HOME BANCSHARES INC
Form 10-Q
August 04, 2017
Table of Contents

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 June 30, 2017

or

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

Commission File Number: 000-51904

HOME BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

(501) 339-2929

(Registrant s telephone number, including area code)

Not Applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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, a smaller reporting company or an emerging growth company. See definition of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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: 143,091,132 shares as of July 31, 2017.

Table of Contents

HOME BANCSHARES, INC.

FORM 10-Q

June 30, 2017

INDEX

		Page No.
Part I:	**Financial Information**	
Item 1:	Financial Statements	
	Consolidated Balance Sheets June 30, 2017 (Unaudited) and December 31, 2016	4
	Consolidated Statements of Income (Unaudited) Three and six months ended June 30, 2017 and 2016	5
	Consolidated Statements of Comprehensive Income (Unaudited) Three and six months ended June 30, 2017 and 2016	6
	Consolidated Statements of Stockholders Equity (Unaudited) Six months ended June 30, 2017 and 2016	6
	Consolidated Statements of Cash Flows (Unaudited) Six months ended June 30, 2017 and 2016	7
	Condensed Notes to Consolidated Financial Statements (Unaudited)	8-47
	Report of Independent Registered Public Accounting Firm	48
Item 2:	Management s Discussion and Analysis of Financial Condition and Results of Operations	49-84
Item 3:	Quantitative and Qualitative Disclosures About Market Risk	85-87
Item 4:	Controls and Procedures	87
Part II:	**Other Information**	
Item 1:	Legal Proceedings	87
Item 1A:	Risk Factors	88
Item 2:	Unregistered Sales of Equity Securities and Use of Proceeds	88
Item 3:	Defaults Upon Senior Securities	88
Item 4:	Mine Safety Disclosures	88
Item 5:	Other Information	88
Item 6:	Exhibits	89-90
Signatures		91

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- the effects of future local, regional, national and international economic conditions, including inflation or a decrease in commercial real estate and residential housing values;
- changes in the level of nonperforming assets and charge-offs, and credit risk generally;
- 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 effect of any mergers, acquisitions or other transactions to which we or our bank subsidiary may from time to time be a party, including our ability to successfully integrate any businesses that we acquire;
- the risk that expected cost savings and other benefits from acquisitions may not be fully realized or may take longer to realize than expected;
- the possibility that an acquisition does not close when expected or at all because required regulatory, shareholder or other approvals and other conditions to closing are not received or satisfied on a timely basis or at all;
- the reaction to a proposed acquisition transaction of the respective companies customers, employees and counterparties;
- diversion of management time on acquisition-related issues;

the ability to enter into and/or close additional acquisitions;

the availability of and access to capital on terms acceptable to us;

increased regulatory requirements and supervision that will apply as a result of our exceeding $10 billion in total assets;

legislation and regulation affecting the financial services industry as a whole, and the Company and its subsidiaries in particular, including the effects resulting from the reforms enacted by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) and the adoption of regulations by regulatory bodies under the Dodd-Frank Act;

governmental monetary and fiscal policies, as well as legislative and regulatory changes, including as a result of initiatives of the newly elected administration of President Donald J. Trump;

the effects of terrorism and efforts to combat it;

political instability;

the ability to keep pace with technological changes, including changes regarding cybersecurity;

an increase in the incidence or severity of fraud, illegal payments, security breaches or other illegal acts impacting our bank subsidiary or our customers;

Table of Contents

- 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 changes in accounting policies and practices and auditing requirements, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board, and other accounting standard setters;

- higher defaults on our loan portfolio than we expect; and

- the failure of assumptions underlying the establishment of our allowance for loan losses or changes in our estimate of the adequacy of the allowance for loan losses.

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 sections of our Form 10-K filed with the Securities and Exchange Commission (the SEC) on February 28, 2017 and this Form 10-Q.

Table of Contents

PART I: FINANCIAL INFORMATION

Item 1: Financial Statements

Home BancShares, Inc.

Consolidated Balance Sheets

(In thousands, except share data)	June 30, 2017 (Unaudited)	December 31, 2016
Assets		
Cash and due from banks	$ 147,041	$ 123,758
Interest-bearing deposits with other banks	313,447	92,891
Cash and cash equivalents	460,488	216,649
Federal funds sold		1,550
Investment securities available-for-sale	1,400,431	1,072,920
Investment securities held-to-maturity	254,161	284,176
Loans receivable	7,834,475	7,387,699
Allowance for loan losses	(80,138)	(80,002)
Loans receivable, net	7,754,337	7,307,697
Bank premises and equipment, net	207,071	205,301
Foreclosed assets held for sale	18,789	15,951
Cash value of life insurance	97,684	86,491
Accrued interest receivable	32,445	30,838
Deferred tax asset, net	68,368	61,298
Goodwill	420,941	377,983
Core deposit and other intangibles	21,019	18,311
Other assets	136,494	129,300
Total assets	$ 10,872,228	$ 9,808,465
Liabilities and Stockholders Equity		
Deposits:		
Demand and non-interest-bearing	$ 1,957,677	$ 1,695,184
Savings and interest-bearing transaction accounts	4,335,456	3,963,241
Time deposits	1,474,255	1,284,002
Total deposits	7,767,388	6,942,427
Securities sold under agreements to repurchase	133,741	121,290
FHLB and other borrowed funds	1,099,478	1,305,198
Accrued interest payable and other liabilities	37,751	51,234
Subordinated debentures	357,838	60,826
Total liabilities	9,396,196	8,480,975

Stockholders equity:		
Common stock, par value $0.01; shares authorized 200,000,000 in 2017 and 2016; shares issued and outstanding 143,070,851 in 2017 and 140,472,205 in 2016	1,431	1,405
Capital surplus	940,821	869,737
Retained earnings	527,338	455,948
Accumulated other comprehensive income	6,442	400
Total stockholders equity	1,476,032	1,327,490
Total liabilities and stockholders equity	$ 10,872,228	$ 9,808,465

See Condensed Notes to Consolidated Financial Statements.

4

Table of Contents

Home BancShares, Inc.

Consolidated Statements of Income

(In thousands, except per share data)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
	(Unaudited)			
Interest income:				
Loans	$ 112,732	$ 100,415	$ 218,494	$ 197,328
Investment securities				
Taxable	6,434	5,145	11,912	10,595
Tax-exempt	2,966	2,823	5,910	5,638
Deposits other banks	727	106	1,035	208
Federal funds sold	4	1	6	5
Total interest income	122,863	108,490	237,357	213,774
Interest expense:				
Interest on deposits	6,810	3,854	12,296	7,488
Federal funds purchased		1		2
FHLB and other borrowed funds	3,710	3,074	7,299	6,144
Securities sold under agreements to repurchase	196	134	361	279
Subordinated debentures	4,795	386	5,234	763
Total interest expense	15,511	7,449	25,190	14,676
Net interest income	107,352	101,041	212,167	199,098
Provision for loan losses	387	5,692	4,301	11,369
Net interest income after provision for loan losses	106,965	95,349	207,866	187,729
Non-interest income:				
Service charges on deposit accounts	5,966	6,151	11,948	12,080
Other service charges and fees	8,576	7,968	17,493	15,085
Trust fees	309	359	765	763
Mortgage lending income	3,750	3,481	6,541	6,344
Insurance commissions	465	617	1,010	1,274
Increase in cash value of life insurance	463	353	773	748
Dividends from FHLB, FRB, Bankers bank & other	472	719	1,621	1,339
Gain on acquisitions			3,807	
Gain on sale of SBA loans	387	79	575	79
Gain (loss) on sale of branches, equipment and other assets, net	431	840	375	787
Gain (loss) on OREO, net	393	(941)	514	(845)
Gain (loss) on securities, net	380	15	803	25

FDIC indemnification accretion/(amortization), net		(410)		(772)
Other income	2,825	2,541	4,662	4,302
Total non-interest income	24,417	21,772	50,887	41,209
Non-interest expense:				
Salaries and employee benefits	28,034	25,437	55,455	49,395
Occupancy and equipment	7,034	6,509	13,715	13,180
Data processing expense	2,863	2,766	5,586	5,430
Other operating expenses	13,072	12,875	31,388	25,230
Total non-interest expense	51,003	47,587	106,144	93,235
Income before income taxes	80,379	69,534	152,609	135,703
Income tax expense	30,282	26,025	55,656	50,767
Net income	$ 50,097	$ 43,509	$ 96,953	$ 84,936
Basic earnings per share	$ 0.35	$ 0.31	$ 0.68	$ 0.61
Diluted earnings per share	$ 0.35	$ 0.31	$ 0.68	$ 0.60

See Condensed Notes to Consolidated Financial Statements.

Table of Contents

Home BancShares, Inc.

Consolidated Statements of Comprehensive Income

(In thousands)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
	(Unaudited)			
Net income	$ 50,097	$ 43,509	$ 96,953	$ 84,936
Net unrealized gain (loss) on available-for-sale securities	9,318	7,375	10,746	11,150
Less: reclassification adjustment for realized (gains) losses included in income	(380)	(15)	(803)	(25)
Other comprehensive (loss) income, before tax effect	8,938	7,360	9,943	11,125
Tax effect	(3,506)	(2,888)	(3,901)	(4,365)
Other comprehensive income (loss)	5,432	4,472	6,042	6,760
Comprehensive income	$ 55,529	$ 47,981	$ 102,995	$ 91,696

Home BancShares, Inc.

Consolidated Statements of Stockholders Equity

Six Months Ended June 30, 2017 and 2016

(In thousands, except share data)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2016	$ 701	$ 867,981	$ 326,898	$ 4,177	$ 1,199,757
Comprehensive income:					
Net income			84,936		84,936
Other comprehensive income (loss)				6,760	6,760
Net issuance of 438,568 shares of common stock from exercise of stock options plus issuance of 10,000 bonus shares of unrestricted common stock	2	1,162			1,164
Issuance of common stock 2-for-1 stock split	702	(702)			
Repurchase of 461,800 shares of common stock	(2)	(8,840)			(8,842)
Tax benefit from stock options exercised		1,148			1,148
	1	2,811			2,812

Share-based compensation net issuance of 151,406 shares of restricted common stock					
Cash dividends Common Stock, $0.1625 per share			(22,820)		(22,820)
Balances at June 30, 2016 (unaudited)	1,404	863,560	389,014	10,937	1,264,915
Comprehensive income:					
Net income			92,210		92,210
Other comprehensive income (loss)				(10,537)	(10,537)
Net issuance of 54,171 shares of common stock from exercise of stock options	1	330			331
Repurchase of 48,808 shares of common stock	(1)	(974)			(975)
Tax benefit from stock options exercised		3,006			3,006
Share-based compensation net issuance of 92,328 shares of restricted common stock	1	3,815			3,816
Cash dividends Common Stock, $0.18 per share			(25,276)		(25,276)
Balances at December 31, 2016	1,405	869,737	455,948	400	1,327,490
Comprehensive income:					
Net income			96,953		96,953
Other comprehensive income (loss)				6,042	6,042
Net issuance of 135,108 shares of common stock from exercise of stock options	1	645			646
Issuance of 2,738,038 shares of common stock from acquisition of GHI, net of issuance costs of approximately $195	27	77,290			77,317
Repurchase of 420,000 shares of common stock	(4)	(10,276)			(10,280)
Share-based compensation net issuance of 145,500 shares of restricted common stock	2	3,425			3,427
Cash dividends Common Stock, $0.18 per share			(25,563)		(25,563)
Balances at June 30, 2017 (unaudited)	$ 1,431	$ 940,821	$ 527,338	$ 6,442	$ 1,476,032

See Condensed Notes to Consolidated Financial Statements.

Home BancShares, Inc.

Consolidated Statements of Cash Flows

(In thousands)	Six Months Ended June 30, 2017	2016
	(Unaudited)	
Operating Activities		
Net income	$ 96,953	$ 84,936
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	5,636	5,452
Amortization/(accretion)	7,698	7,880
Share-based compensation	3,427	2,812
Tax benefits from stock options exercised		(1,148)
(Gain) loss on assets	(3,379)	(46)
Gain on acquisitions	(3,807)	
Provision for loan losses	4,301	11,369
Deferred income tax effect	(2,680)	5,587
Increase in cash value of life insurance	(773)	(748)
Originations of mortgage loans held for sale	(182,918)	(172,162)
Proceeds from sales of mortgage loans held for sale	193,406	168,754
Changes in assets and liabilities:		
Accrued interest receivable	(276)	584
Indemnification and other assets	(5,733)	(12,870)
Accrued interest payable and other liabilities	(28,362)	(3,072)
Net cash provided by (used in) operating activities	83,493	97,328
Investing Activities		
Net (increase) decrease in federal funds sold	1,550	1,025
Net (increase) decrease in loans, excluding purchased loans	(29,021)	(391,492)
Purchases of investment securities available-for-sale	(391,375)	(151,210)
Proceeds from maturities of investment securities available-for-sale	69,847	140,127
Proceeds from sale of investment securities available-for-sale	27,134	2,221
Purchases of investment securities held-to-maturity	(163)	
Proceeds from maturities of investment securities held-to-maturity	29,057	20,631
Proceeds from sale of investment securities held-to-maturity	491	
Proceeds from foreclosed assets held for sale	9,671	7,426
Proceeds from sale of SBA Loans	10,393	1,233
Purchases of premises and equipment, net	(2,425)	(434)
Return of investment on cash value of life insurance	592	
Net cash proceeds (paid) received market acquisitions	41,363	
Net cash provided by (used in) investing activities	(232,886)	(370,473)

Financing Activities		
Net increase (decrease) in deposits, excluding deposits acquired	381,206	274,439
Net increase (decrease) in securities sold under agreements to repurchase	12,451	(17,317)
Net increase (decrease) in FHLB and other borrowed funds	(262,234)	(25,056)
Proceeds from exercise of stock options	646	1,164
Proceeds from issuance of subordinated notes	297,201	
Repurchase of common stock	(10,280)	(8,842)
Common stock issuance costs market acquisitions	(195)	
Tax benefits from stock options exercised		1,148
Dividends paid on common stock	(25,563)	(22,820)
Net cash provided by (used in) financing activities	393,232	202,716
Net change in cash and cash equivalents	243,839	(70,429)
Cash and cash equivalents beginning of year	216,649	255,823
Cash and cash equivalents end of period	$ 460,488	$ 185,394

See Condensed Notes to Consolidated Financial Statements.

Table of Contents

Home BancShares, Inc.

Condensed Notes to Consolidated Financial Statements

(Unaudited)

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

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

Operating Segments

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Bank is the only significant subsidiary upon which management makes decisions regarding how to allocate resources and assess performance. Each of the branches of the Bank provide a group of similar community banking services, including such products and services as commercial, real estate and consumer loans, time deposits, 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 and the valuations of assets acquired and liabilities assumed in business combinations. 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.

Interim financial information

The accompanying unaudited consolidated financial statements as of June 30, 2017 and 2016 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 2016 Form 10-K, filed with the Securities and Exchange Commission.

Earnings per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Net income	$ 50,097	$ 43,509	$ 96,953	$ 84,936
Average shares outstanding	143,282	140,382	142,538	140,386
Effect of common stock options	834	226	732	281
Average diluted shares outstanding	144,116	140,608	143,270	140,667
Basic earnings per share	$ 0.35	$ 0.31	$ 0.68	$ 0.61
Diluted earnings per share	$ 0.35	$ 0.31	$ 0.68	$ 0.60

2. Business Combinations

Acquisition of Giant Holdings, Inc.

On February 23, 2017, the Company completed its acquisition of Giant Holdings, Inc. (GHI), parent company of Landmark Bank, N.A. (Landmark), pursuant to a previously announced definitive agreement and plan of merger whereby GHI merged with and into HBI and, immediately thereafter, Landmark merged with and into Centennial. The Company paid a purchase price to the GHI shareholders of approximately $96.0 million for the GHI acquisition. Under the terms of the agreement, shareholders of GHI received 2,738,038 shares of its common stock valued at approximately $77.5 million as of February 23, 2017, plus approximately $18.5 million in cash in exchange for all outstanding shares of GHI common stock.

GHI formerly operated six branch locations in the Ft. Lauderdale, Florida area. Including the effects of the purchase accounting adjustments, as of acquisition date, GHI had approximately $398.1 million in total assets, $327.8 million in loans after $8.1 million of loan discounts, and $304.0 million in deposits.

Table of Contents

The Company has determined that the acquisition of the net assets of GHI constitutes a business combination as defined by the ASC Topic 805. Accordingly, the assets acquired and liabilities assumed are presented at their fair values as required. Fair values were determined based on the requirements of ASC Topic 820. 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:

	Giant Holdings, Inc.		
	Acquired from GHI	Fair Value Adjustments	As Recorded by HBI
	(Dollars in thousands)		
Assets			
Cash and due from banks	$ 41,019	$	$ 41,019
Interest-bearing deposits with other banks	4,057	1	4,058
Investment securities	1,961	(5)	1,956
Loans receivable	335,886	(6,517)	329,369
Allowance for loan losses	(4,568)	4,568	
Loans receivable, net	331,318	(1,949)	329,369
Bank premises and equipment, net	2,111	608	2,719
Cash value of life insurance	10,861		10,861
Accrued interest receivable	850		850
Deferred tax asset	2,286	1,807	4,093
Core deposit intangible	172	3,238	3,410
Other assets	254	(489)	(235)
Total assets acquired	$ 394,889	$ 3,211	$ 398,100
Liabilities			
Deposits			
Demand and non-interest-bearing	$ 75,993	$	$ 75,993
Savings and interest-bearing transaction accounts	139,459		139,459
Time deposits	88,219	324	88,543
Total deposits	303,671	324	303,995
FHLB borrowed funds	26,047	431	26,478
Accrued interest payable and other liabilities	14,552	18	14,570
Total liabilities assumed	344,270	773	345,043
Equity			
Total equity assumed	50,619	(50,619)	
Total liabilities and equity assumed	$ 394,889	$ (49,846)	345,043

Net assets acquired		53,057
Purchase price		96,015
Goodwill	$	42,958

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 and interest-bearing deposits with other banks The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets.

Investment securities Investment securities were acquired from GHI with an approximately $5,000 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.

Table of Contents

The Company evaluated $315.6 million of the loans purchased in conjunction with the acquisition in accordance with the provisions of FASB ASC Topic 310-20, *Nonrefundable Fees and Other Costs,* which were recorded with a $3.6 million discount. As a result, the fair value discount on these loans is being accreted into interest income over the weighted average life of the loans using a constant yield method. The remaining $20.3 million of loans evaluated were considered purchased credit impaired loans within the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality,* and were recorded with a $4.5 million discount. These purchase credit impaired loans will recognize interest income through accretion of the difference between the carrying amount of the loans and the expected cash flows. The acquired GHI loan balance includes $1.6 million of discount on purchased loans.

Bank premises and equipment Bank premises and equipment were acquired from GHI with a $608,000 adjustment to market value. This represents the difference between current appraisals completed in connection with the acquisition and book value acquired.

Cash value of life insurance Cash value of life insurance was acquired from GHI at market value.

Accrued interest receivable Accrued interest receivable was acquired from GHI 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%.

Core deposit intangible This intangible asset represents the value of the relationships that GHI 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 $3.4 million of core deposit intangible.

Deposits The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition equal the amount payable on demand at the acquisition date. The $324,000 fair value adjustment applied for time deposits was because the weighted average interest rate of GHI s certificates of deposits were estimated to be below the current market rates.

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 adjustments of certain estimated liabilities from GHI.

The Company s operating results for the period ended June 30, 2017, 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 GHI total assets acquired are less than 5% of total assets as of June 30, 2017 excluding GHI 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 of The Bank of Commerce

On February 28, 2017, HBI completed its previously announced acquisition of all of the issued and outstanding shares of common stock of The Bank of Commerce, a Florida state-chartered bank that operated in the Sarasota, Florida area

(BOC), pursuant to an acquisition agreement, dated December 1, 2016, by and between HBI and Bank of Commerce Holdings, Inc. (BCHI), parent company of BOC. HBI merged BOC with and into Centennial effective as of the close of business on February 28, 2017.

Table of Contents

The acquisition of BOC was conducted in accordance with the provisions of Section 363 of the United States Bankruptcy Code (the Bankruptcy Code) pursuant to a voluntary petition for relief under Chapter 11 of the Bankruptcy Code filed by BCHI with the United States Bankruptcy Court for the Middle District of Florida (the Bankruptcy Court). The sale of BOC by BCHI was subject to certain bidding procedures approved by the Bankruptcy Court. On November 14, 2016, the Company submitted an initial bid to purchase the outstanding shares of BOC in accordance with the bidding procedures approved by the Bankruptcy Court. An auction was subsequently conducted on November 16, 2016, and the Company was deemed to be the successful bidder. The Bankruptcy Court entered a final order on December 9, 2016 approving the sale of BOC to the Company pursuant to and in accordance with the acquisition agreement.

Under the terms of the acquisition agreement, HBI paid an aggregate of approximately $4.2 million in cash for the acquisition, which included the purchase of all outstanding shares of BOC common stock, the discounted purchase of certain subordinated debentures issued by BOC from the existing holders of the subordinated debentures, and an expense reimbursement to BCHI for approved administrative claims in connection with the bankruptcy proceeding.

BOC formerly operated three branch locations in the Sarasota, Florida area. Including the effects of the purchase accounting adjustments, as of acquisition date, BOC had approximately $178.1 million in total assets, $118.5 million in loans after $5.8 million of loan discounts, and $139.8 million in deposits.

The Company has determined that the acquisition of the net assets of BOC constitutes a business combination as defined by the ASC Topic 805. Accordingly, the assets acquired and liabilities assumed are presented at their fair values as required. Fair values were determined based on the requirements of ASC Topic 820. 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:

	The Bank of Commerce		
	Acquired from BOC	Fair Value Adjustments	As Recorded by HBI
	(Dollars in thousands)		
Assets			
Cash and due from banks	$ 4,610	$	$ 4,610
Interest-bearing deposits with other banks	14,360		14,360
Investment securities	25,926	(113)	25,813
Loans receivable	124,289	(5,751)	118,538
Allowance for loan losses	(2,037)	2,037	
Loans receivable, net	122,252	(3,714)	118,538
Bank premises and equipment, net	1,887		1,887
Foreclosed assets held for sale	8,523	(3,165)	5,358
Accrued interest receivable	481		481
Deferred tax asset		4,198	4,198
Core deposit intangible		968	968
Other assets	1,880		1,880

Total assets acquired	$ 179,919	$ (1,826)	$ 178,093
Liabilities			
Deposits			
Demand and non-interest-bearing	$ 27,245	$	$ 27,245
Savings and interest-bearing transaction accounts	32,300		32,300
Time deposits	79,945	270	80,215
Total deposits	139,490	270	139,760
FHLB borrowed funds	30,000	42	30,042
Accrued interest payable and other liabilities	564	(255)	309
Total liabilities assumed	$ 170,054	$ 57	170,111
Net assets acquired			7,982
Purchase price			4,175
Pre-tax gain on acquisition			$ 3,807

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 and interest-bearing deposits with other banks   The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets.

Investment securities   Investment securities were acquired from BOC with a $113,000 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 $106.8 million of the loans purchased in conjunction with the acquisition in accordance with the provisions of FASB ASC Topic 310-20, *Nonrefundable Fees and Other Costs,* which were recorded with a $3.0 million discount. As a result, the fair value discount on these loans is being accreted into interest income over the weighted average life of the loans using a constant yield method. The remaining $17.5 million of loans evaluated were considered purchased credit impaired loans within the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality,* and were recorded with a $2.8 million discount. These purchase credit impaired loans will recognize interest income through accretion of the difference between the carrying amount of the loans and the expected cash flows.

Bank premises and equipment   Bank premises and equipment were acquired from BOC at market value.

Foreclosed assets held for sale   These assets are presented at the estimated fair values that management expects to receive when the properties are sold, net of related costs to sell.

Accrued interest receivable   Accrued interest receivable was acquired from BOC 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%.

Core deposit intangible   This intangible asset represents the value of the relationships that BOC 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 $968,000 of core deposit intangible.

Deposits   The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition equal the amount payable on demand at the acquisition date. The $270,000 fair value adjustment applied for time deposits was because the weighted-average interest rate of BOC s certificates of deposits were estimated to be below the current market rates.

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 BOC.

The Company s operating results for the period ended June 30, 2017, 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 BOC total assets acquired are less than 5% of total assets as of June 30, 2017 excluding BOC 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.

Table of Contents

Future Acquisition of Stonegate Bank

On March 27, 2017, the Company and Centennial, entered into a definitive agreement and plan of merger with Stonegate Bank (Stonegate). The acquisition agreement provides that Stonegate will merge with and into Centennial (the Merger). Under the terms of the merger agreement, shareholders of Stonegate will receive, in the aggregate, proceeds from the transaction of approximately $749.8 million, consisting of $50.0 million in cash and $699.7 million of HBI common stock. In addition, the holders of outstanding stock options of Stonegate will receive approximately $28.6 million in cash in connection with the cancellation of their options immediately before the Merger, for a total transaction value of approximately $778.4 million. The number of shares of HBI common stock to be issued to Stonegate shareholders will be determined based on the volume-weighted average closing price per share of HBI common stock for the 20 consecutive trading days ending on the third trading day prior to the closing date (the Average Closing Price). In addition, if the Average Closing Price of HBI common stock as of the closing date is equal to $35.19 or greater or $22.52 or less, then the Average Closing Price will be fixed at $35.19 or $22.52, respectively. The acquisition is expected to close early in the fourth quarter of 2017, and is subject to the approval of the shareholders of the Company and Stonegate, regulatory approvals, and other customary conditions set forth in the agreement.

As of June 30, 2017, Stonegate had approximately $3.13 billion in total assets, $2.44 billion in loans and $2.62 billion in customer deposits. Stonegate is conducting banking business from 24 locations in key Florida markets with significant presence in Broward and Sarasota counties.

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:

	June 30, 2017 Available-for-Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 354,594	$ 2,544	$ (461)	$ 356,677
Residential mortgage-backed securities	335,446	1,284	(923)	335,807
Commercial mortgage-backed securities	426,988	2,323	(1,259)	428,052
State and political subdivisions	236,216	5,318	(610)	240,924
Other securities	36,586	2,760	(375)	38,971
Total	$ 1,389,830	$ 14,229	$ (3,628)	$ 1,400,431

	Held-to-Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			

U.S. government-sponsored enterprises	$	6,212	$	41	$		$	6,253
Residential mortgage-backed securities		64,462		276		(130)		64,608
Commercial mortgage-backed securities		20,648		301		(6)		20,943
State and political subdivisions		162,839		4,039				166,878
Total	$	254,161	$	4,657	$	(136)	$	258,682

Table of Contents

	December 31, 2016 Available-for-Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 237,439	$ 963	$ (1,641)	$ 236,761
Residential mortgage-backed securities	259,037	1,226	(1,627)	258,636
Commercial mortgage-backed securities	322,316	845	(2,342)	320,819
State and political subdivisions	215,209	3,471	(2,181)	216,499
Other securities	38,261	2,603	(659)	40,205
Total	$ 1,072,262	$ 9,108	$ (8,450)	$ 1,072,920

	Held-to-Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 6,637	$ 23	$ (32)	$ 6,628
Residential mortgage-backed securities	71,956	267	(301)	71,922
Commercial mortgage-backed securities	35,863	107	(133)	35,837
State and political subdivisions	169,720	3,100	(169)	172,651
Total	$ 284,176	$ 3,497	$ (635)	$ 287,038

Assets, principally investment securities, having a carrying value of approximately $1.40 billion and $1.07 billion at June 30, 2017 and December 31, 2016, 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 $133.7 million and $121.3 million at June 30, 2017 and December 31, 2016, respectively.

The amortized cost and estimated fair value of securities classified as available-for-sale and held-to-maturity at June 30, 2017, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In thousands)			
Due in one year or less	$ 164,728	$ 167,278	$ 57,697	$ 59,065
Due after one year through five years	892,526	898,424	122,334	124,901
Due after five years through ten years	240,776	242,080	17,895	18,214
Due after ten years	91,800	92,649	56,235	56,502

Total	$ 1,389,830	$ 1,400,431	$ 254,161	$ 258,682

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 six-month periods ended June 30, 2017, approximately $12.0 million and $27.1 million, respectively, in available-for-sale securities were sold. The gross realized gains and losses on the sales for the three-month period ended June 30, 2017 totaled approximately $514,000 and $127,000, respectively. The gross realized gains and losses on the sales for the six-month period ended June 30, 2017 totaled approximately $937,000 and $127,000, respectively. The income tax expense/benefit to net security gains and losses was 39.225% of the gross amounts.

Table of Contents

During the three and six-month periods ended June 30, 2016, approximately $844,000 and $2.2 million, in available-for-sale securities were sold, respectively. The gross realized gains on the sales for the three and six-month periods ended June 30, 2016 totaled approximately $15,000 and $25,000, respectively. The income tax expense/benefit to net security gains and losses was 39.225% of the gross amounts.

During the three and six-month periods ended June 30, 2017, one held-to-maturity security experienced its second downgrade in its credit rating. The Company made a strategic decision to sell this held-to-maturity security for approximately $483,000, which resulted in a gross realized loss on the sale for the three and six-month periods ended June 30, 2017 of approximately $7,000.

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 three and six-month periods ended June 30, 2017, no securities were deemed to have other-than-temporary impairment.

For the six months ended June 30, 2017, the Company had investment securities with approximately $1.4 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, 75.3% 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 June 30, 2017 and December 31, 2016:

	June 30, 2017					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. government-sponsored enterprises	$ 51,957	$ (283)	$ 39,341	$ (178)	$ 91,298	$ (461)
Residential mortgage-backed securities	158,147	(716)	22,917	(337)	181,064	(1,053)
Commercial mortgage-backed securities	125,079	(764)	38,801	(501)	163,880	(1,265)
State and political subdivisions	31,058	(591)	1,698	(19)	32,756	(610)
Other securities	1,581	(35)	8,395	(340)	9,976	(375)

Total	$ 367,822	$ (2,389)	$ 111,152	$ (1,375)	$ 478,974	$ (3,764)

Table of Contents

	December 31, 2016					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. government-sponsored enterprises	$ 98,180	$ (1,031)	$ 75,044	$ (642)	$ 173,224	$ (1,673)
Residential mortgage-backed securities	188,117	(1,742)	8,902	(186)	197,019	(1,928)
Commercial mortgage-backed securities	202,289	(2,220)	21,020	(255)	223,309	(2,475)
State and political subdivisions	94,309	(2,348)	500	(2)	94,809	(2,350)
Other securities	1,540	(125)	12,687	(534)	14,227	(659)
Total	$ 584,435	$ (7,466)	$ 118,153	$ (1,619)	$ 702,588	$ (9,085)

Income earned on securities for the three and six months ended June 30, 2017 and 2016, is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Taxable:				
Available-for-sale	$ 5,680	$ 4,344	$ 10,474	$ 8,911
Held-to-maturity	754	801	1,438	1,684
Non-taxable:				
Available-for-sale	1,583	1,565	3,130	3,139
Held-to-maturity	1,383	1,258	2,780	2,499
Total	$ 9,400	$ 7,968	$ 17,822	$ 16,233

4. Loans Receivable

The various categories of loans receivable are summarized as follows:

	June 30, 2017	December 31, 2016
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 3,368,663	$ 3,153,121
Construction/land development	1,315,309	1,135,843
Agricultural	78,260	77,736
Residential real estate loans		
Residential 1-4 family	1,513,888	1,356,136
Multifamily residential	398,781	340,926

Total real estate	6,674,901	6,063,762
Consumer	38,424	41,745
Commercial and industrial	994,827	1,123,213
Agricultural	69,697	74,673
Other	56,626	84,306
Total loans receivable	$ 7,834,475	$ 7,387,699

During the three and six-month periods ended June 30, 2017, the Company sold $5.8 million and $9.8 million, respectively, of the guaranteed portion of certain SBA loans, which resulted in a gain of approximately $387,000 and $575,000, respectively. During the three and six-month periods ended June 30, 2016, the Company sold $1.2 million of the guaranteed portion of certain SBA loans, which resulted in a gain of approximately $79,000.

Table of Contents

Mortgage loans held for sale of approximately $45.8 million and $56.2 million at June 30, 2017 and December 31, 2016, 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 considered mandatory forward commitments. Because these commitments are structured on a mandatory basis, the Company is required to substitute another loan or to buy back the commitment if the original loan does not fund. These commitments are derivative instruments and their fair values at June 30, 2017 and December 31, 2016 were not material.

The Company had $1.36 billion of purchased loans, which includes $95.6 million of discount for credit losses on purchased loans, at June 30, 2017. The Company had $37.6 million and $58.0 million remaining of non-accretable discount for credit losses on purchased loans and accretable discount for credit losses on purchased loans, respectively, as of June 30, 2017. The Company had $1.13 billion of purchased loans, which includes $100.1 million of discount for credit losses on purchased loans, at December 31, 2016. The Company had $35.3 million and $64.9 million remaining of non-accretable discount for credit losses on purchased loans and accretable discount for credit losses on purchased loans, respectively, as of December 31, 2016.

5. Allowance for Loan Losses, Credit Quality and Other

The following table presents a summary of changes in the allowance for loan losses:

	Six Months Ended June 30, 2017 (In thousands)	
Allowance for loan losses:		
Beginning balance	$	80,002
Loans charged off		(6,111)
Recoveries of loans previously charged off		1,946
Net loans recovered (charged off)		(4,165)
Provision for loan losses		4,301
Balance, June 30, 2017	$	80,138

The following tables present the balance in the allowance for loan losses for the three and six-month periods ended June 30, 2017, and the allowance for loan losses and recorded investment in loans based on portfolio segment by impairment method as of June 30, 2017. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories.

	Three Months Ended June 30, 2017						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
			(In thousands)				
Allowance for loan losses:							
Beginning balance	$ 12,073	$ 28,923	$ 18,240	$ 13,384	$ 3,370	$ 4,321	$ 80,311
Loans charged off	(119)	(191)	(397)	(134)	(564)		(1,405)
Recoveries of loans previously charged off	28	379	121	70	247		845
Net loans recovered (charged off)	(91)	188	(276)	(64)	(317)		(560)
Provision for loan losses	860	(1,268)	(249)	(492)	10	1,526	387
Balance, June 30	$ 12,842	$ 27,843	$ 17,715	$ 12,828	$ 3,063	$ 5,847	$ 80,138

	Six Months Ended June 30, 2017						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
			(In thousands)				
Allowance for loan losses:							
Beginning balance	$ 11,522	$ 28,188	$ 16,517	$ 12,756	$ 4,188	$ 6,831	$ 80,002
Loans charged off	(326)	(1,655)	(2,288)	(779)	(1,063)		(6,111)
Recoveries of loans previously charged off	227	710	254	252	503		1,946
Net loans recovered (charged off)	(99)	(945)	(2,034)	(527)	(560)		(4,165)
Provision for loan losses	1,419	600	3,232	599	(565)	(984)	4,301
Balance, June 30	$ 12,842	$ 27,843	$ 17,715	$ 12,828	$ 3,063	$ 5,847	$ 80,138

	As of June 30, 2017						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 121	$ 1,196	$ 228	$ 2,138	$ 8	$	$ 3,691
Loans collectively evaluated for impairment	12,718	26,297	16,880	10,589	3,050	5,847	75,381
Loans evaluated for impairment balance, June 30	12,839	27,493	17,108	12,727	3,058	5,847	79,072
Purchased credit impaired loans	3	350	607	101	5		1,066
Balance, June 30	$ 12,842	$ 27,843	$ 17,715	$ 12,828	$ 3,063	$ 5,847	$ 80,138
Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 38,672	$ 52,656	$ 24,779	$ 10,031	$ 1,009	$	$ 127,147
Loans collectively evaluated for impairment	1,260,049	3,306,528	1,841,046	972,024	161,069		7,540,716
Loans evaluated for impairment balance, June 30	1,298,721	3,359,184	1,865,825	982,055	162,078		7,667,863
Purchased credit impaired loans	16,588	87,739	46,844	12,772	2,669		166,612
Balance, June 30	$ 1,315,309	$ 3,446,923	$ 1,912,669	$ 994,827	$ 164,747	$	$ 7,834,475

Table of Contents

The following tables present the balances in the allowance for loan losses for the six-month period ended June 30, 2016 and the year ended December 31, 2016, and the allowance for loan losses and recorded investment in loans receivable based on portfolio segment by impairment method as of December 31, 2016. 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, 2016						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Beginning balance	$ 10,782	$ 26,798	$ 14,818	$ 9,324	$ 5,016	$ 2,486	$ 69,224
Loans charged off	(153)	(1,849)	(2,306)	(3,036)	(970)		(8,314)
Recoveries of loans previously charged off	33	228	688	614	499		2,062
Net loans recovered (charged off)	(120)	(1,621)	(1,618)	(2,422)	(471)		(6,252)
Provision for loan losses	1,673	(329)	2,488	6,852	841	(156)	11,369
Balance, June 30	12,335	24,848	15,688	13,754	5,386	2,330	74,341
Loans charged off	(229)	(1,737)	(3,291)	(2,742)	(1,188)		(9,187)
Recoveries of loans previously charged off	1,092	629	464	4,919	505		7,609
Net loans recovered (charged off)	863	(1,108)	(2,827)	2,177	(683)		(1,578)
Provision for loan losses	(1,676)	4,448	3,656	(3,175)	(515)	4,501	7,239
Balance, December 31	$ 11,522	$ 28,188	$ 16,517	$ 12,756	$ 4,188	$ 6,831	$ 80,002

	As of December 31, 2016						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Period end amount allocated to:							

Loans individually evaluated for impairment	$ 15	$ 1,416	$ 103	$ 95	$	$	$ 1,629
Loans collectively evaluated for impairment	11,463	25,641	15,796	12,596	4,176	6,831	76,503
Loans evaluated for impairment balance, December 31	11,478	27,057	15,899	12,691	4,176	6,831	78,132
Purchased credit impaired loans	44	1,131	618	65	12		1,870
Balance, December 31	$ 11,522	$ 28,188	$ 16,517	$ 12,756	$ 4,188	$ 6,831	$ 80,002
Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 12,374	$ 74,723	$ 35,187	$ 25,873	$ 1,096	$	$ 149,253
Loans collectively evaluated for impairment	1,105,921	3,080,201	1,608,805	1,085,891	198,064		7,078,882
Loans evaluated for impairment balance, December 31	1,118,295	3,154,924	1,643,992	1,111,764	199,160		7,228,135
Purchased credit impaired loans	17,548	75,933	53,070	11,449	1,564		159,564
Balance, December 31	$ 1,135,843	$ 3,230,857	$ 1,697,062	$ 1,123,213	$ 200,724	$	$ 7,387,699

Table of Contents

The following is an aging analysis for loans receivable as of June 30, 2017 and December 31, 2016:

	June 30, 2017						
	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due	Current Loans	Total Loans Receivable	Accruing Loans Past Due 90 Days or More
	(In thousands)						
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$ 4,757	$ 914	$ 17,877	$ 23,548	$ 3,345,115	$ 3,368,663	$ 8,202
Construction/land development	5,962	72	5,541	11,575	1,303,734	1,315,309	3,176
Agricultural	346		114	460	77,800	78,260	
Residential real estate loans							
Residential 1-4 family	4,574	4,048	17,129	25,751	1,488,137	1,513,888	1,550
Multifamily residential			1,367	1,367	397,414	398,781	1,367
Total real estate	15,639	5,034	42,028	62,701	6,612,200	6,674,901	14,295
Consumer	133	58	138	329	38,095	38,424	6
Commercial and industrial	2,619	685	3,999	7,303	987,524	994,827	141
Agricultural and other	287		703	990	125,333	126,323	
Total	$ 18,678	$ 5,777	$ 46,868	$ 71,323	$ 7,763,152	$ 7,834,475	$ 14,442

	December 31, 2016						
	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due	Current Loans	Total Loans Receivable	Accruing Loans Past Due 90 Days or More
	(In thousands)						
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$ 2,036	$ 686	$ 27,518	$ 30,240	$ 3,122,881	$ 3,153,121	$ 9,530
Construction/land development	685	16	7,042	7,743	1,128,100	1,135,843	3,086
Agricultural			435	435	77,301	77,736	
Residential real estate loans							
Residential 1-4 family	6,972	1,287	23,307	31,566	1,324,570	1,356,136	2,996
Multifamily residential			262	262	340,664	340,926	
Total real estate	9,693	1,989	58,564	70,246	5,993,516	6,063,762	15,612
Consumer	117	66	161	344	41,401	41,745	21

Commercial and industrial	984	582	3,464	5,030	1,118,183	1,123,213	309
Agricultural and other	782	10	935	1,727	157,252	158,979	
Total	$ 11,576	$ 2,647	$ 63,124	$ 77,347	$ 7,310,352	$ 7,387,699	$ 15,942

Non-accruing loans at June 30, 2017 and December 31, 2016 were $32.4 million and $47.2 million, respectively.

Table of Contents

The following is a summary of the impaired loans as of June 30, 2017 and December 31, 2016:

	June 30, 2017						
				Three Months Ended		Six Months Ended	
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
	(In thousands)						
Loans without a specific valuation allowance							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$ 29	$ 29	$	$ 15	$	$ 19	$ 1
Construction/land development	23	23		12		8	1
Agricultural	37				1		1
Residential real estate loans							
Residential 1-4 family	201	201		101	3	144	6
Multifamily residential							
Total real estate	290	253		128	4	171	9
Consumer	3						
Commercial and industrial	17	81		41		68	1
Agricultural and other							
Total loans without a specific valuation allowance	310	334		169	4	239	10
Loans with a specific valuation allowance							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	41,320	39,178	1,192	42,091	322	44,846	649
Construction/land development	10,315	9,481	121	10,110	69	9,272	135
Agricultural	77	117	4	138	1	238	3
Residential real estate loans							
Residential 1-4 family	21,260	20,745	214	23,230	77	24,045	181
Multifamily residential	1,841	1,655	14	1,100	28	917	32
Total real estate	74,813	71,176	1,545	76,669	497	79,318	1,000
Consumer	139	141		156		158	
Commercial and industrial	6,489	6,345	2,138	7,217	6	7,156	11
Agricultural and other	819	868	8	816	2	856	2
	82,260	78,530	3,691	84,858	505	87,488	1,013

Total loans with a specific valuation allowance							
Total impaired loans							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	41,349	39,207	1,192	42,106	322	44,865	650
Construction/land development	10,338	9,504	121	10,122	69	9,280	136
Agricultural	114	117	4	138	2	238	4
Residential real estate loans							
Residential 1-4 family	21,461	20,946	214	23,331	80	24,189	187
Multifamily residential	1,841	1,655	14	1,100	28	917	32
Total real estate	75,103	71,429	1,545	76,797	501	79,489	1,009
Consumer	142	141		156		158	
Commercial and industrial	6,506	6,426	2,138	7,258	6	7,224	12
Agricultural and other	819	868	8	816	2	856	2
Total impaired loans	$ 82,570	$ 78,864	$ 3,691	$ 85,027	$ 509	$ 87,727	$ 1,023

Note: Purchased credit impaired loans 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 credit impaired loans being classified as impaired loans as of June 30, 2017.

Table of Contents

	December 31, 2016			Year Ended	
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses	Average Recorded Investment	Interest Recognized
			(In thousands)		
Loans without a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	$ 29	$ 29	$	$ 23	$ 2
Construction/land development				6	
Agricultural	40				2
Residential real estate loans					
Residential 1-4 family	231	231		119	15
Multifamily residential				19	
Total real estate	300	260		167	19
Consumer					
Commercial and industrial	124	124		64	8
Agricultural and other					
Total loans without a specific valuation allowance	424	384		231	27
Loans with a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	52,477	50,355	1,414	42,979	1,335
Construction/land development	8,313	7,595	15	12,878	334
Agricultural	395	438	2	469	
Residential real estate loans					
Residential 1-4 family	26,681	25,675	95	20,239	293
Multifamily residential	552	552	8	922	9
Total real estate	88,418	84,615	1,534	77,487	1,971
Consumer	165	161		223	3
Commercial and industrial	7,160	7,032	95	10,630	255
Agricultural and other	935	935		1,037	
Total loans with a specific valuation allowance	96,678	92,743	1,629	89,377	2,229
Total impaired loans					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	52,506	50,384	1,414	43,002	1,337
Construction/land development	8,313	7,595	15	12,884	334
Agricultural	435	438	2	469	2
Residential real estate loans					
Residential 1-4 family	26,912	25,906	95	20,358	308
Multifamily residential	552	552	8	941	9

Total real estate	88,718	84,875	1,534	77,654	1,990
Consumer	165	161		223	3
Commercial and industrial	7,284	7,156	95	10,694	263
Agricultural and other	935	935		1,037	
Total impaired loans	$ 97,102	$ 93,127	$ 1,629	$ 89,608	$ 2,256

Note: Purchased credit impaired loans 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 credit impaired loans being classified as impaired loans as of December 31, 2016.

Interest recognized on impaired loans during the three months ended June 30, 2017 and 2016 was approximately $509,000 and $532,000, respectively. Interest recognized on impaired loans during the six months ended June 30, 2017 and 2016 was approximately $1.0 million and $1.1 million, respectively. The amount of interest recognized on impaired loans on the cash basis is not materially different than the accrual basis.

Table of Contents

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

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.

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.

Table of Contents

The Company s classified loans include loans in risk ratings 6, 7 and 8. The following is a presentation of classified loans (excluding loans accounted for under ASC Topic 310-30) by class as of June 30, 2017 and December 31, 2016:

	June 30, 2017			
	Risk Rated 6	Risk Rated 7	Risk Rated 8	Classified Total
	(In thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	$ 27,479	$ 773	$	$ 28,252
Construction/land development	12,381	105		12,486
Agricultural	426			426
Residential real estate loans				
Residential 1-4 family	22,334	578		22,912
Multifamily residential	786			786
Total real estate	63,406	1,456		64,862
Consumer	174	1		175
Commercial and industrial	15,421	84		15,505
Agricultural and other	708			708
Total risk rated loans	$ 79,709	$ 1,541	$	$ 81,250

	December 31, 2016			
	Risk Rated 6	Risk Rated 7	Risk Rated 8	Classified Total
	(In thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	$ 43,657	$ 462	$	$ 44,119
Construction/land development	8,619	33		8,652
Agricultural	759			759
Residential real estate loans				
Residential 1-4 family	28,846	445		29,291
Multifamily residential	1,391			1,391
Total real estate	83,272	940		84,212
Consumer	211	2		213
Commercial and industrial	16,991	170		17,161
Agricultural and other	935			935
Total risk rated loans	$ 101,409	$ 1,112	$	$ 102,521

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

above the threshold amount and tested for impairment, after testing, some are considered to not be impaired and are not included in impaired loans.

The following is a presentation of loans receivable by class and risk rating as of June 30, 2017 and December 31, 2016:

	June 30, 2017						
	Risk Rated 1	Risk Rated 2	Risk Rated 3	Risk Rated 4	Risk Rated 5	Classified Total	Total
	(In thousands)						
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$ 1,032	$ 578	$ 1,675,101	$ 1,538,389	$ 37,572	$ 28,252	$ 3,280,924
Construction/land development	33	838	193,881	1,063,218	28,265	12,486	1,298,721
Agricultural		83	49,714	27,155	882	426	78,260
Residential real estate loans							
Residential 1-4 family	1,483	1,216	1,010,859	426,751	10,917	22,912	1,474,138
Multifamily residential			288,688	101,997	216	786	391,687
Total real estate	2,548	2,715	3,218,243	3,157,510	77,852	64,862	6,523,730
Consumer	12,681	162	15,872	8,384	51	175	37,325
Commercial and industrial	12,039	3,851	497,950	442,664	10,046	15,505	982,055
Agricultural and other	2,735	927	64,980	55,403		708	124,753
Total risk rated loans	$ 30,003	$ 7,655	$ 3,797,045	$ 3,663,961	$ 87,949	$ 81,250	7,667,863
Purchased credit impaired loans							166,612
Total loans receivable							$ 7,834,475

	December 31, 2016						
	Risk Rated 1	Risk Rated 2	Risk Rated 3	Risk Rated 4	Risk Rated 5	Classified Total	Total
	(In thousands)						
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$ 1,047	$ 4,762	$ 1,568,385	$ 1,425,316	$ 33,559	$ 44,119	$ 3,077,188
Construction/land development	400	981	180,094	921,081	7,087	8,652	1,118,295
Agricultural		157	53,753	22,238	829	759	77,736
Residential real estate loans							
Residential 1-4 family	2,336	1,683	941,760	324,045	10,360	29,291	1,309,475
Multifamily residential			278,514	45,742	8,870	1,391	334,517
Total real estate	3,783	7,583	3,022,506	2,738,422	60,705	84,212	5,917,211
Consumer	15,080	231	15,330	9,645	81	213	40,580
Commercial and industrial	13,117	3,644	500,220	558,413	19,209	17,161	1,111,764
Agricultural and other	3,379	976	82,641	70,649		935	158,580

Total risk rated loans	$ 35,359	$ 12,434	$ 3,620,697	$ 3,377,129	$ 79,995	$ 102,521	7,228,135
Purchased credit impaired loans							159,564
Total loans receivable							$ 7,387,699

Table of Contents

The following is a presentation of troubled debt restructurings (TDRs) by class as of June 30, 2017 and December 31, 2016:

	June 30, 2017					
	Number of Loans	Pre-Modification Outstanding Balance	Rate Modification	Term Modification	Rate & Term Modification	Post-Modification Outstanding Balance
	(Dollars in thousands)					
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	14	$ 17,017	$ 10,457	$ 256	$ 5,456	$ 16,169
Construction/land development	3	641	554	79		633
Agricultural	2	146		39	78	117
Residential real estate loans						
Residential 1-4 family	20	5,297	3,206	104	1,308	4,618
Multifamily residential	1	295			288	288
Total real estate	40	23,396	14,217	478	7,130	21,825
Consumer	1	3		3		3
Commercial and industrial	6	359	237	75	5	317
Other	1	166	166			166
Total	48	$ 23,924	$ 14,620	$ 556	$ 7,135	$ 22,311

	December 31, 2016					
	Number of Loans	Pre-Modification Outstanding Balance	Rate Modification	Term Modification	Rate & Term Modification	Post-Modification Outstanding Balance
	(Dollars in thousands)					
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	17	$ 21,344	$ 14,600	$ 263	$ 5,542	$ 20,405
Construction/land development	1	560	556			556
Agricultural	2	146		43	80	123
Residential real estate loans						
Residential 1-4 family	21	5,179	2,639	124	1,017	3,780
Multifamily residential	1	295			290	290
Total real estate	42	27,524	17,795	430	6,929	25,154
Commercial and industrial	6	395	237	115	10	362
Total	48	$ 27,919	$ 18,032	$ 545	$ 6,939	$ 25,516

The following is a presentation of TDRs on non-accrual status as of June 30, 2017 and December 31, 2016 because they are not in compliance with the modified terms:

	June 30, 2017		December 31, 2016	
	Number of Loans	Recorded Balance	Number of Loans	Recorded Balance
	(Dollars in thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential		$	2	$ 696
Agricultural	2	117	2	123
Residential real estate loans				
Residential 1-4 family	8	962	13	2,240
Total real estate	10	1,079	17	3,059
Commercial and industrial	1	17		
Total	11	$ 1,096	17	$ 3,059

27

Table of Contents

The following is a presentation of total foreclosed assets as of June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
	(In thousands)	
Commercial real estate loans		
Non-farm/non-residential	$ 8,206	$ 9,423
Construction/land development	4,742	4,009
Agricultural		
Residential real estate loans		
Residential 1-4 family	4,321	2,076
Multifamily residential	1,520	443
Total foreclosed assets held for sale	$ 18,789	$ 15,951

The following is a summary of the purchased credit impaired loans acquired in the GHI and BOC acquisitions during the first quarter of 2017 as of the date of acquisition:

	GHI	BOC
	(In thousands)	
Contractually required principal and interest at acquisition	$ 22,379	$ 18,586
Non-accretable difference (expected losses and foregone interest)	4,462	2,811
Cash flows expected to be collected at acquisition	17,917	15,775
Accretable yield	2,071	1,043
Basis in purchased credit impaired loans at acquisition	$ 15,846	$ 14,732

Changes in the carrying amount of the accretable yield for purchased credit impaired loans were as follows for the six-month period ended June 30, 2017 for the Company s acquisitions:

	Accretable Yield	Carrying Amount of Loans
	(In thousands)	
Balance at beginning of period	$ 38,212	$ 159,564
Reforecasted future interest payments for loan pools	1,913	
Accretion recorded to interest income	(10,172)	10,172
Acquisitions of GHI and BOC	3,114	30,578
Adjustment to yield	1,699	
Transfers to foreclosed assets held for sale		(698)

Payments received, net		(33,004)
Balance at end of period	$ 34,766	$ 166,612

The loan pools were evaluated by the Company and are currently forecasted to have a slower run-off than originally expected. As a result, the Company has reforecast the total accretable yield expectations for those loan pools by $1.9 million. This updated forecast does not change the expected weighted average yields on the loan pools.

During the 2017 impairment tests on the estimated cash flows of loans, the Company established that several loan pools were determined to have a materially projected credit improvement. As a result of this improvement, the Company will recognize approximately $1.7 million as an additional adjustment to yield over the weighted average life of the loans.

Table of Contents

6. 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 June 30, 2017 and December 31, 2016, were as follows:

	June 30, 2017	December 31, 2016
	(In thousands)	
Goodwill		
Balance, beginning of period	$ 377,983	$ 377,983
Acquisitions	42,958	
Balance, end of period	$ 420,941	$ 377,983

	June 30, 2017	December 31, 2016
	(In thousands)	
Core Deposit and Other Intangibles		
Balance, beginning of period	$ 18,311	$ 21,443
Acquisition	4,378	
Amortization expense	(1,670)	(1,608)
Balance, June 30	$ 21,019	19,835
Amortization expense		(1,524)
Balance, end of year		$ 18,311

The carrying basis and accumulated amortization of core deposits and other intangibles at June 30, 2017 and December 31, 2016 were:

	June 30, 2017	December 31, 2016
	(In thousands)	
Gross carrying basis	$ 55,756	$ 51,378
Accumulated amortization	(34,737)	(33,067)
Net carrying amount	$ 21,019	$ 18,311

Core deposit and other intangible amortization expense was approximately $866,000 and $763,000 for the three months ended June 30, 2017 and 2016, respectively. Core deposit and other intangible amortization expense was approximately $1.7 million and $1.6 million for the six months ended June 30, 2017 and 2016, respectively. Including all of the mergers completed as of June 30, 2017, the Company s estimated amortization expense of core deposits and other intangibles for each of the years 2017 through 2021 is approximately: 2017 $3.3 million; 2018 $3.5 million; 2019 $3.4 million; 2020 $2.8 million; 2021 $2.7 million.

The carrying amount of the Company s goodwill was $420.9 million and $378.0 million at June 30, 2017 and December 31, 2016, 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.

7. Other Assets

Other assets consists primarily of equity securities without a readily determinable fair value and other miscellaneous assets. As of June 30, 2017 and December 31, 2016 other assets were $136.5 million and $129.3 million, 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 (FHLB), Federal Reserve Bank (Federal Reserve), Bankers Bank and other miscellaneous holdings. The equity securities without a readily determinable fair value were $117.5 million and $112.4 million at June 30, 2017 and December 31, 2016, respectively, and are accounted for at cost.

Table of Contents

8. Deposits

The aggregate amount of time deposits with a minimum denomination of $250,000 was $634.8 million and $569.1 million at June 30, 2017 and December 31, 2016, respectively. The aggregate amount of time deposits with a minimum denomination of $100,000 was $961.7 million and $842.9 million at June 30, 2017 and December 31, 2016, respectively. Interest expense applicable to certificates in excess of $100,000 totaled $1.9 million and $1.4 million for the three months ended June 30, 2017 and 2016, respectively. Interest expense applicable to certificates in excess of $100,000 totaled $3.6 million and $2.3 million for the six months ended June 30, 2017 and 2016, respectively. As of June 30, 2017 and December 31, 2016, brokered deposits were $634.4 million and $502.5 million, respectively.

Deposits totaling approximately $1.20 billion and $1.23 billion at June 30, 2017 and December 31, 2016, respectively, were public funds obtained primarily from state and political subdivisions in the United States.

9. Securities Sold Under Agreements to Repurchase

At June 30, 2017 and December 31, 2016, securities sold under agreements to repurchase totaled $133.7 million and $121.3 million, respectively. For the three-month periods ended June 30, 2017 and 2016, securities sold under agreements to repurchase daily weighted-average totaled $128.7 million and $115.8 million, respectively. For the six-month periods ended June 30, 2017 and 2016, securities sold under agreements to repurchase daily weighted-average totaled $126.4 million and $122.4 million, respectively.

The remaining contractual maturity of securities sold under agreements to repurchase in the consolidated balance sheets as of June 30, 2017 and December 31, 2016 is presented in the following tables:

	June 30, 2017				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
	(In thousands)				
Securities sold under agreements to repurchase:					
U.S. government-sponsored enterprises	$ 11,514	$	$	$	$ 11,514
Mortgage-backed securities	18,420				18,420
State and political subdivisions	82,048				82,048
Other securities	21,759				21,759
Total borrowings	$ 133,741	$	$	$	$ 133,741

	December 31, 2016				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
	(In thousands)				
Securities sold under agreements to repurchase:					
U.S. government-sponsored enterprises	$ 1,918	$	$	$	$ 1,918
Mortgage-backed securities	22,691				22,691
State and political subdivisions	74,559				74,559
Other securities	22,122				22,122

Total borrowings	$ 121,290	$	$	$	$ 121,290

10. FHLB Borrowed Funds

The Company s FHLB borrowed funds were $1.10 billion and $1.31 billion at June 30, 2017 and December 31, 2016, respectively. At June 30, 2017, $200.0 million and $899.5 million of the outstanding balance were issued as short-term and long-term advances, respectively. At December 31, 2016, $40.0 million and $1.27 billion of the outstanding balance 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 0.64% to 5.96% and are secured by loans and investments securities. Maturities of borrowings as of June 30, 2017 include: 2017 $325.4 million; 2018 $459.1 million; 2019 $143.1 million; 2020 $146.4 million; 2021 zero; after 2021 $25.4 million. 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 $566.3 million and $516.2 million at June 30, 2017 and December 31, 2016, respectively, in letters of credit under a FHLB blanket borrowing line of credit, which are used to collateralize public deposits at June 30, 2017 and December 31, 2016, respectively.

11. Other Borrowings

The Company had zero other borrowings at June 30, 2017. The Company took out a $20.0 million line of credit for general corporate purposes during 2015, but the balance on this line of credit at June 30, 2017 and December 31, 2016 was zero.

12. Subordinated Debentures

Subordinated debentures consists of subordinated debt securities and guaranteed payments on trust preferred securities. As of June 30, 2017 and December 31, 2016, subordinated debentures were $357.8 million and $60.8 million, respectively.

Subordinated debentures at June 30, 2017 and December 31, 2016 contained the following components:

	As of June 30, 2017	As of December 31, 2016
	(In thousands)	
Trust preferred securities		
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
	25,774	25,774

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		
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
Subordinated debt securities		
Subordinated notes, net of issuance costs, issued in 2017, due 2027, fixed rate of 5.625% during the first five years and at a floating rate of 3.575% above the then three-month LIBOR rate, reset quarterly, thereafter, callable in 2022 without penalty	297,012	
Total	$ 357,838	$ 60,826

31

Trust Preferred Securities. 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.

Subordinated Debt Securities. On April 3, 2017, the Company completed an underwritten public offering of $300.0 million in aggregate principal amount of its 5.625% Fixed-to-Floating Rate Subordinated Notes due 2027 (the Notes) for net proceeds, after underwriting discounts and issuance costs, of approximately $297.0 million. The Notes are unsecured, subordinated debt obligations and mature on April 15, 2027. From and including the date of issuance to, but excluding April 15, 2022, the Notes bear interest at an initial rate of 5.625% per annum. From and including April 15, 2022 to, but excluding the maturity date or earlier redemption, the Notes will bear interest at a floating rate equal to three-month LIBOR as calculated on each applicable date of determination plus a spread of 3.575%; provided, however, that in the event three-month LIBOR is less than zero, then three-month LIBOR shall be deemed to be zero.

The Company may, beginning with the interest payment date of April 15, 2022, and on any interest payment date thereafter, redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to but excluding the date of redemption. The Company may also redeem the Notes at any time, including prior to April 15, 2022, at its option, in whole but not in part, if: (i) a change or prospective change in law occurs that could prevent the Company from deducting interest payable on the Notes for U.S. federal income tax purposes; (ii) a subsequent event occurs that could preclude the Notes from being recognized as Tier 2 capital for regulatory capital purposes; or (iii) the Company is required to register as an investment company under the Investment Company Act of 1940, as amended; in each case, at a redemption price equal to 100% of the principal amount of the Notes plus any accrued and unpaid interest to but excluding the redemption date. The Notes provide the Company with additional Tier 2 regulatory capital to support expected future growth.

13. Income Taxes

The following is a summary of the components of the provision (benefit) for income taxes for the three and six-month periods ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Current:				
Federal	$ 29,278	$ 17,488	$ 48,669	$ 37,693

State	5,815	3,474	9,667	7,487
Total current	35,093	20,962	58,336	45,180
Deferred:				
Federal	(4,014)	4,224	(2,236)	4,661
State	(797)	839	(444)	926
Total deferred	(4,811)	5,063	(2,680)	5,587
Income tax expense	$ 30,282	$ 26,025	$ 55,656	$ 50,767

Table of Contents

The reconciliation between the statutory federal income tax rate and effective income tax rate is as follows for the three and six-month periods ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Statutory federal income tax rate	35.00%	35.00%	35.00%	35.00%
Effect of non-taxable interest income	(1.36)	(1.54)	(1.43)	(1.58)
Effect of gain on acquisitions			(0.87)	
Stock compensation	(0.07)		(0.55)	
State income taxes, net of federal benefit	4.12	4.06	4.03	4.07
Other	(0.02)	(0.09)	0.29	(0.08)
Effective income tax rate	37.67%	37.43%	36.47%	37.41%

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:

	June 30, 2017	December 31, 2016
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 31,649	$ 31,381
Deferred compensation	2,567	3,925
Stock compensation	3,121	669
Real estate owned	3,464	2,296
Loan discounts	20,119	9,157
Tax basis premium/discount on acquisitions	13,318	14,757
Investments	1,394	1,957
Other	8,001	8,361
Gross deferred tax assets	83,633	72,503
Deferred tax liabilities:		
Accelerated depreciation on premises and equipment	1,097	2,154
Unrealized gain on securities available-for-sale	4,159	258
Core deposit intangibles	6,065	4,950
FHLB dividends	1,926	1,926
Other	2,018	1,917
Gross deferred tax liabilities	15,265	11,205
Net deferred tax assets	$ 68,368	$ 61,298

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and the states of Arkansas, Alabama, Florida and New York. The Company is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2012.

14. Common Stock, Compensation Plans and Other

Common Stock

The Company also has the authority to issue up to 5,500,000 shares of preferred stock, par value $0.01 per share under the Company s Restated Articles of Incorporation.

Stock Repurchases

On January 20, 2017, the Company s Board of Directors authorized the repurchase of up to an additional 5,000,000 shares of its common stock under the previously approved stock repurchase program, which brought the total amount of authorized shares to repurchase to 9,752,000 shares. During the first six months of 2017, the Company utilized a portion of this stock repurchase program.

The following table sets forth information with respect to purchases made by or on behalf of the Company of shares of the Company s common stock during the periods indicated:

Period	Number of Shares Purchased	Average Price Paid Per Share Purchased	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
April1 through April 30, 2017	20,000	$ 25.80	20,000	6,064,936
May 1 through May 31, 2017	246,100	24.81	246,100	5,818,836
June 1 through June 30, 2017	153,900	23.86	153,900	5,664,936
Total	420,000		420,000	

During first six months of 2017, the Company repurchased a total of 420,000 shares with a weighted-average stock price of $24.51 per share. The 2017 earnings were used to fund the repurchases during the year. Shares repurchased to date under the program total 4,087,064 shares. The remaining balance available for repurchase is 5,664,936 shares at June 30, 2017.

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. On April 21, 2016 at the Annual Meeting of Shareholders of the Company, the shareholders approved, as proposed in the Proxy Statement, an amendment to the Plan to increase the number of shares of the Company s common stock available for issuance under the Plan by 2,000,000 shares to 11,288,000 shares (split adjusted). The Plan provides for the granting of incentive and non-qualified stock options to and other equity awards, including the issuance of restricted shares. As of June 30, 2017, the maximum total number of shares of the Company s common stock available for issuance under the Plan was 11,288,000 (split adjusted). At June 30, 2017, the Company had approximately 2,405,000 shares of common stock remaining available for future grants and approximately 4,729,000 shares of common stock reserved for issuance pursuant to outstanding awards under the Plan.

The intrinsic value of the stock options outstanding and stock options vested at June 30, 2017 was $20.6 million and $11.3 million, respectively. Total unrecognized compensation cost, net of income tax benefit, related to non-vested stock option awards, which are expected to be recognized over the vesting periods, was approximately $6.0 million as of June 30, 2017. For the first six months of 2017, the Company has expensed approximately $863,000 for the non-vested awards.

The table below summarizes the stock option transactions under the Plan at June 30, 2017 and December 31, 2016 and changes during the six-month period and year then ended:

	For the Six Months Ended June 30, 2017		For the Year Ended December 31, 2016	
	Shares (000)	Weighted-Average Exercisable Price	Shares (000)	Weighted-Average Exercisable Price
Outstanding, beginning of year	2,397	$ 15.19	2,794	$ 12.71
Granted	80	25.96	140	21.25
Forfeited/Expired			(14)	17.28
Exercised	(153)	7.53	(523)	3.50
Outstanding, end of period	2,324	16.07	2,397	15.19
Exercisable, end of period	897	$ 12.34	639	$ 8.88

34

Table of Contents

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 six months ended June 30, 2017 was $7.10 per share. The weighted-average fair value of options granted during the year ended December 31, 2016 was $5.08 per share (split adjusted). 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 Six Months Ended June 30, 2017	**For the Year Ended December 31, 2016**
Expected dividend yield	1.39%	1.65%
Expected stock price volatility	28.47%	26.66%
Risk-free interest rate	2.06%	1.65%
Expected life of options	6.5 years	6.5 years

The following is a summary of currently outstanding and exercisable options at June 30, 2017:

	Options Outstanding			**Options Exercisable**	
Exercise Prices	**Options Outstanding Shares (000)**	**Weighted-Average Remaining Contractual Life (in years)**	**Weighted-Average Exercise Price**	**Options Exercisable Shares (000)**	**Weighted-Average Exercise Price**
$2.10 to $2.66	19	1.68	$ 2.55	19	$ 2.55
$4.27 to $4.62	91	0.55	4.28	91	4.28
$5.08 to $6.56	123	4.15	6.45	123	6.45
$8.62 to $9.54	284	5.68	9.09	224	9.08
$14.71 to $16.86	262	7.26	16.00	124	16.12
$17.12 to $17.40	215	7.43	17.19	94	17.21
$18.46 to $18.46	1,050	8.15	18.46	184	18.46
$20.16 to $20.58	80	8.27	20.37	14	20.34
$21.25 to $21.25	120	8.81	21.25	24	21.25
$25.96 to $25.96	80	9.81	25.96		
	2,324			897	

The table below summarized the activity for the Company s restricted stock issued and outstanding at June 30, 2017 and December 31, 2016 and changes during the period and year then ended:

	As of June 30, 2017	As of December 31, 2016
	(In thousands)	
Beginning of year	958	975
Issued	146	244
Vested	(45)	(256)
Forfeited		(5)
End of period	1,059	958
Amount of expense for six months and twelve months ended, respectively	$ 2,569	$ 4,049

Total unrecognized compensation cost, net of income tax benefit, related to non-vested restricted stock awards, which are expected to be recognized over the vesting periods, was approximately $13.3 million as of June 30, 2017.

Table of Contents

15. Non-Interest Expense

The table below shows the components of non-interest expense for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Salaries and employee benefits	$ 28,034	$ 25,437	$ 55,455	$ 49,395
Occupancy and equipment	7,034	6,509	13,715	13,180
Data processing expense	2,863	2,766	5,586	5,430
Other operating expenses:				
Advertising	812	733	1,510	1,556
Merger and acquisition expenses	789		7,516	
Amortization of intangibles	866	763	1,670	1,608
Electronic banking expense	1,654	1,237	3,173	2,693
Directors fees	324	289	637	564
Due from bank service charges	456	337	876	642
FDIC and state assessment	1,182	1,446	2,470	2,892
Insurance	543	544	1,121	1,077
Legal and accounting	474	658	1,101	1,181
Other professional fees	1,233	1,044	2,386	1,969
Operating supplies	477	419	944	855
Postage	295	260	581	546
Telephone	398	455	722	942
Other expense	3,569	4,690	6,681	8,705
Total other operating expenses	13,072	12,875	31,388	25,230
Total non-interest expense	$ 51,003	$ 47,587	$ 106,144	$ 93,235

16. Significant Estimates and Concentrations of Credit Risks

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 5, while deposit concentrations are reflected in Note 8.

The Company s primary market areas are in Arkansas, Florida, South Alabama and New York. The Company primarily grants loans to customers located within these markets 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.

Although the Company has a diversified loan portfolio, at June 30, 2017 and December 31, 2016, commercial real estate loans represented 60.8% and 59.1% of total loans receivable, respectively, and 322.6% and 328.9% of total stockholders equity, respectively. Residential real estate loans represented 24.4% and 23.0% of total loans receivable and 129.6% and 127.8% of total stockholders equity at June 30, 2017 and December 31, 2016, respectively.

Approximately 89.6% of the Company s total loans and 90.7% of the Company s real estate loans as of June 30, 2017, are to borrowers whose collateral is located in Alabama, Arkansas, Florida and New York, the states in which the Company has its branch locations.

Table of Contents

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

Any future volatility in the economy could cause the values of assets and liabilities recorded in the financial statements to 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.

17. 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 June 30, 2017 and December 31, 2016, commitments to extend credit of $1.89 billion and $1.82 billion, respectively, were outstanding. A percentage of these balances are participated out to other banks; therefore, the Company can call on the participating banks to fund future draws. Since some of these commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

Outstanding standby letters of credit are contingent commitments issued by the Company, generally to guarantee the performance of a customer in third-party borrowing arrangements. The term of the guarantee is dependent upon the creditworthiness of the borrower, some of which are long-term. The amount of collateral obtained, if deemed necessary, is based on management s credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments. The maximum amount of future payments the Company could be required to make under these guarantees at June 30, 2017 and December 31, 2016, is $45.8 million and $41.1 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.

18. 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 six months of 2017, the Company requested approximately $38.1 million in regular dividends from its banking subsidiary. This

dividend is equal to approximately 37.0% of the Company s banking subsidiary s year-to-date 2017 earnings.

Table of Contents

The Company s banking subsidiary is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company s consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company s assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company s capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Company s regulators could require adjustments to regulatory capital not reflected in the consolidated financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total, common Tier 1 equity and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes that, as of June 30, 2017, the Company meets all capital adequacy requirements to which it is subject.

The Federal Reserve Board s risk-based capital guidelines include the definitions for (1) a well-capitalized institution, (2) an adequately-capitalized institution, and (3) an undercapitalized institution. Under Basel III, the criteria for a well-capitalized institution are now: a 6.5% common equity Tier 1 risk-based capital ratio, a 5% Tier 1 leverage capital ratio, an 8% Tier 1 risk-based capital ratio, and a 10% total risk-based capital ratio. As of June 30, 2017, the Bank met the capital standards for a well-capitalized institution. The Company s common equity Tier 1 risk-based capital ratio, Tier 1 leverage capital ratio, Tier 1 risk-based capital ratio, and total risk-based capital ratio were 11.79%, 10.54%, 12.47%, and 16.78%, respectively, as of June 30, 2017.

19. Additional Cash Flow Information

In connection with the GHI acquisition, accounted for using the purchase method, the Company acquired approximately $398.1 million in assets, including $41.0 million in cash and cash equivalents, assumed $345.0 million in liabilities, issued 2,738,038 shares of its common stock valued at approximately $77.5 million as of February 23, 2017, and paid approximately $18.5 million in cash in exchange for all outstanding shares of GHI common stock.

In connection with the BOC acquisition, accounted for using the purchase method, the Company acquired approximately $178.1 million in assets, including $4.6 million in cash and cash equivalents, assumed $170.1 million in liabilities, issued no equity and paid approximately $4.2 million in cash. As a result, the Company recorded a bargain purchase gain of $3.8 million.

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

	June 30,	
	2017	**2016**
	(In thousands)	
Interest paid	$ 20,491	$ 14,572
Income taxes paid	74,542	47,250
Assets acquired by foreclosure	9,137	6,440

Table of Contents

20. 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 June 30, 2017 and December 31, 2016, Level 3 securities were immaterial. In addition, there were no material transfers between hierarchy levels during 2017 and 2016.

The Company 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 $75.2 million and $91.5 million as of June 30, 2017 and December 31, 2016, respectively. This valuation is considered Level 3, consisting of appraisals of underlying collateral. The Company reversed approximately $111,000 and $239,000 of accrued interest receivable when non-covered impaired loans were put on non-accrual status during the three months ended June 30, 2017 and 2016, respectively. The Company reversed approximately $209,000 and $307,000 of accrued interest receivable when non-covered impaired loans were put on non-accrual status during the six months ended June 30, 2017 and 2016, 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 June 30, 2017 and December 31, 2016, the fair value of foreclosed assets held for sale, less estimated costs to sell, was $18.8 million and $16.0 million, respectively.

Foreclosed assets held for sale with a carrying value of approximately $144,000 were remeasured during the six months ended June 30, 2017, resulting in a write-down of approximately $144,000.

Regulatory guidelines require us to reevaluate the fair value of foreclosed assets held for sale on at least an annual basis. The Company s policy is to comply with the regulatory guidelines.

Table of Contents

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

Fair Values of Financial Instruments

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

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

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

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

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

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

FHLB and other 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.

	June 30, 2017		
	Carrying Amount	Fair Value	Level
	(In thousands)		
Financial assets:			
Cash and cash equivalents	$ 460,488	$ 460,488	1
Federal funds sold			N/A
Investment securities held-to-maturity	254,161	258,682	2
Loans receivable, net of impaired loans and allowance	7,679,164	7,517,442	3
Accrued interest receivable	32,445	32,445	1
Financial liabilities:			
Deposits:			
Demand and non-interest bearing	$ 1,957,677	$ 1,957,677	1
Savings and interest-bearing transaction accounts	4,335,456	4,335,456	1
Time deposits	1,474,255	1,459,915	3
Federal funds purchased			N/A
Securities sold under agreements to repurchase	133,741	133,741	1
FHLB and other borrowed funds	1,099,478	1,100,398	2
Accrued interest payable	6,619	6,619	1
Subordinated debentures	357,838	357,838	3

	December 31, 2016		
	Carrying Amount	Fair Value	Level
	(In thousands)		
Financial assets:			
Cash and cash equivalents	$ 216,649	$ 216,649	1
Federal funds sold	1,550	1,550	1
Investment securities held-to-maturity	284,176	287,038	2
Loans receivable, net of impaired loans and allowance	7,216,199	7,131,199	3
Accrued interest receivable	30,838	30,838	1
Financial liabilities:			
Deposits:			
Demand and non-interest bearing	$ 1,695,184	$ 1,695,184	1
Savings and interest-bearing transaction accounts	3,963,241	3,963,241	1
Time deposits	1,284,002	1,275,634	3
Securities sold under agreements to repurchase	121,290	121,290	1
FHLB and other borrowed funds	1,305,198	1,311,280	2
Accrued interest payable	1,920	1,920	1
Subordinated debentures	60,826	60,826	3

21. Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 provides guidance that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which defers the effective date of this standard to annual and interim periods beginning after December 15, 2017; however, early adoption is permitted for annual and interim reporting periods beginning after December 15, 2016. In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, which amends certain aspects of the guidance in ASU 2014-09 (FASB s new revenue standard) on (1) identifying performance obligations and (2) licensing. ASU 2014-10 s effective date and transition provisions are aligned with the requirements in ASU 2014-09. In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, which amends certain aspects of the FASB s new revenue standard, ASU 2014-09. ASU 2016-12 s effective date and transition provisions are aligned with the requirements in ASU 2014-09

The guidance issued in ASU 2014-09, ASU 2015-14, ASU 2016-10 and ASU 2016-12 permit two implementation approaches, one requiring retrospective application of the new standard with restatement of prior years and one requiring prospective application of the new standard with disclosure of results under old standards. The Company plans to adopt the new standard effective January 1, 2018 and apply it prospectively. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements. Only a portion of the Company s revenues are impacted by this guidance because the guidance does not apply to revenue on contracts accounted for under the financial instruments or insurance contracts standards. The Company s evaluation process includes, but is not limited to, identifying contracts within the scope of the guidance, reviewing and documenting its accounting for these contracts, and identifying and determining the accounting for any related contract costs. The Company is also identifying and implementing changes to its business processes, systems and controls to support adoption of the new standard in 2018.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. Changes to the current GAAP model primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, ASU 2016-01 clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale securities. The new guidance is effective for annual reporting period and interim reporting periods within those annual periods, beginning after December 15, 2017. Management is currently evaluating the impact of the adoption of this guidance to the Company s financial statements, but does not anticipate the guidance to have a material effect on the Company s financial position or results of operations as the Company s equity investments are immaterial. However, the amendments will have an impact on certain items that are disclosed at fair value that are not currently utilizing the exit price notion when measuring fair value. At this time, the Company cannot quantify the change in the fair value of such disclosures since the Company is currently evaluating the full impact of the standards and is in the planning stages of developing appropriate procedures and processes to comply with the disclosure requirements of such amendments. The current accounting policies and procedures will be adjusted after the Company has fully evaluated the standard to comply with the accounting changes mentioned above. For additional information on fair value of assets and liabilities, see Note 20.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* The amendments in ASU 2016-02 address several aspects of lease accounting with the significant change being the recognition of lease assets and lease liabilities for leases previously classified as operating leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the amendments in ASU 2016-02 is permitted for all entities. The Company has several lease agreements for which the amendments will require the Company to recognize a lease liability to make lease payments and a right-of-use asset which will represent its right to use the underlying asset for the lease term. The Company is currently reviewing the amendments to ensure it is fully compliant by the adoption date and doesn t expect to early adopt. The impact is not expected to have a material effect on the Company s financial position or results of operations as the Company does not have a material amount of lease agreements. In addition, the Company will change its current accounting policies to comply with the amendments with such changes as mentioned above. For additional information on the Company s leases, see Note 18 Leases in the Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2016.

In March 2016, the FASB issued ASU 2016-09, *Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company adopted the amendments effective January 1, 2017. The Company has a stock-based compensation plan for which the ASU 2016-09 guidance results in the associated excess tax benefits or deficiencies being recognized as tax expense or benefit in the income statement instead of the previous accounting treatment, which requires excess tax benefits to be recognized as an adjustment to additional paid-in capital and excess tax deficiencies to be recognized as either an offset to accumulated excess tax benefits, if any, or to the income statement. In addition, such amounts are now classified as an operating activity in the statement of cash flows instead of the current accounting treatment, which required it to be classified as both an operating and a financing activity. The Company s stock-based compensation plan has not historically generated material amounts of excess tax benefits or deficiencies and, therefore, the Company has not experienced a material change in the Company s financial position or results of operation as a result of the adoption and implementation of ASU 2016-09. For additional information on the stock-based compensation plan, see Note 14.

In May 2016, the FASB issued ASU 2016-11, *Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting (SEC Update)*, which rescinds certain SEC guidance from the FASB Accounting Standards Codification in response to announcements made by the SEC staff at the Emerging Issues Task Force s (EITF) March 3, 2016, meeting. ASU 2016-11 is effective at the same time as ASU 2014-09 and ASU 2014-16. The Company is currently evaluating the impact, if any, ASU 2016-11 will have on its financial position, results of operations, and its financial statement disclosures. The Company s evaluation process includes, but is not limited to, identifying transactions and accounts within the scope of the guidance, reviewing its accounting and disclosures for these transactions and accounts, and identifying and implementing any necessary changes to its accounting and disclosures as a result of the guidance. The Company is also identifying and implementing changes to its business processes, systems and controls to support adoption of the new standard in 2018.

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, which amends the FASB s guidance on the impairment of financial instruments. The amendments in ASU 2016-13 replace the incurred loss model with a methodology that reflects expected credit losses over the life of the loan and requires consideration of a broader range of reasonable and supportable information to calculate credit loss estimates, known as the current expected credit loss (CECL) model. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. ASU 2016-13 is also intended to reduce the complexity of U.S. GAAP by decreasing the number of credit impairment models that entities use to account for debt instruments. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The allowance for loan losses is a material estimate of the Company and given the change from an incurred loss model to a methodology that considers the credit loss over the life of the loan, there is the potential for an increase in the allowance for loan losses at adoption date. The Company is anticipating a significant change in the processes and procedures to calculate the allowance for loan losses, including changes in assumptions and estimates to consider expected credit losses over the life of the loan versus the current accounting practice that utilizes the incurred loss model. The Company will also develop new procedures for determining an allowance for credit losses relating to held-to-maturity investment securities. In addition, the current accounting policy and procedures for other-than-temporary impairment on available-for-sale investment securities will be replaced with an allowance approach. The Company is currently evaluating the impact, if any, ASU 2016-13 will have on its financial position and results of operations and currently does not know or cannot reasonably quantify the impact of the adoption of the amendments as a result of the complexity and extensive changes from the amendments. It is too early to assess the impact that the implementation of this guidance will have on the Company s consolidated financial statements; however, the Company has begun developing processes and procedures to ensure it is fully compliant with the amendments at the required adoption date. Among other things, the Company has initiated data gathering and assessment to support forecasting of asset quality, loan balances, and portfolio net charge-offs and have developed an in-house data warehouse as well as developed asset quality forecast models in preparation for the implementation of this standard. For additional information on the allowance for loan losses, see Note 5.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments,* which amends the guidance in ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of ASU 2016-15 is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. ASU 2016-15 s amendments add or clarify guidance on eight cash flow issues including debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies; including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted and the guidance must be applied retrospectively to all periods presented but may be applied prospectively from the earliest date practicable if retrospective application would be impracticable. The Company is currently evaluating the impact, if any, ASU 2016-15 will have on its financial position, results of operations, and its financial statement disclosures. The Company s evaluation process includes, but is not limited to, identifying transactions and accounts within the scope of the guidance, reviewing its accounting and disclosures for these transactions and accounts, and identifying and implementing any necessary changes to its accounting and disclosures as a result of the guidance. The Company is also identifying and implementing changes to its business processes, systems and controls to support adoption of the new standard in 2018.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*, which requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings at the beginning period of adoption. Early adoption is permitted in the first interim period of an annual reporting period for which financial statements have not been issued. The Company is currently evaluating the impact, if any, ASU 2016-16 will have on its financial position, results of operations, and its financial statement disclosure. The Company s evaluation process includes, but is not limited to, identifying transactions and accounts within the scope of the guidance, reviewing its accounting and disclosures for these transactions and accounts, and identifying and implementing any necessary changes to its accounting and disclosures as a result of the guidance. The Company is also identifying and implementing changes to its business processes, systems and controls to support adoption of the new standard in 2018.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows, and, as a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. An entity with a material balance of restricted cash and restricted cash equivalents must disclose information about the nature of the restrictions. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted and the new guidance must be applied retrospectively to all periods presented. The Company is currently evaluating the impact, if any, ASU 2016-18 will have on its financial position, results of operations, and its financial statement disclosure. The Company s evaluation process includes, but is not limited to, identifying transactions and accounts within the scope of the guidance, reviewing its accounting and disclosures for these transactions and accounts, and identifying and implementing any necessary changes to its accounting and disclosures as a result of the guidance. The Company is also identifying and implementing changes to its business processes, systems and controls to support adoption of the new standard in 2018.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which provides guidance to entities to assist with evaluating when a set of transferred assets and activities (collectively, the set) is a business and provides a screen to determine when a set is not a business. Under the new guidance, when substantially all of the fair value of gross assets acquired (or disposed of) is concentrated in a single identifiable asset, or group of similar assets, the assets acquired would not represent a business. Also, to be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to produce outputs. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and should be applied on a prospective basis to any transactions occurring within the period of adoption. Early adoption is permitted for interim or annual periods in which the financial statements have not been issued. The Company is currently evaluating the impact, if any, ASU 2017-01 will have on its financial position, results of operations, and its financial statement disclosure. The Company s evaluation process includes, but is not limited to, identifying transactions and accounts within the scope of the guidance, reviewing its accounting and disclosures for these transactions and accounts, and identifying and implementing any necessary changes to its accounting and disclosures as a result of the guidance. The Company is also identifying and implementing changes to its business processes, systems and controls to support adoption of the new standard in 2018.

In January 2017, the FASB issued ASU 2017-03, *Accounting Changes and Error Corrections (Topic 250) and Investments Equity Method and Joint Ventures (Topic 323)*. The amendments in the update relate to SEC paragraphs pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF meetings related to disclosure of the impact of recently issued accounting standards. The SEC staff s view that a registrant should evaluate

ASC updates that have not yet been adopted to determine the appropriate financial disclosures about the potential material effects of the updates on the financial statements when adopted. If a registrant does not know or cannot reasonably estimate the impact of an update, then in addition to making a statement to that effect, the registrant should consider additional qualitative financial statement disclosures to assist the reader in assessing the significance of the impact. The staff expects the additional qualitative disclosures to include a description of the effect of the accounting policies expected to be applied compared to current accounting policies. Also, the registrant should describe the status of its process to implement the new standards and the significant implementation matters yet to be addressed. The amendments specifically addressed recent ASC amendments to ASU 2016-02, *Leases*, and ASU 2014-09, *Revenue from Contracts with Customers*, although, the amendments apply to any subsequent amendments to guidance in the ASC. The Company adopted the amendments in this update during the fourth quarter of 2016 and appropriate disclosures have been included in this Note for each recently issued accounting standard.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminates the requirement to determine the fair value of individual assets and liabilities of a reporting unit to measure goodwill impairment. Under the amendments in the new ASU, goodwill impairment testing will be performed by comparing the fair value of the reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit s fair value; however, the loss should not exceed the total amount of goodwill allocated to that reporting unit. The new standard is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and should be applied on a prospective basis. Early adoption is permitted for annual or interim goodwill impairment testing performed after January 1, 2017. The Company has goodwill from prior business combinations and performs an annual impairment test or more frequently if changes or circumstances occur that would more-likely-than-not reduce the fair value of the reporting unit below its carrying value. During 2016, the Company performed its impairment assessment and determined the fair value of the aggregated reporting units exceed the carrying value, such that the Company s goodwill was not considered impaired. Although the Company cannot anticipate future goodwill impairment assessments, based on the most recent assessment it is unlikely that an impairment amount would need to be calculated and, therefore, does not anticipate a material impact from these amendments to the Company s financial position and results of operations. The current accounting policies and processes are not anticipated to change, except for the elimination of the Step 2 analysis.

In February 2017, the FASB issued ASU 2017-05, *Other Income: Gains and Losses from the Derecognition of Nonfinancial Assets*, which clarifies the scope of the FASB s guidance on nonfinancial asset derecognition (ASC 610-20) as well as the accounting for partial sales of nonfinancial assets. The ASU conforms the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue standard (ASC 606, as amended). The ASU requires an entity to derecognize the nonfinancial asset or in-substance nonfinancial asset in a partial sale transaction when (1) the entity ceases to have a controlling financial interest in a subsidiary under ASC 810 and (2) control of the asset is transferred in accordance with ASC 606. The entity therefore has to consider repurchase agreements (e.g., a call option to repurchase the ownership interest in a subsidiary) in its assessment and may not be able to derecognize the nonfinancial assets, even though it no longer has a controlling financial interest in a subsidiary in accordance with ASC 810. The ASU illustrates the application of this guidance in ASC 610-20-55-15 and 55-16. The effective date of the new guidance is aligned with the requirements in the new revenue standard, which is effective for public entities for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017, and for nonpublic entities for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. If the entity decides to early adopt the ASU s guidance, it must also early adopt ASC 606 (and vice versa). The Company is currently evaluating the impact, if any, ASU 2017-05 will have on its financial position, results of operations, and its financial statement disclosures. The Company s evaluation process includes, but is not limited to, identifying transactions and accounts within the scope of the guidance, reviewing its accounting and disclosures for these transactions and accounts, and identifying and implementing any necessary changes to its accounting and disclosures as a result of the guidance. The Company is also identifying and implementing changes to its business processes, systems and controls to support adoption of the new standard in 2018.

In March 2017, the FASB issued ASU 2017-08, *Receivables - Nonrefundable Fees and Other Costs (Topic 310): Premium Amortization on Purchased Callable Debt Securities*, which amends the amortization period for certain purchased callable debt securities held at a premium. This ASU will shorten the amortization period for the premium to be amortized to the earliest call date. This ASU does not apply to securities held at a discount, which will continue to be amortized to maturity. This ASU is effective for interim and annual reporting periods beginning after December 15, 2018. The guidance should be applied using a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact, if any, ASU 2017-08 will

have on its financial position, results of operations, and its financial statement disclosures. The Company s evaluation process includes, but is not limited to, identifying transactions and accounts within the scope of the guidance, reviewing its accounting and disclosures for these transactions and accounts, and identifying and implementing any necessary changes to its accounting and disclosures as a result of the guidance. The Company is also identifying and implementing changes to its business processes, systems and controls to support adoption of the new standard in 2018.

In May 2017, the FASB issued ASU 2017-09, *Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting*, which amends the scope of modification accounting for share-based payment arrangements. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The amendments in ASU 2017-09 should be applied prospectively to an award modified on or after the adoption date. This ASU is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. The Company does not anticipate any modifications to its existing awards and therefore the adoption of ASU 2017-09 is not expected to have a significant impact on the Company s financial position, results of operations, or its financial statement disclosures.

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Non-controlling Interests with a Scope Exception.* Part I of this update addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of this update addresses the difficulty of navigating *Topic 480, Distinguishing Liabilities from Equity*, because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable non-controlling interests. The amendments in Part II of this update do not have an accounting effect. This ASU is effective for interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact, if any, ASU 2017-11 will have on its financial position, results of operations, and its financial statement disclosures. The Company s evaluation process includes, but is not limited to, identifying transactions and accounts within the scope of the guidance, reviewing its accounting and disclosures for these transactions and accounts, and identifying and implementing any necessary changes to its accounting and disclosures as a result of the guidance. The Company is also identifying and implementing changes to its business processes, systems and controls to support adoption of the new standard in 2018.

Table of Contents

Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders

Home BancShares, Inc.

Conway, Arkansas

We have reviewed the accompanying condensed consolidated balance sheet of Home BancShares, Inc. (the Company) as of June 30, 2017, and the related condensed consolidated statements of income and comprehensive income for the three- and six-month periods ended June 30, 2017 and 2016, and the related statements of stockholders equity and cash flows for the six-month periods ended June 30, 2017 and 2016. 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, 2016, 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, 2017, 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, 2016, 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

August 4, 2017

48

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, 2017, which includes the audited financial statements for the year ended December 31, 2016. *Unless the context requires otherwise, the terms Company , us , we , and our refer to Home BancShares, Inc. on a consolidated basis.*

General

We are a bank holding company headquartered in Conway, Arkansas, offering a broad array of financial services through our wholly-owned bank subsidiary, Centennial Bank (sometimes referred to as Centennial or the Bank). As of June 30, 2017, we had, on a consolidated basis, total assets of $10.87 billion, loans receivable, net of $7.75 billion, total deposits of $7.77 billion, and stockholders equity of $1.48 billion.

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

Table 1: Key Financial Measures

	As of or for the Three Months Ended June 30,		As of or for the Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in thousands, except per share data)			
Total assets	$ 10,872,228	$ 9,582,126	$ 10,872,228	$ 9,582,126
Loans receivable	7,834,475	7,022,156	7,834,475	7,022,156
Allowance for loan losses	80,138	74,341	80,138	74,341
Total deposits	7,767,388	6,712,948	7,767,388	6,712,948
Total stockholders equity	1,476,032	1,264,915	1,476,032	1,264,915
Net income	50,097	43,509	96,953	84,936
Basic earnings per share	0.35	0.31	0.68	0.61
Diluted earnings per share	0.35	0.31	0.68	0.60
Annualized net interest margin FTE	4.50%	4.83%	4.60%	4.82%
Efficiency ratio	37.48	37.52	39.12	37.51
Annualized return on average assets	1.86	1.83	1.86	1.81
Annualized return on average common equity	13.83	14.11	13.84	13.94

Overview

Results of Operations for Three Months Ended June 30, 2017 and 2016

Our net income increased $6.6 million, or 15.1%, to $50.1 million for the three-month period ended June 30, 2017, from $43.5 million for the same period in 2016. On a diluted earnings per share basis, our earnings were $0.35 per share and $0.31 per share for the three-month periods ended June 30, 2017 and 2016, respectively. Excluding the $789,000 of merger expenses, net income was $50.7 million, and diluted earnings per share was $0.35 per share for the three months ended June 30, 2017. The $7.2 million increase in net income, excluding merger expenses, is primarily associated with additional net interest income largely resulting from our acquisitions and our organic loan growth plus a decrease in provision for loan losses in second quarter of 2017, growth in non-interest income and the reduced amortization of the indemnification asset when compared to the same period in 2016. These improvements were partially offset by an increase in the costs associated with the asset growth plus an increase in interest expense related to the issuance of $300 million of subordinated notes during the second quarter of 2017 when compared to the same period in 2016.

Our GAAP net interest margin decreased from 4.83% for the three-month period ended June 30, 2016 to 4.50% for the three-month period ended June 30, 2017. The yield on loans was 5.78% and 5.81% for the three months ended June 30, 2017 and 2016, respectively. For the three months ended June 30, 2017 and 2016, we recognized $8.5 million and $11.0 million, respectively, in total net accretion for acquired loans and deposits. The non-GAAP margin excluding accretion income was 4.11% and 4.24% for the three months ended June 30, 2017 and 2016, respectively. Additionally, the non-GAAP yield on loans excluding accretion income was 5.28% and 5.09% for the three months ended June 30, 2017 and 2016, respectively. The net interest margin was negatively impacted by our April 2017 issuance of $300 million of 5.625% fixed-to-floating rate subordinated notes, which added approximately $4.3 million of interest expense when compared to the same quarter in 2016, and by our strategic decision to keep excess cash liquidity on the books during the second quarter of 2017.

Our efficiency ratio was 37.48% for the three months ended June 30, 2017, compared to 37.52% for the same period in 2016. For the second quarter of 2017, our core efficiency ratio was 37.29%, which increased from the 36.84% reported for second quarter of 2016. The core efficiency ratio is a non-GAAP measure and is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income excluding non-fundamental items such as merger expenses, FDIC loss share buy-out expense and/or gains and losses.

Our annualized return on average assets was 1.86% for the three months ended June 30, 2017, compared to 1.83% for the same period in 2016. Our annualized return on average common equity was 13.83% for the three months ended June 30, 2017, compared to 14.11% for the same period in 2016.

Results of Operations for Six Months Ended June 30, 2017 and 2016

Our net income increased $12.0 million, or 14.1%, to $97.0 million for the six-month period ended June 30, 2017, from $84.9 million for the same period in 2016. On a diluted earnings per share basis, our earnings were $0.68 per share and $0.60 per share for the six-month periods ended June 30, 2017 and 2016, respectively. Excluding the $3.8 million of gain on acquisition and $7.5 million of merger expenses, net income was $98.1 million and diluted earnings per share was $0.68 per share for the six months ended June 30, 2017. The $13.1 million increase in net income, excluding gain on acquisitions and merger expenses, is primarily associated with additional net interest income largely resulting from our acquisitions and our organic loan growth plus a decrease in provision for loan losses in first six months of 2017, growth in non-interest income and the reduced amortization of the indemnification asset

when compared to the same period in 2016. These improvements were partially offset by an increase in the costs associated with the asset growth plus an increase in interest expense related to the issuance of $300 million of subordinated notes during the second quarter of 2017 when compared to the same period in 2016.

Our GAAP net interest margin decreased from 4.82% for the six-month period ended June 30, 2016 to 4.60% for the six-month period ended June 30, 2017. The yield on loans was 5.72% and 5.80% for the six months ended June 30, 2017 and 2016, respectively. For the six months ended June 30, 2017 and 2016, we recognized $16.1 million and $21.7 million, respectively, in total net accretion for acquired loans and deposits. The non-GAAP margin excluding accretion income was 4.21% and 4.23% for the six months ended June 30, 2017 and 2016, respectively. Additionally, the non-GAAP yield on loans excluding accretion income was 5.24% and 5.09% for the six months ended June 30, 2017 and 2016, respectively. The net interest margin was negatively impacted by our April 2017 issuance of $300 million of 5.625% fixed-to-floating rate subordinated notes, which added approximately $4.3 million of interest expense when compared to the same period in 2016, and by our strategic decision to keep excess cash liquidity on the books during the first six months of 2017.

Our efficiency ratio was 39.12% for the six months ended June 30, 2017, compared to 37.51% for the same period in 2016. For the first six months of 2017, our core efficiency ratio was 37.13%, which increased from the 36.88% reported for first six months of 2016. The core efficiency ratio is a non-GAAP measure and is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income excluding non-fundamental items such as merger expenses and/or gains and losses.

Our annualized return on average assets was 1.86% for the six months ended June 30, 2017, compared to 1.81% for the same period in 2016. Our annualized return on average common equity was 13.84% for the six months ended June 30, 2017, compared to 13.94% for the same period in 2016.

Financial Condition as of and for the Period Ended June 30, 2017 and December 31, 2016

Our total assets as of June 30, 2017 increased $1.06 billion to $10.87 billion from the $9.81 billion reported as of December 31, 2016. Our loan portfolio increased $446.8 million to $7.83 billion as of June 30, 2017, from $7.39 billion as of December 31, 2016. This increase is a result of our acquisitions since December 31, 2016. Stockholders equity increased $148.5 million to $1.48 billion as of June 30, 2017, compared to $1.33 billion as of December 31, 2016. The increase in stockholders equity is primarily associated with the $77.5 million of common stock issued to the GHI shareholders plus the $71.4 million increase in retained earnings combined with the $6.0 million of comprehensive income during the first six months offset by the repurchase of $10.3 million of our common stock. The annualized improvement in stockholders equity for the first six months of 2017, excluding the $77.5 million of common stock issued to the GHI shareholders, was 10.8%.

As of June 30, 2017, our non-performing loans decreased to $46.9 million, or 0.60%, of total loans from $63.1 million, or 0.85%, of total loans as of December 31, 2016. The allowance for loan losses as a percent of non-performing loans increased to 170.99% as of June 30, 2017, compared to 126.74% as of December 31, 2016. Non-performing loans from our Arkansas franchise were $22.0 million at June 30, 2017 compared to $28.5 million as of December 31, 2016. Non-performing loans from our Florida franchise were $24.6 million at June 30, 2017 compared to $34.0 million as of December 31, 2016. Non-performing loans from our Alabama franchise were $306,000 at June 30, 2017 compared to $656,000 as of December 31, 2016. There were no non-performing loans from our Centennial CFG franchise.

As of June 30, 2017, our non-performing assets decreased to $65.7 million, or 0.60%, of total assets from $79.1 million, or 0.81%, of total assets as of December 31, 2016. Non-performing assets from our Arkansas franchise were $33.4 million at June 30, 2017 compared to $41.0 million as of December 31, 2016. Non-performing assets from our Florida franchise were $31.3 million at June 30, 2017 compared to $36.8 million as of December 31, 2016. Non-performing assets from our Alabama franchise were $947,000 at June 30, 2017 compared to $1.2 million as of

December 31, 2016. There were no non-performing assets from our Centennial CFG franchise.

Critical Accounting Policies

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

Table of Contents

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

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

Investments Held-to-Maturity. Securities held-to-maturity, which include any security for which we have 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 and Allowance for Loan Losses. Except for loans acquired during our acquisitions, substantially all of our loans receivable are reported at their outstanding principal balance adjusted for any charge-offs, as it is management s intent to hold them for the foreseeable future or until maturity or payoff, except for mortgage loans held for sale. Interest income on loans is accrued over the term of the loans based on the principal balance outstanding.

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

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

Loans considered impaired, under FASB ASC 310-10-35, are loans for which, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. We apply 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 and Acquired Loans. We account for our acquisitions under FASB 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 purchased loans incorporates assumptions regarding credit risk. All purchased loans are recorded at fair value in accordance with the fair value methodology prescribed in FASB ASC Topic 820, *Fair Value Measurements*. 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, we continue 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. We evaluate at each balance sheet date whether the present value of our pools of loans determined using the effective interest rates has decreased and if so, recognize a provision for loan loss in its consolidated statement of income. For any increases in cash flows expected to be collected, we adjust the amount of accretable yield recognized on a prospective basis over the pool s remaining life.

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

Intangible Assets. Intangible assets consist of goodwill and core deposit intangibles. Goodwill represents the excess purchase price over the fair value of net assets acquired in business acquisitions. The core deposit intangible represents the excess intangible value of acquired deposit customer relationships as determined by valuation specialists. The core deposit intangibles are being amortized over 48 to 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. We account 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. We determine 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.

Both we and our subsidiary file consolidated tax returns. Our subsidiary provides for income taxes on a separate return basis, and remits to us amounts determined to be currently payable.

Stock Compensation. 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. We recognize compensation expense for the grant-date fair value of the option award over the vesting period of the award.

Acquisitions

Acquisition of Giant Holdings, Inc.

On February 23, 2017, the Company completed its acquisition of Giant Holdings, Inc. (GHI), parent company of Landmark Bank, N.A. (Landmark), pursuant to a previously announced definitive agreement and plan of merger whereby GHI merged with and into HBI and, immediately thereafter, Landmark merged with and into Centennial. The Company paid a purchase price to the GHI shareholders of approximately $96.0 million for the GHI acquisition. Under the terms of the agreement, shareholders of GHI received 2,738,038 shares of its common stock valued at approximately $77.5 million as of February 23, 2017, plus approximately $18.5 million in cash in exchange for all outstanding shares of GHI common stock.

GHI formerly operated six branch locations in the Ft. Lauderdale, Florida area. Including the effects of the purchase accounting adjustments, as of acquisition date, GHI had approximately $398.1 million in total assets, $327.8 million in loans after $8.1 million of loan discounts, and $304.0 million in deposits.

Acquisition of The Bank of Commerce

On February 28, 2017, the Company completed its previously announced acquisition of all of the issued and outstanding shares of common stock of The Bank of Commerce, a Florida state-chartered bank that operated in the Sarasota, Florida area (BOC), pursuant to an acquisition agreement, dated December 1, 2016, by and between the Company and Bank of Commerce Holdings, Inc. (BCHI), parent company of BOC. The Company merged BOC with and into Centennial effective as of the close of business on February 28, 2017.

The acquisition of BOC was conducted in accordance with the provisions of Section 363 of the United States Bankruptcy Code (the Bankruptcy Code) pursuant to a voluntary petition for relief under Chapter 11 of the Bankruptcy Code filed by BCHI with the United States Bankruptcy Court for the Middle District of Florida (the Bankruptcy Court). The sale of BOC by BCHI was subject to certain bidding procedures approved by the Bankruptcy Court. On November 14, 2016, the Company submitted an initial bid to purchase the outstanding shares of BOC in accordance with the bidding procedures approved by the Bankruptcy Court. An auction was subsequently conducted on November 16, 2016, and the Company was deemed to be the successful bidder. The Bankruptcy Court entered a final order on December 9, 2016 approving the sale of BOC to the Company pursuant to and in accordance with the acquisition agreement.

Under the terms of the acquisition agreement, the Company paid an aggregate of approximately $4.2 million in cash for the acquisition, which included the purchase of all outstanding shares of BOC common stock, the discounted purchase of certain subordinated debentures issued by BOC from the existing holders of the subordinated debentures, and an expense reimbursement to BCHI for approved administrative claims in connection with the bankruptcy proceeding.

BOC formerly operated three branch locations in the Sarasota, Florida area. Including the effects of the purchase accounting adjustments, as of acquisition date, BOC had approximately $178.1 million in total assets, $118.5 million in loans after $5.8 million of loan discounts, and $139.8 million in deposits.

Termination of Remaining Loss-Share Agreements

Effective July 27, 2016, we reached an agreement terminating our remaining loss-share agreements with the FDIC. Under the terms of the agreement, Centennial made a net payment of $6.6 million to the FDIC as consideration for the early termination of the loss share agreements, and all rights and obligations of Centennial and the FDIC under the loss share agreements, including the clawback provisions and the settlement of loss share and expense reimbursement claims, have been resolved and terminated. This transaction with the FDIC created a one-time acceleration of the indemnification asset plus the negotiated settlement for the true-up liability, and resulted in a negative $3.8 million pre-tax financial impact to the third quarter of 2016. It has and will create a positive financial impact to earnings of approximately $1.5 million annually on a pre-tax basis through the year 2020 as a result of the one-time acceleration of the indemnification asset amortization.

Future Acquisitions

In our continuing evaluation of our growth plans, we believe properly priced bank acquisitions can complement our organic growth and *de novo* branching growth strategies. In the near term, our principal acquisition focus will be to continue to expand our presence in Arkansas, Florida and Alabama and into other contiguous markets through pursuing both non-FDIC-assisted and FDIC-assisted bank acquisitions. However, as financial opportunities in other market areas arise, we may expand into those areas.

On March 27, 2017, the Company and Centennial entered into a definitive agreement and plan of merger with Stonegate Bank (Stonegate). The merger agreement provides that Stonegate will merge with and into Centennial (the Merger). Under the terms of the acquisition agreement, shareholders of Stonegate will receive, in the aggregate, proceeds from the transaction of approximately $749.8 million, consisting of $50.0 million in cash and $699.7 million of HBI common stock. In addition, the holders of outstanding stock options of Stonegate will receive approximately $28.6 million in cash in connection with the cancellation of their options immediately before the Merger, for a total transaction value of approximately $778.4 million. The number of shares of HBI common stock to be issued to Stonegate shareholders will be determined based on the volume-weighted average closing price per share of HBI common stock for the 20 consecutive trading days ending on the third trading day prior to the closing date (the Average Closing Price). In addition, if the Average Closing Price of HBI common stock as of the closing date is equal to $35.19 or greater or $22.52 or less, then the Average Closing Price will be fixed at $35.19 or $22.52, respectively. The acquisition is expected to close early in the fourth quarter of 2017, and is subject to the approval of the shareholders of the Company and Stonegate, regulatory approvals, and other customary conditions set forth in the agreement

As of June 30, 2017, Stonegate had approximately $3.13 billion in total assets, $2.44 billion in loans and $2.62 billion in customer deposits. Stonegate is conducting banking business from 24 locations in key Florida markets with significant presence in Broward and Sarasota counties.

We will continue evaluating all types of potential bank acquisitions to determine what is in the best interest of our Company. Our goal in making these decisions is to maximize the return to our investors.

Branches

As opportunities arise, we will continue to open new (commonly referred to as *de novo*) branches in our current markets and in other attractive market areas. During the second quarter of 2017, the Company opened a branch location in Clearwater, Florida and a loan production office in Los Angeles under the management of Centennial CFG.

As a result of our continued focus on efficiency, during the second quarter the Company closed one branch in Sarasota, Florida and two branches in Ft. Lauderdale, Florida. During the remainder of 2017, we may announce additional strategic consolidations where it improves efficiency in certain markets.

As of June 30, 2017, we had 76 branches in Arkansas, 65 branches in Florida, 6 branches in Alabama and one branch in New York City.

Results of Operations

For the Three and Six Months Ended June 30, 2017 and 2016

Our net income increased $6.6 million, or 15.1%, to $50.1 million for the three-month period ended June 30, 2017, from $43.5 million for the same period in 2016. On a diluted earnings per share basis, our earnings were $0.35 per share and $0.31 per share for the three-month periods ended June 30, 2017 and 2016, respectively. Excluding the $789,000 of merger expenses, net income was $50.7 million, and diluted earnings per share was $0.35 per share for the three months ended June 30, 2017. The $7.2 million increase in net income, excluding merger expenses, is primarily associated with additional net interest income largely resulting from our acquisitions and our organic loan growth plus a decrease in provision for loan losses in second quarter of 2017, growth in non-interest income and the reduced amortization of the indemnification asset when compared to the same period in 2016. These improvements were partially offset by an increase in the costs associated with the asset growth plus an increase in interest expense related to the issuance of $300 million of subordinated notes during the second quarter of 2017 when compared to the same period in 2016.

Our net income increased $12.0 million, or 14.1%, to $97.0 million for the six-month period ended June 30, 2017, from $84.9 million for the same period in 2016. On a diluted earnings per share basis, our earnings were $0.68 per share and $0.60 per share for the six-month periods ended June 30, 2017 and 2016, respectively. Excluding the $3.8 million of gain on acquisition and $7.5 million of merger expenses, net income was $98.1 million and diluted earnings per share was $0.68 per share for the six months ended June 30, 2017. The $13.1 million increase in net income, excluding gain on acquisitions and merger expenses, is primarily associated with additional net interest income largely resulting from our acquisitions and our organic loan growth plus a decrease in provision for loan losses in first six months of 2017, growth in non-interest income and the reduced amortization of the indemnification asset when compared to the same period in 2016. These improvements were partially offset by an increase in the costs associated with the asset growth plus an increase in interest expense related to the issuance of $300 million of subordinated notes during the second quarter of 2017 when compared to the same period in 2016.

Net Interest Income

Net interest income, our principal source of earnings, is the difference between the interest income generated by earning assets and the total interest cost of the deposits and borrowings obtained to fund those assets. Factors affecting the level of net interest income include the volume of earning assets and interest-bearing liabilities, yields earned on loans and investments, rates paid on deposits and other borrowings, the level of non-performing loans and the amount of non-interest-bearing liabilities supporting earning assets. Net interest income is analyzed in the discussion and tables below on a fully taxable equivalent basis. The adjustment to convert certain income to a fully taxable equivalent basis consists of dividing tax-exempt income by one minus the combined federal and state income tax rate (39.225% for the three and six-month periods ended June 30, 2017 and 2016).

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 target 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 remained until December 16, 2015, when the target rate was increased slightly to 0.50% to 0.25%. Since December 31, 2016, the Federal Funds target rate has increased 75 basis points and is currently at 1.25% to 1.00%.

Our GAAP net interest margin decreased from 4.83% for the three-month period ended June 30, 2016 to 4.50% for the three-month period ended June 30, 2017. The yield on loans was 5.78% and 5.81% for the three months ended

June 30, 2017 and 2016, respectively. For the three months ended June 30, 2017 and 2016, we recognized $8.5 million and $11.0 million, respectively, in total net accretion for acquired loans and deposits. The non-GAAP margin excluding accretion income was 4.11% and 4.24% for the three months ended June 30, 2017 and 2016, respectively. Additionally, the non-GAAP yield on loans excluding accretion income was 5.28% and 5.09% for the three months ended June 30, 2017 and 2016, respectively. The net interest margin was negatively impacted by our April 2017 issuance of $300 million of 5.625% fixed-to-floating rate subordinated notes, which added approximately $4.3 million of interest expense when compared to the same quarter in 2016, and by our strategic decision to keep excess cash liquidity on the books during the second quarter of 2017.

Our GAAP net interest margin decreased from 4.82% for the six-month period ended June 30, 2016 to 4.60% for the six-month period ended June 30, 2017. The yield on loans was 5.72% and 5.80% for the six months ended June 30, 2017 and 2016, respectively. For the six months ended June 30, 2017 and 2016, we recognized $16.1 million and $21.7 million, respectively, in total net accretion for acquired loans and deposits. The non-GAAP margin excluding accretion income was 4.21% and 4.23% for the six months ended June 30, 2017 and 2016, respectively. Additionally, the non-GAAP yield on loans excluding accretion income was 5.24% and 5.09% for the six months ended June 30, 2017 and 2016, respectively. The net interest margin was negatively impacted by our April 2017 issuance of $300 million of 5.625% fixed-to-floating rate subordinated notes, which added approximately $4.3 million of interest expense when compared to the same period in 2016, and by our strategic decision to keep excess cash liquidity on the books during the first six months of 2017.

Net interest income on a fully taxable equivalent basis increased $6.3 million, or 6.2%, to $109.4 million for the three-month period ended June 30, 2017, from $103.0 million for the same period in 2016. This increase in net interest income for the three-month period ended June 30, 2017 was the result of a $14.4 million increase in interest income offset by an $8.1 million increase in interest expense. The $14.4 million increase in interest income was primarily the result of a higher level of earning assets combined with higher yields on our interest earning assets, primarily taxable investment securities. The higher level of earning assets resulted in an increase in interest income of approximately $13.3 million. The rising yield on our interest earning assets, primarily taxable investment securities, offset by a $2.5 million reduction in loan accretion income resulted in an approximately $1.1 million increase in interest income. The $8.1 million increase in interest expense for the three-month period ended June 30, 2017, is primarily the result of an increase in interest bearing liabilities repricing in a rising interest rate environment combined with an increase in the higher level of our interest bearing liabilities. The repricing of our interest bearing liabilities in a rising interest rate environment resulted in an approximately $4.6 million increase in interest expense. The higher level of our interest bearing liabilities resulted in an increase in interest expense of approximately $3.5 million.

Net interest income on a fully taxable equivalent basis increased $13.1 million, or 6.5%, to $216.2 million for the six-month period ended June 30, 2017, from $203.0 million for the same period in 2016. This increase in net interest income for the six-month period ended June 30, 2017 was the result of a $23.7 million increase in interest income offset by a $10.5 million increase in interest expense. The $23.7 million increase in interest income was primarily the result of a higher level of earning assets offset by lower yields on our interest earning assets, specifically on our loans. The higher level of earning assets resulted in an increase in interest income of approximately $25.2 million. The lower yield, primarily caused by a $5.6 million reduction in loan accretion income, resulted in an approximately $1.5 million decrease in interest income. The $10.5 million increase in interest expense for the six-month period ended June 30, 2017, is primarily the result of an increase in interest bearing liabilities repricing in a rising interest rate environment combined with an increase in the higher level of our interest bearing liabilities. The repricing of our interest bearing liabilities in a rising interest rate environment resulted in an approximately $7.1 million increase in interest expense. The higher level of our interest bearing liabilities resulted in an increase in interest expense of approximately $3.4 million.

Additional information and analysis for our net interest margin can be found in Tables 18 through 20 of our Non-GAAP Financial Measurements section of the Management Discussion and Analysis.

Table of Contents

Tables 2 and 3 reflect an analysis of net interest income on a fully taxable equivalent basis for the three and six-month periods ended June 30, 2017 and 2016, as well as changes in fully taxable equivalent net interest margin for the three and six-month periods ended June 30, 2017 compared to the same periods in 2016.

Table 2: Analysis of Net Interest Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
	(Dollars in thousands)			
Interest income	$ 122,863	$ 108,490	$ 237,357	$ 213,774
Fully taxable equivalent adjustment	2,016	1,974	4,027	3,947
Interest income fully taxable equivalent	124,879	110,464	241,384	217,721
Interest expense	15,511	7,449	25,190	14,676
Net interest income fully taxable equivalent	$ 109,368	$ 103,015	$ 216,194	$ 203,045
Yield on earning assets fully taxable equivalent	5.14%	5.17%	5.14%	5.17%
Cost of interest-bearing liabilities	0.84	0.45	0.70	0.45
Net interest spread fully taxable equivalent	4.30	4.72	4.44	4.72
Net interest margin fully taxable equivalent	4.50	4.83	4.60	4.82

Table 3: Changes in Fully Taxable Equivalent Net Interest Margin

	Three Months Ended June 30, 2017 vs. 2016	Six Months Ended June 30, 2017 vs. 2016
	(In thousands)	
Increase (decrease) in interest income due to change in earning assets	$ 13,326	$ 25,213
Increase (decrease) in interest income due to change in earning asset yields	1,089	(1,550)
(Increase) decrease in interest expense due to change in interest-bearing liabilities	(3,492)	(3,395)
(Increase) decrease in interest expense due to change in interest rates paid on interest-bearing liabilities	(4,570)	(7,119)
Increase (decrease) in net interest income	$ 6,353	$ 13,149

58

Table of Contents

Table 4 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 six-month periods ended June 30, 2017 and 2016, 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 4: Average Balance Sheets and Net Interest Income Analysis

	Three Months Ended June 30,					
	2017			2016		
	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
	(Dollars in thousands)					
ASSETS						
Earnings assets						
Interest-bearing balances due from banks	$ 303,997	$ 727	0.96%	$ 112,537	$ 106	0.38%
Federal funds sold	1,427	4	1.12	1,509	1	0.27
Investment securities taxable	1,256,202	6,434	2.05	1,170,091	5,145	1.77
Investment securities non-taxable	346,708	4,812	5.57	332,091	4,611	5.58
Loans receivable	7,829,615	112,902	5.78	6,969,727	100,601	5.81
Total interest-earning assets	9,737,949	$ 124,879	5.14	8,585,955	$ 110,464	5.17
Non-earning assets	1,055,821			976,669		
Total assets	$ 10,793,770			$ 9,562,624		
LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities						
Interest-bearing liabilities						
Savings and interest-bearing transaction accounts	$ 4,292,389	$ 4,313	0.40%	$ 3,677,650	$ 2,141	0.23%
Time deposits	1,443,228	2,497	0.69	1,393,023	1,713	0.49
Total interest-bearing deposits	5,735,617	6,810	0.48	5,070,673	3,854	0.31
Federal funds purchased				330	1	1.22
Securities sold under agreement to repurchase	128,661	196	0.61	115,849	134	0.47
FHLB and other borrowed funds	1,177,510	3,710	1.26	1,402,465	3,074	0.88
Subordinated debentures	351,659	4,795	5.47	60,826	386	2.55
Total interest-bearing liabilities	7,393,447	15,511	0.84	6,650,143	7,449	0.45
Non-interest bearing liabilities						

Non-interest bearing deposits	1,899,865			1,611,282		
Other liabilities	47,359			61,119		
Total liabilities	9,340,671			8,322,544		
Stockholders equity	1,453,099			1,240,080		
Total liabilities and stockholders equity	$ 10,793,770			$ 9,562,624		
Net interest spread			4.30%			4.72%
Net interest income and margin		$ 109,368	4.50%		$ 103,015	4.83%

Table of Contents

Table 4: Average Balance Sheets and Net Interest Income Analysis

	Six Months Ended June 30,					
	2017			2016		
	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
	(Dollars in thousands)					
ASSETS						
Earnings assets						
Interest-bearing balances due from banks	$ 237,617	$ 1,035	0.88%	$ 110,842	$ 208	0.38%
Federal funds sold	1,305	6	0.93	2,279	5	0.44
Investment securities taxable	1,183,588	11,912	2.03	1,173,843	10,595	1.82
Investment securities non-taxable	346,895	9,598	5.58	335,539	9,209	5.52
Loans receivable	7,708,264	218,833	5.72	6,849,394	197,704	5.80
Total interest-earning assets	9,477,669	$ 241,384	5.14	8,471,897	$ 217,721	5.17
Non-earning assets	1,020,474			974,726		
Total assets	$ 10,498,143			$ 9,446,623		
LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities						
Interest-bearing liabilities						
Savings and interest-bearing transaction accounts	$ 4,216,025	$ 7,690	0.37%	$ 3,635,782	$ 4,159	0.23%
Time deposits	1,400,501	4,606	0.66	1,393,307	3,329	0.48
Total interest-bearing deposits	5,616,526	12,296	0.44	5,029,089	7,488	0.30
Federal funds purchased			0.00	470	2	0.86
Securities sold under agreement to repurchase	126,390	361	0.58	122,373	279	0.46
FHLB and other borrowed funds	1,274,823	7,299	1.15	1,385,461	6,144	0.89
Subordinated debentures	207,043	5,234	5.10	60,826	763	2.52
Total interest-bearing liabilities	7,224,782	25,190	0.70	6,598,219	14,676	0.45
Non-interest bearing liabilities						
Non-interest bearing deposits	1,808,660			1,562,725		
Other liabilities	52,062			60,505		
Total liabilities	9,085,504			8,221,449		
Stockholders equity	1,412,639			1,225,174		
Total liabilities and stockholders equity	$ 10,498,143			$ 9,446,623		

Net interest spread		4.44%		4.72%
Net interest income and margin	$ 216,194	4.60%	$ 203,045	4.82%

Table of Contents

Table 5 shows changes in interest income and interest expense resulting from changes in volume and changes in interest rates for the three and six-month periods ended June 30, 2017 compared to the same periods in 2016, 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 5: Volume/Rate Analysis

	Three Months Ended June 30, 2017 over 2016			Six Months Ended June 30, 2017 over 2016		
	Volume	Yield/Rate	Total	Volume	Yield/Rate	Total
			(In thousands)			
Increase (decrease) in:						
Interest income:						
Interest-bearing balances due from banks	$ 326	$ 295	$ 621	$ 384	$ 443	$ 827
Federal funds sold		3	3	(3)	4	1
Investment securities taxable	398	891	1,289	89	1,228	1,317
Investment securities non-taxable	203	(2)	201	313	76	389
Loans receivable	12,399	(98)	12,301	24,430	(3,301)	21,129
Total interest income	13,326	1,089	14,415	25,213	(1,550)	23,663
Interest expense:						
Interest-bearing transaction and savings deposits	407	1,765	2,172	748	2,783	3,531
Time deposits	64	720	784	17	1,260	1,277
Federal funds purchased		(1)	(1)	(1)	(1)	(2)
Securities sold under agreement to repurchase	16	46	62	9	73	82
FHLB borrowed funds	(551)	1,187	636	(521)	1,676	1,155
Subordinated debentures	3,556	853	4,409	3,143	1,328	4,471
Total interest expense	3,492	4,570	8,062	3,395	7,119	10,514
Increase (decrease) in net interest income	$ 9,834	$ (3,481)	$ 6,353	$ 21,818	$ (8,669)	$ 13,149

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.

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. 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 markets 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 $387,000 and $5.7 million of provision for loan losses for the three months ended June 30, 2017 and 2016, respectively. We experienced a $5.3 million decrease in the provision for loan losses during the second quarter of 2017 versus the second quarter of 2016. This $5.3 million decrease is primarily a result of reduced provisioning from lower net charge-offs, improved asset quality and lower organic loan growth versus the second quarter of 2016.

There was $4.3 million and $11.4 million of provision for loan losses for the six months ended June 30, 2017 and 2016, respectively. We experienced a $7.1 million decrease in the provision for loan losses during the first six months of 2017 versus the first six months of 2016. This $7.1 million decrease is primarily a result of reduced provisioning from lower net charge-offs, improved asset quality and lower organic loan growth versus the first six months of 2016.

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

Non-Interest Income

Total non-interest income was $24.4 million and $50.9 million for the three and six-month periods ended June 30, 2017, compared to $21.8 million and $41.2 million for the same periods in 2016, respectively. Our recurring non-interest income includes service charges on deposit accounts, other service charges and fees, trust fees, mortgage lending, insurance, increase in cash value of life insurance and dividends.

Table of Contents

Table 6 measures the various components of our non-interest income for the three and six-month periods ended June 30, 2017 and 2016, respectively, as well as changes for the three and six-month periods ended June 30, 2017 compared to the same period in 2016.

Table 6: Non-Interest Income

	Three Months Ended June 30,		2017 Change from 2016		Six Months Ended June 30,		2017 Change from 2016	
	2017	2016			2017	2016		
	(Dollars in thousands)							
Service charges on deposit accounts	$ 5,966	$ 6,151	$ (185)	(3.0)%	$ 11,948	$ 12,080	$ (132)	(1.1)%
Other service charges and fees	8,576	7,968	608	7.6	17,493	15,085	2,408	16.0
Trust fees	309	359	(50)	(13.9)	765	763	2	0.3
Mortgage lending income	3,750	3,481	269	7.7	6,541	6,344	197	3.1
Insurance commissions	465	617	(152)	(24.6)	1,010	1,274	(264)	(20.7)
Increase in cash value of life insurance	463	353	110	31.2	773	748	25	3.3
Dividends from FHLB, FRB, Bankers Bank & other	472	719	(247)	(34.4)	1,621	1,339	282	21.1
Gain on acquisitions					3,807		3,807	100.0
Gain on sale of SBA loans	387	79	308	389.9	575	79	496	627.8
Gain (loss) on sale of branches, equipment and other assets, net	431	840	(409)	(48.7)	375	787	(412)	(52.4)
Gain (loss) on OREO, net	393	(941)	1,334	141.8	514	(845)	1,359	160.8
Gain (loss) on securities, net	380	15	365	2,433.3	803	25	778	3,112.0
FDIC indemnification accretion/(amortization), net		(410)	410	100.0		(772)	772	100.0
Other income	2,825	2,541	284	11.2	4,662	4,302	360	8.4
Total non-interest income	$ 24,417	$ 21,772	$ 2,645	12.1%	$ 50,887	$ 41,209	$ 9,678	23.5%

Non-interest income increased $2.6 million, or 12.1%, to $24.4 million for the three-month period ended June 30, 2017 from $21.8 million for the same period in 2016. Non-interest income increased $9.7 million, or 23.5%, to $50.9 million for the six-month period ended June 30, 2017 from $41.2 million for the same period in 2016. Non-interest income excluding gain on acquisitions increased $5.9 million, or 14.2%, to $47.1 million for the six months ended June 30, 2017 from $41.2 million for the same period in 2016.

Excluding gain on acquisitions, the primary factors that resulted in this increase were changes related to other service charges and fees, net gain on OREO, net gain on securities, and amortization on our former FDIC indemnification

asset.

Additional details for the three months ended June 30, 2017 on some of the more significant changes are as follows:

The $608,000 increase in other service charges and fees is primarily from our first quarter 2017 acquisitions plus additional loan payoff fees generated by Centennial CFG.

The $247,000 decrease in dividends from FHLB, FRB, Bankers Bank and other is primarily the result of the Fixing America s Surface Transportation (FAST) Act of 2015, which applies to banks over $10 billion. The FAST Act of 2015 pertains to the dividend paid on our Federal Reserve Bank stock and is limited to the lesser of the yield on the 10-year Treasury note or 6% for those banks with assets greater than $10 billion.

The $1.3 million increase in gain (loss) on OREO, net, is primarily related to realizing gains on sale from OREO properties during the second quarter of 2017 versus the revaluation of seven OREO properties during the second quarter of 2016.

The $365,000 increase in gain (loss) on securities, net, is a result of a strategic decision to recognize the long-term capital gains on sales of investment securities when compared to the same period in 2016.

The $410,000 increase in FDIC indemnification accretion/amortization, net, is a result of the buy-out of the FDIC loss share portfolio during the third quarter of 2016.

Table of Contents

Additional details for the six months ended June 30, 2017 on some of the more significant changes are as follows:

The $2.4 million increase in other service charges and fees is primarily from our first quarter 2017 acquisitions plus additional loan payoff fees generated by Centennial CFG and approximately $615,000 of MasterCard incentive income received in the first quarter of 2017.

The $1.4 million increase in gain (loss) on OREO is primarily related to realizing gains on sale from OREO properties during the first six months of 2017 versus the revaluation of seven OREO properties during the first six months of 2016.

The $778,000 increase in gain (loss) on securities, net, is a result of a strategic decision to recognize the long-term capital gains on sales of investment securities when compared to the same period in 2016.

The $772,000 increase in FDIC indemnification accretion/amortization, net, is a result of the buy-out of the FDIC loss share portfolio during the third quarter of 2016.

Non-Interest Expense

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

Table 7 below sets forth a summary of non-interest expense for the three and six-month periods ended June 30, 2017 and 2016, as well as changes for the three and six-month periods ended June 30, 2017 compared to the same period in 2016.

Table 7: Non-Interest Expense

	Three Months Ended June 30,		2017 Change from 2016		Six Months Ended June 30,		2017 Change from 2016	
	2017	2016			2017	2016		
	(Dollars in thousands)							
Salaries and employee benefits	$ 28,034	$ 25,437	$ 2,597	10.2%	$ 55,455	$ 49,395	$ 6,060	12.3%
Occupancy and equipment	7,034	6,509	525	8.1	13,715	13,180	535	4.1
Data processing expense	2,863	2,766	97	3.5	5,586	5,430	156	2.9
Other operating expenses:								
Advertising	812	733	79	10.8	1,510	1,556	(46)	(3.0)
Merger and acquisition expenses	789		789	100.0	7,516		7,516	100.0
	866	763	103	13.5	1,670	1,608	62	3.9

Amortization of intangibles								
Electronic banking expense	1,654	1,237	417	33.7	3,173	2,693	480	17.8
Directors fees	324	289	35	12.1	637	564	73	12.9
Due from bank service charges	456	337	119	35.3	876	642	234	36.4
FDIC and state assessment	1,182	1,446	(264)	(18.3)	2,470	2,892	(422)	(14.6)
Insurance	543	544	(1)	(0.2)	1,121	1,077	44	4.1
Legal and accounting	474	658	(184)	(28.0)	1,101	1,181	(80)	(6.8)
Other professional fees	1,233	1,044	189	18.1	2,386	1,969	417	21.2
Operating supplies	477	419	58	13.8	944	855	89	10.4
Postage	295	260	35	13.5	581	546	35	6.4
Telephone	398	455	(57)	(12.5)	722	942	(220)	(23.4)
Other expense	3,569	4,690	(1,121)	(23.9)	6,681	8,705	(2,024)	(23.3)
Total non-interest expense	$ 51,003	$ 47,587	$ 3,416	7.2%	$ 106,144	$ 93,235	$ 12,909	13.8%

Non-interest expense increased $3.4 million, or 7.2%, to $51.0 million for the three months ended June 30, 2017 from $47.6 million for the same period in 2016. Non-interest expense increased $12.9 million, or 13.8%, to $106.1 million for the six months ended June 30, 2017 from $93.2 million for the same period in 2016. Non-interest expense, excluding merger expenses, was $50.2 million and $98.6 million for the three and six months ended June 30, 2017, respectively, compared to $47.6 million and $93.2 million for the same periods in 2016, respectively.

The change in non-interest expense for 2017 when compared to 2016 is primarily related to the completion of our acquisitions, the normal increased cost of doing business and Centennial CFG.

Centennial CFG incurred $4.5 million and $9.1 million of non-interest expense during the three and six months ended June 30, 2017, respectively, compared to $3.8 million and $6.8 million of non-interest expense during the three and six months ended June 30, 2016, respectively. While the cost of doing business in New York City and Los Angeles is significantly higher than our Arkansas, Florida and Alabama markets, we are still committed to cost-saving measures while achieving our goals of growing the Company.

During the second quarter and first six months of 2017, the Company had a write-down on vacant property from closed branches of approximately $47,000. This write-down is included in other expense.

During the second quarter and first six months of 2016, the Company had write-downs on vacant property from closed branches of approximately $1.2 million and $1.9 million, respectively. These write-downs are included in other expense.

Income Taxes

The income tax expense increased $4.3 million, or 16.4%, to $30.3 million for the three-month period ended June 30, 2017, from $26.0 million for the same period in 2016. The income tax expense increased $4.9 million, or 9.6%, to $55.7 million for the six-month period ended June 30, 2017, from $50.8 million for the same period in 2016. The effective income tax rate was 37.67% and 36.47% for the three and six-month periods ended June 30, 2017, compared to 37.43% and 37.41% for the same periods in 2016. The primary cause of the decrease in the year-to-date effective tax rate is a result of the $3.8 million of non-taxable gain on acquisitions offset by approximately $936,000 of non-deductible merger expenses during the first six months of 2017.

Financial Condition as of and for the Period Ended June 30, 2017 and December 31, 2016

Our total assets as of June 30, 2017 increased $1.06 billion to $10.87 billion from the $9.81 billion reported as of December 31, 2016. Our loan portfolio increased $446.8 million to $7.83 billion as of June 30, 2017, from $7.39 billion as of December 31, 2016. This increase is a result of our acquisitions since December 31, 2016. Stockholders equity increased $148.5 million to $1.48 billion as of June 30, 2017, compared to $1.33 billion as of December 31, 2016. The increase in stockholders equity is primarily associated with the $77.5 million of common stock issued to the GHI shareholders plus the $71.4 million increase in retained earnings combined with the $6.0 million of comprehensive income during the first six months offset by the repurchase of $10.3 million of our common stock. The annualized improvement in stockholders equity for the first six months of 2017, excluding the $77.5 million of common stock issued to the GHI shareholders, was 10.8%.

Loan Portfolio

Loans Receivable

Our loan portfolio averaged $7.83 billion and $6.97 billion during the three-month periods ended June 30, 2017 and 2016, respectively. Our loan portfolio averaged $7.71 billion and $6.85 billion during the six-month periods ended June 30, 2017 and 2016, respectively. Loans receivable were $7.83 billion as of June 30, 2017 compared to $7.39 billion as of December 31, 2016, which is a $446.8 million, or 12.2%, annualized increase.

During the first quarter of 2017, the Company acquired $446.3 million of loans, net of purchase accounting discounts. From December 31, 2016 to June 30, 2017, the Company produced organic loan growth of approximately $525,000 in addition to the acquired loans. Centennial CFG produced $40.3 million of net organic loan growth during the first six months of 2017 while the legacy footprint experienced significant net payoffs during the first six months of 2017, resulting in a net decline of $39.8 million.

Table of Contents

The most significant components of the loan portfolio were commercial real estate, residential real estate, consumer and commercial and industrial loans. These loans are generally secured by residential or commercial real estate or business or personal property. Although these loans are primarily originated within our franchises in Arkansas, Florida, South Alabama and Centennial CFG, the property securing these loans may not physically be located within our market areas of Arkansas, Florida, Alabama and New York. Loans receivable were approximately $3.51 billion, $2.95 billion, $228.1 million and $1.15 billion as of June 30, 2017 in Arkansas, Florida, Alabama and Centennial CFG, respectively.

As of June 30, 2017, we had approximately $478.3 million of construction land development loans which were collateralized by land. This consisted of approximately $255.8 million for raw land and approximately $222.5 million for land with commercial and or residential lots.

Table 8 presents our loans receivable balances by category as of June 30, 2017 and December 31, 2016.

Table 8: Loans Receivable

	As of June 30, 2017	As of December 31, 2016
	(In thousands)	
Real estate:		
Commercial real estate loans:		
Non-farm/non-residential	$ 3,368,663	$ 3,153,121
Construction/land development	1,315,309	1,135,843
Agricultural	78,260	77,736
Residential real estate loans:		
Residential 1-4 family	1,513,888	1,356,136
Multifamily residential	398,781	340,926
Total real estate	6,674,901	6,063,762
Consumer	38,424	41,745
Commercial and industrial	994,827	1,123,213
Agricultural	69,697	74,673
Other	56,626	84,306
Total loans receivable	$ 7,834,475	$ 7,387,699

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 June 30, 2017, commercial real estate loans totaled $4.76 billion, or 60.8% of loans receivable, as compared to $4.37 billion, or 59.1% of loans receivable, as of December 31, 2016. Commercial real estate loans originated in our Arkansas, Florida, Alabama and Centennial CFG franchises were $1.95 billion, $1.89 billion, $119.9 million and $801.0 million at June 30, 2017, respectively.

Residential Real Estate Loans. We originate one to four family, residential mortgage loans generally secured by property located in our primary market areas. Approximately 40.2% and 49.2% of our residential mortgage loans consist of owner occupied 1-4 family properties and non-owner occupied 1-4 family properties (rental), respectively, as of June 30, 2017. 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 June 30, 2017, residential real estate loans totaled $1.91 billion, or 24.4%, of loans receivable, compared to $1.70 billion, or 23.0% of loans receivable, as of December 31, 2016. Residential real estate loans originated in our Arkansas, Florida, Alabama and Centennial CFG franchises were $871.8 million, $799.4 million, $78.3 million and $163.2 million at June 30, 2017, respectively.

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

As of June 30, 2017, consumer loans totaled $38.4 million, or 0.5% of loans receivable, compared to $41.8 million, or 0.6% of loans receivable, as of December 31, 2016. Consumer loans originated in our Arkansas, Florida, Alabama and Centennial CFG franchises were $23.8 million, $13.6 million, $1.0 million and zero at June 30, 2017, respectively.

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 June 30, 2017, commercial and industrial loans totaled $994.8 million, or 12.7% of loans receivable, which is comparable to $1.12 billion, or 15.2% of loans receivable, as of December 31, 2016. Commercial and industrial loans originated in our Arkansas, Florida, Alabama and Centennial CFG franchises were $570.7 million, $212.7 million, $26.8 million and $184.6 million at June 30, 2017, respectively.

Non-Performing Assets

We classify our 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 purchased loans with deteriorated credit quality in our June 30, 2017 financial statements as a result of our historical acquisitions. The credit metrics most heavily impacted by our acquisitions of acquired loans with deteriorated credit quality were the following credit quality indicators listed in Table 9 below:

Allowance for loan losses to non-performing loans;

- Non-performing loans to total loans; and

- Non-performing assets to total 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 loans and non-performing assets, or comparable with other institutions.

Table of Contents

Table 9 sets forth information with respect to our non-performing assets as of June 30, 2017 and December 31, 2016. As of these dates, all non-performing restructured loans are included in non-accrual loans.

Table 9: Non-performing Assets

	As of June 30, 2017	As of December 31, 2016
	(Dollars in thousands)	
Non-accrual loans	$ 32,426	$ 47,182
Loans past due 90 days or more (principal or interest payments)	14,442	15,942
Total non-performing loans	46,868	63,124
Other non-performing assets		
Foreclosed assets held for sale, net	18,789	15,951
Other non-performing assets	3	3
Total other non-performing assets	18,792	15,954
Total non-performing assets	$ 65,660	$ 79,078
Allowance for loan losses to non-performing loans	170.99%	126.74%
Non-performing loans to total loans	0.60	0.85
Non-performing assets to total assets	0.60	0.81

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

Total non-performing loans were $46.9 million as of June 30, 2017, compared to $63.1 million as of December 31, 2016, for a decrease of $16.3 million. The $16.3 million decrease in non-performing loans is the result of a $6.5 million decrease in non-performing loans in our Arkansas franchise, a $9.4 million decrease in non-performing loans in our Florida franchise and a $350,000 decrease in non-performing loans in our Alabama franchise. Non-performing loans at June 30, 2017 are $22.0 million, $24.6 million, $306,000 and zero in the Arkansas, Florida, Alabama and Centennial CFG franchises, 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 loans. While we believe our allowance for loan losses is adequate and our purchased loans are adequately discounted at June 30, 2017, 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 2017. Our current or historical provision levels should not be relied upon as a predictor or indicator of future levels going forward.

Troubled debt restructurings (TDRs   ) generally occur when a borrower is experiencing, or is expected to experience, financial difficulties in the near term. As a result, the Bank will work with the borrower to prevent further difficulties, and ultimately to improve the likelihood of recovery on the loan. In those circumstances it may be beneficial to restructure the terms of a loan and work with the borrower for the benefit of both parties, versus forcing the property into foreclosure and having to dispose of it in an unfavorable and depressed real estate market. When we have modified the terms of a loan, we usually either reduce the monthly payment and/or interest rate for generally about three to twelve months. For our TDRs 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 loans. As of June 30, 2017, we had $21.2 million of restructured loans that are in compliance with the modified terms and are not reported as past due or non-accrual in Table 9. Our Florida franchise contains $18.3 million and our Arkansas franchise contains $2.9 million of these restructured loans.

A loan modification that might not otherwise be considered may be granted resulting in classification as a TDR. 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 under 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 June 30, 2017, the amount of TDRs was $22.3 million, a decrease of 12.6% from $25.5 million at December 31, 2016. As of June 30, 2017 and December 31, 2016, 95.1% and 88.0%, respectively, of all restructured loans were performing to the terms of the restructure.

Total foreclosed assets held for sale were $18.8 million as of June 30, 2017, compared to $16.0 million as of December 31, 2016 for an increase of $2.8 million. The foreclosed assets held for sale as of June 30, 2017 are comprised of $11.5 million of assets located in Arkansas, $6.7 million of assets located in Florida, $641,000 located in Alabama and zero from Centennial CFG.

During the first six months of 2017, we had two foreclosed properties with a carrying value greater than $1.0 million. The largest property is a development loan in Northwest Arkansas which was foreclosed in the first quarter of 2011. The carrying value was $2.0 million at June 30, 2017. The other property was a development property in Florida acquired from BOC with a carrying value of $2.1 million at June 30, 2017. The Company does not currently anticipate any additional losses on these properties. As of June 30, 2017, no other foreclosed assets held for sale have a carrying value greater than $1.0 million.

Table 10 shows the summary of foreclosed assets held for sale as of June 30, 2017 and December 31, 2016.

Table 10: Foreclosed Assets Held For Sale

	As of June 30, 2017	As of December 31, 2016
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 8,206	$ 9,423
Construction/land development	4,742	4,009
Agricultural		
Residential real estate loans		
Residential 1-4 family	4,321	2,076
Multifamily residential	1,520	443
Total foreclosed assets held for sale	$ 18,789	$ 15,951

A loan is considered impaired when it is probable that we will not receive all amounts due according to the contracted terms of the loans. Impaired loans include non-performing loans (loans past due 90 days or more and non-accrual loans), criticized and/or classified loans with a specific allocation, loans categorized as TDRs and certain other loans identified by management that are still performing (loans included in multiple categories are only included once). As of June 30, 2017, average impaired loans were $87.7 million compared to $89.6 million as of December 31, 2016. As of June 30, 2017, impaired loans were $78.9 million compared to $93.1 million as of December 31, 2016, for a decrease of $14.3 million. This decrease is primarily associated with the decrease in loan balances with a specific allocation combined with a decrease in the level of loans categorized as TDRs and non-performing loans. As of June 30, 2017, our Arkansas, Florida, Alabama and Centennial CFG franchises accounted for approximately $35.5 million, $43.1 million, $306,000 and zero of the impaired loans, respectively.

Table of Contents

We evaluated loans purchased in conjunction with our historical acquisitions for impairment in accordance with the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Purchased loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected. Purchased credit impaired loans are not classified as non-performing 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, we have included all of the 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 purchased loans 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 purchased loans with deteriorated credit quality that were deemed TDRs prior to our acquisition of them, these loans are also not considered TDRs as they are accounted for under ASC 310-30.

As of June 30, 2017 and December 31, 2016, there was not a material amount of purchased loans with deteriorated credit quality on non-accrual status as a result of most 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.

Past Due and Non-Accrual Loans

Table 11 shows the summary of non-accrual loans as of June 30, 2017 and December 31, 2016:

Table 11: Total Non-Accrual Loans

	As of June 30, 2017	As of December 31, 2016
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 9,675	$ 17,988
Construction/land development	2,365	3,956
Agricultural	114	435
Residential real estate loans		
Residential 1-4 family	15,579	20,311
Multifamily residential		262
Total real estate	27,733	42,952
Consumer	132	140
Commercial and industrial	3,858	3,155
Agricultural	585	
Other	118	935

Total non-accrual loans	$ 32,426	$ 47,182

If the non-accrual loans had been accruing interest in accordance with the original terms of their respective agreements, interest income of approximately $549,000 and $506,000, respectively, would have been recorded for the three-month periods ended June 30, 2017 and 2016. If the non-accrual loans had been accruing interest in accordance with the original terms of their respective agreements, interest income of approximately $1.1 million would have been recorded for each of the six-month periods ended June 30, 2017 and 2016, respectively. The interest income recognized on the non-accrual loans for the three and six-month periods ended June 30, 2017 and 2016 was considered immaterial.

Table of Contents

Table 12 shows the summary of accruing past due loans 90 days or more as of June 30, 2017 and December 31, 2016:

Table 12: Loans Accruing Past Due 90 Days or More

	As of June 30, 2017	As of December 31, 2016
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 8,202	$ 9,530
Construction/land development	3,176	3,086
Agricultural		
Residential real estate loans		
Residential 1-4 family	1,550	2,996
Multifamily residential	1,367	
Total real estate	14,295	15,612
Consumer	6	21
Commercial and industrial	141	309
Agricultural		
Other		
Total loans accruing past due 90 days or more	$ 14,442	$ 15,942

Our total loans accruing past due 90 days or more and non-accrual loans to total loans was 0.60% and 0.85% as of June 30, 2017 and December 31, 2016, respectively.

Allowance for Loan Losses

Overview. The allowance for loan losses 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, our earnings could be adversely affected.

As we evaluate the allowance for loan losses, 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 our 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, and if necessary, adjustments are made to the specific allocation provided for a particular loan.

For collateral dependent loans, we do not consider an appraisal outdated simply due to the passage of time. However, if an appraisal is older than 13 months and if market or other conditions have deteriorated and we believe that the current market value of the property is not within approximately 20% of the appraised value, we will consider the appraisal outdated and order either a new appraisal or an internal validation report 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. 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 or internal validation report is required, it is ordered and will be taken into consideration during completion of the next impairment analysis.

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

Between the receipt of the original appraisal and the updated appraisal, we monitor the loan s repayment history. If the loan is $1.0 million or greater or the total loan relationship is $2.0 million or greater, our policy requires an annual credit review. Our policy requires financial statements from the borrowers and guarantors at least annually. In addition, we calculate the global repayment ability of the borrower/guarantors at least annually.

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.

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 that fall below $2.0 million. 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. Loans receivable collectively evaluated for impairment increased by approximately $461.8 million from $7.08 billion at December 31, 2016 to $7.54 billion at June 30, 2017. The percentage of the allowance for loan losses allocated to loans receivable collectively evaluated for impairment to the total loans collectively evaluated for impairment decreased from 1.08% at December 31, 2016 to 1.00% at June 30,

2017. This decrease is primarily the result of the $446.3 million of acquired loans, net of purchase accounting discounts, from the first quarter of 2017 combined with 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, asset quality and net charge-offs.

Charge-offs and Recoveries. Total charge-offs decreased to $1.4 million for the three months ended June 30, 2017, compared to $4.4 million for the same period in 2016. Total charge-offs decreased to $6.1 million for the six months ended June 30, 2017, compared to $8.3 million for the same period in 2016. Total recoveries increased to $845,000 for the three months ended June 30, 2017, compared to $710,000 for the same period in 2016. Total recoveries decreased to $1.9 million for the six months ended June 30, 2017, compared to $2.1 million for the same period in 2016. For the three months ended June 30, 2017, net charge-offs were $673,000 for Arkansas, $17,000 for Alabama and zero for Centennial CFG, and net recoveries were $130,000 for Florida, equaling a net charge-off position of $560,000. For the six months ended June 30, 2017, net charge-offs were $3.7 million for Arkansas, $217,000 for Florida, $220,000 for Alabama and zero for Centennial CFG, equaling a net charge-off position of $4.2 million. While the 2017 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, less estimated costs to sell (for collateral dependent loans), for any period presented. Loans partially charged-off are placed on non-accrual status until it is proven that the borrower s repayment ability with respect to the remaining principal balance can be reasonably assured. This is usually established over a period of 6-12 months of timely payment performance.

Table 13 shows the allowance for loan losses, charge-offs and recoveries as of and for the three and six-month periods ended June 30, 2017 and 2016.

Table 13: Analysis of Allowance for Loan Losses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Balance, beginning of period	$ 80,311	$ 72,306	$ 80,002	$ 69,224
Loans charged off				
Real estate:				
Commercial real estate loans:				
Non-farm/non-residential	189	667	1,528	1,849
Construction/land development	119	66	326	153
Agricultural	2		127	
Residential real estate loans:				
Residential 1-4 family	326	997	2,203	2,276
Multifamily residential	71		85	30
Total real estate	707	1,730	4,269	4,308
Consumer	122	77	144	108
Commercial and industrial	134	2,153	779	3,036
Agricultural				
Other	442	407	919	862
Total loans charged off	1,405	4,367	6,111	8,314
Recoveries of loans previously charged off				
Real estate:				
Commercial real estate loans:				
Non-farm/non-residential	379	190	710	228
Construction/land development	28	14	227	33
Agricultural				
Residential real estate loans:				
Residential 1-4 family	114	206	242	674
Multifamily residential	7	7	12	14
Total real estate	528	417	1,191	949
Consumer	33	16	66	36
Commercial and industrial	70	85	252	614
Agricultural				
Other	214	192	437	463
Total recoveries	845	710	1,946	2,062

Net loans charged off (recovered)	560	3,657	4,165	6,252
Provision for loan losses	387	5,692	4,301	11,369
Balance, June 30	$ 80,138	$ 74,341	$ 80,138	$ 74,341
Net charge-offs (recoveries) to average loans receivable	0.03%	0.21%	0.11%	0.18%
Allowance for loan losses to total loans	1.02	1.06	1.02	1.06
Allowance for loan losses to net charge-offs (recoveries)	3,568	505	954	591

Allocated Allowance for Loan Losses. We use a risk rating and specific reserve methodology in the calculation and allocation of our allowance for loan losses. 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 June 30, 2017 and the year ended December 31, 2016 in the allocation of the allowance for loan losses for the individual types of loans are primarily associated with changes in the ASC 310 calculations, both individual and aggregate, and changes in the ASC 450 calculations. These calculations are affected by changes in individual loan impairments, changes in asset quality, net charge-offs during the period and normal changes in the outstanding loan portfolio, as well any changes to the general allocation factors due to changes within the actual characteristics of the loan portfolio.

Table 14 presents the allocation of allowance for loan losses as of June 30, 2017 and December 31, 2016.

Table 14: Allocation of Allowance for Loan Losses

	As of June 30, 2017		As of December 31, 2016	
	Allowance Amount	% of loans[(1)]	Allowance Amount	% of loans[(1)]
	(Dollars in thousands)			
Real estate:				
Commercial real estate loans:				
Non-farm/non-residential	$ 27,271	43.0%	$ 27,695	42.7%
Construction/land development	12,842	16.8	11,522	15.4
Agricultural	572	1.0	493	1.1
Residential real estate loans:				
Residential 1-4 family	15,242	19.3	14,397	18.3
Multifamily residential	2,473	5.1	2,120	4.6
Total real estate	58,400	85.2	56,227	82.1
Consumer	377	0.5	398	0.6
Commercial and industrial	12,828	12.7	12,756	15.2
Agricultural	2,678	0.9	3,790	1.0
Other	8	0.7		1.1
Unallocated	5,847		6,831	
Total allowance for loan losses	$ 80,138	100.0%	$ 80,002	100.0%

(1) Percentage of loans in each category to total loans receivable.

Investment Securities

Our securities portfolio is the second largest component of earning assets and provides a significant source of revenue. Securities within the portfolio are classified as held-to-maturity, available-for-sale, or trading based on the intent and objective of the investment and the ability to hold to maturity. Fair values of securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities. The estimated effective duration of our securities portfolio was 2.6 years as of June 30, 2017.

As of June 30, 2017 and December 31, 2016, we had $254.2 million and $284.2 million of held-to-maturity securities, respectively. Of the $254.2 million of held-to-maturity securities as of June 30, 2017, $6.2 million were invested in U.S. Government-sponsored enterprises, $85.1 million were invested in mortgage-backed securities and $162.8 million were invested in state and political subdivisions. Of the $284.2 million of held-to-maturity securities as of December 31, 2016, $6.6 million were invested in U.S. Government-sponsored enterprises, $107.8 million were invested in mortgage-backed securities and $169.7 million were invested in state and political subdivisions.

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 $1.40 billion and $1.07 billion as of June 30, 2017 and December 31, 2016, respectively.

As of June 30, 2017, $763.9 million, or 54.5%, of our available-for-sale securities were invested in mortgage-backed securities, compared to $579.5 million, or 54.0%, of our available-for-sale securities as of December 31, 2016. To reduce our income tax burden, $240.9 million, or 17.2%, of our available-for-sale securities portfolio as of June 30, 2017, was primarily invested in tax-exempt obligations of state and political subdivisions, compared to $216.5 million, or 20.2%, of our available-for-sale securities as of December 31, 2016. Also, we had approximately $356.7 million, or 25.5%, invested in obligations of U.S. Government-sponsored enterprises as of June 30, 2017, compared to $236.8 million, or 22.1%, of our available-for-sale securities as of December 31, 2016.

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

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

Deposits

Our deposits averaged $7.64 billion and $7.43 billion for the three and six-month periods ended June 30, 2017. Total deposits as of June 30, 2017 were $7.77 billion. Excluding $443.8 million of deposits acquired through the acquisitions of GHI and BOC, total deposits as of June 30, 2017 were $7.32 billion, for an annualized increase of 11.1% from December 31, 2016. Deposits are our primary source of funds. We offer a variety of products designed to attract and retain deposit customers. Those products consist of checking accounts, regular savings deposits, NOW accounts, money market accounts and certificates of deposit. Deposits are gathered from individuals, partnerships and corporations in our market areas. In addition, we obtain deposits from state and local entities and, to a lesser extent, U.S. Government and other depository institutions.

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

Table 15 reflects the classification of the brokered deposits as of June 30, 2017 and December 31, 2016.

Table 15: Brokered Deposits

	June 30, 2017	December 31, 2016
	(In thousands)	
Time Deposits	$ 60,022	$ 70,028
CDARS	21,677	26,389
Insured Cash Sweep and Other Transaction Accounts	552,731	406,120
Total Brokered Deposits	$ 634,430	$ 502,537

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 target 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 remained until December 16, 2015, when the target rate was increased slightly to 0.50% to 0.25%. Since December 31, 2016, the Federal Funds target rate has increased 75 basis points and is currently at 1.25% to 1.00%.

Table 16 reflects the classification of the average deposits and the average rate paid on each deposit category, which are in excess of 10 percent of average total deposits, for the three and six-month periods ended June 30, 2017 and 2016.

Table 16: Average Deposit Balances and Rates

	Three Months Ended June 30,			
	2017		2016	
	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
	(Dollars in thousands)			
Non-interest-bearing transaction accounts	$ 1,899,865	%	$ 1,611,282	%
Interest-bearing transaction accounts	3,768,958	0.45	3,214,571	0.26
Savings deposits	523,431	0.09	463,078	0.06
Time deposits:				
$100,000 or more	961,172	0.81	882,896	0.55
Other time deposits	482,056	0.47	510,127	0.39
Total	$ 7,635,482	0.36%	$ 6,681,955	0.23%

	Six Months Ended June 30,			
	2017		2016	
	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
	(Dollars in thousands)			
Non-interest-bearing transaction accounts	$ 1,808,660	%	$ 1,562,725	%
Interest-bearing transaction accounts	3,700,448	0.41	3,180,921	0.25
Savings deposits	515,577	0.08	454,861	0.06
Time deposits:				
$100,000 or more	929,057	0.78	871,893	0.53
Other time deposits	471,444	0.43	521,414	0.40

Total	$ 7,425,186	0.33%	$ 6,591,814	0.23%

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 increased $12.5 million, or 10.3%, from $121.3 million as of December 31, 2016 to $133.7 million as of June 30, 2017.

FHLB Borrowed Funds

Our FHLB borrowed funds were $1.10 billion and $1.31 billion at June 30, 2017 and December 31, 2016, respectively. During the second quarter of 2017, approximately $531.0 million of FHLB advances matured. Due to the issuance of the $300 million of subordinated notes during the second quarter of 2017, we made the strategic decision to not renew all of the matured advances. At June 30, 2017, $200.0 million and $899.5 million of the outstanding balance were issued as short-term and long-term advances, respectively. At December 31, 2016, $40.0 million and $1.27 billion of the outstanding balance were issued as short-term and long-term advances, respectively. Our remaining FHLB borrowing capacity was $1.12 billion and $718.2 million as of June 30, 2017 and December 31, 2016, respectively. Maturities of borrowings as of June 30, 2017 include: 2017 $325.4 million; 2018 $459.1 million; 2019 $143.1 million; 2020 $146.4 million; 2021 zero; after 2021 $25.4 million. Expected maturities will differ from contractual maturities because FHLB may have the right to call or HBI the right to prepay certain obligations.

Subordinated Debentures

Subordinated debentures, which consist of subordinated debt securities and guaranteed payments on trust preferred securities, were $357.8 million as of June 30, 2017. As of December 31, 2016, subordinated debentures consisted only of $60.8 million of guaranteed payments on trust preferred securities.

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.

On April 3, 2017, the Company completed an underwritten public offering of $300 million in aggregate principal amount of its 5.625% Fixed-to-Floating Rate Subordinated Notes due 2027 (the Notes). The Notes were issued at 99.997% of par, resulting in net proceeds, after underwriting discounts and issuance costs, of approximately $297.0 million. The Notes are unsecured, subordinated debt obligations of the Company and will mature on April 15, 2027. The Notes qualify as Tier 2 capital for regulatory purposes.

Stockholders Equity

Stockholders equity was $1.48 billion at June 30, 2017 compared to $1.33 billion at December 31, 2016. The increase in stockholders equity is primarily associated with the $77.5 million of common stock issued to the GHI shareholders plus the $71.4 million increase in retained earnings combined with the $6.0 million of comprehensive income during the first six months offset by the repurchase of $10.3 million of our common stock. The annualized improvement in stockholders equity for the first six months of 2017, excluding the $77.5 million of common stock issued to the GHI shareholders, was 10.8%. As of June 30, 2017 and December 31, 2016, our equity to asset ratio was 13.58% and 13.53%, respectively. Book value per share was $10.32 as of June 30, 2017, compared to $9.45 as of December 31, 2016, an 18.6% annualized increase.

Common Stock Cash Dividends. We declared cash dividends on our common stock of $0.09 per share for each of the three-month periods ended June 30, 2017 and 2016, respectively. The common stock dividend payout ratio for the three months ended June 30, 2017 and 2016 was 25.75% and 28.23%, respectively. The common stock dividend payout ratio for the six months ended June 30, 2017 and 2016 was 26.37% and 26.87%, respectively. For the third quarter of 2017, the Board of Directors declared a regular $0.11 per share quarterly cash dividend payable September 6, 2017, to shareholders of record August 16, 2017.

Table of Contents

Stock Repurchase Program. On January 20, 2017, our Board of Directors authorized the repurchase of up to an additional 5,000,000 shares of our common stock under our previously approved stock repurchase program, which brought the total amount of authorized shares to repurchase to 9,752,000 shares. During the first six months of 2017, we utilized a portion of this stock repurchase program. We repurchased a total of 420,000 shares with a weighted-average stock price of $24.51 per share during the second quarter of 2017. No shares were repurchased during the first quarter of 2017. Shares repurchased to date under the program total 4,087,064 shares. The remaining balance available for repurchase is 5,664,936 shares at June 30, 2017.

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 June 30, 2017 and December 31, 2016, we met all regulatory capital adequacy requirements to which we were subject.

On April 3, 2017, the Company completed an underwritten public offering of $300 million in aggregate principal amount of its Notes which were issued at 99.997% of par, resulting in net proceeds, after underwriting discounts and issuance costs, of approximately $297.0 million. The Notes are unsecured, subordinated debt obligations of the Company and will mature on April 15, 2027. The Notes qualify as Tier 2 capital for regulatory purposes.

Table of Contents

Table 17 presents our risk-based capital ratios on a consolidated basis as of June 30, 2017 and December 31, 2016.

Table 17: Risk-Based Capital

	As of June 30, 2017	As of December 31, 2016
	(Dollars in thousands)	
Tier 1 capital		
Stockholders equity	$ 1,476,032	$ 1,327,490
Goodwill and core deposit intangibles, net	(437,107)	(388,336)
Unrealized (gain) loss on available-for-sale securities	(6,442)	(400)
Deferred tax assets		
Total common equity Tier 1 capital	1,032,483	938,754
Qualifying trust preferred securities	59,000	59,000
Total Tier 1 capital	1,091,483	997,754
Tier 2 capital		
Qualifying subordinated notes	297,012	
Qualifying allowance for loan losses	80,138	80,002
Total Tier 2 capital	377,150	80,002
Total risk-based capital	$ 1,468,633	$ 1,077,756
Average total assets for leverage ratio	$ 10,356,663	$ 9,388,812
Risk weighted assets	$ 8,754,401	$ 8,308,468
Ratios at end of period		
Common equity Tier 1 capital	11.79%	11.30%
Leverage ratio	10.54	10.63
Tier 1 risk-based capital	12.47	12.01
Total risk-based capital	16.78	12.97
Minimum guidelines Basel III phase-in schedule		
Common equity Tier 1 capital	5.75%	5.125%
Leverage ratio	4.00	4.000
Tier 1 risk-based capital	7.25	6.625
Total risk-based capital	9.25	8.625
Minimum guidelines Basel III fully phased-in		
Common equity Tier 1 capital	7.00%	7.00%
Leverage ratio	4.00	4.00
Tier 1 risk-based capital	8.50	8.50

Total risk-based capital	10.50	10.50
Well-capitalized guidelines		
Common equity Tier 1 capital	6.50%	6.50%
Leverage ratio	5.00	5.00
Tier 1 risk-based capital	8.00	8.00
Total risk-based capital	10.00	10.00

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 , we, as well as our banking subsidiary, must maintain minimum common equity Tier 1 capital, 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.

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 our 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 interest margin and efficiency ratio.

Because of our significant number of historical acquisitions, our net interest margin was impacted by accretion and amortization of the fair value adjustments recorded in purchase accounting. The accretion and amortization affect certain operating ratios as we accrete loan discounts to interest income and amortize premiums and discounts on time deposits to interest expense.

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 18 through 20 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 18: Average Yield on Loans

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Interest income on loans receivable FTE	$ 112,902	$ 100,601	$ 218,833	$ 197,704
Purchase accounting accretion	8,391	10,652	15,951	20,981
Non-GAAP interest income on loans receivable FTE	$ 104,511	$ 89,949	$ 202,882	$ 176,723
Average loans	$ 7,829,615	$ 6,969,727	$ 7,708,264	$ 6,849,394
Average purchase accounting loan discounts [1]	104,384	135,172	101,403	138,932
Average loans (non-GAAP)	$ 7,933,999	$ 7,104,899	$ 7,809,667	$ 6,988,326
Average yield on loans (reported)	5.78%	5.81%	5.72%	5.80%
Average contractual yield on loans (non-GAAP)	5.28	5.09	5.24	5.09

(1) Balance includes $95.6 million and $120.9 million of discount for credit losses on purchased loans as of June 30, 2017 and 2016, respectively.

Table of Contents

Table 19: Average Cost of Deposits

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Interest expense on deposits	$ 6,810	$ 3,854	$ 12,296	$ 7,488
Amortization of time deposit (premiums)/discounts, net	106	365	194	766
Non-GAAP interest expense on deposits	$ 6,916	$ 4,219	$ 12,490	$ 8,254
Average deposits	$ 5,735,617	$ 5,070,673	$ 5,616,526	$ 5,029,089
Average unamortized CD (premium)/discount, net	(832)	(1,098)	(715)	(1,280)
Average deposits (non-GAAP)	$ 5,734,785	$ 5,069,575	$ 5,615,811	$ 5,027,809
Average cost of deposits (reported)	0.48%	0.31%	0.44%	0.30%
Average contractual cost of deposits (non-GAAP)	0.48	0.33	0.45	0.33

Table 20: Net Interest Margin

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Net interest income FTE	$ 109,368	$ 103,015	$ 216,194	$ 203,045
Total purchase accounting accretion	8,497	11,017	16,145	21,747
Non-GAAP net interest income FTE	$ 100,871	$ 91,998	$ 200,049	$ 181,298
Average interest-earning assets	$ 9,737,949	$ 8,585,955	$ 9,477,669	$ 8,471,897
Average purchase accounting loan discounts (1)	104,384	135,172	101,403	138,932
Average interest-earning assets (non-GAAP)	$ 9,842,333	$ 8,721,127	$ 9,579,072	$ 8,610,829
Net interest margin (reported)	4.50%	4.83%	4.60%	4.82%
Net interest margin (non-GAAP)	4.11	4.24	4.21	4.23

(1)

Balance includes $95.6 million and $120.9 million of discount for credit losses on purchased loans as of June 30, 2017 and 2016, respectively.

We had $442.0 million, $396.3 million, and $397.8 million total goodwill, core deposit intangibles and other intangible assets as of June 30, 2017, December 31, 2016 and June 30, 2016, respectively. Because of our level of intangible assets and related amortization expenses, management believes tangible book value per share, return on average assets excluding intangible amortization, return on average tangible equity excluding intangible amortization and tangible equity to tangible assets are useful in evaluating our company. These calculations, which are similar to the GAAP calculation of diluted earnings per share, tangible book value, return on average assets, return on average equity, and equity to assets, are presented in Tables 21 through 24, respectively.

Table 21: Tangible Book Value Per Share

	As of June 30, 2017	As of December 31, 2016
	(In thousands, except per share data)	
Book value per share: A/B	$ 10.32	$ 9.45
Tangible book value per share: (A-C-D)/B	7.23	6.63
(A) Total equity	$ 1,476,032	$ 1,327,490
(B) Shares outstanding	143,071	140,472
(C) Goodwill	$ 420,941	$ 377,983
(D) Core deposit and other intangibles	21,019	18,311

Table of Contents

Table 22: Return on Average Assets Excluding Intangible Amortization

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Return on average assets: A/C	1.86%	1.83%	1.86%	1.81%
Return on average assets excluding intangible amortization: B/(C-D)	1.96	1.93	1.96	1.91
(A) Net income	$ 50,097	$ 43,509	$ 96,953	$ 84,936
Intangible amortization after-tax	526	464	1,015	977
(B) Earnings excluding intangible amortization	$ 50,623	$ 43,973	$ 97,968	$ 85,913
(C) Average assets	$ 10,793,770	$ 9,562,624	$ 10,498,143	$ 9,446,623
(D) Average goodwill, core deposits and other intangible assets	442,380	398,184	429,113	398,581

Table 23: Return on Average Tangible Equity Excluding Intangible Amortization

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Return on average equity: A/C	13.83%	14.11%	13.84%	13.94%
Return on average tangible equity excluding intangible amortization: B/(C-D)	20.09	21.01	20.09	20.90
(A) Net income	$ 50,097	$ 43,509	$ 96,953	$ 84,936
(B) Earnings excluding intangible amortization	50,623	43,973	97,968	85,913
(C) Average equity	1,453,099	1,240,080	1,412,639	1,225,174
(D) Average goodwill, core deposits and other intangible assets	442,380	398,184	429,113	398,581

Table 24: Tangible Equity to Tangible Assets

	As of June 30, 2017	As of December 31, 2016
	(Dollars in thousands)	
Equity to assets: B/A	13.58%	13.53%
Tangible equity to tangible assets: (B-C-D)/(A-C-D)	9.91	9.89
(A) Total assets	$ 10,872,228	$ 9,808,465
(B) Total equity	1,476,032	1,327,490
(C) Goodwill	420,941	377,983
(D) Core deposit and other intangibles	21,019	18,311

Table of Contents

The efficiency ratio is a standard measure used in the banking industry and 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. The core efficiency ratio is a meaningful non-GAAP measure for management, as it excludes non-fundamental items and is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income excluding non-fundamental items such as merger expenses and/or gains and losses. In Table 25 below, we have provided a reconciliation of the non-GAAP calculation of the financial measure for the periods indicated.

Table 25: Efficiency Ratio

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Net interest income (A)	$ 107,352	$ 101,041	$ 212,167	$ 199,098
Non-interest income (B)	24,417	21,772	50,887	41,209
Non-interest expense (C)	51,003	47,587	106,144	93,235
FTE Adjustment (D)	2,016	1,974	4,027	3,947
Amortization of intangibles (E)	866	763	1,670	1,608
Non-fundamental items:				
Non-interest income:				
Gain on acquisitions	$	$	$ 3,807	$
Gain (loss) on OREO, net	393	(941)	514	(845)
Gain on sale of SBA loans	387	79	575	79
Gain (loss) on sale of branches, equipment and other assets, net	431	840	375	787
Gain (loss) on securities, net	380	15	803	25
Other income[(1)]		925		925
Total non-fundamental non-interest income (F)	$ 1,591	$ 918	$ 6,074	$ 971
Non-interest expense:				
Merger expenses	$ 789	$	$ 7,516	$
Other expense[(2)]	47	1,194	47	1,914
Total non-fundamental non-interest expense (G)	$ 836	$ 1,194	$ 7,563	$ 1,914
Efficiency ratio (reported): ((C-E)/(A+B+D))	37.48%	37.52%	39.12%	37.51%
Core efficiency ratio (non-GAAP): ((C-E-G)/(A+B+D-F))	37.29	36.84	37.13	36.88

(1) Amount includes recoveries on historical losses.
(2) Amount includes vacant properties write-downs.

Recently Issued Accounting Pronouncements

See Note 21 in the Condensed Notes to Consolidated Financial Statements for a discussion of certain recently issued and recently adopted accounting pronouncements.

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 June 30, 2017, our cash and cash equivalents were $460.5 million, or 4.2% of total assets, compared to $216.6 million, or 2.2% of total assets, as of December 31, 2016. Our available-for-sale investment securities and federal funds sold were $1.40 billion and $1.07 billion as of June 30, 2017 and December 31, 2016, respectively.

As of June 30, 2017, our investment portfolio was comprised of approximately 75.3% or $1.25 billion of securities which mature in less than five years. As of June 30, 2017 and December 31, 2016, $1.40 billion and $1.07 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 June 30, 2017, our total deposits were $7.77 billion, or 71.4% of total assets, compared to $6.94 billion, or 70.8% of total assets, as of December 31, 2016. We attract our deposits primarily from individuals, business, and municipalities located in our market areas.

In the event that additional short-term liquidity is needed to temporarily satisfy our liquidity needs, we have established and currently maintain lines of credit with the Federal Reserve Bank (Federal Reserve) and Bankers Bank to provide short-term borrowings in the form of federal funds purchases. In addition, we maintain lines of credit with two other financial institutions.

As of June 30, 2017 and December 31, 2016, we could have borrowed up to $105.8 million and $104.6 million, respectively, on a secured basis from the Federal Reserve, up to $30.0 million from Bankers Bank on an unsecured basis, and up to $30.0 million in the aggregate from other financial institutions on an unsecured basis. The unsecured lines may be terminated by the respective institutions at any time.

The lines of credit we maintain with the FHLB can provide us with both short-term and long-term forms of liquidity on a secured basis. FHLB borrowed funds were $1.10 billion and $1.31 billion at June 30, 2017 and December 31, 2016, respectively. At June 30, 2017, $200.0 million and $899.5 million of the outstanding balance were issued as short-term and long-term advances, respectively. At December 31, 2016, $40.0 million and $1.27 billion of the

outstanding balance were issued as short-term and long-term advances, respectively. Our FHLB borrowing capacity was $1.12 billion and $718.2 million as of June 30, 2017 and December 31, 2016, respectively.

On April 3, 2017, the Company completed an underwritten public offering of $300 million in aggregate principal amount of its Notes which were issued at 99.997% of par, resulting in net proceeds, after underwriting discounts and issuance costs, of approximately $297.0 million. The Notes are unsecured, subordinated debt obligations of the Company and will mature on April 15, 2027. The Notes qualify as Tier 2 capital for regulatory purposes.

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

Table of Contents

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.

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

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

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

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

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

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

Gap analysis attempts to capture the amounts and timing of balances exposed to changes in interest rates at a given point in time. As of June 30, 2017, our gap position was asset sensitive with a one-year cumulative repricing gap as a percentage of total earning assets of 6.6%.

During this period, the amount of change our asset base realizes in relation to the total change in market interest rates is higher than that of the liability base. As a result, our net interest income will have a positive effect in an environment of modestly rising rates.

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

Table of Contents

Table 26 presents a summary of the repricing schedule of our interest-earning assets and interest-bearing liabilities (gap) as of June 30, 2017.

Table 26: Interest Rate Sensitivity

	Interest Rate Sensitivity Period							
	0-30 Days	**31-90 Days**	**91-180 Days**	**181-365 Days**	**1-2 Years**	**2-5 Years**	**Over 5 Years**	**Total**
	(Dollars in thousands)							
arning assets								
terest-bearing eposits due om banks	$ 313,447	$	$	$	$	$	$	$ 313,44
ederal funds old								
vestment curities	277,467	56,955	68,986	133,766	201,222	348,413	567,783	1,654,59
oans ceivable	2,200,611	511,891	632,843	988,298	1,250,283	1,944,068	306,481	7,834,47
otal earning ssets	2,791,525	568,846	701,829	1,122,064	1,451,505	2,292,481	874,264	9,802,51
terest-bearing abilities								
terest-bearing ansaction and vings deposits	715,764	328,604	492,906	985,811	618,720	600,141	593,510	4,335,45
ime deposits	128,117	188,545	333,836	499,188	199,743	123,793	1,033	1,474,25
ecurities sold nder purchase greements	133,741							133,74
HLB and other orrowed funds	600,020	25,041	61	49,081	150,453	274,822		1,099,47
ubordinated ebentures	60,826					297,012		357,83
otal terest-bearing abilities	1,638,468	542,190	826,803	1,534,080	968,916	1,295,768	594,543	7,400,76
terest rate ensitivity gap	$ 1,153,057	$ 26,656	$ (124,974)	$ (412,016)	$ 482,589	$ 996,713	$ 279,721	$ 2,401,74
	$ 1,153,057	$ 1,179,713	$ 1,054,739	$ 642,723	$ 1,125,312	$ 2,122,025	$ 2,401,746	

umulative terest rate ensitivity gap							
umulative rate ensitive assets rate sensitive abilities	170.4%	154.1%	135.1%	114.2%	120.4%	131.2%	132.5%
umulative gap a % of total arning assets	11.8%	12.0%	10.8%	6.6%	11.5%	21.6%	24.5%

Item 4: CONTROLS AND PROCEDURES

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.

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 June 30, 2017, 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 the Company 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, 2016. 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

During the three months ended June 30, 2017, the Company utilized a portion of its stock repurchase program last amended and approved by the Board of Directors on January 20, 2017. This program authorized the repurchase of 9,752,000 shares of the Company s common stock. The following table sets forth information with respect to purchases made by or on behalf of the Company of shares of the Company s common stock during the periods indicated:

Period	Number of Shares Purchased	Average Price Paid Per Share Purchased	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs[(1)]
April 1 through April 30, 2017	20,000	$ 25.80	20,000	6,064,936
May 1 through May 31, 2017	246,100	24.81	246,100	5,818,836
June 1 through June 30, 2017	153,900	23.86	153,900	5,664,936
Total	420,000		420,000	

(1) The above described stock repurchase program has no expiration date.

Item 3: Defaults Upon Senior Securities

Not applicable.

Item 4: Mine Safety Disclosures

Not applicable.

Item 5: Other Information

Not applicable.

Table of Contents

Item 6: Exhibits

Exhibit No.	
2.1	Agreement and Plan of Merger by and among Home BancShares, Inc., Centennial Bank, Giant Holdings, Inc., and Landmark Bank, N.A., dated November 7, 2016. (incorporated by reference to Exhibit 2.1 of Home BancShares s Current Report on Form 8-K/A filed on November 10, 2016)
2.2	Amendment to Agreement and Plan of Merger by and among Home BancShares, Inc., Centennial Bank, Giant Holdings, Inc., and Landmark Bank, N.A., dated December 7, 2016. (incorporated by reference to Appendix A of Home BancShares s Registration Statement on Form S-4 (File No. 333-214957), as amended)
2.3	Acquisition Agreement By and Between Home BancShares, Inc. and Bank of Commerce Holdings, Inc., dated December 1, 2016 (incorporated by reference to Exhibit 2.1 of Home BancShares s Current Report on Form 8-K filed on December 7, 2016)
2.4	Agreement and Plan of Merger by and among Home BancShares, Inc., Centennial Bank and Stonegate Bank, dated March 27, 2017 (incorporated by reference to Exhibit 2.1 of Home BancShares s Current Report on Form 8-K filed on March 27, 2017)
3.1	Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.1 of Home BancShares s registration statement on Form S-1 (File No. 333-132427), as amended)
3.2	Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.2 of Home BancShares s registration statement on Form S-1 (File No. 333-132427), as amended)
3.3	Second Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.3 of Home BancShares s registration statement on Form S-1 (File No. 333-132427), as amended)
3.4	Third Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.4 of Home BancShares s registration statement on Form S-1 (File No. 333-132427), as amended)
3.5	Fourth Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.1 of Home BancShares s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, filed on August 8, 2007)
3.6	Fifth Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 4.6 of Home BancShares s registration statement on Form S-3 (File No. 333-157165))
3.7	Certificate of Designations of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, filed with the Secretary of State of the State of Arkansas on January 14, 2009 (incorporated by reference to Exhibit 3.1 of Home BancShares s Current Report on Form 8-K, filed on January 21, 2009)
3.8	Seventh Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.1 of Home BancShares s Current Report on Form 8-K, filed on April 19, 2013)
3.9	Eighth Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.1 of Home BancShares Current Report on Form 8-K filed on April 22, 2016)

3.10	Restated Bylaws of Home BancShares, Inc. (incorporated by reference to Exhibit 3.5 of Home BancShares s registration statement on Form S-1 (File No. 333-132427), as amended)
4.1	Specimen Stock Certificate representing Home BancShares, Inc. Common Stock (incorporated by reference to Exhibit 4.6 of Home BancShares s registration statement on Form S-1 (File No. 333-132427), as amended)
4.2	Instruments defining the rights of security holders including indentures. Home BancShares hereby agrees to furnish to the SEC upon request copies of instruments defining the rights of holders of long-term debt of Home BancShares and its consolidated subsidiaries. No issuance of debt exceeds ten percent of the assets of Home BancShares and its subsidiaries on a consolidated basis.
12.1	Computation of Ratios of Earnings to Fixed Charges*
15	Awareness of Independent Registered Public Accounting Firm*

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

* Filed herewith

Table of Contents

SIGNATURES

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

HOME BANCSHARES, INC.

(Registrant)

Date: August 4, 2017 /s/ C. Randall Sims
C. Randall Sims, Chief Executive Officer

Date: August 4, 2017 /s/ Brian S. Davis
Brian S. Davis, Chief Financial Officer

91