 2,622                   |

|                        |                  |           |            |                  |
|------------------------|------------------|-----------|------------|------------------|
| Agricultural and other | 32               |           |            | 32               |
| <b>Total</b>           | <b>\$ 93,020</b> | <b>\$</b> | <b>199</b> | <b>\$ 93,219</b> |

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 \$1.0 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.



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The following is a presentation of non-covered loans by class and risk rating as of September 30, 2014 and December 31, 2013:

|  | September 30, 2014 |                 |                 |                 |                 | Classified<br>Total | Total        |
|--|--------------------|-----------------|-----------------|-----------------|-----------------|---------------------|--------------|
|  | Risk<br>Rated 1    | Risk<br>Rated 2 | Risk<br>Rated 3 | Risk<br>Rated 4 | Risk<br>Rated 5 |                     |              |
| (In thousands)                           |                    |                 |                 |                 |                 |                     |              |
| Real estate:                             |                    |                 |                 |                 |                 |                     |              |
| Commercial real estate loans             |                    |                 |                 |                 |                 |                     |              |
| Non-farm/non-residential                 | \$ 1,570           | \$ 2,227        | \$ 1,230,771    | \$ 499,456      | \$ 26,392       | \$ 39,830           | \$ 1,800,246 |
| Construction/land development            |                    |                 |                 |                 |                 |                     |              |
| Agricultural                             | 15                 | 119             | 220,666         | 383,392         | 11,554          | 18,485              | 634,231      |
|  |                    |                 | 54,128          | 22,349          | 879             |                     | 77,356       |
| Residential real estate loans            |                    |                 |                 |                 |                 |                     |              |
| Residential 1-4 family                   | 272                | 71              | 703,844         | 144,436         | 14,007          | 15,950              | 878,580      |
| Multifamily residential                  |                    |                 | 192,310         | 44,883          | 2,340           | 3,298               | 242,831      |
| Total real estate                        | 1,857              | 2,417           | 2,401,719       | 1,094,516       | 55,172          | 77,563              | 3,633,244    |
| Consumer                                 | 15,284             | 20              | 30,637          | 9,535           | 684             | 364                 | 56,524       |
| Commercial and industrial                | 15,977             | 6,519           | 331,797         | 172,281         | 3,157           | 2,570               | 532,301      |
| Agricultural and other                   | 686                | 935             | 85,033          | 44,152          | 622             | 209                 | 131,637      |
| Total risk rated loans                   | \$ 33,804          | \$ 9,891        | \$ 2,849,186    | \$ 1,320,484    | \$ 59,635       | \$ 80,706           | 4,353,706    |
| Purchased credit impaired loans acquired |                    |                 |                 |                 |                 |                     | 229,309      |
| Total non-covered loans                  |                    |                 |                 |                 |                 |                     | \$ 4,583,015 |

|                               | December 31, 2013 |                 |                 |                 |                 | Classified<br>Total | Total        |
|-------------------------------|-------------------|-----------------|-----------------|-----------------|-----------------|---------------------|--------------|
|                               | Risk<br>Rated 1   | Risk<br>Rated 2 | Risk<br>Rated 3 | Risk<br>Rated 4 | Risk<br>Rated 5 |                     |              |
| (In thousands)                |                   |                 |                 |                 |                 |                     |              |
| Real estate:                  |                   |                 |                 |                 |                 |                     |              |
| Commercial real estate loans  |                   |                 |                 |                 |                 |                     |              |
| Non-farm/non-residential      | \$ 3              | \$ 3,135        | \$ 1,039,110    | \$ 462,957      | \$ 28,380       | \$ 55,875           | \$ 1,589,460 |
| Construction/land development |                   |                 |                 |                 |                 |                     |              |
| Agricultural                  | 54                | 94              | 198,228         | 303,590         | 11,732          | 19,140              | 532,838      |
|                               | 55                |                 | 53,633          | 24,901          | 764             | 89                  | 79,442       |
| Residential real estate loans |                   |                 |                 |                 |                 |                     |              |
| Residential 1-4 family        | 393               | 146             | 654,739         | 155,744         | 17,241          | 12,943              | 841,206      |
| Multifamily residential       |                   |                 | 150,023         | 52,233          | 1,679           | 2,064               | 205,999      |

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|   |           |           |              |              |           |           |              |
|---|-----------|-----------|--------------|--------------|-----------|-----------|--------------|
| Total real estate                           | 505       | 3,375     | 2,095,733    | 999,425      | 59,796    | 90,111    | 3,248,945    |
| Consumer                                    | 15,566    | 32        | 42,647       | 7,244        | 848       | 454       | 66,791       |
| Commercial and industrial                   | 25,809    | 5,845     | 300,108      | 151,986      | 3,229     | 2,622     | 489,599      |
| Agricultural and other                      | 675       | 7,138     | 74,676       | 14,462       | 674       | 32        | 97,657       |
| Total risk rated loans                      | \$ 42,555 | \$ 16,390 | \$ 2,513,164 | \$ 1,173,117 | \$ 64,547 | \$ 93,219 | \$ 3,902,992 |
| Purchased credit impaired<br>loans acquired |           |           |              |              |           |           | 291,445      |
| Total non-covered loans                     |           |           |              |              |           |           | \$ 4,194,437 |

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The following is a presentation of non-covered TDR s by class as of September 30, 2014 and December 31, 2013:

|                                      | <b>September 30, 2014</b>                            |                                |                              |                              |   |   |
|--------------------------------------|--|--------------------------------|------------------------------|------------------------------|---|---|
|                                      | <b>Pre-<br/>Modification<br/>Number<br/>of Loans</b> | <b>Outstanding<br/>Balance</b> | <b>Rate<br/>Modification</b> | <b>Term<br/>Modification</b> | <b>Rate<br/>&amp; Term<br/>Modification</b> | <b>Post-<br/>Modification<br/>Outstanding<br/>Balance</b> |
| <b>(Dollars in thousands)</b>        |  |                                |                              |                              |   |   |
| <b>Real estate:</b>                  |  |                                |                              |                              |   |   |
| <b>Commercial real estate loans</b>  |  |                                |                              |                              |   |   |
| Non-farm/non-residential             | 7  | \$ 17,340                      | \$ 2,616                     | \$ 8,662                     | \$ 5,672                                    | \$ 16,950   |
| Construction/land development        | 3  | 8,324                          | 5,691                        | 1,794                        |   | 7,485   |
| <b>Residential real estate loans</b> |  |                                |                              |                              |   |   |
| Residential 1-4 family               | 5  | 1,051                          | 319                          | 246                          | 162   | 727   |
| Multifamily residential              | 2  | 3,182                          | 2,018                        |                              | 294   | 2,312   |
| <b>Total real estate</b>             | <b>17</b>  | <b>29,897</b>                  | <b>10,644</b>                | <b>10,702</b>                | <b>6,128</b>                                | <b>27,474</b>   |
| Commercial and industrial            | 1  | 380                            |                              |                              | 322   | 322   |
| <b>Total</b>                         | <b>18</b>  | <b>\$ 30,277</b>               | <b>\$ 10,644</b>             | <b>\$ 10,702</b>             | <b>\$ 6,450</b>                             | <b>\$ 27,796</b>  |

|                                      | <b>December 31, 2013</b>                             |                                |                              |                              |   |   |
|--------------------------------------|--|--------------------------------|------------------------------|------------------------------|---|---|
|                                      | <b>Pre-<br/>Modification<br/>Number<br/>of Loans</b> | <b>Outstanding<br/>Balance</b> | <b>Rate<br/>Modification</b> | <b>Term<br/>Modification</b> | <b>Rate<br/>&amp; Term<br/>Modification</b> | <b>Post-<br/>Modification<br/>Outstanding<br/>Balance</b> |
| <b>(Dollars in thousands)</b>        |  |                                |                              |                              |   |   |
| <b>Real estate:</b>                  |  |                                |                              |                              |   |   |
| <b>Commercial real estate loans</b>  |  |                                |                              |                              |   |   |
| Non-farm/non-residential             | 14   | \$ 36,454                      | \$ 13,029                    | \$ 8,384                     | \$ 10,554                                   | \$ 31,967   |
| Construction/land development        | 3  | 8,324                          | 5,811                        | 1,794                        |   | 7,605   |
| <b>Residential real estate loans</b> |  |                                |                              |                              |   |   |
| Residential 1-4 family               | 8  | 1,646                          | 589                          | 727                          | 170   | 1,486   |
| Multifamily residential              | 1  | 2,887                          | 2,063                        |                              |   | 2,063   |
| <b>Total real estate</b>             | <b>26</b>  | <b>49,311</b>                  | <b>21,492</b>                | <b>10,905</b>                | <b>10,724</b>                               | <b>43,121</b>   |
| Commercial and industrial            | 1  | 380                            |                              |                              | 345   | 345   |
| <b>Total</b>                         | <b>27</b>  | <b>\$ 49,691</b>               | <b>\$ 21,492</b>             | <b>\$ 10,905</b>             | <b>\$ 11,069</b>                            | <b>\$ 43,466</b>  |

The following is a presentation of non-covered TDR s on non-accrual status as of September 30, 2014 and December 31, 2013 because they are not in compliance with the modified terms:

|                               | September 30,<br>2014  |         | December 31, 2013     |         |
|-------------------------------|------------------------|---------|-----------------------|---------|
|                               | Number of<br>Recorded  | Balance | Number of<br>Recorded | Balance |
|                               | (Dollars in thousands) |         |                       |         |
| Real estate:                  |                        |         |                       |         |
| Commercial real estate loans  |                        |         |                       |         |
| Construction/land development | 1                      | \$ 107  |                       | \$      |
| Residential real estate loans |                        |         |                       |         |
| Residential 1-4 family        | 3                      | 480     | 4                     | 854     |
| Total real estate             | 4                      | 587     | 4                     | 854     |
| Total                         | 4                      | \$ 587  | 4                     | \$ 854  |

#### *Allowance for Loan Losses and Credit Quality for Covered Loans*

During the 2014 quarterly impairment testing on the estimated cash flows of the covered loans, the Company established certain pools evaluated had experienced material projected credit improvement. The Company has not recorded any provision for loan losses to the allowance for loan losses related to the purchased impaired loans during the three or nine-month periods ended September 30, 2014 on a net basis. The Company, however, did record a \$280,000 of provision for loan losses forecasted outside of loss share and a negative provision for loan loss of \$1.4 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 decrease the related indemnification asset by \$1.1 million.

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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, 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 September 30, 2014.

**Three Months Ended September 30, 2014**

|   | Other                               |                | Commercial                 |                            | Consumer   |  | Unallocated | Total    |
|---|-------------------------------------|----------------|----------------------------|----------------------------|------------|--|-------------|----------|
|   | Construction<br>Land<br>Development | Real<br>Estate | Residential<br>Real Estate | Commercial<br>& Industrial | &<br>Other |  |             |          |
| <b>(In thousands)</b>   |                                     |                |                            |                            |            |  |             |          |
| <b>Allowance for loan losses:</b>   |                                     |                |                            |                            |            |  |             |          |
| Beginning balance   | \$ 324                              | \$ 1,694       | \$ 891                     | \$ 15                      | \$ 1       |  |             | \$ 2,925 |
| Loans charged off   | (28)                                | (773)          | (62)                       |                            |            |  |             | (863)    |
| Recoveries of loans previously charged off  | 63                                  | 6              | 18                         |                            |            |  |             | 87       |
| Net loans recovered (charged off)   | 35                                  | (767)          | (44)                       |                            |            |  |             | (776)    |
| Provision for loan losses forecasted outside of loss share                          |                                     |                |                            |                            |            |  |             |          |
| Provision for loan losses before benefit attributable to FDIC loss share agreements | (216)                               | (158)          | 373                        |                            | 1          |  |             |          |
| Benefit attributable to FDIC loss share agreements                                  | 216                                 | 158            | (373)                      |                            | (1)        |  |             |          |
| Net provision for loan losses   |                                     |                |                            |                            |            |  |             |          |
| Increase in FDIC indemnification asset  | (216)                               | (158)          | 373                        |                            | 1          |  |             |          |
| Balance, September 30   | \$ 143                              | \$ 769         | \$ 1,220                   | \$ 15                      | \$ 2       |  |             | \$ 2,149 |

**Nine Months Ended September 30, 2014**

|  | Other                               |                | Commercial                 |                            | Consumer   |  | Unallocated | Total    |
|--|-------------------------------------|----------------|----------------------------|----------------------------|------------|--|-------------|----------|
|  | Construction<br>Land<br>Development | Real<br>Estate | Residential<br>Real Estate | Commercial<br>& Industrial | &<br>Other |  |             |          |
| <b>(In thousands)</b>                      |                                     |                |                            |                            |            |  |             |          |
| <b>Allowance for loan losses:</b>          |                                     |                |                            |                            |            |  |             |          |
| 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      |

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|   |         |         |          |       |      |          |
|---|---------|---------|----------|-------|------|----------|
| 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)  |
| Benefit 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 |

As of September 30, 2014

|  | Other<br>Construction<br>Land<br>Development | Commercial<br>Real<br>Estate | Residential<br>Real Estate | Commercial<br>&<br>Industrial | Consumer<br>&<br>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

143 769 1,220 15 2 2,149

Balance, September 30 \$ 143 \$ 769 \$ 1,220 \$ 15 \$ 2 \$ 2,149

**Loans receivable:**

Period end amount allocated to:

Loans individually evaluated for impairment

\$ \$ \$ \$ \$ \$ \$

Loans collectively evaluated for impairment

Loans evaluated for  
impairment balance, June 30

|   |           |            |           |          |          |            |
|---|-----------|------------|-----------|----------|----------|------------|
| Purchased credit impaired<br>loans acquired | 42,713    | 100,557    | 98,351    | 8,295    | 1,054    | 250,970    |
| Balance, September 30                       | \$ 42,713 | \$ 100,557 | \$ 98,351 | \$ 8,295 | \$ 1,054 | \$ 250,970 |

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During the 2013 quarterly impairment testing on the estimated cash flows of the covered loans, the Company established that six pools evaluated had experienced material projected credit deterioration. As a result, the Company recorded a \$4.4 million provision for loan losses to the allowance for loan losses related to the purchased impaired loans during the year ended December 31, 2013. Since these loans are covered by loss share with the FDIC, the Company was able to increase the related indemnification asset by \$3.5 million resulting in a net provision for loan losses of \$991,000.

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, 2013 and the year ended December 31, 2013, 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, 2013.

|   | Year Ended December 31, 2013        |                                       |                            |                            |                                       | Total    |
|---|-------------------------------------|---------------------------------------|----------------------------|----------------------------|---------------------------------------|----------|
|   | Construction<br>Land<br>Development | Other<br>Commercial<br>Real<br>Estate | Residential<br>Real Estate | Commercial<br>& Industrial | Consumer<br>&<br>Other<br>Unallocated |          |
| <b>Allowance for loan losses:</b>   |                                     |                                       |                            |                            |                                       |          |
| Beginning balance   | \$ 1,169                            | \$ 4,005                              | \$ 228                     | \$ 60                      | \$                                    | \$ 5,462 |
| Loans charged off   | (720)                               | (3,426)                               | (724)                      | (157)                      |                                       | (5,027)  |
| Recoveries of loans<br>previously charged off   | 15                                  | 13                                    | 143                        |                            |                                       | 171      |
| Net loans recovered (charged<br>off)  | (705)                               | (3,413)                               | (581)                      | (157)                      |                                       | (4,856)  |
| Provision for loan losses<br>before benefit attributable to<br>FDIC loss share agreements | (323)                               | (30)                                  | 717                        | 136                        |                                       | 500      |
| Benefit attributable to FDIC<br>loss share agreements                                     | 258                                 | 24                                    | (573)                      | (109)                      |                                       | (400)    |
| Net provision for loan losses   | (65)                                | (6)                                   | 144                        | 27                         |                                       | 100      |
| Increase in FDIC<br>indemnification asset   | (258)                               | (24)                                  | 573                        | 109                        |                                       | 400      |
| Balance, September 30   | 141                                 | 562                                   | 364                        | 39                         |                                       | 1,106    |
| Loans charged off   | (185)                               |                                       | (102)                      |                            |                                       | (287)    |
| Recoveries of loans<br>previously charged off   |                                     |                                       | 29                         |                            |                                       | 29       |
| Net loans recovered (charged<br>off)  | (185)                               |                                       | (73)                       |                            |                                       | (258)    |
| Provision for loan losses<br>before benefit attributable to<br>FDIC loss share agreements | 1,751                               | 276                                   | 1,822                      | 96                         |                                       | 3,945    |



|  |          |        |          |        |    |          |
|--|----------|--------|----------|--------|----|----------|
| Benefit attributable to FDIC loss share agreements | (1,376)  | 20     | (1,592)  | (106)  |    | (3,054)  |
| Net provision for loan losses                      | 375      | 296    | 230      | (10)   |    | 891      |
| Increase in FDIC indemnification asset             | 1,376    | (20)   | 1,592    | 106    |    | 3,054    |
| Balance, December 31                               | \$ 1,707 | \$ 838 | \$ 2,113 | \$ 135 | \$ | \$ 4,793 |

## As of December 31, 2013

|  | Construction<br>Land<br>Development | Other<br>Commercial<br>Real<br>Estate | Residential<br>Real Estate | Commercial<br>&<br>Industrial | Consumer<br>&<br>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

|       |     |       |     |  |  |       |
|-------|-----|-------|-----|--|--|-------|
| 1,707 | 838 | 2,113 | 135 |  |  | 4,793 |
|-------|-----|-------|-----|--|--|-------|

|                      |          |        |          |        |    |          |
|----------------------|----------|--------|----------|--------|----|----------|
| Balance, December 31 | \$ 1,707 | \$ 838 | \$ 2,113 | \$ 135 | \$ | \$ 4,793 |
|----------------------|----------|--------|----------|--------|----|----------|

**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

|        |         |         |       |       |  |         |
|--------|---------|---------|-------|-------|--|---------|
| 48,388 | 118,396 | 108,781 | 5,852 | 1,099 |  | 282,516 |
|--------|---------|---------|-------|-------|--|---------|

|                      |           |            |            |          |          |            |
|----------------------|-----------|------------|------------|----------|----------|------------|
| Balance, December 31 | \$ 48,388 | \$ 118,396 | \$ 108,781 | \$ 5,852 | \$ 1,099 | \$ 282,516 |
|----------------------|-----------|------------|------------|----------|----------|------------|



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Changes in the carrying amount of the accretible yield for purchased credit impaired loans acquired were as follows for the nine-month period ended September 30, 2014 for the Company's covered and non-covered acquisitions:

|  | <b>Accretible<br/>Yield<br/>(In thousands)</b> | <b>Carrying<br/>Amount of<br/>Loans</b> |
|--|--|---|
| Balance at beginning of period                       | \$ 119,981                                     | \$ 573,961                              |
| Reforecasted future interest payments for loan pools | 7,351  |   |
| Accretion recorded to interest income                | (48,077)                                       | 48,077                                  |
| Adjustment to yield                                  | 39,580   |   |
| Transfers to foreclosed assets held for sale         |  | (11,518)                                |
| Payments received, net                               |  | (130,241)                               |
| <b>Balance at end of period</b>                      | <b>\$ 118,835</b>                              | <b>\$ 480,279</b>                       |

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 accretible yield expectations for those loan pools by \$7.4 million. This updated forecast does not change the expected weighted average yields on the loan pools.

During the third quarter 2014 impairment testing, there were non-loss sharing pools evaluated by the Company which were determined to have a material projected credit improvement. As a result of this improvement, the Company will recognize approximately \$4.7 million as an adjustment to yield over the weighted average life of the loans (\$1.1 million was recognized during the third quarter of 2014).

During the first nine months of 2014, there were FDIC loss-sharing pools evaluated by the Company which were determined to have a material projected credit improvement. As a result of this improvement, the Company will recognize approximately \$34.9 million as an adjustment to yield over the weighted average life of the loans. Improvements in credit quality decrease the basis in the related indemnification assets. This positive event will reduce the indemnification asset by approximately \$25.6 million and increase the FDIC true-up liability by \$2.2 million. The \$25.6 million will be amortized over the weighted average life of the loans or the life of the shared-loss agreements, whichever is shorter. The amortization will be shown as a reduction to FDIC indemnification non-interest income. The \$2.2 million will be expensed over the remaining true-up measurement date as other non-interest expense. This will result in approximately \$6.9 million of pre-tax net income being recognized going forward which may or may not be symmetrical depending on the weighted average life of the loans.

**7. Goodwill and Core Deposits and Other Intangibles**

Changes in the carrying amount and accumulated amortization of the Company's goodwill and core deposits and other intangibles at September 30, 2014 and December 31, 2013, were as follows:

**September 30, 2014**      **December 31, 2013**  
(In thousands)

**Goodwill**

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|                              |            |            |
|------------------------------|------------|------------|
| Balance, beginning of period | \$ 301,736 | \$ 85,681  |
| Liberty acquisition          |            | 216,055    |
| Traditions acquisition       | 11,584     |            |
| Balance, end of period       | \$ 313,320 | \$ 301,736 |

**September 30, 2014    December 31, 2013**  
(In thousands)

|  |           |           |
|--|-----------|-----------|
| <b><u>Core Deposit and Other Intangibles</u></b> |           |           |
| Balance, beginning of period                     | \$ 22,298 | \$ 12,061 |
| Traditions acquisition                           | 2,173     |           |
| Amortization expense                             | (3,467)   | (2,406)   |
| Balance, September 30                            | \$ 21,004 | 9,655     |
| Liberty acquisition                              |           | 13,861    |
| Amortization expense                             |           | (1,218)   |
| Balance, end of year                             |           | \$ 22,298 |

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The carrying basis and accumulated amortization of core deposits and other intangibles at September 30, 2014 and December 31, 2013 were:

|                          | <b>September 30, 2014</b> |  | <b>December 31, 2013</b> |  |
|--------------------------|---------------------------|--|--------------------------|--|
|                          | <b>(In thousands)</b>     |  |                          |  |
| Gross carrying basis     | \$ 45,697                 |  | \$ 43,524                |  |
| Accumulated amortization | (24,693)                  |  | (21,226)                 |  |
| Net carrying amount      | \$ 21,004                 |  | \$ 22,298                |  |

Core deposit and other intangible amortization expense was approximately \$1.2 million and \$802,000 for the three-months ended September 30, 2014 and 2013, respectively. Core deposit and other intangible amortization expense was approximately \$3.5 million and \$2.4 million for the nine-months ended September 30, 2014 and 2013, respectively. Including all of the mergers completed as of September 30, 2014, HBI's estimated amortization expense of core deposits and other intangibles for each of the years 2014 through 2018 is approximately: 2014 \$4.5 million; 2015 \$3.8 million; 2016 \$2.5 million; 2017 \$2.4 million; 2018 \$2.3 million.

The carrying amount of the Company's goodwill was \$313.3 million and \$301.7 million at September 30, 2014 and December 31, 2013, 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, 2014 and December 31, 2013 other assets were \$86.4 million and \$81.2 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 \$12.8 million and \$19.1 million at September 30, 2014 and December 31, 2013, 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 \$63.9 million and \$52.6 million at September 30, 2014 and December 31, 2013, respectively and are accounted for at cost.

**9. Deposits**

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The aggregate amount of time deposits with a minimum denomination of \$100,000 was \$696.8 million and \$877.4 million at September 30, 2014 and December 31, 2013, respectively. Interest expense applicable to certificates in excess of \$100,000 totaled \$1.1 million and \$766,000 for the three months ended September 30, 2014 and 2013, respectively. Interest expense applicable to certificates in excess of \$100,000 totaled \$3.3 million and \$2.8 million for the nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014 and December 31, 2013, brokered deposits were \$45.2 million and \$100.4 million, respectively.

Deposits totaling approximately \$950.0 million and \$1.02 billion at September 30, 2014 and December 31, 2013, respectively, were public funds obtained primarily from state and political subdivisions in the United States.

**Table of Contents****10. Securities Sold Under Agreements to Repurchase**

At September 30, 2014 and December 31, 2013, securities sold under agreements to repurchase totaled \$160.9 million and \$161.0 million, respectively. For the three-month periods ended September 30, 2014 and 2013, securities sold under agreements to repurchase daily weighted average totaled \$150.2 million and \$73.9 million, respectively. For the nine-month periods ended September 30, 2014 and 2013, securities sold under agreements to repurchase daily weighted average totaled \$145.3 million and \$72.1 million, respectively.

**11. FHLB Borrowed Funds**

The Company's Federal Home Loan Bank (FHLB) borrowed funds were \$713.6 million and \$350.7 million at September 30, 2014 and December 31, 2013, respectively. At September 30, 2014, \$520.0 million and \$193.6 million of the outstanding balance were issued as short-term and long-term advances, respectively. At December 31, 2013, \$130.3 million and \$220.4 million of the outstanding balances were issued as short-term and long-term advances, respectively. The FHLB advances mature from the current year to 2025 with fixed interest rates ranging from 0.105% to 5.960% and are secured by loans and investments securities. Expected maturities will differ from contractual maturities because FHLB may have the right to call or HBI the right to prepay certain obligations.

Additionally, the Company had \$172.0 million and \$191.0 million at September 30, 2014 and December 31, 2013, respectively, in letters of credit under a FHLB blanket borrowing line of credit, which are used to collateralize public deposits at September 30, 2014 and December 31, 2013, respectively.

**12. Subordinated Debentures**

Subordinated debentures at September 30, 2014 and December 31, 2013 consisted of guaranteed payments on trust preferred securities with the following components:

|  | As of<br>September 30,<br>2014 | As of<br>December 31,<br>2013 |
|--|--------------------------------|-------------------------------|
|  | (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                        |
| <b>Total</b>   | <b>\$ 60,826</b>               | <b>\$ 60,826</b>              |





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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. 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:

|                            | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|----------------------------|---|-------------|--|-------------|
|                            | <b>2014</b>                                 | <b>2013</b> | <b>2014</b>                                | <b>2013</b> |
|                            | <b>(In thousands)</b>                       |             |  |             |
| <b>Current:</b>            |   |             |  |             |
| Federal                    | \$ 8,191                                    | \$ 6,635    | \$ 26,048                                  | \$ 17,691   |
| State                      | 1,627                                       | 1,342       | 5,174                                      | 3,563       |
| Total current              | 9,818                                       | 7,977       | 31,222                                     | 21,254      |
| <b>Deferred:</b>           |   |             |  |             |
| Federal                    | 4,329                                       | 2,171       | 13,142                                     | 7,994       |
| State                      | 860   | 442         | 2,610                                      | 1,587       |
| Total deferred             | 5,189                                       | 2,613       | 15,752                                     | 9,581       |
| Provision for income taxes | \$ 15,007                                   | \$ 10,590   | \$ 46,974                                  | \$ 30,835   |

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:

|                                      | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--------------------------------------|---|-------------|--|-------------|
|                                      | <b>2014</b>                                 | <b>2013</b> | <b>2014</b>                                | <b>2013</b> |
| Statutory federal income tax rate    | 35.00%                                      | 35.00%      | 35.00%                                     | 35.00%      |
| Effect of nontaxable interest income | (2.21)                                      | (2.01)      | (2.06)                                     | (2.06)      |
| Cash value of life insurance         | (0.27)                                      | (0.34)      | (0.24)                                     | (0.25)      |

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|  |        |        |        |        |
|--|--------|--------|--------|--------|
| State income taxes, net of federal benefit | 3.92   | 4.01   | 3.92   | 3.97   |
| Other                                      | (1.03) | (0.08) | (0.52) | (0.13) |
| Effective income tax rate                  | 35.41% | 36.58% | 36.10% | 36.53% |

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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, 2014 | December 31, 2013 |
|--|--------------------|-------------------|
|  | (In thousands)     |                   |
| Deferred tax assets:                               |                    |                   |
| Allowance for loan losses                          | \$ 20,623          | \$ 17,213         |
| Deferred compensation                              | 2,363              | 3,230             |
| Stock options                                      | 371                | 277               |
| Real estate owned                                  | 4,466              | 11,145            |
| Loan discounts                                     | 30,163             | 65,639            |
| Tax basis premium/discount on acquisitions         | 19,408             | 20,671            |
| Unrealized loss on securities available-for-sale   |                    | 2,673             |
| Investments  | 2,672              | 2,568             |
| Other  | 8,578              | 6,992             |
| <b>Gross deferred tax assets</b>                   | <b>88,644</b>      | <b>130,408</b>    |
| Deferred tax liabilities:                          |                    |                   |
| Accelerated depreciation on premises and equipment | 2,265              | 3,616             |
| Unrealized gain on securities available-for-sale   | 3,445              |                   |
| Core deposit intangibles                           | 5,340              | 5,650             |
| Indemnification asset                              | 6,222              | 29,074            |
| FHLB dividends                                     | 1,602              | 1,602             |
| Other  | 1,700              | 1,054             |
| <b>Gross deferred tax liabilities</b>              | <b>20,574</b>      | <b>40,996</b>     |
| <b>Net deferred tax assets</b>                     | <b>\$ 68,070</b>   | <b>\$ 89,412</b>  |

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and the states of Arkansas, Alabama and Florida. 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.

Early in the fourth quarter of 2014, the State of Florida commenced an examination of the Company's Florida State income tax return for the 2010, 2011 and 2012 tax years. The Company does not anticipate the examination to result in a material change to its financial position.

#### 14. 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 nonqualified options to purchase stock or for the

issuance of restricted shares up to 4,644,000 shares of common stock in the Company. At September 30, 2014, the Company has approximately 1,483,000 shares of common stock remaining available for grants or issuance under the plan and approximately 2,475,000 shares reserved for issuance of common stock.

The intrinsic value of the stock options outstanding and stock options vested at September 30, 2014 was \$18.3 million and \$16.0 million, respectively. The intrinsic value of the stock options exercised during the three and nine-month periods ended September 30, 2014 was approximately \$646,000 and \$1.2 million, respectively. Total unrecognized compensation cost, net of income tax benefit, related to non-vested awards, which are expected to be recognized over the vesting periods, was approximately \$1.4 million as of September 30, 2014. For the first nine months of 2014, the Company has expensed \$241,000 for the non-vested awards.

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The table below summarizes the transactions under the Company's stock option plans at September 30, 2014 and December 31, 2013 and changes during the nine-month period and year then ended:

|                                | For the Nine Months Ended |                                    | For the Year Ended |                                    |
|--------------------------------|---------------------------|------------------------------------|--------------------|------------------------------------|
|                                | September 30, 2014        |                                    | December 31, 2013  |                                    |
|                                | Shares (000)              | Weighted Average Exercisable Price | Shares (000)       | Weighted Average Exercisable Price |
| Outstanding, beginning of year | 966                       | \$ 9.57                            | 871                | \$ 6.66                            |
| Granted                        | 70                        | 33.54                              | 184                | 21.24                              |
| Forfeited                      |                           |                                    | (3)                | 8.60                               |
| Exercised                      | (44)                      | 4.76                               | (86)               | 5.01                               |
| Outstanding, end of period     | 992                       | 11.48                              | 966                | 9.57                               |
| Exercisable, end of period     | 715                       | \$ 6.97                            | 710                | \$ 6.20                            |

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, 2014 was \$10.73 per share. The weighted-average fair value of options granted during the year ended December 31, 2013 was \$4.50 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 | For the Year Ended |
|---------------------------------|---------------------------|--------------------|
|                                 | September 30, 2014        | December 31, 2013  |
| Expected dividend yield         | 0.89%                     | 1.42%              |
| Expected stock price volatility | 30.94%                    | 22.09%             |
| Risk-free interest rate         | 2.31%                     | 1.33%              |
| Expected life of options        | 6.5 years                 | 6.5 years          |

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The following is a summary of currently outstanding and exercisable options at September 30, 2014:

| Exercise Prices    | Options Outstanding              |  |                                 | Options Exercisable              |                                 |
|--------------------|----------------------------------|--|---------------------------------|----------------------------------|---------------------------------|
|                    | Options Outstanding Shares (000) | Weighted-Average Remaining Contractual Life (in years) | Weighted-Average Exercise Price | Options Exercisable Shares (000) | Weighted-Average Exercise Price |
| \$ 3.08 to \$3.50  | 7                                | 0.70   | \$ 3.39                         | 7                                | \$ 3.39                         |
| \$ 3.92 to \$4.34  | 43                               | 0.86   | 4.26                            | 43                               | 4.26                            |
| \$ 4.78 to \$4.92  | 61                               | 1.01   | 4.83                            | 61                               | 4.83                            |
| \$ 5.33 to \$5.33  | 199                              | 1.10   | 5.33                            | 199                              | 5.33                            |
| \$ 5.54 to \$5.54  | 199                              | 1.45   | 5.54                            | 199                              | 5.54                            |
| \$ 8.54 to \$8.60  | 77                               | 3.29   | 8.57                            | 77                               | 8.57                            |
| \$ 9.25 to \$9.31  | 10                               | 2.65   | 9.29                            | 10                               | 9.29                            |
| \$10.16 to \$11.37 | 55                               | 2.55   | 10.33                           | 55                               | 10.33                           |
| \$13.12 to \$13.12 | 88                               | 7.31   | 13.12                           | 34                               | 13.12                           |
| \$17.25 to \$34.80 | 253                              | 8.83   | 24.64                           | 30                               | 18.23                           |
|                    | 992                              |  |                                 | 715                              |                                 |

The table below summarized the activity for the Company's restricted stock issued and outstanding at September 30, 2014 and December 31, 2013 and changes during the period and year then ended:

|   | As of<br>September 30, 2014 | As of<br>December 31, 2013 |
|---|-----------------------------|----------------------------|
|   | (In thousands)              |                            |
| Beginning of year   | 256                         | 269                        |
| Issued  | 43                          | 35                         |
| Vested  | (30)                        | (32)                       |
| Forfeited   | (2)                         | (16)                       |
| End of period   | 267                         | 256                        |
| Amount of expense for nine months and twelve months ended, respectively | \$ 1,155                    | \$ 1,086                   |

On January 18, 2013, 18,000 shares of restricted common stock were issued to each non-employee member of the Board of Directors and 4,000 shares of restricted common stock to a regional president of the Company's bank subsidiary for a total issuance of 22,000 shares of restricted common stock. The restricted stock issued will vest equally each year over three years beginning on the first anniversary of the issuance.

On June 4, 2013, 12,666 shares of restricted common stock were issued to a 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 ( Performance Shares ). The 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 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 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.

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The Company did not utilize a portion of its previously approved stock repurchase program during the first nine months of 2014. This program authorized the repurchase of 2,376,000 shares of the Company's common stock. Shares repurchased to date under the program total 1,510,896 shares. The remaining balance available for repurchase is 865,104 shares at September 30, 2014.

**15. Non-Interest Expense**

The table below shows the components of non-interest expense for the three and nine months ended September 30, 2014 and 2013:

|                                       | Three Months<br>Ended<br>September 30, |                  | Nine Months Ended<br>September 30, |                  |
|---------------------------------------|--|------------------|------------------------------------|------------------|
|                                       | 2014                                   | 2013             | 2014                               | 2013             |
|                                       | (In thousands)                         |                  |                                    |                  |
| Salaries and employee benefits        | \$ 19,368                              | \$ 12,981        | \$ 57,114                          | \$ 38,890        |
| Occupancy and equipment               | 6,234                                  | 4,010            | 18,711                             | 11,498           |
| Data processing expense               | 1,801                                  | 1,114            | 5,387                              | 3,855            |
| Other operating expenses:             |  |                  |                                    |                  |
| Advertising                           | 673                                    | 363              | 1,776                              | 1,176            |
| Merger and acquisition expenses       | 3,772                                  | 1,034            | 4,727                              | 1,063            |
| Amortization of intangibles           | 1,153                                  | 802              | 3,467                              | 2,406            |
| Electronic banking expense            | 1,307                                  | 926              | 3,957                              | 2,749            |
| Directors' fees                       | 236                                    | 188              | 669                                | 588              |
| Due from bank service charges         | 200                                    | 136              | 604                                | 437              |
| FDIC and state assessment             | 972                                    | 684              | 3,144                              | 1,991            |
| Insurance                             | 657                                    | 572              | 1,853                              | 1,693            |
| Legal and accounting                  | 510                                    | 227              | 1,346                              | 943              |
| Other professional fees               | 716                                    | 404              | 1,806                              | 1,367            |
| Operating supplies                    | 468                                    | 309              | 1,455                              | 984              |
| Postage                               | 323                                    | 212              | 1,002                              | 650              |
| Telephone                             | 548                                    | 291              | 1,465                              | 885              |
| Other expense                         | 3,879                                  | 2,462            | 12,311                             | 7,258            |
| <b>Total other operating expenses</b> | <b>15,414</b>                          | <b>8,610</b>     | <b>39,582</b>                      | <b>24,190</b>    |
| <b>Total non-interest expense</b>     | <b>\$ 42,817</b>                       | <b>\$ 26,715</b> | <b>\$ 120,794</b>                  | <b>\$ 78,433</b> |

**16. 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.

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### **17. 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, 2014 and December 31, 2013, non-covered commercial real estate loans represented 58.0% and 56.8% of non-covered loans, respectively, and 277.2% and 283.5% of total stockholders' equity, respectively. Non-covered residential real estate loans represented 25.9% and 26.9% of non-covered loans and 123.8% and 134.0% of total stockholders' equity at September 30, 2014 and December 31, 2013, respectively.

Approximately 86.6% of the Company's loans as of September 30, 2014, are to the borrowers in Alabama, Arkansas and Florida, the three states in which the Company has its primary market areas. Additionally, the Company has 84.5% of its loans as real estate loans primarily in Arkansas, Florida and South Alabama.

Although general economic conditions nationally and locally in our market areas have improved over the past three years and show signs of continued improvement, financial institutions still face circumstances and challenges which in some cases have 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.

### **18. 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, 2014 and December 31, 2013, commitments to extend credit of \$775.8 million and \$623.5 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 credit worthiness 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, 2014 and December 31, 2013, is \$22.9 million and \$21.4 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.

**Table of Contents****19. 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 2014, the Company requested approximately \$61.4 million in regular dividends from its banking subsidiary. This dividend is equal to approximately 71.5% of our banking subsidiary's first nine months earnings.

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. The criteria for a well-capitalized institution are: a 5% Tier 1 leverage capital ratio, a 6% Tier 1 risk-based capital ratio, and a 10% total risk-based capital ratio. As of September 30, 2014, the Bank met the capital standards for a well-capitalized institution. The Company's Tier 1 leverage capital ratio, Tier 1 risk-based capital ratio, and total risk-based capital ratio were 10.22%, 12.42%, and 13.39%, respectively, as of September 30, 2014.

**20. Additional Cash Flow Information**

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

|                                | <b>Nine Months Ended September 30,</b> |             |
|--------------------------------|--|-------------|
|                                | <b>2014</b>                            | <b>2013</b> |
|                                | <b>(In thousands)</b>                  |             |
| Interest paid                  | \$ 14,323                              | \$ 10,337   |
| Income taxes paid              | 16,650                                 | 16,875      |
| Assets acquired by foreclosure | 14,238                                 | 12,522      |

**21. 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, 2014 and December 31, 2013, Level 3 securities were immaterial. In addition, there were no material transfers between hierarchy levels during 2014 and 2013.

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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 \$70.3 million and \$91.9 million as of September 30, 2014 and December 31, 2013, respectively. This valuation is considered Level 3, consisting of appraisals of underlying collateral. The Company reversed approximately \$183,000 and \$147,000 of accrued interest receivable when non-covered impaired loans were put on non-accrual status during the three months ended September 30, 2014 and 2013, respectively. The Company reversed approximately \$746,000 and \$453,000 of accrued interest receivable when non-covered impaired loans were put on non-accrual status during the nine months ended September 30, 2014 and 2013, 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, 2014 and December 31, 2013, the fair value of foreclosed assets held for sale not covered by loss share, less estimated costs to sell was \$19.4 million and \$29.9 million, respectively.

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.

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*Loans receivable covered by FDIC loss share, net of allowance* Fair values for loans are 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, whether or not the loan was amortizing and current discount rates. Loans were grouped together according to similar characteristics and were 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. While this asset was recorded at its estimated fair value at acquisition date, it is not practicable to complete a fair value analysis on a quarterly or annual basis. This would involve preparing a fair value analysis of the entire portfolio of loans and foreclosed assets covered by the loss sharing agreement on a quarterly or annual basis in order to estimate the fair value of the FDIC indemnification asset.

*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, 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.

*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.





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|   | <b>September 30, 2014</b>  |                   |              |
|---|----------------------------|-------------------|--------------|
|   | <b>Carrying<br/>Amount</b> | <b>Fair Value</b> | <b>Level</b> |
|   | <b>(In thousands)</b>      |                   |              |
| <b>Financial assets:</b>  |                            |                   |              |
| Cash and cash equivalents   | \$ 137,483                 | \$ 137,483        | 1            |
| Federal funds sold  | 44,275                     | 44,275            | 1            |
| Investment securities held-to-maturity  | 296,036                    | 300,023           | 2            |
| Loans receivable not covered by loss share, net of non-covered impaired loans and allowance | 4,462,041                  | 4,449,341         | 3            |
| Loans receivable covered by FDIC loss share, net of allowance                               | 248,821                    | 248,821           | 3            |
| FDIC indemnification asset  | 42,104                     | 42,104            | 3            |
| Accrued interest receivable   | 23,366                     | 23,366            | 1            |
| <b>Financial liabilities:</b>   |                            |                   |              |
| <b>Deposits:</b>  |                            |                   |              |
| Demand and non-interest bearing   | \$ 1,170,441               | \$ 1,170,441      | 1            |
| Savings and interest-bearing transaction accounts   | 2,830,829                  | 2,830,829         | 1            |
| Time deposits   | 1,276,001                  | 1,273,212         | 3            |
| Federal funds purchased   |                            |                   | N/A          |
| Securities sold under agreements to repurchase  | 160,895                    | 160,895           | 1            |
| FHLB borrowed funds   | 713,553                    | 721,163           | 2            |
| Accrued interest payable  | 1,108                      | 1,108             | 1            |
| Subordinated debentures   | 60,826                     | 60,826            | 3            |

|   | <b>December 31, 2013</b>   |                   |              |
|---|----------------------------|-------------------|--------------|
|   | <b>Carrying<br/>Amount</b> | <b>Fair Value</b> | <b>Level</b> |
|   | <b>(In thousands)</b>      |                   |              |
| <b>Financial assets:</b>  |                            |                   |              |
| Cash and cash equivalents   | \$ 165,534                 | \$ 165,534        | 1            |
| Federal funds sold  | 4,275                      | 4,275             | 1            |
| Investment securities held-to-maturity  | 114,621                    | 113,901           | 2            |
| Loans receivable not covered by loss share, net of non-covered impaired loans and allowance | 4,063,469                  | 4,053,098         | 3            |
| Loans receivable covered by FDIC loss share, net of allowance                               | 277,723                    | 277,723           | 3            |
| FDIC indemnification asset  | 89,611                     | 89,611            | 3            |
| Accrued interest receivable   | 22,944                     | 22,944            | 1            |
| <b>Financial liabilities:</b>   |                            |                   |              |
| <b>Deposits:</b>  |                            |                   |              |
| Demand and non-interest bearing   | \$ 991,161                 | \$ 991,161        | 1            |
| Savings and interest-bearing transaction accounts   | 2,792,423                  | 2,792,423         | 1            |
| Time deposits   | 1,609,462                  | 1,606,664         | 3            |
| Federal funds purchased   |                            |                   | N/A          |

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|  |         |         |   |
|--|---------|---------|---|
| Securities sold under agreements to repurchase | 160,984 | 160,984 | 1 |
| FHLB borrowed funds                            | 350,661 | 357,674 | 2 |
| Accrued interest payable                       | 1,252   | 1,252   | 1 |
| Subordinated debentures                        | 60,826  | 60,826  | 3 |

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**Table of Contents****22. Recent Accounting Pronouncements**

In January 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2014-04, *Receivables: Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure* (Topic 310-40). ASU 2014-04 clarifies that an in substance repossession or foreclosure occurs upon either the creditor obtaining legal title to the residential real estate property or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The amendments are effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014. The amendments may be adopted using either a modified retrospective transition method or a prospective transition method. Early adoption is permitted. Adoption of ASU 2014-04 is not expected to have a significant effect on the Company's financial statements.

In January 2014, the FASB issued ASU No. 2014-01, *Accounting for Investments in Affordable Housing Projects* (Topic 323). ASU 2014-01 revises the necessary criteria that need to be met in order for an entity to account for investments in affordable housing projects net of the provision for income taxes. It also changes the method of recognition from an effective amortization approach to a proportional amortization approach. Additional disclosures were also set forth in this update. The amendments are effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014. The amendments are required to be applied retrospectively to all periods presented. Early adoption is permitted. Adoption of ASU 2014-01 is not expected to have a significant effect on the Company's financial statements.

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. We are 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.

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 become effective for annual periods and interim periods within those annual periods beginning after December 15, 2014. We are 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.

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.

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**23. Subsequent Events**

***Business Combination Broward Financial Holdings, Inc.*** Subsequent to September 30, 2014, on October 23, 2014, the Company completed its acquisition of Broward Financial Holdings, Inc. ( BFHI ), parent company of Broward Bank of Commerce ( Broward ), 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 BFHI, resulting in BFHI becoming a wholly-owned subsidiary of HBI. Immediately thereafter, Broward was merged into Centennial Bank ( Centennial ). Under the terms of the Agreement and Plan of Merger dated July 30, 2014 by and among HBI, Centennial, BFHI, Broward and Acquisition Sub II, HBI issued approximately 1,021,000 shares of its common stock valued at \$29,754,001 as of October 23, 2014, plus \$3,306,000 in cash in exchange for all outstanding shares of BFHI common stock. HBI has also agreed to pay the BFHI 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 loans. At this point, the Company anticipates it will record a fair value of zero for the potential additional consideration.

Prior to the acquisition, Broward operated two banking locations in Fort Lauderdale, Florida. As of acquisition date, Broward had approximately \$180.2 million in total assets, \$119.2 million in total loans, and \$145.0 million in deposits.

As of the acquisition date, BFHI s common equity totaled \$20,407,000 and the Company paid a purchase price to the BFHI shareholders of \$33,060,001 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.

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**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, 2014, and the related condensed consolidated statements of income and comprehensive income for the three-month and nine-month periods ended September 30, 2014 and 2013 and condensed consolidated statements of stockholders' equity and cash flows for the nine-month periods ended September 30, 2014 and 2013. 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, 2013, 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 28, 2014, 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, 2013, 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 6, 2014

**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 28, 2014, which includes the audited financial statements for the year ended December 31, 2013. *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 ( "Centennial" ). As of September 30, 2014, we had, on a consolidated basis, total assets of \$7.20 billion, loans receivable, net of \$4.78 billion, total deposits of \$5.28 billion, and stockholders' equity of \$958.7 million.

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<br>Ended September 30, |              | As of or for the Nine<br>Months<br>Ended September 30, |              |
|---|--|--------------|--|--------------|
|   | 2014   | 2013         | 2014   | 2013         |
|   | (Dollars in thousands, except per share data)        |              |  |              |
| Total assets  | \$ 7,196,371   | \$ 4,161,306 | \$ 7,196,371   | \$ 4,161,306 |
| Loans receivable not covered by loss share                                  | 4,583,015  | 2,378,838    | 4,583,015  | 2,378,838    |
| Loans receivable covered by FDIC loss share                                 | 250,970  | 308,072      | 250,970  | 308,072      |
| Allowance for loan losses   | 52,844   | 38,748       | 52,844   | 38,748       |
| FDIC claims receivable  | 12,781   | 31,168       | 12,781   | 31,168       |
| Total deposits  | 5,277,271  | 3,248,818    | 5,277,271  | 3,248,818    |
| Total stockholders' equity  | 958,681  | 545,142      | 958,681  | 545,142      |
| Net income  | 27,371   | 18,363       | 83,137   | 53,570       |
| Basic earnings per share  | 0.41   | 0.33         | 1.27   | 0.96         |
| Diluted earnings per share  | 0.41   | 0.33         | 1.26   | 0.95         |
| Diluted earnings per share excluding intangible amortization <sup>(1)</sup> | 0.42   | 0.33         | 1.29   | 0.97         |
| Annualized net interest margin FTE  | 5.26%  | 5.41%        | 5.41%  | 5.25%        |
| Efficiency ratio  | 45.70  | 45.67        | 42.95  | 45.56        |
| Annualized return on average assets   | 1.56   | 1.80         | 1.63   | 1.73         |



|  |       |       |       |       |
|--|-------|-------|-------|-------|
| Annualized return on average common equity | 11.58 | 13.63 | 12.48 | 13.53 |
|--|-------|-------|-------|-------|

- (1) See Table 26 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 revealed there was 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, 2014 and 2013:

**Table 2: Overall Estimated Impact to Financial Statements Initially Reported**

|                                   | <b>Additional<br/>Adjustment to<br/>Yield</b> | <b>Reduction of<br/>Indemnification<br/>Asset<br/>(In thousands)</b> | <b>Increase of<br/>FDIC True-up<br/>Liability</b> |
|-----------------------------------|---|--|---|
| <b>Periods Tested:</b>            |   |  |   |
| Prior to 2013                     | \$ 5,022                                      | \$ 3,876   | \$ 502  |
| March 31, 2013                    | 15,566  | 12,453   | 1,657   |
| June 30, 2013                     |   |  |   |
| September 30, 2013                |   |  |   |
| December 31, 2013                 | 14,061  | 8,389  | 1,331   |
| March 31, 2014                    | 11,432  | 8,346  | 1,143   |
| June 30, 2014                     | 23,428  | 17,330   | 1,128   |
| September 30, 2014 <sup>(1)</sup> | 4,720   |  |   |
| <b>Total</b>                      | <b>\$ 74,229</b>                              | <b>\$ 50,394</b>   | <b>\$ 5,761</b>                                   |

(1) Credit improvement in non-covered purchased credit impaired loans

**Table 3: Financial Impact for the Three and Nine Months Ended September 30, 2014 and 2013**

|  | <b>Amortization<br/>of<br/>Yield Accretion<br/>Income</b> | <b>Indemnification<br/>Asset</b> | <b>FDIC True-up<br/>Expense</b> |
|--|---|----------------------------------|---------------------------------|
|--|---|----------------------------------|---------------------------------|

(In thousands)

| <b>Three Months Ended:</b>  |           |           |        |
|-----------------------------|-----------|-----------|--------|
| September 30, 2013          | \$ 4,072  | \$ 3,485  | \$ 249 |
| September 30, 2014          | 7,866     | 7,112     | 281    |
| Additional income (expense) | \$ 3,794  | \$ 3,627  | \$ 32  |
| <b>Nine Months Ended:</b>   |           |           |        |
| September 30, 2013          | \$ 9,423  | \$ 8,565  | \$ 406 |
| September 30, 2014          | 21,211    | 18,880    | 716    |
| Additional income (expense) | \$ 11,788 | \$ 10,315 | \$ 310 |

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**Table of Contents*****Results of Operations for Three Months Ended September 30, 2014 and 2013***

Our net income increased \$9.0 million or 49.1% to \$27.4 million for the three-month period ended September 30, 2014, from \$18.4 million for the same period in 2013. On a diluted earnings per share basis, our earnings were \$0.41 and \$0.33 per share for the three-month periods ended September 30, 2014 and 2013, respectively. Excluding the \$3.8 million and \$1.0 million of merger expenses associated with the 2014 acquisition of Florida Tradition Bank ( Traditions ) and the 2013 acquisition of Liberty Bancshares, Inc. ( Liberty ), respectively, diluted earnings per share for the third quarter of 2014 and 2013 were \$0.45 per share and \$0.34, respectively. The \$10.7 million increase in net income excluding merger expenses is primarily associated with the \$32.3 million of additional net interest income primarily resulting from our 2013 acquisition of Liberty and 2014 acquisition of Traditions plus the additional accretion income from our previous FDIC covered loan acquisitions. These improvements were partially offset by a modest increase in the costs associated with the asset growth from our Liberty and Traditions acquisitions, \$3.8 million of additional amortization of the indemnification asset plus an increase in provision for loan losses of \$4.2 million in third quarter of 2014 when compared to the same period in 2013.

Our annualized net interest margin, on a fully taxable equivalent basis, was 5.26% for the three months ended September 30, 2014, compared to 5.41% for the same period in 2013. The numerous purchased credit impaired loan pools which have been determined to have material projected credit improvement as a result of the quarterly impairment testing and the acquisitions of Liberty and Traditions have significantly changed the mix and metrics on the net interest margin since December 31, 2012. Although there have been many changes since 2012, the Company continues to remain focused on expanding its net interest margin through opportunities such as improved pricing on interest-bearing deposits.

Our annualized return on average assets was 1.56% for the three months ended September 30, 2014, compared to 1.80% for the same period in 2013. Our annualized return on average common equity was 11.58% for the three months ended September 30, 2014, compared to 13.63% for the same period in 2013, respectively. Excluding merger expenses, our return on average assets was 1.69% for the three-month period ended September 30, 2014, compared to 1.86% for the same period in 2013. The slight declines in our profitability ratios from 2013 to 2014 are primarily related to the acquisitions of Liberty and Traditions which have historically performed below our profitability ratios. While we have been making notable progress in improving the performance of the former Liberty and Traditions operations, they have not been brought up to the historical performance metrics of our Company.

Our efficiency ratio was 45.70% for the three months ended September 30, 2014, compared to 45.67% for the same period in 2013. For the third quarter of 2014, our core efficiency ratio was 41.88% which is improved from the 44.76% reported for third quarter of 2013. The improvement in the core efficiency ratio is primarily associated with additional net interest income resulting from our 2013 acquisition of Liberty and 2014 acquisition of Traditions offset by a modest increase in costs associated with the asset growth from our acquisitions.

Additional information and analysis for our earnings can be found in Table 21 of our Non-GAAP Financial Measurement section of the Management Discussion and Analysis.

***Results of Operations for Nine Months Ended September 30, 2014 and 2013***

Our net income increased \$29.6 million or 55.2% to \$83.1 million for the nine-month period ended September 30, 2014, from \$53.6 million for the same period in 2013. On a diluted earnings per share basis, our earnings were \$1.26 and \$0.95 for the nine-month periods ended September 30, 2014 and 2013, respectively. Excluding the \$4.7 million and \$1.1 million of merger expenses associated with the 2014 acquisition of Traditions and the 2013 acquisition of Liberty, respectively, diluted earnings per share for the nine months ended September 30, 2014 and 2013 were \$1.31

per share and \$0.96, respectively. The \$31.8 million increase in net income excluding merger expenses is primarily associated with the \$98.1 million of additional net interest income primarily resulting from our 2013 acquisition of Liberty and 2014 acquisition of Traditions and the additional accretion income from our previous FDIC covered loan acquisitions. Furthermore, there was \$267,000 of additional net gains from the sale of SBA loans, sale of premises & equipment, investment securities and OREO. These improvements were partially offset by a modest increase in the costs associated with the asset growth from our Liberty and Traditions acquisitions, \$10.9 million of additional amortization of the indemnification asset plus an increase in provision for loan losses of \$16.4 million in the first nine months of 2014 when compared to the same period in 2013.

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Our annualized net interest margin, on a fully taxable equivalent basis, was 5.41% for the nine months ended September 30, 2014, compared to 5.25% for the same period in 2013. The numerous purchased credit impaired loan pools which have been determined to have material projected credit improvement as a result of the quarterly impairment testing and the acquisitions of Liberty and Traditions have significantly changed the mix and metrics on the net interest margin since December 31, 2012. Although there have been many changes since 2012, the Company continues to remain focused on expanding its net interest margin through opportunities such as improved pricing on interest-bearing deposits.

Our annualized return on average assets was 1.63% for the nine months ended September 30, 2014, compared to 1.73% for the same period in 2013. Our annualized return on average common equity was 12.48% for the nine months ended September 30, 2014, compared to 13.53% for the same period in 2013, respectively. Excluding merger expenses, our return on average assets was 1.69% for the nine-month period ended September 30, 2014, compared to 1.75% for the same period in 2013. The slight declines in our profitability ratios from 2013 to 2014 are primarily related to the acquisitions of Liberty and Traditions which have historically performed below our profitability ratios. While we have been making notable progress in improving the performance of the Liberty and Traditions franchise, they have not been brought up to the historical performance metrics of our Company.

Our efficiency ratio was 42.95% for the nine months ended September 30, 2014, compared to 45.56% for the same period in 2013. For the first nine months of 2014, our core efficiency ratio was 41.61% which is improved from the 45.63% reported for the first nine months of 2013. The improvement in the core efficiency ratio is primarily associated with additional net interest income and other non-interest income resulting from our 2013 acquisition of Liberty and 2014 acquisition of Traditions offset by a modest increase in costs associated with the asset growth from our acquisitions.

Additional information and analysis for our earnings can be found in Table 21 of our Non-GAAP Financial Measurement section of the Management Discussion and Analysis.

***Financial Condition as of and for the Period Ended September 30, 2014 and December 31, 2013***

Our total assets as of September 30, 2014 increased \$384.5 million to \$7.20 billion from the \$6.81 billion reported as of December 31, 2013. Our loan portfolio not covered by loss share increased by \$388.6 million to \$4.58 billion as of September 30, 2014, from \$4.19 billion as of December 31, 2013. This increase is primarily associated with the recent acquisition of \$241.6 million of Traditions non-covered loans plus \$146.9 million of loan growth since December 31, 2013. Our loan portfolio covered by loss share decreased by \$31.5 million to \$251.0 million as of September 30, 2014, from \$282.5 million as of December 31, 2013. This decrease is primarily associated with pay-downs and payoffs. Stockholders' equity increased \$117.7 million to \$958.7 million as of September 30, 2014, compared to \$841.0 million as of December 31, 2013. The annualized improvement in stockholders' equity for the first nine months of 2014 was 18.7%. The increase in stockholders' equity is primarily associated with the \$39.5 million of common stock issued to the Traditions shareholders combined with the \$92.6 million of comprehensive income less the \$16.4 million of dividends paid for the first nine months of 2014.

As of September 30, 2014, our non-performing non-covered loans increased to \$41.0 million, or 0.90%, of total non-covered loans from \$38.3 million, or 0.91%, of total non-covered loans as of December 31, 2013. The allowance for loan losses for non-covered loans as a percent of non-performing non-covered loans increased to 123.57% as of September 30, 2014, compared to 101.95% as of December 31, 2013. Non-performing non-covered loans in Arkansas were \$24.4 million at September 30, 2014 compared to \$17.9 million as of December 31, 2013. Non-performing non-covered loans in Florida were \$16.3 million at September 30, 2014 compared to \$20.3 million as of December 31, 2013. Non-performing non-covered loans in Alabama were \$410,000 at September 30, 2014 compared to \$7,000 as of

December 31, 2013.

As of September 30, 2014, our non-performing non-covered assets improved to \$60.4 million, or 0.88%, of total non-covered assets from \$68.4 million, or 1.07%, of total non-covered assets as of December 31, 2013.

Non-performing non-covered assets in Arkansas were \$39.3 million at September 30, 2014 compared to \$43.5 million as of December 31, 2013. Non-performing non-covered assets in Florida were \$20.7 million at September 30, 2014 compared to \$24.9 million as of December 31, 2013. Non-performing non-covered assets in Alabama were \$425,000 at September 30, 2014 compared to \$7,000 as of December 31, 2013.

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**Table of Contents****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 in Note 1 of the audited consolidated financial statements included in our Form 10-K, filed with the Securities and Exchange Commission.

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, acquisition accounting for covered loans and the related indemnification asset, investments, foreclosed assets held for sale, 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.

*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.





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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.

*Acquisition Accounting, Acquired Loans and the 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.



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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 cost 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 121 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.

*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 the 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.

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**Table of Contents****Acquisitions*****Broward Financial Holdings, Inc.***

On October 23, 2014, the Company completed its acquisition of Broward Financial Holdings, Inc. ( **BFHI** ), parent company of Broward Bank of Commerce ( **Broward** ), 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 BFHI, resulting in BFHI becoming a wholly-owned subsidiary of HBI. Immediately thereafter, Broward was merged into Centennial. Under the terms of the Agreement and Plan of Merger dated July 30, 2014 by and among HBI, Centennial, BFHI, Broward and Acquisition Sub II, HBI issued approximately 1,021,000 shares of its common stock valued at \$29,754,001 as of October 23, 2014, plus \$3,306,000 in cash in exchange for all outstanding shares of BFHI common stock. HBI has also agreed to pay the BFHI 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 loans.

Prior to the acquisition, Broward operated two banking locations in Fort Lauderdale, Florida. As of acquisition date, Broward had approximately \$180.2 million in total assets, \$119.2 million in total loans, and \$145.0 million in deposits.

As of the acquisition date, BFHI's common equity totaled \$20,407,000 and the Company paid a purchase price to the BFHI shareholders of \$33,060,001 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.

The Company expects to complete the Broward acquisition systems conversion the weekend of November 14, 2014.

See Note 23 **Subsequent Events** in the Condensed Notes to Consolidated Financial Statements for an additional discussion for the acquisition of Broward.

***Acquisition Florida Traditions Bank***

On July 17, 2014, the Company completed its acquisition of Traditions pursuant to a previously announced definitive agreement and plan of merger whereby Traditions merged with and into Centennial. Under the terms of the Agreement and Plan of Merger dated April 25, 2014, by and among HBI, Centennial, and Traditions, HBI issued 1,316,072 shares of its common stock valued at approximately \$39.5 million as of July 17, 2014, 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. As of acquisition date, Traditions had \$297.6 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.

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



**Table of Contents*****Acquisition Liberty Bancshares, Inc.***

On October 24, 2013, Home BancShares, Inc. acquired all of the issued and outstanding shares of common stock of Liberty Bancshares, Inc., parent company of Liberty Bank of Arkansas ( Liberty Bank ). Under the terms of the agreement, shareholders of Liberty received \$290.1 million of HBI common stock plus \$30.0 million in cash. Also on October 24, 2013, Liberty Bank was merged into Centennial Bank. We also repurchased all of Liberty's SBLF preferred stock held by the U.S. Treasury shortly after the closing. The merger significantly increased the Company's deposit market share in Arkansas making it the second largest bank holding company headquartered in Arkansas.

Prior to the acquisition, Liberty operated 46 banking offices located in Northeast Arkansas, Northwest Arkansas and Western Arkansas. Including the effects of the purchase accounting adjustments, Centennial Bank acquired approximately \$2.82 billion in assets, approximately \$1.73 billion in loans including loan discounts and approximately \$2.13 billion of deposits.

See Note 2 Business Combinations in the Condensed Notes to Consolidated Financial Statements for an additional discussion for the acquisition of Liberty Bank.

***FDIC Indemnification Asset***

In conjunction with 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.

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                   |            | Nine Months Ended |            |
|--|--------------------------------|------------|-------------------|------------|
|  | Ended<br>September 30,<br>2014 | 2013       | 2014              | 2013       |
|  | (Dollars in thousands)         |            |                   |            |
| Beginning balance                              | \$ 56,626                      | \$ 116,071 | \$ 89,611         | \$ 139,646 |
| Incurred claims for FDIC covered credit losses | (7,575)                        | (11,702)   | (30,313)          | (31,402)   |
| FDIC indemnification accretion/(amortization)  | (6,947)                        | (3,177)    | (18,313)          | (7,452)    |



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Reduction in provision for loan losses:

|  |           |            |           |            |
|--|-----------|------------|-----------|------------|
| Benefit attributable to FDIC loss share agreements |           |            | 1,119     | 400        |
| Ending balance                                     | \$ 42,104 | \$ 101,192 | \$ 42,104 | \$ 101,192 |

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**Table of Contents****FDIC-Assisted Acquisitions True-up**

Our purchase and assumption agreements in connection with our 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 Bank 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, 2014 and December 31, 2013 was \$9.0 million and \$8.0 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. During the third quarter of 2014, the Company opened one *de novo* branch in Naples, Florida and acquired eight branches through the acquisition of Traditions. In an effort to achieve efficiencies primarily from the recent acquisitions, the Company closed or merged two Arkansas locations during the third quarter of 2014. The recent acquisition of Broward has added two Florida locations to the Company's footprint. After the Broward transaction, the Company currently has 82 branches in Arkansas, 61 branches in Florida and 7 branches in Alabama.

**Results of Operations*****For Three and Nine Months Ended September 30, 2014 and 2013***

Our net income increased \$9.0 million or 49.1% to \$27.4 million for the three-month period ended September 30, 2014, from \$18.4 million for the same period in 2013. On a diluted earnings per share basis, our earnings were \$0.41 and \$0.33 per share for the three-month periods ended September 30, 2014 and 2013, respectively. Excluding the \$3.8 million and \$1.0 million of merger expenses associated with the 2014 acquisition of Florida Tradition Bank ( Traditions ) and the 2013 acquisition of Liberty Bancshares, Inc. ( Liberty ), respectively, diluted earnings per share for the third quarter of 2014 and 2013 were \$0.45 per share and \$0.34, respectively. The \$10.7 million increase in net

income excluding merger expenses is primarily associated with the \$32.3 million of additional net interest income primarily resulting from our 2013 acquisition of Liberty and 2014 acquisition of Traditions plus the additional accretion income from our previous FDIC covered loan acquisitions. These improvements were partially offset by a modest increase in the costs associated with the asset growth from our Liberty and Traditions acquisitions, \$3.8 million of additional amortization of the indemnification asset plus an increase in provision for loan losses of \$4.2 million in third quarter of 2014 when compared to the same period in 2013.

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Our net income increased \$29.6 million or 55.2% to \$83.1 million for the nine-month period ended September 30, 2014, from \$53.6 million for the same period in 2013. On a diluted earnings per share basis, our earnings were \$1.26 and \$0.95 for the nine-month periods ended September 30, 2014 and 2013, respectively. Excluding the \$4.7 million and \$1.1 million of merger expenses associated with the 2014 acquisition of Traditions and the 2013 acquisition of Liberty, respectively, diluted earnings per share for the nine months ended September 30, 2014 and 2013 were \$1.31 per share and \$0.96, respectively. The \$31.8 million increase in net income excluding merger expenses is primarily associated with the \$98.1 million of additional net interest income primarily resulting from our 2013 acquisition of Liberty and 2014 acquisition of Traditions and the additional accretion income from our previous FDIC covered loan acquisitions. Furthermore, there was \$267,000 of additional net gains from the sale of SBA loans, sale of premises & equipment, investment securities and OREO. These improvements were partially offset by a modest increase in the costs associated with the asset growth from our Liberty and Traditions acquisitions, \$10.9 million of additional amortization of the indemnification asset plus an increase in provision for loan losses of \$16.4 million in the first nine months of 2014 when compared to the same period in 2013.

***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 and 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, 2014 and 2013).

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.

The effective yield on non-covered loans for the three months ended September 30, 2014 and 2013 was 5.84% and 5.88%, respectively. The effective yield on non-covered loans for the nine months ended September 30, 2014 and 2013 was 6.06% and 6.01%, respectively. The effective yield on covered loans for the three months ended September 30, 2014 and 2013 was 17.23% and 12.76%, respectively. The effective yield on covered loans for the nine months ended September 30, 2014 and 2013 was 17.53% and 11.23%, respectively.

During the 2014 quarterly impairment tests on the estimated cash flows of purchased credit impaired loans, the Company established certain loan pools of this type were determined to have a materially projected credit improvement. As a result of this improvement, the Company will recognize approximately \$39.6 million as an additional adjustment to yield over the weighted average life of the loans. Since our first covered loan acquisition in 2010, the Company has identified a total of \$74.2 million of adjustments to yield during the quarterly impairment tests. For the three and nine months ended September 30, 2014 and 2013, the Company recognized \$7.9 million and \$21.2 million for 2014 and \$4.1 million and \$9.4 million for 2013 of additional accretion income related to the positive results of the impairment tests.

Net interest income on a fully taxable equivalent basis increased \$32.9 million, or 69.4%, to \$80.3 million for the three-month period ended September 30, 2014, from \$47.4 million for the same period in 2013. This increase in net interest income was the result of a \$34.9 million increase in interest income offset by a \$2.0 million increase in

interest expense. The \$34.9 million increase in interest income was primarily the result of a higher level of earning assets offset by lower yields on our loans. The \$2.0 million increase in interest expense for the three-month period ended September 30, 2014, is primarily the result of an increase in the volume of our average interest-bearing transaction and savings deposits, average time deposits and FHLB borrowings primarily associated with the acquisitions of Liberty and Traditions 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 \$2.7 million. The repricing of our interest bearing liabilities in the lower interest rate environment resulted in a \$695,000 decrease in interest expense.

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Net interest income on a fully taxable equivalent basis increased \$99.9 million, or 72.0%, to \$238.6 million for the nine-month period ended September 30, 2014, from \$138.7 million for the same period in 2013. This increase in net interest income was the result of a \$104.2 million increase in interest income offset by a \$4.3 million increase in interest expense. The \$104.2 million increase in interest income was primarily the result of a higher level of earning assets combined with higher yields on our loans. The \$4.3 million increase in interest expense for the nine-month period ended September 30, 2014, is primarily the result of an increase in the volume of our average interest-bearing transaction and savings deposits, average time deposits and FHLB borrowings primarily associated with the acquisitions of Liberty and Traditions 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 \$7.7 million. The repricing of our interest bearing liabilities in the lower interest rate environment resulted in a \$3.4 million decrease in interest expense.

Net interest margin, on a fully taxable equivalent basis, was 5.26% and 5.41% for the three and nine months ended September 30, 2014 compared to 5.41% and 5.25% for the same periods in 2013, respectively. The numerous pools which have been determined to have material projected credit improvement as a result of the quarterly impairment testing and the acquisition of Liberty and Traditions have significantly changed the mix and metrics on the net interest margin since December 31, 2012. Although there have been many changes since 2012, the Company continues to remain focused on expanding its net interest margin through opportunities such as improved pricing on interest-bearing deposits.

Additional information and analysis for our net interest margin can be found in Tables 22 through 24 of our Non-GAAP Financial Measurement section of the Management Discussion and Analysis.

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, 2014 and 2013, as well as changes in fully taxable equivalent net interest margin for the three and nine-month periods ended September 30, 2014, compared to the same period in 2013.

**Table 5: Analysis of Net Interest Income**

|  | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|-----------|------------------------------------|------------|
|  | 2014                                | 2013      | 2014                               | 2013       |
|  | (Dollars in thousands)              |           |                                    |            |
| Interest income                                  | \$ 83,401                           | \$ 49,176 | \$ 247,827                         | \$ 145,409 |
| Fully taxable equivalent adjustment              | 1,729                               | 1,073     | 4,944                              | 3,199      |
| Interest income fully taxable equivalent         | 85,130                              | 50,249    | 252,771                            | 148,608    |
| Interest expense                                 | 4,796                               | 2,826     | 14,179                             | 9,869      |
| Net interest income fully taxable equivalent     | \$ 80,334                           | \$ 47,423 | \$ 238,592                         | \$ 138,739 |
| Yield on earning assets fully taxable equivalent | 5.57%                               | 5.73%     | 5.73%                              | 5.62%      |
| Cost of interest-bearing liabilities             | 0.39                                | 0.41      | 0.39                               | 0.46       |
| Net interest spread fully taxable equivalent     | 5.18                                | 5.32      | 5.34                               | 5.16       |
| Net interest margin fully taxable equivalent     | 5.26                                | 5.41      | 5.41                               | 5.25       |

**Table 6: Changes in Fully Taxable Equivalent Net Interest Margin**

|  | <b>Three Months Ended</b><br><b>September 30,</b><br><b>2014 vs.</b><br><b>2013</b> | <b>Nine Months Ended</b><br><b>September 30,</b><br><b>2014 vs. 2013</b> |
|--|---|--|
|  | <b>(In thousands)</b>   |  |
| Increase (decrease) in interest income due to change in earning assets                                       | \$ 36,390   | \$ 103,053   |
| Increase (decrease) in interest income due to change in earning asset yields                                 | (1,509)   | 1,110  |
| (Increase) decrease in interest expense due to change in interest-bearing liabilities                        | (2,665)   | (7,666)  |
| (Increase) decrease in interest expense due to change in interest rates paid on interest-bearing liabilities | 695   | 3,356  |
| <b>Increase (decrease) in net interest income</b>  | <b>\$ 32,911</b>  | <b>\$ 99,853</b>   |

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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, 2014 and 2013, 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, |          |         |              |        |         |
|---|----------------------------------|----------|---------|--------------|--------|---------|
|   | 2014                             |          |         | 2013         |        |         |
|   | Average                          | Income   | Yield / | Average      | Income | Yield / |
|   | Balance                          | /        | Rate    | Balance      | /      | Rate    |
|   | (Dollars in thousands)           |          |         |              |        |         |
| <b>ASSETS</b>                                     |                                  |          |         |              |        |         |
| Earnings assets                                   |                                  |          |         |              |        |         |
| Interest-bearing balances due from banks          | \$ 40,723                        | \$ 20    | 0.19%   | \$ 40,756    | \$ 19  | 0.18%   |
| Federal funds sold                                | 13,604                           | 7        | 0.20    | 4,411        | 2      | 0.18    |
| Investment securities taxable                     | 1,044,732                        | 4,905    | 1.86    | 579,867      | 2,645  | 1.81    |
| Investment securities non-taxable                 | 302,859                          | 4,174    | 5.47    | 183,341      | 2,462  | 5.33    |
| Loans receivable                                  | 4,661,600                        | 76,024   | 6.47    | 2,668,421    | 45,121 | 6.71    |
| Total interest-earning assets                     | 6,063,518                        | 85,130   | 5.57    | 3,476,796    | 50,249 | 5.73    |
| Non-earning assets                                | 907,407                          |          |         | 569,829      |        |         |
| Total assets                                      | \$ 6,970,925                     |          |         | \$ 4,046,625 |        |         |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>        |                                  |          |         |              |        |         |
| Liabilities                                       |                                  |          |         |              |        |         |
| Interest-bearing liabilities                      |                                  |          |         |              |        |         |
| Savings and interest-bearing transaction accounts | \$ 2,835,267                     | \$ 1,376 | 0.19%   | \$ 1,691,077 | \$ 637 | 0.15%   |
| Time deposits                                     | 1,315,772                        | 1,867    | 0.56    | 832,149      | 1,173  | 0.56    |
| Total interest-bearing deposits                   | 4,151,039                        | 3,243    | 0.31    | 2,523,226    | 1,810  | 0.28    |
| Federal funds purchased                           | 2,364                            | 2        | 0.34    | 1,511        | 3      | 0.79    |
| Securities sold under agreement to repurchase     | 150,239                          | 186      | 0.49    | 73,924       | 87     | 0.47    |
| FHLB borrowed funds                               | 494,650                          | 1,035    | 0.83    | 144,467      | 910    | 2.50    |
| Subordinated debentures                           | 60,826                           | 330      | 2.15    | 3,093        | 16     | 2.05    |
| Total interest-bearing liabilities                | 4,859,118                        | 4,796    | 0.39    | 2,746,221    | 2,826  | 0.41    |



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|   |              |       |              |       |
|---|--------------|-------|--------------|-------|
| Non-interest bearing liabilities          |              |       |              |       |
| Non-interest bearing deposits             | 1,148,923    |       | 738,526      |       |
| Other liabilities                         | 25,090       |       | 27,315       |       |
| Total liabilities                         |              |       |              |       |
|   | 6,033,131    |       | 3,512,062    |       |
| Stockholders equity                       | 937,794      |       | 534,563      |       |
| Total liabilities and stockholders equity |              |       |              |       |
|   | \$ 6,970,925 |       | \$ 4,046,625 |       |
| Net interest spread                       |              |       |              |       |
|   |              | 5.18% |              | 5.32% |
| Net interest income and margin            | \$ 80,334    | 5.26% | \$ 47,423    | 5.41% |

**Table of Contents****Table 7: Average Balance Sheets and Net Interest Income Analysis**

|  | Nine Months Ended September 30, |                             |                 |                    |                             |                 |
|--|---------------------------------|-----------------------------|-----------------|--------------------|-----------------------------|-----------------|
|  | Average<br>Balance              | 2014<br>Income /<br>Expense | Yield /<br>Rate | Average<br>Balance | 2013<br>Income /<br>Expense | Yield /<br>Rate |
| <b>(Dollars in thousands)</b>              |                                 |                             |                 |                    |                             |                 |
| <b>ASSETS</b>                              |                                 |                             |                 |                    |                             |                 |
| Earnings assets                            |                                 |                             |                 |                    |                             |                 |
| Interest-bearing balances due from         |                                 |                             |                 |                    |                             |                 |
| banks                                      | \$ 52,741                       | \$ 73                       | 0.19%           | \$ 108,646         | \$ 203                      | 0.25%           |
| Federal funds sold                         | 22,746                          | 35                          | 0.21            | 10,060             | 15                          | 0.20            |
| Investment securities taxable              | 1,029,496                       | 14,137                      | 1.84            | 571,375            | 7,538                       | 1.76            |
| Investment securities non-taxable          | 292,349                         | 11,852                      | 5.42            | 173,796            | 7,275                       | 5.60            |
| Loans receivable                           | 4,498,643                       | 226,674                     | 6.74            | 2,672,088          | 133,577                     | 6.68            |
| Total interest-earning assets              | 5,895,975                       | 252,771                     | 5.73            | 3,535,965          | 148,608                     | 5.62            |
| Non-earning assets                         | 923,800                         |                             |                 | 592,438            |                             |                 |
| Total assets                               | \$ 6,819,775                    |                             |                 | \$ 4,128,403       |                             |                 |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b> |                                 |                             |                 |                    |                             |                 |
| Liabilities                                |                                 |                             |                 |                    |                             |                 |
| Interest-bearing liabilities               |                                 |                             |                 |                    |                             |                 |
| Savings and interest-bearing transaction   |                                 |                             |                 |                    |                             |                 |
| accounts                                   | \$ 2,809,963                    | \$ 3,882                    | 0.18%           | \$ 1,747,040       | \$ 2,191                    | 0.17%           |
| Time deposits                              | 1,407,255                       | 5,840                       | 0.55            | 906,015            | 4,233                       | 0.62            |
| Total interest-bearing deposits            | 4,217,218                       | 9,722                       | 0.31            | 2,653,055          | 6,424                       | 0.32            |
| Federal funds purchased                    | 1,001                           | 2                           | 0.27            | 510                | 3                           | 0.79            |
| Securities sold under agreement to         |                                 |                             |                 |                    |                             |                 |
| repurchase                                 | 145,348                         | 536                         | 0.49            | 72,078             | 253                         | 0.47            |
| FHLB borrowed funds                        | 416,531                         | 2,933                       | 0.94            | 135,093            | 2,926                       | 2.90            |
| Subordinated debentures                    | 60,826                          | 986                         | 2.17            | 11,023             | 263                         | 3.19            |
| Total interest-bearing liabilities         | 4,840,924                       | 14,179                      | 0.39            | 2,871,759          | 9,869                       | 0.46            |
| Non-interest bearing liabilities           |                                 |                             |                 |                    |                             |                 |
| Non-interest bearing deposits              | 1,068,626                       |                             |                 | 704,123            |                             |                 |
| Other liabilities                          | 19,642                          |                             |                 | 22,967             |                             |                 |
| Total liabilities                          | 5,929,192                       |                             |                 | 3,598,849          |                             |                 |
| Stockholders equity                        | 890,583                         |                             |                 | 529,554            |                             |                 |

|   |              |       |              |       |
|---|--------------|-------|--------------|-------|
| Total liabilities and stockholders equity | \$ 6,819,775 |       | \$ 4,128,403 |       |
| Net interest spread                       |              | 5.34% |              | 5.16% |
| Net interest income and margin            | \$ 238,592   | 5.41% | \$ 138,739   | 5.25% |

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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, 2014 compared to the same periods in 2013, 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,<br>2014 over 2013 |            |           | Nine Months Ended<br>September 30,<br>2014 over 2013 |            |           |
|---|--|------------|-----------|--|------------|-----------|
|   | Volume   | Yield/Rate | Total     | Volume   | Yield/Rate | Total     |
| (In thousands)                                    |  |            |           |  |            |           |
| Increase (decrease) in:                           |  |            |           |  |            |           |
| Interest income:                                  |  |            |           |  |            |           |
| Interest-bearing balances due from banks          | \$   | \$ 1       | \$ 1      | \$ (86)  | \$ (44)    | \$ (130)  |
| Federal funds sold                                | 5  |            | 5         | 20   |            | 20        |
| Investment securities taxable                     | 2,180  | 80         | 2,260     | 6,279  | 320        | 6,599     |
| Investment securities non-taxable                 | 1,645  | 67         | 1,712     | 4,813  | (236)      | 4,577     |
| Loans receivable                                  | 32,560   | (1,657)    | 30,903    | 92,027   | 1,070      | 93,097    |
| Total interest income                             | 36,390   | (1,509)    | 34,881    | 103,053  | 1,110      | 104,163   |
| Interest expense:                                 |  |            |           |  |            |           |
| Interest-bearing transaction and savings deposits | 518  | 221        | 739       | 1,449  | 242        | 1,691     |
| Time deposits                                     | 686  | 8          | 694       | 2,124  | (517)      | 1,607     |
| Federal funds purchased                           | 2  | (3)        | (1)       | 3  | (4)        | (1)       |
| Securities sold under agreement to repurchase     | 95   | 4          | 99        | 269  | 14         | 283       |
| FHLB borrowed funds                               | 1,051  | (926)      | 125       | 2,989  | (2,982)    | 7         |
| Subordinated debentures                           | 313  | 1          | 314       | 832  | (109)      | 723       |
| Total interest expense                            | 2,665  | (695)      | 1,970     | 7,666  | (3,356)    | 4,310     |
| Increase (decrease) in net interest income        | \$ 33,725  | \$ (814)   | \$ 32,911 | \$ 95,387  | \$ 4,466   | \$ 99,853 |

**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 recently, 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 borrower's 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.

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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 markets' economies have 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.

There was zero provision for covered loans for the three and nine months ended September 30, 2014 and the three months ended September 30, 2013. There was \$100,000 provision for covered loans for the nine months ended September 30, 2013.

The \$100,000 of provision for loan losses for the nine months ended September 30, 2013 is a result of the quarterly 2013 impairment testing on the estimated cash flows of the covered loans. This testing established that the pools evaluated had experienced material projected credit deterioration. As a result of this projection, we recorded a \$500,000 provision for loan losses to the allowance for loan losses related to the purchased impaired loans during the nine months ended September 30, 2013. Since these loans are covered by loss share with the FDIC, we were able to increase the related indemnification asset by \$400,000 resulting in a net provision for loan losses of \$100,000.

There was \$4.2 million and \$17.3 million of provision for non-covered loans for the three and nine months ended September 30, 2014. There was zero and \$750,000 of provision for non-covered loans for the three and nine months ended September 30, 2013.

The Company experienced a \$4.2 million increase in the provision for loan losses for non-covered loans during the three months ended September 30, 2014 versus the same period in 2013. The Company experienced a \$16.5 million increase in the provision for loan losses for non-covered loans during the nine months ended September 30, 2014 versus the same period in 2013. 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. This expected increase is not an indication of a decline in asset quality, but primarily a reflection of the migration of the Liberty (and other acquired) loans from purchased loan accounting treatment to originated loan accounting treatment. Based upon current accounting guidance, the allowance for loan losses is not carried over in an acquisition. As a result, virtually none of the Liberty footprint loans had any allocation of the allowance for loan losses at year end. This is the result of all loans acquired on October 24, 2013 from Liberty being recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820. 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. Our current or historical provision levels should not be relied upon as a predictor or indicator of future levels going forward.

***Non-Interest Income***

Total non-interest income was \$10.8 million and \$34.6 million for the three and nine-month periods ended September 30, 2014, respectively, compared to \$9.3 million and \$28.1 million for the same periods in 2013, 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.

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Table 9 measures the various components of our non-interest income for the three and nine-month periods ended September 30, 2014 and 2013, respectively, as well as changes for the three and nine-month periods ended September 30, 2014 compared to the same periods in 2013.

**Table 9: Non-Interest Income**

|  | Three Months<br>Ended |                 | 2014 Change     |              | Nine Months<br>Ended  |                  | 2014 Change     |              |
|--|-----------------------|-----------------|-----------------|--------------|-----------------------|------------------|-----------------|--------------|
|  | September 30,<br>2014 | 2013            | from 2013       |              | September 30,<br>2014 | 2013             | from 2013       |              |
| (Dollars in thousands)                             |                       |                 |                 |              |                       |                  |                 |              |
| Service charges on deposit accounts                | \$ 6,275              | \$ 4,072        | \$ 2,203        | 54.1%        | \$ 18,379             | \$ 11,869        | \$ 6,510        | 54.8%        |
| Other service charges and fees                     | 5,977                 | 3,671           | 2,306           | 62.8         | 17,641                | 10,587           | 7,054           | 66.6         |
| Trust fees   | 306                   | 15              | 291             | 1,940.0      | 1,065                 | 51               | 1,014           | 1,988.2      |
| Mortgage lending income                            | 1,901                 | 1,527           | 374             | 24.5         | 5,215                 | 4,518            | 697             | 15.4         |
| Insurance commissions                              | 984                   | 519             | 465             | 89.6         | 3,334                 | 1,642            | 1,692           | 103.0        |
| Income from title services                         | 59                    | 156             | (97)            | (62.2)       | 162                   | 401              | (239)           | (59.6)       |
| Increase in cash value of life insurance           | 322                   | 203             | 119             | 58.6         | 891                   | 601              | 290             | 48.3         |
| Dividends from FHLB, FRB, Bankers bank & other     | 389                   | 179             | 210             | 117.3        | 1,206                 | 755              | 451             | 59.7         |
| Gain on sale of SBA loans                          | 183                   | 79              | 104             | 131.6        | 183                   | 135              | 48              | 35.6         |
| Gain (loss) on sale of premises and equipment, net | (35)                  | 303             | (338)           | (111.6)      | 419                   | 712              | (293)           | (41.2)       |
| Gain (loss) on OREO, net                           | 529                   | 777             | (248)           | (31.9)       | 1,927                 | 1,304            | 623             | 47.8         |
| Gain (loss) on securities, net                     |                       |                 |                 |              |                       | 111              | (111)           | (100.0)      |
| FDIC indemnification accretion/(amortization), net | (6,947)               | (3,177)         | (3,770)         | 118.7        | (18,313)              | (7,452)          | (10,861)        | 145.7        |
| Other income                                       | 888                   | 994             | (106)           | (10.7)       | 2,442                 | 2,914            | (472)           | (16.2)       |
| <b>Total non-interest income</b>                   | <b>\$ 10,831</b>      | <b>\$ 9,318</b> | <b>\$ 1,513</b> | <b>16.2%</b> | <b>\$ 34,551</b>      | <b>\$ 28,148</b> | <b>\$ 6,403</b> | <b>22.7%</b> |

Non-interest income increased \$1.5 million, or 16.2%, to \$10.8 million for the three-month period ended September 30, 2014 from \$9.3 million for the same period in 2013. Non-interest income increased \$6.4 million, or 22.7%, to \$34.6 million for the nine-month period ended September 30, 2014 from \$28.1 million for the same period in 2013.



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

Additional details for the three months ended September 30, 2014 on some of the more significant changes are as follows:

The \$4.5 million increase in service charges on deposit accounts and other service charges and fees are primarily from our 2013 acquisition of Liberty and Traditions.

The \$291,000 increase in trust fees are primarily from our 2013 acquisition of Liberty.

The \$465,000 increase in insurance commissions is primarily from our 2013 acquisition of Liberty.

The \$3.8 million decrease in FDIC indemnification accretion/amortization, net is primarily associated with the quarterly impairment testing on the estimated cash flows of the covered loans. For further discussion and analysis, reference Tables 2 and 3 in the Management's Discussion and Analysis.

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Additional details for the nine months ended September 30, 2014 on some of the more significant changes are as follows:

The \$13.6 million increase in service charges on deposit accounts and other service charges and fees are primarily from our 2013 acquisition of Liberty and Traditions.

The \$1.0 million increase in trust fees are primarily from our 2013 acquisition of Liberty.

The \$1.7 million increase in insurance commissions is primarily from our 2013 acquisition of Liberty.

The \$10.9 million decrease in FDIC indemnification accretion/amortization, net is primarily associated with the quarterly impairment testing on the estimated cash flows of the covered loans. For further discussion and analysis, reference Tables 2 and 3 in the Management's Discussion and Analysis.

The \$472,000 decrease in other income is primarily from \$326,000 of tax-free life insurance proceeds during the first nine months of 2013. The proceeds were in connection with two former associates who were not currently with the Company.

The Company is currently in negotiations with the FDIC regarding the remaining loss share agreements associated with the Key West Bank loan portfolio acquired on March 26, 2010. At this point, the Company has not reached an agreement with the FDIC to buy out the Key West Bank loss share. Pursuant to the terms of the loss sharing agreements, the FDIC is obligated to reimburse Centennial Bank for 80% of losses in the first loss tranche up to \$23.0 million and for 95% of losses in excess of \$23.0 million with respect to covered assets. Centennial Bank is obligated to reimburse the FDIC for 80% of recoveries with respect to losses for which the FDIC paid Centennial Bank 80% reimbursement under the loss sharing agreements, and for 95% of recoveries with respect to losses for which the FDIC paid 95% reimbursement under the loss sharing agreements. Additionally, a significant portion of the Key West Bank loans were 30 year original maturity loans.

The Company has evaluated the Key West Bank loans acquired and believes there has been a material projected credit improvement. As a result of this improvement, the Company will be recognizing an adjustment to yield over the weighted average life of the loans. Improvements in credit quality also decrease the basis in the related indemnification asset and increase the FDIC true-up liability. The reduction in the indemnification asset will be amortized over the weighted average life of the shared-loss agreement. The FDIC true-up liability will be expensed over the remaining true-up measurement date as other non-interest expense.

As of September 30, 2014, the Company has an indemnification asset of \$7.3 million remaining for the Key West Bank loans acquired. If this transaction with the FDIC were to occur, it would create a one-time acceleration of the indemnification asset plus the negotiated settlement for the true-up liability less any cash payment received by the FDIC. While there is no guarantee we can reach an agreement with the FDIC, if the Company were to reach an agreement with the FDIC during the fourth quarter of 2014 to buy out the loss share agreements, we do not believe the cash payment from the FDIC would be significant. As a result, this transaction could create a negative third quarter 2014 financial impact to earnings for the Company in the range of \$6.0 million to \$8.0 million on a pre-tax basis. However, there would be approximately \$8.5 million positive adjustment to yield remaining to be recognized as

accretion interest income over the weighted average life of the loans over the next 21 years. Since the weighted average life of the loans is long term, the positive accretion to be recognized as an adjustment to interest income will be more than offset by the shorter term amortization of the indemnification asset and FDIC true-up expense.

Since the Company was not able to reach an agreement with the FDIC to buy out the Key West Bank loss share during the third quarter, we began accreting the credit improvement (\$186,000) and amortized the indemnification asset (\$1.1 million) and recorded a true-up expense (\$41,000) similar to the other impairment tests we have completed in the past. Therefore, it created a negative third quarter 2014 financial impact to earnings for the Company of approximately \$1.0 million on a pre-tax basis.

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If we are not able to reach an agreement with the FDIC during the fourth quarter of 2014, it will once again create a negative financial impact to earnings for the Company of approximately \$1.0 million on a pre-tax basis. This \$1.0 million negative financial impact could continue through the first quarter of 2015. Beginning in the second quarter of 2015, only the ten-year loss share agreement will remain. As a result, the negative financial impact will be less than we are currently experiencing and is estimated to be approximately \$100,000 per quarter on a pre-tax basis until the year 2020.

**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, other professional fees and legal and accounting fees.

Table 10 below sets forth a summary of non-interest expense for the three and nine-month periods ended September 30, 2014 and 2013, as well as changes for the three and nine-month periods ended September 30, 2014 compared to the same period in 2013.

**Table 10: Non-Interest Expense**

|                                 | Three Months Ended |           | 2014 Change |       | Nine Months Ended  |           | 2014 Change |       |
|---------------------------------|--------------------|-----------|-------------|-------|--------------------|-----------|-------------|-------|
|                                 | September 30, 2014 | 2013      | from 2013   |       | September 30, 2014 | 2013      | from 2013   |       |
| (Dollars in thousands)          |                    |           |             |       |                    |           |             |       |
| Salaries and employee benefits  | \$ 19,368          | \$ 12,981 | \$ 6,387    | 49.2% | \$ 57,114          | \$ 38,890 | \$ 18,224   | 46.9% |
| Occupancy and equipment         | 6,234              | 4,010     | 2,224       | 55.5  | 18,711             | 11,498    | 7,213       | 62.7  |
| Data processing expense         | 1,801              | 1,114     | 687         | 61.7  | 5,387              | 3,855     | 1,532       | 39.7  |
| Other operating expenses:       |                    |           |             |       |                    |           |             |       |
| Advertising                     | 673                | 363       | 310         | 85.4  | 1,776              | 1,176     | 600         | 51.0  |
| Merger and acquisition expenses | 3,772              | 1,034     | 2,738       | 264.8 | 4,727              | 1,063     | 3,664       | 344.7 |
| Amortization of intangibles     | 1,153              | 802       | 351         | 43.8  | 3,467              | 2,406     | 1,061       | 44.1  |
| Electronic banking expense      | 1,307              | 926       | 381         | 41.1  | 3,957              | 2,749     | 1,208       | 43.9  |
| Directors fees                  | 236                | 188       | 48          | 25.5  | 669                | 588       | 81          | 13.8  |
| Due from bank service charges   | 200                | 136       | 64          | 47.1  | 604                | 437       | 167         | 38.2  |
| FDIC and state assessment       | 972                | 684       | 288         | 42.1  | 3,144              | 1,991     | 1,153       | 57.9  |
| Insurance                       | 657                | 572       | 85          | 14.9  | 1,853              | 1,693     | 160         | 9.5   |
| Legal and accounting            | 510                | 227       | 283         | 124.7 | 1,346              | 943       | 403         | 42.7  |

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|                                   |                  |                  |                  |              |                   |                  |                  |              |
|-----------------------------------|------------------|------------------|------------------|--------------|-------------------|------------------|------------------|--------------|
| Other professional fees           | 716              | 404              | 312              | 77.2         | 1,806             | 1,367            | 439              | 32.1         |
| Operating supplies                | 468              | 309              | 159              | 51.5         | 1,455             | 984              | 471              | 47.9         |
| Postage                           | 323              | 212              | 111              | 52.4         | 1,002             | 650              | 352              | 54.2         |
| Telephone                         | 548              | 291              | 257              | 88.3         | 1,465             | 885              | 580              | 65.5         |
| Other expense                     | 3,879            | 2,462            | 1,417            | 57.6         | 12,311            | 7,258            | 5,053            | 69.6         |
| <b>Total non-interest expense</b> | <b>\$ 42,817</b> | <b>\$ 26,715</b> | <b>\$ 16,102</b> | <b>60.3%</b> | <b>\$ 120,794</b> | <b>\$ 78,433</b> | <b>\$ 42,361</b> | <b>54.0%</b> |

Non-interest expense, excluding merger expenses, increased \$13.4 million, or 52.0%, to \$39.0 million for the three-month period ended September 30, 2014, from \$25.7 million for the same period in 2013. Non-interest expense, excluding merger expenses, increased \$38.7 million, or 50.0%, to \$116.1 million for the nine-month period ended September 30, 2014, from \$77.4 million for the same period in 2013. These increases primarily result from additional expense associated with the acquisitions of Liberty and Traditions during 2013 and 2014, respectively.

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**Table of Contents*****Income Taxes***

The provision for income taxes increased \$4.4 million, or 41.7%, to \$15.0 million for the three-month period ended September 30, 2014, from \$10.6 million as of September 30, 2013. The provision for income taxes increased \$16.1 million, or 52.3%, to \$47.0 million for the nine-month period ended September 30, 2014, from \$30.8 million as of September 30, 2013. The effective income tax rate was 35.41% and 36.10% for the three and nine-month periods ended September 30, 2014, compared to 36.58% and 36.53% for the same periods in 2013. The primary cause of the increase in taxes is the result of our higher earnings combined with our marginal tax rate of 39.225% less the tax-free income associated with the acquisition of Liberty and Traditions.

**Financial Condition as of and for the Period Ended September 30, 2014 and December 31, 2013**

Our total assets as of September 30, 2014 increased \$384.5 million to \$7.20 billion from the \$6.81 billion reported as of December 31, 2013. Our loan portfolio not covered by loss share increased by \$388.6 million to \$4.58 billion as of September 30, 2014, from \$4.19 billion as of December 31, 2013. This increase is primarily associated with the recent acquisition of \$241.6 million of Traditions non-covered loans plus \$146.9 million of loan growth since December 31, 2013. Our loan portfolio covered by loss share decreased by \$31.5 million to \$251.0 million as of September 30, 2014, from \$282.5 million as of December 31, 2013. This decrease is primarily associated with pay-downs and payoffs. Stockholders' equity increased \$117.7 million to \$958.7 million as of September 30, 2014, compared to \$841.0 million as of December 31, 2013. The annualized improvement in stockholders' equity for the first nine months of 2014 was 18.7%. The increase in stockholders' equity is primarily associated with the \$39.5 million of common stock issued to the Traditions shareholders combined with the \$92.6 million of comprehensive income less the \$16.4 million of dividends paid for the first nine months of 2014.

**Loan Portfolio*****Loans Receivable Not Covered by Loss Share***

Our non-covered loan portfolio averaged \$4.40 billion and \$2.35 billion during the three-month periods ended September 30, 2014 and 2013, respectively. Our non-covered loan portfolio averaged \$4.23 billion and \$2.33 billion during the nine-month periods ended September 30, 2014 and 2013, respectively. Non-covered loans were \$4.58 billion as of September 30, 2014 compared to \$4.19 billion as of December 31, 2013, which is a \$388.6 million or 12.4% annualized increase. Excluding the acquisition of Traditions, loans increased \$146.9 million or an annualized increase of 4.7%.

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 \$3.37 billion, \$1.04 billion and \$179.8 million as of September 30, 2014 in Arkansas, Florida and Alabama, respectively.

As of September 30, 2014, we had \$342.5 million of construction land development loans which were collateralized by land. This consisted of \$201.9 million for raw land and \$140.6 million for land with commercial and or residential lots.

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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<br>September 30, 2014 | As of<br>December 31, 2013 |
|---|-----------------------------|----------------------------|
| (In thousands)                                    |                             |                            |
| Real estate:                                      |                             |                            |
| Commercial real estate loans:                     |                             |                            |
| Non-farm/non-residential                          | \$ 1,918,827                | \$ 1,739,668               |
| Construction/land development                     | 660,107                     | 562,667                    |
| Agricultural                                      | 78,243                      | 81,618                     |
| Residential real estate loans:                    |                             |                            |
| Residential 1-4 family                            | 935,547                     | 913,332                    |
| Multifamily residential                           | 251,726                     | 213,232                    |
| <b>Total real estate</b>                          | <b>3,844,450</b>            | <b>3,510,517</b>           |
| Consumer  | 57,821                      | 69,570                     |
| Commercial and industrial                         | 547,706                     | 511,421                    |
| Agricultural                                      | 64,875                      | 37,129                     |
| Other   | 68,163                      | 65,800                     |
| <b>Loans receivable not covered by loss share</b> | <b>\$ 4,583,015</b>         | <b>\$ 4,194,437</b>        |

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, 2014, the net loan balance of the Liberty ASC Topic 310-20 purchased loans is \$1.17 billion (\$1.21 billion gross loans less \$37.7 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, 2014, the net loan balance of the Liberty ASC Topic 310-30 purchased loans is \$91.6 million (\$131.4 million gross loans less \$39.8 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 charged down significantly 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.

*Non-Covered Commercial Real Estate Loans.* We originate non-farm and non-residential loans (primarily secured by commercial real estate), construction/land development loans, and agricultural loans, which are generally secured by real estate located in our market areas. 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 source 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 and 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, 2014, non-covered commercial real estate loans totaled \$2.66 billion, or 58.0% of our non-covered loan portfolio, which is comparable to \$2.38 billion, or 56.8% of our non-covered loan portfolio, as of December 31, 2013. Our Arkansas, Florida and Alabama non-covered commercial real estate loans were \$1.92 billion, \$638.1 million and \$103.8 million at September 30, 2014, respectively.



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*Non-Covered Residential Real Estate Loans.* We originate one to four family, owner occupied residential mortgage loans 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, 2014, non-covered residential real estate loans totaled \$1.19 billion, or 25.9% of our non-covered loan portfolio, compared to \$1.13 billion, or 26.9% of our non-covered loan portfolio, as of December 31, 2013. Our Arkansas, Florida and Alabama non-covered residential real estate loans were \$850.0 million, \$283.2 million and \$54.1 million at September 30, 2014, respectively.

*Non-Covered Consumer Loans.* Our non-covered consumer loan portfolio is composed of secured and unsecured loans originated by our banks. 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, 2014, our non-covered consumer loan portfolio totaled \$57.8 million, or 1.3% of our total non-covered loan portfolio, compared to the \$69.6 million, or 1.7% of our non-covered loan portfolio as of December 31, 2013. Our Arkansas, Florida and Alabama non-covered consumer loans were \$41.2 million, \$15.2 million and \$1.4 million at September 30, 2014, 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 and 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, 2014, non-covered commercial and industrial loans outstanding totaled \$547.7 million, or 12.0% of our non-covered loan portfolio, which is comparable to \$511.4 million, or 12.2% of our non-covered loan portfolio, as of December 31, 2013. Our Arkansas, Florida and Alabama non-covered commercial and industrial loans were \$438.1 million, \$89.5 million and \$20.1 million at September 30, 2014, respectively.

**Table of Contents*****Total Loans Receivable***

Table 12 presents total loans receivable by category.

**Table 12: Total Loans Receivable**

**As of September 30, 2014**

|                               | <b>Loans<br/>Receivable Not<br/>Covered<br/>by<br/>Loss<br/>Share</b> | <b>Loans<br/>Receivable<br/>Covered by FDIC<br/>Loss Share<br/>(In thousands)</b> | <b>Total<br/>Loans<br/>Receivable</b> |
|-------------------------------|---|---|---------------------------------------|
| <b>Real estate:</b>           |   |   |                                       |
| Commercial real estate loans  |   |   |                                       |
| Non-farm/non-residential      | \$ 1,918,827  | \$ 99,518   | \$ 2,018,345                          |
| Construction/land development | 660,107   | 42,713  | 702,820                               |
| Agricultural                  | 78,243  | 1,039   | 79,282                                |
| Residential real estate loans |   |   |                                       |
| Residential 1-4 family        | 935,547   | 90,088  | 1,025,635                             |
| Multifamily residential       | 251,726   | 8,263   | 259,989                               |
| <b>Total real estate</b>      | <b>3,844,450</b>  | <b>241,621</b>  | <b>4,086,071</b>                      |
| Consumer                      | 57,821  | 22  | 57,843                                |
| Commercial and industrial     | 547,706   | 8,295   | 556,001                               |
| Agricultural                  | 64,875  |   | 64,875                                |
| Other                         | 68,163  | 1,032   | 69,195                                |
| <b>Total</b>                  | <b>\$ 4,583,015</b>   | <b>\$ 250,970</b>   | <b>\$ 4,833,985</b>                   |

***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, 2014 financial statements as a result of our acquisitions of Heritage, Premier and Liberty. 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.

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Table 13 sets forth information with respect to our non-performing non-covered assets as of September 30, 2014 and December 31, 2013. 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<br>September 30,<br>2014 | As of<br>December 31,<br>2013 |
|---|--------------------------------|-------------------------------|
|   | (Dollars in thousands)         |                               |
| Non-accrual non-covered loans   | \$ 22,381                      | \$ 15,133                     |
| Non-covered loans past due 90 days or more (principal or interest payments)         | 18,644                         | 23,141                        |
| <b>Total non-performing non-covered loans</b>                                       | <b>41,025</b>                  | <b>38,274</b>                 |
| Other non-performing non-covered assets   |                                |                               |
| Non-covered foreclosed assets held for sale, net                                    | 19,367                         | 29,869                        |
| Other non-performing non-covered assets   |                                | 281                           |
| <b>Total other non-performing non-covered assets</b>                                | <b>19,367</b>                  | <b>30,150</b>                 |
| <b>Total non-performing non-covered assets</b>                                      | <b>\$ 60,392</b>               | <b>\$ 68,424</b>              |
| Allowance for loan losses for non-covered loans to non-performing non-covered loans | 123.57%                        | 101.95%                       |
| Non-performing non-covered loans to total non-covered loans                         | 0.90                           | 0.91                          |
| Non-performing non-covered assets to total non-covered assets                       | 0.88                           | 1.07                          |

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. The Florida franchise contains approximately 39.6% and 53.1% of our non-performing non-covered loans as of September 30, 2014 and December 31, 2013, respectively.

Total non-performing non-covered loans were \$41.0 million as of September 30, 2014, compared to \$38.3 million as of December 31, 2013 for an increase of \$2.7 million. Of the \$2.7 million increase in non-performing loans, \$6.4 million is from an increase in non-performing loans in our Arkansas market combined with a \$403,000 increase in non-performing loans in our Alabama market offset by a \$4.1 million decrease in non-performing loans in Florida. Non-performing loans at September 30, 2014 are approximately \$24.3 million, \$16.3 million and \$410,000 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, 2014, 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 2014. Our current or historical provision levels should not be relied upon as a predictor or indicator of future levels going forward.

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Troubled debt restructurings ( TDR ) 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, 2014, we had \$27.2 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 \$10.6 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, a lengthening of 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, 2014, the amount of troubled debt restructurings was \$27.8 million, a decrease of 36.1% from \$43.5 million at December 31, 2013. As of September 30, 2014 and December 31, 2013, 97.9% and 98.0%, 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 \$19.4 million as of September 30, 2014, compared to \$29.9 million as of December 31, 2013 for a decrease of \$10.5 million. The foreclosed assets held for sale not covered by loss share as of September 30, 2014 are comprised of \$14.9 million of assets located in Arkansas, \$4.4 million of assets located in Florida and the remaining \$15,000 located in Alabama.

During the first nine months of 2014, we had three non-covered foreclosed properties with a carrying value greater than \$1.0 million. Two of these properties were acquired in the Liberty acquisition and hold an aggregate carrying value of \$4.2 million at September 30, 2014. The remaining property is a development loan in Northwest Arkansas which has been foreclosed since the first quarter of 2011. The carrying value was \$3.6 million at September 30, 2014. The Company does not currently anticipate any additional losses on these properties. As of September 30, 2014, no other foreclosed assets held for sale not covered by loss share have a carrying value greater than \$1.0 million.

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Table 14 shows the summary of foreclosed assets held for sale as of September 30, 2014 and December 31, 2013.

**Table 14: Total Foreclosed Assets Held For Sale**

|                                       | As of September 30, 2014  |                            |           | As of December 31, 2013   |                            |           |
|---------------------------------------|---------------------------|----------------------------|-----------|---------------------------|----------------------------|-----------|
|                                       | 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              | \$ 8,261                  | \$ 4,701                   | \$ 12,962 | \$ 8,422                  | \$ 9,677                   | \$ 18,099 |
| Construction/land development         | 6,372                     | 7,529                      | 13,901    | 17,675                    | 5,517                      | 23,192    |
| Agricultural                          |                           | 26                         | 26        |                           | 651                        | 651       |
| Residential real estate loans         |                           |                            |           |                           |                            |           |
| Residential 1-4 family                | 4,238                     | 1,257                      | 5,495     | 3,772                     | 5,154                      | 8,926     |
| Multifamily residential               | 496                       |                            | 496       |                           |                            |           |
| Total foreclosed assets held for sale | \$ 19,367                 | \$ 13,513                  | \$ 32,880 | \$ 29,869                 | \$ 20,999                  | \$ 50,868 |

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-acrual loans), criticized and/or classified loans with a specific allocation, loans categorized as TDR s and certain other loans identified by management that are still performing (loans included in multiple categories are only included once). As of September 30, 2014, average non-covered impaired loans were \$93.4 million compared to \$104.1 million as of December 31, 2013. As of September 30, 2014, non-covered impaired loans were \$83.3 million compared to \$106.5 million as of December 31, 2013 for a decrease of \$23.2 million. This decrease is primarily associated with the improvements in loan balances with a specific allocation and loans categorized as TDR s. As of September 30, 2014, our Florida and Alabama markets accounted for approximately \$37.8 million and \$3.7 million of the non-covered impaired loans, respectively.

We evaluated loans purchased in conjunction with the 2010 FDIC-assisted acquisitions, the 2012 acquisitions of Heritage and Premier and certain loans during the 2013 acquisition of Liberty 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, 2014 and December 31, 2013, 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, 2014 and December 31, 2013:

**Table 15: Total Non-Accrual Loans**

|                               | As of September 30, 2014  |                            |           | As of December 31, 2013   |                            |           |
|-------------------------------|---------------------------|----------------------------|-----------|---------------------------|----------------------------|-----------|
|                               | 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      | \$ 7,339                  | \$                         | \$ 7,339  | \$ 5,093                  | \$                         | \$ 5,093  |
| Construction/land development | 1,571                     |                            | 1,571     | 1,080                     |                            | 1,080     |
| Agricultural                  |                           |                            |           | 89                        |                            | 89        |
| Residential real estate loans |                           |                            |           |                           |                            |           |
| Residential 1-4 family        | 11,856                    |                            | 11,856    | 7,283                     |                            | 7,283     |
| Multifamily residential       |                           |                            |           | 1                         |                            | 1         |
| Total real estate             | 20,766                    |                            | 20,766    | 13,546                    |                            | 13,546    |
| Consumer                      | 250                       |                            | 250       | 124                       |                            | 124       |
| Commercial and industrial     | 1,181                     |                            | 1,181     | 1,463                     |                            | 1,463     |
| Other                         | 184                       |                            | 184       |                           |                            |           |
| Total non-accrual loans       | \$ 22,381                 | \$                         | \$ 22,381 | \$ 15,133                 | \$                         | \$ 15,133 |

If the non-accrual non-covered loans had been accruing interest in accordance with the original terms of their respective agreements, interest income of approximately \$361,000 and \$296,000 for the three-month periods ended September 30, 2014 and 2013, respectively, would have been recorded. If the non-accrual non-covered loans had been accruing interest in accordance with the original terms of their respective agreements, interest income of approximately \$946,000 and \$962,000 for the nine-month periods ended September 30, 2014 and 2013, 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, 2014 and 2013 was considered immaterial.

Table 16 shows the summary of accruing past due loans 90 days or more as of September 30, 2014 and December 31, 2013:

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

|  | As of September 30, 2014 |                 |       | As of December 31, 2013 |                 |       |
|--|--------------------------|-----------------|-------|-------------------------|-----------------|-------|
|  | Not Covered              | Covered by FDIC | Total | Not Covered             | Covered by FDIC | Total |

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|   | by Loss<br>Share |           | Loss Share |           | by Loss<br>Share |           | Loss Share |  |
|---|------------------|-----------|------------|-----------|------------------|-----------|------------|--|
|   | (In thousands)   |           |            |           |                  |           |            |  |
| Real estate:                                  |                  |           |            |           |                  |           |            |  |
| Commercial real estate loans                  |                  |           |            |           |                  |           |            |  |
| Non-farm/non-residential                      | \$ 6,720         | \$ 13,893 | \$ 20,613  | \$ 7,914  | \$ 15,287        | \$ 23,201 |            |  |
| Construction/land development                 | 3,174            | 4,907     | 8,081      | 4,879     | 8,410            | 13,289    |            |  |
| Agricultural                                  | 34               |           | 34         |           | 162              | 162       |            |  |
| Residential real estate loans                 |                  |           |            |           |                  |           |            |  |
| Residential 1-4 family                        | 4,181            | 9,060     | 13,241     | 6,492     | 10,177           | 16,669    |            |  |
| Multifamily residential                       | 1,904            |           | 1,904      | 1         | 357              | 358       |            |  |
| Total real estate                             | 16,013           | 27,860    | 43,873     | 19,286    | 34,393           | 53,679    |            |  |
| Consumer                                      | 50               |           | 50         | 100       |                  | 100       |            |  |
| Commercial and industrial                     | 2,581            | 1,128     | 3,709      | 3,755     | 825              | 4,580     |            |  |
| Other   |                  | 32        | 32         |           | 624              | 624       |            |  |
| Total loans accruing past due 90 days or more | \$ 18,644        | \$ 29,020 | \$ 47,664  | \$ 23,141 | \$ 35,842        | \$ 58,983 |            |  |

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The Company's total past due and non-accrual covered loans to total covered loans was 11.6% and 12.7% as of September 30, 2014 and December 31, 2013, 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 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 the next completion of the impairment analysis.

Between the receipt of the original appraisal and the updated appraisal, we monitor the loan's repayment history and subject the loan to examination by our internal loan review. 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.

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.

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.

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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 \$4.25 billion and \$3.77 billion at September 30, 2014 and December 31, 2013, 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 0.65% at December 31, 2013 to 0.82% at September 30, 2014. 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 charge-offs decreased to \$2.5 million and \$7.5 million for the three and nine months ended September 30, 2014, respectively, compared to \$5.1 million and \$11.8 million for the same periods in 2013, respectively. Total recoveries decreased to \$750,000 and \$1.9 million for the three and nine months ended September 30, 2014, respectively, compared to \$2.2 million and \$3.5 million for the same periods in 2013, respectively. For the three months ended September 30, 2014, the net charge-offs were \$1.7 million for Arkansas and \$132,000 for Florida and net recoveries of \$2,000 for Alabama, respectively, equaling a net charge-off position of \$1.8 million. For the nine months ended September 30, 2014, the net charge-offs were \$3.7 million for Arkansas, \$1.8 million for Florida and \$135,000 for Alabama, respectively, equaling a net charge-off position of \$5.6 million.

During the first nine months of 2014, there were \$7.5 million in charge-offs and \$1.9 million in recoveries. While the 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.

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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, 2014 and 2013.

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

|  | Three Months<br>Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|--|--|-----------|------------------------------------|-----------|
|  | 2014                                   | 2013      | 2014                               | 2013      |
|  | (Dollars in thousands)                 |           |                                    |           |
| Balance, beginning of period               | \$ 48,248                              | \$ 40,498 | \$ 39,022                          | \$ 45,170 |
| Loans charged off                          |  |           |                                    |           |
| Real estate:                               |  |           |                                    |           |
| Commercial real estate loans:              |  |           |                                    |           |
| Non-farm/non-residential                   | 480                                    | 2,980     | 1,148                              | 3,844     |
| Construction/land development              | 386                                    | 392       | 553                                | 560       |
| Agricultural                               |  |           |                                    |           |
| Residential real estate loans:             |  |           |                                    |           |
| Residential 1-4 family                     | 562                                    | 787       | 1,779                              | 2,713     |
| Multifamily residential                    |  |           | 266                                | 2,291     |
| Total real estate                          | 1,428                                  | 4,159     | 3,746                              | 9,408     |
| Consumer                                   | 85                                     | 184       | 283                                | 872       |
| Commercial and industrial                  | 416                                    | 438       | 1,600                              | 619       |
| Agricultural                               |  |           |                                    |           |
| Other                                      | 615                                    | 320       | 1,865                              | 881       |
| Total loans charged off                    | 2,544                                  | 5,101     | 7,494                              | 11,780    |
| Recoveries of loans previously charged off |  |           |                                    |           |
| Real estate:                               |  |           |                                    |           |
| Commercial real estate loans:              |  |           |                                    |           |
| Non-farm/non-residential                   | 9                                      | 1,938     | 230                                | 2,051     |
| Construction/land development              | 23                                     | 4         | 68                                 | 19        |
| Agricultural                               |  | 1         |                                    | 1         |
| Residential real estate loans:             |  |           |                                    |           |
| Residential 1-4 family                     | 329                                    | 115       | 375                                | 771       |
| Multifamily residential                    | 3                                      | 11        | 10                                 | 81        |
| Total real estate                          | 364                                    | 2,069     | 683                                | 2,923     |
| Consumer                                   | 16                                     | 33        | 230                                | 123       |
| Commercial and industrial                  | 190                                    | 16        | 255                                | 49        |
| Agricultural                               |  |           |                                    |           |
| Other                                      | 180                                    | 127       | 705                                | 407       |
| Total recoveries                           | 750                                    | 2,245     | 1,873                              | 3,502     |

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|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Net loans charged off (recovered)  | 1,794     | 2,856     | 5,621     | 8,278     |
| Provision for loan losses for non-covered loans  | 4,241     |           | 17,294    | 750       |
| Balance, September 30  | \$ 50,695 | \$ 37,642 | \$ 50,695 | \$ 37,642 |
| Net charge-offs (recoveries) on loans not covered by loss share to average non-covered loans | 0.16%     | 0.48%     | 0.18%     | 0.48%     |
| Allowance for loan losses for non-covered loans to total non-covered loans <sup>(1)</sup>    | 1.11      | 1.58      | 1.11      | 1.58      |
| Allowance for loan losses for non-covered loans to net charge-offs (recoveries)              | 712       | 332       | 675       | 340       |

(1) See Management's Discussion and Analysis of Financial Condition and Results of Operations Table 25, for additional information on non-GAAP tabular disclosure.

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*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, 2014 and the year ended December 31, 2013 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 as 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, 2014 and December 31, 2013.

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

|                                | As of September 30, 2014 |                              | As of December 31, 2013 |                              |
|--------------------------------|--------------------------|------------------------------|-------------------------|------------------------------|
|                                | Allowance<br>Amount      | % of<br>loans <sup>(1)</sup> | Allowance<br>Amount     | % of<br>loans <sup>(1)</sup> |
| (Dollars in thousands)         |                          |                              |                         |                              |
| Real estate:                   |                          |                              |                         |                              |
| Commercial real estate loans:  |                          |                              |                         |                              |
| Non-farm/non-residential       | \$ 18,050                | 41.8 %                       | \$ 14,848               | 41.4%                        |
| Construction/land development  | 6,530                    | 14.4                         | 6,282                   | 13.4                         |
| Agricultural                   | 249                      | 1.7                          | 252                     | 1.9                          |
| Residential real estate loans: |                          |                              |                         |                              |
| Residential 1-4 family         | 8,982                    | 20.4                         | 6,072                   | 21.8                         |
| Multifamily residential        | 3,407                    | 5.5                          | 2,817                   | 5.1                          |
| Total real estate              | 37,218                   | 83.8                         | 30,271                  | 83.6                         |
| Consumer                       | 697                      | 1.3                          | 632                     | 1.7                          |
| Commercial and industrial      | 3,351                    | 12.0                         | 1,933                   | 12.2                         |
| Agricultural                   | 4,618                    | 1.4                          | 1,931                   | 0.9                          |
| Other                          |                          | 1.5                          |                         | 1.6                          |
| Unallocated                    | 4,811                    |                              | 4,255                   |                              |
| Total                          | \$ 50,695                | 100.0%                       | \$ 39,022               | 100.0%                       |

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

***Allowance for Loan Losses for Covered Loans***



Allowance for loan losses for covered loans were \$2.1 million and \$4.8 million at September 30, 2014 and December 31, 2013, respectively.

Total charge-offs increased to \$863,000 for the three months ended September 30, 2014, compared to zero for the same period in 2013. Total recoveries decreased to \$87,000 for the three months ended September 30, 2014, compared to \$154,000 for the same period in 2013. There was zero provision for loan losses taken on covered loans during the three months ended September 30, 2014. There was \$100,000 provision for loan losses taken on covered loans during the three months ended September 30, 2013.

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Total charge-offs decreased to \$1.9 million for the nine months ended September 30, 2014, compared to \$5.0 million for the same period in 2013. Total recoveries increased to \$389,000 for the nine months ended September 30, 2014, compared to \$171,000 for the same period in 2013. There was zero provision for loan losses taken on covered loans during the nine months ended September 30, 2014. There was \$100,000 provision for loan losses taken on covered loans during the nine months ended September 30, 2013.

***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 2.8 years as of September 30, 2014.

As of September 30, 2014 and December 31, 2013 we had \$296.0 million and \$114.6 million of held-to-maturity securities, respectively. Of the \$296.0 million of held-to-maturity securities, \$117.8 million were invested in mortgage-backed securities and \$178.2 million were invested in state and political subdivisions as of September 30, 2014. All of the held-to-maturity securities were invested in state and political subdivisions as of December 31, 2013.

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 \$1.07 billion and \$1.18 billion as of September 30, 2014 and December 31, 2013, respectively.

As of September 30, 2014, \$495.2 million, or 46.4%, of our available-for-sale securities were invested in mortgage-backed securities, compared to \$461.6 million, or 39.3%, of our available-for-sale securities as of December 31, 2013. To reduce our income tax burden, \$176.7 million, or 16.6%, of our available-for-sale securities portfolio as of September 30, 2014, was primarily invested in tax-exempt obligations of state and political subdivisions, compared to \$195.5 million, or 16.6%, of our available-for-sale securities as of December 31, 2013. Also, we had approximately \$343.4 million, or 32.2%, invested in obligations of U.S. Government-sponsored enterprises as of September 30, 2014, compared to \$463.5 million, or 39.4%, of our available-for-sale securities as of December 31, 2013.

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 to the Condensed Notes to Consolidated Financial Statements for the carrying value and fair value of investment securities.

***Deposits***

Our deposits averaged \$5.30 billion and \$5.29 billion for the three and nine-month periods ended September 30, 2014. Total deposits decreased \$115.8 million, or an annualized decrease of 2.9%, to \$5.28 billion as of September 30, 2014, from \$5.39 billion as of December 31, 2013. 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.

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Our policy also permits the acceptance of brokered deposits. As of September 30, 2014 and December 31, 2013, brokered deposits were \$45.2 million and \$100.4 million, respectively. Included in these brokered deposits are \$30.2 million and \$41.2 million of Certificate of Deposit Account Registry Service (CDARS) as of September 30, 2014 and December 31, 2013, respectively. CDARS are deposits of our customers we have swapped with other institutions. This gives our customers the potential for FDIC insurance of up to \$50.0 million.

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.

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 19 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, 2014 and 2013.

**Table 19: Average Deposit Balances and Rates**

|   | Three Months Ended September 30,<br>2014 |   | 2013                |                         |
|---|--|---|---------------------|-------------------------|
|   | Average<br>Amount                        | Average<br>Rate<br>Paid<br>(Dollars in thousands) | Average<br>Amount   | Average<br>Rate<br>Paid |
| Non-interest-bearing transaction accounts | \$ 1,148,923                             | %   | \$ 738,526          | %                       |
| Interest-bearing transaction accounts     | 2,437,794                                | 0.21  | 1,469,958           | 0.16                    |
| Savings deposits                          | 397,473                                  | 0.11  | 221,119             | 0.05                    |
| Time deposits:                            |  |   |                     |                         |
| \$100,000 or more                         | 697,821                                  | 0.68  | 427,422             | 0.71                    |
| Other time deposits                       | 617,951                                  | 0.43  | 404,727             | 0.40                    |
| <b>Total</b>                              | <b>\$ 5,299,962</b>                      | <b>0.24%</b>                                      | <b>\$ 3,261,752</b> | <b>0.22%</b>            |

|   | Nine Months Ended September 30,<br>2014 |  | 2013              |                      |
|---|---|--|-------------------|----------------------|
|   | Average<br>Amount                       | Average<br>Rate Paid<br>(Dollars in thousands) | Average<br>Amount | Average<br>Rate Paid |
| Non-interest-bearing transaction accounts | \$ 1,068,626                            | %  | \$ 704,123        | %                    |
| Interest-bearing transaction accounts     | 2,444,111                               | 0.20   | 1,532,649         | 0.18                 |

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|                     |              |       |              |       |
|---------------------|--------------|-------|--------------|-------|
| Savings deposits    | 365,852      | 0.08  | 214,391      | 0.08  |
| Time deposits:      |              |       |              |       |
| \$100,000 or more   | 753,874      | 0.66  | 473,704      | 0.80  |
| Other time deposits | 653,381      | 0.43  | 432,311      | 0.43  |
| Total               | \$ 5,285,844 | 0.25% | \$ 3,357,178 | 0.26% |

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**Table of Contents*****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 \$89,000, or 0.06%, from \$161.0 million as of December 31, 2013 to \$160.9 million as of September 30, 2014.

***FHLB Borrowed Funds***

Our FHLB borrowed funds were \$713.6 million and \$350.7 million at September 30, 2014 and December 31, 2013, respectively. At September 30, 2014, \$520.0 million and \$193.6 million of the outstanding balance were issued as short-term and long-term advances, respectively. At December 31, 2013, \$130.3 million and \$220.4 million of the outstanding balances were issued as short-term and long-term advances, respectively. Our remaining FHLB borrowing capacity was \$582.8 million and \$373.5 million as of September 30, 2014 and December 31, 2013, respectively. 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.

***Subordinated Debentures***

Subordinated debentures, which consist of guaranteed payments on trust preferred securities, were \$60.8 million as of September 30, 2014 and December 31, 2013.

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 \$958.7 million at September 30, 2014 compared to \$841.0 million at December 31, 2013, an annualized increase of 18.72%. As of September 30, 2014 and December 31, 2013 our equity to asset ratio was 13.3% and 12.3% respectively. Book value per share was \$14.42 at September 30, 2014 compared to \$12.92 at December 31, 2013, a 15.52% annualized increase.

***Common Stock Cash Dividends.*** We declared cash dividends on our common stock of \$0.10 per share and \$0.075 per share for each of the three-month periods ended September 30, 2014 and 2013, respectively. The common stock dividend payout ratio for the three months ended September 30, 2014 and 2013 was 24.28% and 22.98%, respectively. The common stock dividend payout ratio for the nine months ended September 30, 2014 and 2013 was 19.75% and 22.57%, respectively. For the fourth quarter of 2014, the Board of Directors declared a regular \$0.10 per share quarterly cash dividend payable December 3, 2014, to shareholders of record November 12, 2014.



**Table of Contents****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.

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, 2014 and December 31, 2013, we met all regulatory capital adequacy requirements to which we were subject.

Table 20 presents our risk-based capital ratios as of September 30, 2014 and December 31, 2013.

**Table 20: Risk-Based Capital**

|   | As of<br>September 30, 2014 | As of<br>December 31, 2013 |
|---|-----------------------------|----------------------------|
|   | (Dollars in thousands)      |                            |
| Tier 1 capital  |                             |                            |
| Stockholders equity                                     | \$ 958,681                  | \$ 840,955                 |
| Qualifying trust preferred securities                   | 59,000                      | 59,000                     |
| Goodwill and core deposit intangibles, net              | (333,708)                   | (323,272)                  |
| Unrealized (gain) loss on available-for-sale securities | (5,336)                     | 4,140                      |
| Deferred tax assets                                     | (206)                       | (31,330)                   |
| <b>Total Tier 1 capital</b>                             | <b>678,431</b>              | <b>549,493</b>             |
| Tier 2 capital  |                             |                            |
| Qualifying allowance for loan losses                    | 52,844                      | 43,815                     |
| <b>Total Tier 2 capital</b>                             | <b>52,844</b>               | <b>43,815</b>              |
| <b>Total risk-based capital</b>                         | <b>\$ 731,275</b>           | <b>\$ 593,308</b>          |
| Average total assets for leverage ratio                 | \$ 6,637,011                | \$ 5,859,902               |
| <b>Risk weighted assets</b>                             | <b>\$ 5,461,984</b>         | <b>\$ 5,051,558</b>        |
| Ratios at end of period                                 |                             |                            |
| Leverage ratio  | 10.22%                      | 9.38%                      |
| Tier 1 risk-based capital                               | 12.42                       | 10.88                      |
| Total risk-based capital                                | 13.39                       | 11.75                      |



Minimum guidelines

|                           |       |       |
|---------------------------|-------|-------|
| Leverage ratio            | 4.00% | 4.00% |
| Tier 1 risk-based capital | 4.00  | 4.00  |
| Total risk-based capital  | 8.00  | 8.00  |

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, our banking subsidiary and we 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.

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**Table of Contents*****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 \$4.2 million and \$17.3 million provision for loan losses for non-covered loans during the three and nine months ended September 30, 2014 which are increases versus the same periods in 2013. 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. This expected increase is not an indication of a decline in asset quality, but primarily a reflection of the migration of the Liberty (and other acquired) loans from purchased loan accounting treatment to originated loan accounting treatment. Based upon current accounting guidance, the allowance for loan losses is not carried over in an acquisition. As a result, virtually none of the Liberty footprint loans had any allocation of the allowance for loan losses at year end. This is the result of all loans acquired on October 24, 2013 from Liberty being recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820. 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 \$1.82 billion of purchased non-covered loans, which includes \$148.2 million of discount for credit losses on non-covered loans acquired, at September 30, 2014. We had \$2.04 billion of purchased non-covered loans, which includes \$174.6 million of discount for credit losses on non-covered loans acquired at December 31, 2013. 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.

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 21 through 25 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 of Contents****Table 21: Non-GAAP Earnings**

|   | Three Months Ended<br>September 30,   |           | Nine Months Ended<br>September 30, |           |
|---|---------------------------------------|-----------|------------------------------------|-----------|
|   | 2014                                  | 2013      | 2014                               | 2013      |
|   | (In thousands, except per share data) |           |                                    |           |
| GAAP net income                           | \$ 27,371                             | \$ 18,363 | \$ 83,137                          | \$ 53,570 |
| Accretion to net interest income          | (13,465)                              | (5,988)   | (45,120)                           | (16,133)  |
| Provision for loan losses <sup>(1)</sup>  | 1,315                                 |           | 14,368                             | 750       |
| FDIC indemnification amortization         | 6,947                                 | 3,177     | 18,313                             | 7,452     |
| FDIC true-up accrual                      | 383                                   | 351       | 1,020                              | 711       |
| Amortization of intangible assets         | 1,153                                 | 802       | 3,467                              | 2,406     |
| Merger and acquisition expenses           | 3,772                                 | 1,034     | 4,727                              | 1,063     |
| Tax impact of the above items             | (64)                                  | 379       | 1,960                              | 2,280     |
| Non-GAAP impact to net income             | 41                                    | (245)     | (1,265)                            | (1,471)   |
| Non-GAAP net income                       | \$ 27,412                             | \$ 18,118 | \$ 81,872                          | \$ 52,099 |
| GAAP diluted earnings per share           | \$ 0.41                               | \$ 0.33   | \$ 1.26                            | \$ 0.95   |
| Impact of purchase accounting, net of tax |                                       |           | (0.02)                             | (0.03)    |
| Non-GAAP diluted earnings per share       | \$ 0.41                               | \$ 0.33   | \$ 1.24                            | \$ 0.92   |
| Average diluted shares outstanding        | 66,616                                | 56,620    | 65,889                             | 56,577    |

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

**Table 22: Average Yield on Loans**

|   | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |              |
|---|-------------------------------------|--------------|------------------------------------|--------------|
|   | 2014                                | 2013         | 2014                               | 2013         |
|   | (Dollars in thousands)              |              |                                    |              |
| Interest income on loans receivable FTE             | \$ 76,024                           | \$ 45,121    | \$ 226,674                         | \$ 133,577   |
| Purchase accounting accretion                       | 13,326                              | 5,879        | 44,710                             | 15,717       |
| Non-GAAP interest income on loans<br>receivable FTE | \$ 62,698                           | \$ 39,242    | \$ 181,964                         | \$ 117,860   |
| Average loans                                       | \$ 4,661,600                        | \$ 2,668,421 | \$ 4,498,643                       | \$ 2,672,088 |
| Average purchase accounting loan discounts<br>(1)   | 233,014                             | 221,048      | 257,205                            | 235,498      |

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|   |              |              |              |              |
|---|--------------|--------------|--------------|--------------|
| Average loans (non-GAAP)                      | \$ 4,894,614 | \$ 2,889,469 | \$ 4,755,848 | \$ 2,907,586 |
| Average yield on loans (reported)             | 6.47%        | 6.71%        | 6.74%        | 6.68%        |
| Average contractual yield on loans (non-GAAP) | 5.08         | 5.39         | 5.12         | 5.42         |

- (1) Balance includes \$148.2 million of discount of credit losses for non-covered loans acquired as of September 30, 2014.

**Table of Contents****Table 23: Average Cost of Deposits**

|   | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |              |
|---|-------------------------------------|--------------|------------------------------------|--------------|
|   | 2014                                | 2013         | 2014                               | 2013         |
|   | (Dollars in thousands)              |              |                                    |              |
| Interest expense on deposits                              | \$ 3,243                            | \$ 1,810     | \$ 9,722                           | \$ 6,424     |
| Amortization of time deposit<br>(premiums)/discounts, net | 139                                 | 109          | 410                                | 416          |
| Non-GAAP interest expense on<br>deposits                  | \$ 3,382                            | \$ 1,919     | \$ 10,132                          | \$ 6,840     |
| Average interest-bearing deposits                         | \$ 4,151,039                        | \$ 2,523,226 | \$ 4,217,218                       | \$ 2,653,055 |
| Average unamortized CD<br>(premium)/discount, net         | (262)                               | (831)        | (126)                              | (958)        |
| Average interest-bearing deposits<br>(non-GAAP)           | \$ 4,150,777                        | \$ 2,522,395 | \$ 4,217,092                       | \$ 2,652,097 |
| Average cost of deposits (reported)                       | 0.31%                               | 0.28%        | 0.31%                              | 0.32%        |
| Average contractual cost of deposits<br>(non-GAAP)        | 0.32                                | 0.30         | 0.32                               | 0.34         |

**Table 24: Net Interest Margin**

|   | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |              |
|---|-------------------------------------|--------------|------------------------------------|--------------|
|   | 2014                                | 2013         | 2014                               | 2013         |
|   | (Dollars in thousands)              |              |                                    |              |
| Net interest income FTE                       | \$ 80,334                           | \$ 47,423    | \$ 238,592                         | \$ 138,739   |
| Total purchase accounting accretion           | 13,465                              | 5,988        | 45,120                             | 16,133       |
| Non-GAAP net interest income FTE              | \$ 66,869                           | \$ 41,435    | \$ 193,472                         | \$ 122,606   |
| Average interest-earning assets               | \$ 6,063,518                        | \$ 3,476,796 | \$ 5,895,975                       | \$ 3,535,965 |
| Average purchase accounting loan<br>discounts | 233,014                             | 221,048      | 257,205                            | 235,498      |
| Average interest-earning assets<br>(non-GAAP) | \$ 6,296,532                        | \$ 3,697,844 | \$ 6,153,180                       | \$ 3,771,463 |
| Net interest margin (reported)                | 5.26%                               | 5.41%        | 5.41%                              | 5.25%        |
| Net interest margin (non-GAAP)                | 4.21                                | 4.45         | 4.20                               | 4.35         |



**Table of Contents****Table 25: Allowance for Loan Losses for Non-Covered Loans to Total Non-Covered Loans**

|  | <b>As of September 30, 2014</b> |  |              |
|--|---------------------------------|--|--------------|
|  | <b>Non-Covered<br/>Loans</b>    | <b>Purchased<br/>Non-Covered<br/>Loans</b> | <b>Total</b> |
|  | <b>(Dollars in thousands)</b>   |  |              |
| Loan balance reported (A)  | \$ 2,766,285                    | \$ 1,816,730                               | \$ 4,583,015 |
| Loan balance reported plus discount (B)  | 2,766,285                       | 1,964,902                                  | 4,731,187    |
| Allowance for loan losses for non-covered loans (C)  | 50,695                          |  | 50,695       |
| Discount for credit losses on non-covered loans acquired (D)   |                                 | 148,172                                    | 148,172      |
| Total allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired (E)  | \$ 50,695                       | \$ 148,172                                 | \$ 198,867   |
| Allowance for loan losses for non-covered loans to total non-covered loans (C/A)   | 1.83%                           | N/A  | 1.11%        |
| 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                             | 7.54%                                      | 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  | 4.20%        |

*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.

|  | <b>As of December 31, 2013</b> |  |              |
|--|--------------------------------|--|--------------|
|  | <b>Non-Covered<br/>Loans</b>   | <b>Purchased<br/>Non-Covered<br/>Loans</b> | <b>Total</b> |
|  | <b>(Dollars in thousands)</b>  |  |              |
| Loan balance reported (A)                                    | \$ 2,150,463                   | \$ 2,043,974                               | \$ 4,194,437 |
| Loan balance reported plus discount (B)                      | 2,150,463                      | 2,218,611                                  | 4,369,074    |
| Allowance for loan losses for non-covered loans (C)          | \$ 39,022                      | \$   | \$ 39,022    |
| Discount for credit losses on non-covered loans acquired (D) |                                | 174,637                                    | 174,637      |



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|  |           |            |            |
|--|-----------|------------|------------|
| Total allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired (E)  | \$ 39,022 | \$ 174,637 | \$ 213,659 |
| Allowance for loan losses for non-covered loans to total non-covered loans (C/A)   | 1.81%     | N/A        | 0.93%      |
| 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       | 7.87%      | 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        | 4.89%      |

*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.

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We had \$334.3 million, \$324.0 million, and \$95.3 million total goodwill, core deposit intangibles and other intangible assets as of September 30, 2014, December 31, 2013 and September 30, 2013, 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, book value, return on average assets, return on average equity, and equity to assets, are presented in Tables 26 through 30, respectively.

**Table 26: Diluted Earnings Per Share Excluding Intangible Amortization**

|   | <b>Three Months<br/>Ended<br/>September 30,<br/>2014      2013</b> |                  | <b>Nine Months Ended<br/>September 30,<br/>2014      2013</b> |                  |
|---|--|------------------|---|------------------|
|   | <b>(Dollars in thousands, except per share<br/>data)</b>           |                  |   |                  |
| GAAP net income   | \$ 27,371  | \$ 18,363        | \$ 83,137   | \$ 53,570        |
| Intangible amortization after-tax                                       | 701  | 487              | 2,107   | 1,462            |
| <b>Earnings excluding intangible amortization</b>                       | <b>\$ 28,072</b>   | <b>\$ 18,850</b> | <b>\$ 85,244</b>  | <b>\$ 55,032</b> |
| GAAP diluted earnings per share   | \$ 0.41  | \$ 0.33          | \$ 1.26   | \$ 0.95          |
| Intangible amortization after-tax                                       | 0.01   |                  | 0.03  | 0.02             |
| <b>Diluted earnings per share excluding intangible<br/>amortization</b> | <b>\$ 0.42</b>   | <b>\$ 0.33</b>   | <b>\$ 1.29</b>  | <b>\$ 0.97</b>   |

**Table 27: Tangible Book Value Per Share**

|  | <b>As of<br/>September 30, 2014</b>              | <b>As of<br/>December 31, 2013</b> |
|--|--|------------------------------------|
|  | <b>(In thousands, except per share<br/>data)</b> |                                    |
| Book value per share: A/B                | \$ 14.42   | \$ 12.92                           |
| Tangible book value per share: (A-C-D)/B | 9.39   | 7.94                               |
| (A) Total equity                         | \$ 958,681                                       | \$ 840,955                         |
| (B) Shares outstanding                   | 66,483   | 65,082                             |
| (C) Goodwill                             | \$ 313,320                                       | \$ 301,736                         |
| (D) Core deposit and other intangibles   | 21,004   | 22,298                             |

**Table of Contents****Table 28: Return on Average Assets Excluding Intangible Amortization**

|  | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |              |
|--|-------------------------------------|--------------|------------------------------------|--------------|
|  | 2014                                | 2013         | 2014                               | 2013         |
|  | (Dollars in thousands)              |              |                                    |              |
| Return on average assets: A/C  | 1.56%                               | 1.80%        | 1.63%                              | 1.73%        |
| Return on average assets excluding<br>intangible amortization: B/(C-D) | 1.68                                | 1.89         | 1.76                               | 1.82         |
| (A) Net income   | \$ 27,371                           | \$ 18,363    | \$ 83,137                          | \$ 53,570    |
| Intangible amortization after-tax                                      | 701                                 | 487          | 2,107                              | 1,462        |
| (B) Earnings excluding intangible<br>amortization                      | \$ 28,072                           | \$ 18,850    | \$ 85,244                          | \$ 55,032    |
| (C) Average assets   | \$ 6,970,925                        | \$ 4,046,625 | \$ 6,819,775                       | \$ 4,128,403 |
| (D) Average goodwill, core deposits and<br>other intangible assets     | 334,413                             | 95,723       | 326,747                            | 96,521       |

**Table 29: Return on Average Tangible Equity Excluding Intangible Amortization**

|   | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|---|-------------------------------------|-----------|------------------------------------|-----------|
|   | 2014                                | 2013      | 2014                               | 2013      |
|   | (Dollars in thousands)              |           |                                    |           |
| Return on average equity: A/C   | 11.58%                              | 13.63%    | 12.48%                             | 13.53%    |
| Return on average tangible equity excluding<br>intangible amortization: B/(C-D) | 18.46                               | 17.04     | 20.21                              | 16.99     |
| (A) Net income  | \$ 27,371                           | \$ 18,363 | \$ 83,137                          | \$ 53,570 |
| (B) Earnings excluding intangible<br>amortization                               | 28,072                              | 18,850    | 85,244                             | 55,032    |
| (C) Average equity  | 937,794                             | 534,563   | 890,583                            | 529,554   |
| (D) Average goodwill, core deposits and<br>other intangible assets              | 334,413                             | 95,723    | 326,747                            | 96,521    |

**Table 30: Tangible Equity to Tangible Assets**

|  | As of<br>September 30, 2014 | As of<br>December 31, 2013 |
|--|-----------------------------|----------------------------|
|  | (Dollars in thousands)      |                            |
| Equity to assets: B/A                                  | 13.32%                      | 12.35%                     |
| Tangible equity to tangible assets:<br>(B-C-D)/(A-C-D) | 9.10                        | 7.97                       |
| (A) Total assets                                       | \$ 7,196,371                | \$ 6,811,861               |

|  |         |         |
|--|---------|---------|
| (B) Total equity                       | 958,681 | 840,955 |
| (C) Goodwill                           | 313,320 | 301,736 |
| (D) Core deposit and other intangibles | 21,004  | 22,298  |

**Recently Issued Accounting Pronouncements**

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

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**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, 2014, our cash and cash equivalents were \$137.5 million, or 1.9% of total assets, compared to \$165.5 million, or 2.4% of total assets, as of December 31, 2013. Our available-for-sale investment securities and federal funds sold were \$1.11 billion as of September 30, 2014 and \$1.18 billion as of December 31, 2013.

Our investment portfolio is comprised of approximately 81.8% or \$1.12 billion of securities which mature in less than five years. As of September 30, 2014 and December 31, 2013, \$1.14 billion and \$1.13 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, 2014, our total deposits were \$5.28 billion, or 73.3% of total assets, compared to \$5.39 billion, or 79.2% of total assets, as of December 31, 2013. 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 three other financial institutions pursuant to which we could have borrowed up to \$35.0 million on an unsecured basis as of September 30, 2014 and December 31, 2013. 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 \$713.6 million and \$350.7 million at September 30, 2014 and December 31, 2013, respectively. At September 30, 2014, \$520.0 million and \$193.6 million of the outstanding balance were issued as short-term and long-term advances, respectively. At December 31, 2013, \$130.3 million and \$220.4 million of the outstanding balance were issued as short-term and long-term advances, respectively. Our FHLB borrowing capacity was \$582.8 million and \$373.5 million as of September 30, 2014 and December 31, 2013, 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.

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*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. Our gap position as of September 30, 2014 was asset sensitive with a one-year cumulative repricing gap of 87.5%. During these periods, the amount of change our asset base realizes in relation to the total change in market interest rate exceeds that of the liability base.

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.

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Table 31 presents a summary of the repricing schedule of our interest-earning assets and interest-bearing liabilities (gap) as of September 30, 2014.

**Table 31: Interest Rate Sensitivity**

|   | Interest Rate Sensitivity Period |                 |                     |                     |                   |                     |                   | Total               |
|---|----------------------------------|-----------------|---------------------|---------------------|-------------------|---------------------|-------------------|---------------------|
|   | 0-30<br>Days                     | 31-90<br>Days   | 91-180<br>Days      | 181-365<br>Days     | 1-2<br>Years      | 2-5<br>Years        | Over 5<br>Years   |                     |
| <b>Interest-earning assets</b>                    |                                  |                 |                     |                     |                   |                     |                   |                     |
| Interest-bearing deposits due from banks          | \$ 28,416                        | \$              | \$                  | \$                  | \$                | \$                  | \$                | \$ 28,416           |
| Federal funds sold                                | 44,275                           |                 |                     |                     |                   |                     |                   | 44,275              |
| Investment securities                             | 60,268                           | 79,808          | 48,642              | 97,459              | 183,108           | 512,635             | 381,733           | 1,363,653           |
| Loans receivable, net                             | 886,021                          | 370,073         | 487,674             | 753,475             | 834,195           | 1,157,693           | 292,010           | 4,781,141           |
| <b>Total earning assets</b>                       | <b>1,018,980</b>                 | <b>449,881</b>  | <b>536,316</b>      | <b>850,934</b>      | <b>1,017,303</b>  | <b>1,670,328</b>    | <b>673,743</b>    | <b>6,217,485</b>    |
| <b>Interest-bearing liabilities</b>               |                                  |                 |                     |                     |                   |                     |                   |                     |
| Interest-bearing transaction and savings deposits | 120,926                          | 241,852         | 362,778             | 725,555             | 470,664           | 458,129             | 450,925           | 2,830,829           |
| Time deposits                                     | 158,233                          | 182,322         | 254,353             | 425,301             | 182,163           | 71,870              | 1,759             | 1,276,001           |
| Federal funds purchased                           |                                  |                 |                     |                     |                   |                     |                   |                     |
| Securities sold under repurchase agreements       | 160,895                          |                 |                     |                     |                   |                     |                   | 160,895             |
| FHLB borrowed funds                               | 343,720                          | 22,251          | 90,874              | 115,769             | 25,675            | 111,410             | 3,854             | 713,553             |
| Subordinated debentures                           | 60,826                           |                 |                     |                     |                   |                     |                   | 60,826              |
| <b>Total interest-bearing liabilities</b>         | <b>844,600</b>                   | <b>446,425</b>  | <b>708,005</b>      | <b>1,266,625</b>    | <b>678,502</b>    | <b>641,409</b>      | <b>456,538</b>    | <b>5,042,104</b>    |
| <b>Interest rate sensitivity gap</b>              | <b>\$ 174,380</b>                | <b>\$ 3,456</b> | <b>\$ (171,689)</b> | <b>\$ (415,691)</b> | <b>\$ 338,801</b> | <b>\$ 1,028,919</b> | <b>\$ 217,205</b> | <b>\$ 1,175,381</b> |



|   |            |            |          |              |             |            |              |
|---|------------|------------|----------|--------------|-------------|------------|--------------|
| Cumulative interest rate sensitivity gap      | \$ 174,380 | \$ 177,836 | \$ 6,147 | \$ (409,544) | \$ (70,743) | \$ 958,176 | \$ 1,175,381 |
| Cumulative rate sensitive assets              |            |            |          |              |             |            |              |
| Rate sensitive liabilities                    | 120.6%     | 113.8%     | 100.3%   | 87.5%        | 98.2%       | 120.9%     | 123.3%       |
| Cumulative gap as a % of total earning assets | 2.8%       | 2.9%       | 0.1%     | (6.6)%       | (1.1)%      | 15.4%      | 18.9%        |

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**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, 2014, which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**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 Home BancShares, Inc. or its subsidiaries are a party or of which any of their property is the subject.

**Item 1A: Risk Factors**

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, 2013. 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.

**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.

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**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

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**SIGNATURES**

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

**HOME BANCSHARES, INC.**

(Registrant)

Date: November 6, 2014

/s/ C. Randall Sims  
C. Randall Sims, Chief Executive Officer

Date: November 6, 2014

/s/ Randy E. Mayor  
Randy E. Mayor, Chief Financial Officer