

HOME BANCSHARES INC  
Form 10-Q  
November 04, 2016  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**

**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Quarterly Period Ended September 30, 2016**

**or**

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

**Commission File Number: 000-51904**

**HOME BANCSHARES, INC.**

**(Exact Name of Registrant as Specified in Its Charter)**

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

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

**719 Harkrider, Suite 100, Conway, Arkansas**  
**(Address of principal executive offices)**

**72032**  
**(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, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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

Common Stock Issued and Outstanding: 140,441,489 shares as of October 28, 2016.



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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

the effects of future 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;

governmental monetary and fiscal policies, as well as legislative and regulatory changes;

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;

increased regulatory requirements and supervision that will apply if we exceed \$10 billion in total assets;

the risks of changes in interest rates or the level and composition of deposits, loan demand and the values of loan collateral, securities and interest-sensitive assets and liabilities;

the effects of terrorism and efforts to combat it;

political instability;

technological changes;

the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in our market area and elsewhere, including institutions operating regionally, nationally and internationally, together with competitors offering banking products and services by mail, telephone and the Internet;

the effect of any mergers, acquisitions or other transactions to which we or our subsidiaries may from time to time be a party, including our ability to successfully integrate any businesses that we acquire;

the 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; and

the failure of assumptions underlying the establishment of our 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 26, 2016 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)                 | September 30, 2016<br>(Unaudited) | December 31, 2015   |
|---|-----------------------------------|---------------------|
| <b>Assets</b>                                     |                                   |                     |
| Cash and due from banks                           | \$ 123,126                        | \$ 111,258          |
| Interest-bearing deposits with other banks        | 173,034                           | 144,565             |
| Cash and cash equivalents                         | 296,160                           | 255,823             |
| Federal funds sold                                | 1,850                             | 1,550               |
| Investment securities available-for-sale          | 1,233,269                         | 1,206,580           |
| Investment securities held-to-maturity            | 275,544                           | 309,042             |
| Loans receivable                                  | 7,112,291                         | 6,641,571           |
| Allowance for loan losses                         | (76,370)                          | (69,224)            |
| Loans receivable, net                             | 7,035,921                         | 6,572,347           |
| Bank premises and equipment, net                  | 208,137                           | 212,163             |
| Foreclosed assets held for sale                   | 17,053                            | 19,140              |
| Cash value of life insurance                      | 86,230                            | 85,146              |
| Accrued interest receivable                       | 29,398                            | 29,132              |
| Deferred tax asset, net                           | 56,435                            | 71,565              |
| Goodwill  | 377,983                           | 377,983             |
| Core deposit and other intangibles                | 19,073                            | 21,443              |
| Other assets                                      | 127,185                           | 127,208             |
| <b>Total assets</b>                               | <b>\$ 9,764,238</b>               | <b>\$ 9,289,122</b> |
| <b>Liabilities and Stockholders Equity</b>        |                                   |                     |
| Deposits:   |                                   |                     |
| Demand and non-interest-bearing                   | \$ 1,717,467                      | \$ 1,456,624        |
| Savings and interest-bearing transaction accounts | 3,792,229                         | 3,551,684           |
| Time deposits                                     | 1,330,597                         | 1,430,201           |
| Total deposits                                    | 6,840,293                         | 6,438,509           |
| Securities sold under agreements to repurchase    | 109,350                           | 128,389             |
| FHLB and other borrowed funds                     | 1,420,369                         | 1,405,945           |
| Accrued interest payable and other liabilities    | 37,382                            | 55,696              |
| Subordinated debentures                           | 60,826                            | 60,826              |

|   |                     |                     |
|---|---------------------|---------------------|
| <b>Total liabilities</b>  | 8,468,220           | 8,089,365           |
| <b>Stockholders equity:</b>   |                     |                     |
| Common stock, par value \$0.01; shares authorized 200,000,000 in 2016 and 100,000,000 in 2015; shares issued and outstanding 140,490,011 in 2016 and 140,241,004 (split adjusted) in 2015 | 1,405               | 701                 |
| Capital surplus   | 866,310             | 867,981             |
| Retained earnings   | 419,999             | 326,898             |
| Accumulated other comprehensive income  | 8,304               | 4,177               |
| <b>Total stockholders equity</b>  | 1,296,018           | 1,199,757           |
| <b>Total liabilities and stockholders equity</b>  | <b>\$ 9,764,238</b> | <b>\$ 9,289,122</b> |

See Condensed Notes to Consolidated Financial Statements.



**Table of Contents****Home BancShares, Inc.****Consolidated Statements of Income**

| (In thousands, except per share data <sup>(1)</sup> )            | Three Months<br>Ended<br>September 30, |               | Nine Months Ended<br>September 30, |                |
|--|--|---------------|------------------------------------|----------------|
|  | 2016                                   | 2015          | 2016                               | 2015           |
|  | (Unaudited)                            |               |                                    |                |
| <b>Interest income:</b>  |  |               |                                    |                |
| Loans  | \$ 102,953                             | \$ 88,671     | \$ 300,281                         | \$ 246,518     |
| Investment securities  |  |               |                                    |                |
| Taxable  | 5,583                                  | 5,157         | 16,178                             | 15,830         |
| Tax-exempt   | 2,720                                  | 2,789         | 8,358                              | 8,315          |
| Deposits other banks   | 117                                    | 32            | 325                                | 167            |
| Federal funds sold   | 2                                      | 4             | 7                                  | 15             |
| Total interest income  | 111,375                                | 96,653        | 325,149                            | 270,845        |
| <b>Interest expense:</b>   |  |               |                                    |                |
| Interest on deposits   | 4,040                                  | 3,045         | 11,528                             | 9,614          |
| Federal funds purchased  |  | 1             | 2                                  | 3              |
| FHLB and other borrowed funds                                    | 3,139                                  | 2,030         | 9,283                              | 4,133          |
| Securities sold under agreements to repurchase                   | 142                                    | 146           | 421                                | 481            |
| Subordinated debentures  | 401                                    | 340           | 1,164                              | 1,003          |
| Total interest expense   | 7,722                                  | 5,562         | 22,398                             | 15,234         |
| <b>Net interest income</b>                                       | <b>103,653</b>                         | <b>91,091</b> | <b>302,751</b>                     | <b>255,611</b> |
| Provision for loan losses  | 5,536                                  | 7,106         | 16,905                             | 16,274         |
| <b>Net interest income after provision for loan losses</b>       | <b>98,117</b>                          | <b>83,985</b> | <b>285,846</b>                     | <b>239,337</b> |
| <b>Non-interest income:</b>                                      |  |               |                                    |                |
| Service charges on deposit accounts                              | 6,527                                  | 6,250         | 18,607                             | 17,724         |
| Other service charges and fees                                   | 7,504                                  | 6,644         | 22,589                             | 19,359         |
| Trust fees   | 365                                    | 398           | 1,128                              | 2,016          |
| Mortgage lending income  | 3,932                                  | 3,132         | 10,276                             | 8,019          |
| Insurance commissions  | 534                                    | 548           | 1,808                              | 1,755          |
| Increase in cash value of life insurance                         | 344                                    | 268           | 1,092                              | 871            |
| Dividends from FHLB, FRB, Bankers bank & other                   | 808                                    | 433           | 2,147                              | 1,267          |
| Gain on acquisitions   |  |               |                                    | 1,635          |
| Gain on sale of SBA loans  | 364                                    | 151           | 443                                | 151            |
| Gain (loss) on sale of branches, equipment and other assets, net | (86)                                   | (266)         | 701                                | (237)          |
| Gain (loss) on OREO, net   | 132                                    | (40)          | (713)                              | 190            |
| Gain (loss) on securities, net                                   |  |               | 25                                 | 4              |

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|  |           |           |            |            |
|--|-----------|-----------|------------|------------|
| FDIC indemnification accretion/(amortization), net |           | (1,994)   | (772)      | (8,152)    |
| Other income                                       | 1,590     | 1,021     | 5,892      | 3,640      |
| Total non-interest income                          | 22,014    | 16,545    | 63,223     | 48,242     |
| <b>Non-interest expense:</b>                       |           |           |            |            |
| Salaries and employee benefits                     | 25,623    | 22,225    | 75,018     | 63,671     |
| Occupancy and equipment                            | 6,668     | 6,540     | 19,848     | 19,267     |
| Data processing expense                            | 2,791     | 2,619     | 8,221      | 8,101      |
| Other operating expenses                           | 15,944    | 13,209    | 41,174     | 37,517     |
| Total non-interest expense                         | 51,026    | 44,593    | 144,261    | 128,556    |
| <b>Income before income taxes</b>                  | 69,105    | 55,937    | 204,808    | 159,023    |
| Income tax expense                                 | 25,485    | 20,196    | 76,252     | 58,257     |
| <b>Net income</b>                                  | \$ 43,620 | \$ 35,741 | \$ 128,556 | \$ 100,766 |
| <b>Basic earnings per share</b>                    | \$ 0.31   | \$ 0.26   | \$ 0.92    | \$ 0.74    |
| <b>Diluted earnings per share</b>                  | \$ 0.31   | \$ 0.26   | \$ 0.91    | \$ 0.74    |

(1) All per share amounts have been restated to reflect the effect of the 2-for-1 stock split during June 2016. See Condensed Notes to Consolidated Financial Statements.

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## Home BancShares, Inc.

## Consolidated Statements of Comprehensive Income

| (In thousands)   | Three Months Ended    |           | Nine Months Ended     |            |
|--|-----------------------|-----------|-----------------------|------------|
|  | September 30,<br>2016 | 2015      | September 30,<br>2016 | 2015       |
|  | (Unaudited)           |           |                       |            |
| Net income   | \$ 43,620             | \$ 35,741 | \$ 128,556            | \$ 100,766 |
| Net unrealized gain (loss) on available-for-sale securities                      | (4,334)               | 3,670     | 6,816                 | 1,823      |
| Less: reclassification adjustment for realized (gains) losses included in income |                       |           | (25)                  | (4)        |
| Other comprehensive (loss) income, before tax effect                             | (4,334)               | 3,670     | 6,791                 | 1,819      |
| Tax effect   | 1,701                 | (1,440)   | (2,664)               | (714)      |
| Other comprehensive income (loss)  | (2,633)               | 2,230     | 4,127                 | 1,105      |
| Comprehensive income   | \$ 40,987             | \$ 37,971 | \$ 132,683            | \$ 101,871 |

## Home BancShares, Inc.

## Consolidated Statements of Stockholders Equity

## Nine Months Ended September 30, 2016 and 2015

| (In thousands, except share data <sup>(1)</sup> )                                  | Common<br>Stock | Capital<br>Surplus | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total        |
|--|-----------------|--------------------|----------------------|---|--------------|
|  |                 |                    |                      | (Loss)  |              |
| <b>Balance at January 1, 2015</b>  | \$ 676          | \$ 781,328         | \$ 226,279           | \$ 7,009  | \$ 1,015,292 |
| Comprehensive income:  |                 |                    |                      |   |              |
| Net income   |                 |                    | 100,766              |   | 100,766      |
| Other comprehensive income (loss)  |                 |                    |                      | 1,105   | 1,105        |
| Net issuance of 345,002 shares of common stock from exercise of stock options      | 2               | 211                |                      |   | 213          |
| Repurchase of 134,664 shares of common stock                                       | (1)             | (2,014)            |                      |   | (2,015)      |
| Tax benefit from stock options exercised   |                 | 196                |                      |   | 196          |
| Share-based compensation net issuance of 649,168 shares of restricted common stock | 3               | 2,779              |                      |   | 2,782        |
| Cash dividends Common Stock, \$0.80 per share                                      |                 |                    | (27,061)             |   | (27,061)     |
| <b>Balances at September 30, 2015 (unaudited)</b>                                  | 680             | 782,500            | 299,984              | 8,114   | 1,091,278    |

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|   |                 |                   |                   |                 |                     |
|---|-----------------|-------------------|-------------------|-----------------|---------------------|
| <b>Comprehensive income:</b>  |                 |                   |                   |                 |                     |
| Net income  |                 |                   | 37,433            |                 | 37,433              |
| Other comprehensive income (loss)   |                 |                   | (3,937)           |                 | (3,937)             |
| Net issuance of 64,070 shares of common stock from exercise of stock options  |                 | 176               |                   |                 | 176                 |
| Issuance of 4,159,708 shares of common stock from acquisition of FBBI, net of issuance costs of approximately \$60                              | 21              | 83,753            |                   |                 | 83,774              |
| Tax benefit from stock options exercised  |                 | 409               |                   |                 | 409                 |
| Share-based compensation net issuance of 16,500 shares of restricted common stock   |                 | 1,143             |                   |                 | 1,143               |
| Cash dividends Common Stock, \$0.30 per share   |                 |                   | (10,519)          |                 | (10,519)            |
| <b>Balances at December 31, 2015</b>  | <b>701</b>      | <b>867,981</b>    | <b>326,898</b>    | <b>4,177</b>    | <b>1,199,757</b>    |
| <b>Comprehensive income:</b>  |                 |                   |                   |                 |                     |
| Net income  |                 |                   | 128,556           |                 | 128,556             |
| Other comprehensive income (loss)   |                 |                   | 4,127             |                 | 4,127               |
| Net issuance of 461,737 shares of common stock from exercise of stock options plus issuance of 10,000 bonus shares of unrestricted common stock | 2               | 1,351             |                   |                 | 1,353               |
| 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  |                 | 1,264             |                   |                 | 1,264               |
| Share-based compensation net issuance of 239,070 shares of restricted common stock  | 2               | 5,256             |                   |                 | 5,258               |
| Cash dividends Common Stock, \$0.2525 per share   |                 |                   | (35,455)          |                 | (35,455)            |
| <b>Balances at September 30, 2016 (unaudited)</b>   | <b>\$ 1,405</b> | <b>\$ 866,310</b> | <b>\$ 419,999</b> | <b>\$ 8,304</b> | <b>\$ 1,296,018</b> |

(1) All per share amounts have been restated to reflect the effect of the 2-for-1 stock split during June 2016. See Condensed Notes to Consolidated Financial Statements.

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

| (In thousands)  | Nine Months Ended<br>September 30, |            |
|---|------------------------------------|------------|
|   | 2016                               | 2015       |
|   | (Unaudited)                        |            |
| <b>Operating Activities</b>   |                                    |            |
| Net income  | \$ 128,556                         | \$ 100,766 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                    |            |
| Depreciation  | 8,082                              | 7,728      |
| Amortization/(accretion)  | 11,461                             | 17,091     |
| Share-based compensation  | 5,258                              | 2,782      |
| Tax benefits from stock options exercised   | (1,264)                            | (196)      |
| (Gain) loss on assets   | 3,425                              | (100)      |
| Gain on acquisitions  |                                    | (1,635)    |
| Provision for loan losses   | 16,905                             | 16,274     |
| Deferred income tax effect  | 12,466                             | 1,438      |
| Increase in cash value of life insurance  | (1,092)                            | (871)      |
| Originations of mortgage loans held for sale  | (261,964)                          | (209,056)  |
| Proceeds from sales of mortgage loans held for sale   | 257,666                            | 199,797    |
| Changes in assets and liabilities:  |                                    |            |
| Accrued interest receivable   | (266)                              | (2,902)    |
| Indemnification and other assets  | (9,407)                            | (31,450)   |
| Accrued interest payable and other liabilities  | (5,757)                            | 31,576     |
| Net cash provided by (used in) operating activities   | 164,069                            | 131,242    |
| <b>Investing Activities</b>   |                                    |            |
| Net (increase) decrease in federal funds sold   | (300)                              | 250        |
| Net (increase) decrease in loans, excluding purchased loans                                 | (492,795)                          | (639,150)  |
| Purchases of investment securities available-for-sale                                       | (246,983)                          | (249,707)  |
| Proceeds from maturities of investment securities available-for-sale                        | 217,774                            | 172,411    |
| Proceeds from sale of investment securities available-for-sale                              | 2,221                              | 931        |
| Purchases of investment securities held-to-maturity   | (123)                              | (6,562)    |
| Proceeds from maturities of investment securities held-to-maturity                          | 32,417                             | 36,743     |
| Proceeds from foreclosed assets held for sale   | 11,124                             | 21,909     |
| Proceeds from sale of SBA Loans   | 7,412                              | 2,160      |
| Proceeds from sale of insurance book of business  |                                    | 2,938      |
| Purchases of premises and equipment, net  | (3,355)                            | (6,558)    |
| Return of investment on cash value of life insurance  |                                    | 27         |
| Net cash proceeds (paid) received market acquisitions                                       |                                    | 140,820    |
| Cash (paid) on FDIC loss share buy-out  | (6,613)                            |            |

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|   |                   |                   |
|---|-------------------|-------------------|
| Net cash provided by (used in) investing activities                       | (479,221)         | (523,788)         |
| <b>Financing Activities</b>   |                   |                   |
| Net increase (decrease) in deposits, excluding deposits acquired          | 401,784           | 61,469            |
| Net increase (decrease) in securities sold under agreements to repurchase | (19,039)          | (42,323)          |
| Net increase (decrease) in FHLB and other borrowed funds                  | 14,424            | 518,195           |
| Proceeds from exercise of stock options                                   | 1,353             | 213               |
| Repurchase of common stock  | (8,842)           | (2,015)           |
| Tax benefits from stock options exercised                                 | 1,264             | 196               |
| Dividends paid on common stock  | (35,455)          | (27,061)          |
| Net cash provided by (used in) financing activities                       | 355,489           | 508,674           |
| <b>Net change in cash and cash equivalents</b>                            | <b>40,337</b>     | <b>116,128</b>    |
| <b>Cash and cash equivalents beginning of year</b>                        | <b>255,823</b>    | <b>112,528</b>    |
| <b>Cash and cash equivalents end of period</b>                            | <b>\$ 296,160</b> | <b>\$ 228,656</b> |

See Condensed Notes to Consolidated Financial Statements.

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**Home BancShares, Inc.**

**Condensed Notes to Consolidated Financial Statements**

(Unaudited)

**1. Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

Home BancShares, Inc. (the Company or HBI ) is a bank holding company headquartered in Conway, Arkansas. The Company is primarily engaged in providing a full range of banking services to individual and corporate customers through its wholly-owned community bank subsidiary Centennial Bank (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, the valuations of assets acquired and liabilities assumed in business combinations, covered loans and the related indemnification asset. In connection with the determination of the allowance for loan losses and the valuation of foreclosed assets, management obtains independent appraisals for significant properties.

***Principles of Consolidation***

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

***Reclassifications***

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



**Table of Contents*****Interim financial information***

The accompanying unaudited consolidated financial statements as of September 30, 2016 and 2015 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 2015 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, which have been restated to reflect the effect of the 2-for-1 stock split during June 2016. Diluted earnings per share is computed using the weighted-average shares and all potential dilutive shares outstanding during the period. The following table sets forth the computation of basic and diluted earnings per share (EPS) for the following periods:

|                                    | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|------------------------------------|---------------------------|-------------|--------------------------|-------------|
|                                    | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|                                    | <b>2016</b>               | <b>2015</b> | <b>2016</b>              | <b>2015</b> |
|                                    | <b>(In thousands)</b>     |             |                          |             |
| Net income                         | \$ 43,620                 | \$ 35,741   | \$ 128,556               | \$ 100,766  |
| Average shares outstanding         | 140,436                   | 135,738     | 140,403                  | 135,396     |
| Effect of common stock options     | 267                       | 424         | 282                      | 603         |
| Average diluted shares outstanding | 140,703                   | 136,162     | 140,685                  | 135,999     |
| Basic earnings per share           | \$ 0.31                   | \$ 0.26     | \$ 0.92                  | \$ 0.74     |
| Diluted earnings per share         | \$ 0.31                   | \$ 0.26     | \$ 0.91                  | \$ 0.74     |

**2. Business Combinations*****Acquisition of Florida Business BancGroup, Inc.***

On October 1, 2015, the Company completed its acquisition of Florida Business BancGroup, Inc. (FBBI), parent company of Bay Cities Bank (Bay Cities). The Company paid a purchase price to the FBBI shareholders of \$104.1 million for the FBBI acquisition. Under the terms of the agreement, shareholders of FBBI received 4,159,708 shares (split adjusted) of the Company's common stock valued at approximately \$83.8 million as of October 1, 2015, plus approximately \$20.3 million in cash in exchange for all outstanding shares of FBBI common stock. A portion of the cash consideration, \$2.0 million, has been placed into escrow, and FBBI shareholders will have a contingent right to receive their pro-rata portions of such amount. The amount, if any, of such escrowed funds to be released to FBBI shareholders will depend upon the amount of losses that HBI incurs in the two years following the completion of the

merger related to two class action lawsuits that are pending against Bay Cities.

FBBI formerly operated six branch locations and a loan production office in the Tampa Bay area and in Sarasota, Florida. Including the effects of any purchase accounting adjustments, as of October 1, 2015, FBBI had approximately \$564.5 million in total assets, \$408.3 million in loans after \$14.1 million of loan discounts, and \$472.0 million in deposits.

See Note 2 **Business Combinations** in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2015 for an additional discussion regarding the acquisition of FBBI.

**Table of Contents*****Acquisition of Pool of National Commercial Real Estate Loans***

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

In connection with this acquisition of loans, the Company opened a loan production office on April 23, 2015 in New York City, which became a branch on September 1, 2016. Through the New York office, Centennial CFG is building out a national lending platform focusing on commercial real estate plus commercial and industrial loans. As of September 30, 2016 and December 31, 2015, Centennial CFG had \$963.8 million and \$715.7 million in total loans net of discount, respectively.

***Acquisition of Doral Bank's Florida Panhandle operations***

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

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

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2015 for an additional discussion regarding the acquisition of Doral Florida.

**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:

|                  | <b>September 30, 2016</b> |                   |                   |
|------------------|---------------------------|-------------------|-------------------|
|                  | <b>Available-for-Sale</b> |                   |                   |
|                  | <b>Gross</b>              | <b>Gross</b>      |                   |
| <b>Amortized</b> | <b>Unrealized</b>         | <b>Unrealized</b> | <b>Estimated</b>  |
| <b>Cost</b>      | <b>Gains</b>              | <b>(Losses)</b>   | <b>Fair Value</b> |

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|  | <b>(In thousands)</b> |                  |                   |                     |
|--|-----------------------|------------------|-------------------|---------------------|
| U.S. government-sponsored enterprises  | \$ 305,109            | \$ 1,833         | \$ (886)          | \$ 306,056          |
| Residential mortgage-backed securities | 280,287               | 2,763            | (284)             | 282,766             |
| Commercial mortgage-backed securities  | 368,897               | 3,595            | (463)             | 372,029             |
| State and political subdivisions       | 213,441               | 7,505            | (108)             | 220,838             |
| Other securities                       | 51,871                | 664              | (955)             | 51,580              |
| <b>Total</b>                           | <b>\$ 1,219,605</b>   | <b>\$ 16,360</b> | <b>\$ (2,696)</b> | <b>\$ 1,233,269</b> |

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|  | <b>Held-to-Maturity</b> |                       |                   |                   |
|--|-------------------------|-----------------------|-------------------|-------------------|
|  | <b>Amortized</b>        | <b>Gross</b>          | <b>Gross</b>      | <b>Estimated</b>  |
|  | <b>Cost</b>             | <b>Unrealized</b>     | <b>Unrealized</b> | <b>Fair Value</b> |
|  |                         | <b>Gains</b>          | <b>(Losses)</b>   |                   |
|  |                         | <b>(In thousands)</b> |                   |                   |
| U.S. government-sponsored enterprises  | \$ 6,901                | \$ 86                 | \$                | \$ 6,987          |
| Residential mortgage-backed securities | 77,914                  | 1,037                 | (66)              | 78,885            |
| Commercial mortgage-backed securities  | 40,383                  | 777                   |                   | 41,160            |
| State and political subdivisions       | 150,346                 | 5,564                 | (2)               | 155,908           |
| <b>Total</b>                           | <b>\$ 275,544</b>       | <b>\$ 7,464</b>       | <b>\$ (68)</b>    | <b>\$ 282,940</b> |

|  | <b>December 31, 2015</b>  |                       |                   |                     |
|--|---------------------------|-----------------------|-------------------|---------------------|
|  | <b>Available-for-Sale</b> |                       |                   |                     |
|  | <b>Amortized</b>          | <b>Gross</b>          | <b>Gross</b>      | <b>Estimated</b>    |
|  | <b>Cost</b>               | <b>Unrealized</b>     | <b>Unrealized</b> | <b>Fair Value</b>   |
|  |                           | <b>Gains</b>          | <b>(Losses)</b>   |                     |
|  |                           | <b>(In thousands)</b> |                   |                     |
| U.S. government-sponsored enterprises  | \$ 367,911                | \$ 1,875              | \$ (1,246)        | \$ 368,540          |
| Residential mortgage-backed securities | 254,531                   | 1,580                 | (1,356)           | 254,755             |
| Commercial mortgage-backed securities  | 311,279                   | 994                   | (1,713)           | 310,560             |
| State and political subdivisions       | 211,546                   | 7,723                 | (151)             | 219,118             |
| Other securities                       | 54,440                    | 191                   | (1,024)           | 53,607              |
| <b>Total</b>                           | <b>\$ 1,199,707</b>       | <b>\$ 12,363</b>      | <b>\$ (5,490)</b> | <b>\$ 1,206,580</b> |

|  | <b>Held-to-Maturity</b> |                       |                   |                   |
|--|-------------------------|-----------------------|-------------------|-------------------|
|  | <b>Amortized</b>        | <b>Gross</b>          | <b>Gross</b>      | <b>Estimated</b>  |
|  | <b>Cost</b>             | <b>Unrealized</b>     | <b>Unrealized</b> | <b>Fair Value</b> |
|  |                         | <b>Gains</b>          | <b>(Losses)</b>   |                   |
|  |                         | <b>(In thousands)</b> |                   |                   |
| U.S. government-sponsored enterprises  | \$ 7,395                | \$ 37                 | \$ (17)           | \$ 7,415          |
| Residential mortgage-backed securities | 92,585                  | 250                   | (282)             | 92,553            |
| Commercial mortgage-backed securities  | 41,579                  | 155                   | (42)              | 41,692            |
| State and political subdivisions       | 167,483                 | 4,870                 | (69)              | 172,284           |
| <b>Total</b>                           | <b>\$ 309,042</b>       | <b>\$ 5,312</b>       | <b>\$ (410)</b>   | <b>\$ 313,944</b> |

Assets, principally investment securities, having a carrying value of approximately \$1.30 billion and \$1.25 billion at September 30, 2016 and December 31, 2015, 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 \$109.4 million and \$128.4 million at September 30, 2016 and December 31, 2015, respectively.

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The amortized cost and estimated fair value of securities classified as available-for-sale and held-to-maturity at September 30, 2016, 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<br>Cost   | Estimated<br>Fair Value | Amortized<br>Cost | Estimated<br>Fair<br>Value |
|  | (In thousands)      |                         |                   |                            |
| Due in one year or less                | \$ 119,057          | \$ 119,798              | \$ 36,562         | \$ 37,650                  |
| Due after one year through five years  | 855,911             | 866,292                 | 182,024           | 186,913                    |
| Due after five years through ten years | 175,837             | 177,565                 | 20,710            | 21,430                     |
| Due after ten years                    | 68,800              | 69,614                  | 36,248            | 36,947                     |
| <b>Total</b>                           | <b>\$ 1,219,605</b> | <b>\$ 1,233,269</b>     | <b>\$ 275,544</b> | <b>\$ 282,940</b>          |

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

During the three-month period ended September 30, 2016, no available-for-sale securities were sold. During the nine-month period ended September 30, 2016, approximately \$2.2 million, in available-for-sale securities were sold. The gross realized gains on the sales for the nine-month period ended September 30, 2016 totaled approximately \$25,000. The income tax expense/benefit to net security gains and losses was 39.225% of the gross amounts.

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

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 nine-month periods ended September 30, 2016, no securities were deemed to have other-than-temporary impairment.

For the nine months ended September 30, 2016, the Company had investment securities with approximately \$1.6 million in unrealized losses, which have been in continuous loss positions for more than twelve months. Excluding

impairment write downs taken in prior periods, the Company's assessments indicated that the cause of the market depreciation was primarily the change in interest rates and not the issuer's financial condition, or downgrades by rating agencies. In addition, approximately 79.8% of the Company's investment portfolio matures in five years or less. As a result, the Company has the ability and intent to hold such securities until maturity.

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The following shows gross unrealized losses and estimated fair value of investment securities classified as available-for-sale and held-to-maturity with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position as of September 30, 2016 and December 31, 2015:

|  | <b>September 30, 2016</b>      |                              |                          |                              |                       |                              |
|--|--------------------------------|------------------------------|--------------------------|------------------------------|-----------------------|------------------------------|
|  | <b>Less Than 12<br/>Months</b> |                              | <b>12 Months or More</b> |                              | <b>Total</b>          |                              |
|  | <b>Fair<br/>Value</b>          | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b>    | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> | <b>Unrealized<br/>Losses</b> |
|  | <b>(In thousands)</b>          |                              |                          |                              |                       |                              |
| U.S. government-sponsored enterprises  | \$ 90,141                      | \$ (563)                     | \$ 49,070                | \$ (323)                     | \$ 139,211            | \$ (886)                     |
| Residential mortgage-backed securities | 62,443                         | (217)                        | 13,567                   | (133)                        | 76,010                | (350)                        |
| Commercial mortgage-backed securities  | 81,256                         | (272)                        | 28,322                   | (191)                        | 109,578               | (463)                        |
| State and political subdivisions       | 13,270                         | (108)                        | 502                      | (2)                          | 13,772                | (110)                        |
| Other securities                       | 954                            | (46)                         | 21,715                   | (909)                        | 22,669                | (955)                        |
| <b>Total</b>                           | <b>\$ 248,064</b>              | <b>\$ (1,206)</b>            | <b>\$ 113,176</b>        | <b>\$ (1,558)</b>            | <b>\$ 361,240</b>     | <b>\$ (2,764)</b>            |

|  | <b>December 31, 2015</b>       |                              |                          |                              |                       |                              |
|--|--------------------------------|------------------------------|--------------------------|------------------------------|-----------------------|------------------------------|
|  | <b>Less Than 12<br/>Months</b> |                              | <b>12 Months or More</b> |                              | <b>Total</b>          |                              |
|  | <b>Fair<br/>Value</b>          | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b>    | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> | <b>Unrealized<br/>Losses</b> |
|  | <b>(In thousands)</b>          |                              |                          |                              |                       |                              |
| U.S. government-sponsored enterprises  | \$ 135,128                     | \$ (1,240)                   | \$ 4,751                 | \$ (24)                      | \$ 139,879            | \$ (1,264)                   |
| Residential mortgage-backed securities | 200,256                        | (1,445)                      | 10,511                   | (193)                        | 210,767               | (1,638)                      |
| Commercial mortgage-backed securities  | 192,644                        | (1,449)                      | 23,592                   | (305)                        | 216,236               | (1,754)                      |
| State and political subdivisions       | 27,334                         | (202)                        | 4,400                    | (18)                         | 31,734                | (220)                        |
| Other securities                       | 21,866                         | (339)                        | 15,803                   | (685)                        | 37,669                | (1,024)                      |
| <b>Total</b>                           | <b>\$ 577,228</b>              | <b>\$ (4,675)</b>            | <b>\$ 59,057</b>         | <b>\$ (1,225)</b>            | <b>\$ 636,285</b>     | <b>\$ (5,900)</b>            |

Income earned on securities for the three and nine months ended September 30, 2016 and 2015, is as follows:

|                     | <b>Three Months Ended<br/>September 30,<br/>2016</b> |             | <b>Nine Months Ended<br/>September 30,<br/>2015</b> |             |
|---------------------|--|-------------|---|-------------|
|                     | <b>2016</b>  | <b>2015</b> | <b>2016</b>   | <b>2015</b> |
|                     | <b>(In thousands)</b>                                |             |   |             |
| <b>Taxable:</b>     |  |             |   |             |
| Available-for-sale  | \$ 4,809   | \$ 4,265    | \$ 13,720   | \$ 13,020   |
| Held-to-maturity    | 774  | 892         | 2,458   | 2,810       |
| <b>Non-taxable:</b> |  |             |   |             |



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|                    |          |          |           |           |
|--------------------|----------|----------|-----------|-----------|
| Available-for-sale | 1,528    | 1,457    | 4,667     | 4,178     |
| Held-to-maturity   | 1,192    | 1,332    | 3,691     | 4,137     |
| Total              | \$ 8,303 | \$ 7,946 | \$ 24,536 | \$ 24,145 |

**Table of Contents****4. Loans Receivable**

The various categories of loans receivable are summarized as follows:

|                               | September 30,<br>2016 | December 31,<br>2015 |
|-------------------------------|-----------------------|----------------------|
|                               | (In thousands)        |                      |
| Real estate:                  |                       |                      |
| Commercial real estate loans  |                       |                      |
| Non-farm/non-residential      | \$ 2,954,618          | \$ 2,968,335         |
| Construction/land development | 1,065,204             | 944,787              |
| Agricultural                  | 77,556                | 75,027               |
| Residential real estate loans |                       |                      |
| Residential 1-4 family        | 1,264,384             | 1,190,279            |
| Multifamily residential       | 328,089               | 430,256              |
| <b>Total real estate</b>      | <b>5,689,851</b>      | <b>5,608,684</b>     |
| Consumer                      | 42,487                | 52,258               |
| Commercial and industrial     | 1,225,043             | 850,587              |
| Agricultural                  | 73,413                | 67,109               |
| Other                         | 81,497                | 62,933               |
| <b>Total loans receivable</b> | <b>\$ 7,112,291</b>   | <b>\$ 6,641,571</b>  |

During the three-month period ended September 30, 2016, the Company sold \$5.8 million of the guaranteed portion of certain SBA loans, which resulted in a gain of approximately \$364,000. During the nine-month period ended September 30, 2016, the Company sold \$7.0 million of the guaranteed portion of certain SBA loans, which resulted in a gain of approximately \$443,000. During the three and nine-month periods ended September 30, 2015, the Company sold \$2.0 million of the guaranteed portion of SBA loans, which resulted in a gain of approximately \$151,000.

Mortgage loans held for sale of approximately \$43.2 million and \$38.9 million at September 30, 2016 and December 31, 2015, 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 September 30, 2016 and December 31, 2015 were not material.

**5. Allowance for Loan Losses, Credit Quality and Other**

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

|  | <b>Nine Months Ended<br/>September 30,<br/>2016<br/>(In thousands)</b> |          |
|--|--|----------|
| <b>Allowance for loan losses:</b>          |  |          |
| Beginning balance                          | \$   | 69,224   |
| Loans charged off                          |  | (12,665) |
| Recoveries of loans previously charged off |  | 2,906    |
| Net loans recovered (charged off)          |  | (9,759)  |
| Provision for loan losses                  |  | 16,905   |
| Balance, September 30, 2016                | \$   | 76,370   |

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The following tables present the balance in the allowance for loan losses for the three and nine-month periods ended September 30, 2016, and the allowance for loan losses and recorded investment in loans based on portfolio segment by impairment method as of September 30, 2016. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories. Additionally, the Company's discounts for credit losses on purchased loans were \$108.0 million, \$149.4 million and \$148.9 million at September 30, 2016, December 31, 2015 and September 30, 2015, respectively.

**Three Months Ended September 30, 2016**

|  | <b>Construction/<br/>Land<br/>Development</b> | <b>Other<br/>Commercial<br/>Real<br/>Estate</b> | <b>Residential<br/>Real<br/>Estate</b> | <b>Commercial<br/>&amp;<br/>Industrial</b> | <b>Consumer<br/>&amp; Other</b> | <b>Unallocated</b> | <b>Total</b> |
|--|---|---|--|--|---------------------------------|--------------------|--------------|
| <b>(In thousands)</b>                      |   |   |  |  |                                 |                    |              |
| <b>Allowance for loan losses:</b>          |   |   |  |  |                                 |                    |              |
| Beginning balance                          | \$ 12,335                                     | \$ 24,848                                       | \$ 15,688                              | \$ 13,754                                  | \$ 5,386                        | \$ 2,330           | \$ 74,341    |
| Loans charged off                          | (181)   | (741)   | (1,504)                                | (1,388)                                    | (537)                           |                    | (4,351)      |
| Recoveries of loans previously charged off | 74  | 380   | 148                                    | 42   | 200                             |                    | 844          |
| Net loans recovered (charged off)          | (107)   | (361)   | (1,356)                                | (1,346)                                    | (337)                           |                    | (3,507)      |
| Provision for loan losses                  | (1,502)                                       | 603   | 1,693                                  | 2,197                                      | (393)                           | 2,938              | 5,536        |
| Balance, September 30                      | \$ 10,726                                     | \$ 25,090                                       | \$ 16,025                              | \$ 14,605                                  | \$ 4,656                        | \$ 5,268           | \$ 76,370    |

**Nine Months Ended September 30, 2016**

|  | <b>Construction/<br/>Land<br/>Development</b> | <b>Other<br/>Commercial<br/>Real<br/>Estate</b> | <b>Residential<br/>Real<br/>Estate</b> | <b>Commercial<br/>&amp;<br/>Industrial</b> | <b>Consumer<br/>&amp; Other</b> | <b>Unallocated</b> | <b>Total</b> |
|--|---|---|--|--|---------------------------------|--------------------|--------------|
| <b>(In thousands)</b>                      |   |   |  |  |                                 |                    |              |
| <b>Allowance for loan losses:</b>          |   |   |  |  |                                 |                    |              |
| Beginning balance                          | \$ 10,782                                     | \$ 26,798                                       | \$ 14,818                              | \$ 9,324                                   | \$ 5,016                        | \$ 2,486           | \$ 69,224    |
| Loans charged off                          | (334)   | (2,590)   | (3,810)                                | (4,424)                                    | (1,507)                         |                    | (12,665)     |
| Recoveries of loans previously charged off | 107   | 608   | 836                                    | 656  | 699                             |                    | 2,906        |
| Net loans recovered (charged off)          | (227)   | (1,982)   | (2,974)                                | (3,768)                                    | (808)                           |                    | (9,759)      |

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|                           |     |     |       |       |     |       |        |
|---------------------------|-----|-----|-------|-------|-----|-------|--------|
| Provision for loan losses | 171 | 274 | 4,181 | 9,049 | 448 | 2,782 | 16,905 |
|---------------------------|-----|-----|-------|-------|-----|-------|--------|

|                       |           |           |           |           |          |          |           |
|-----------------------|-----------|-----------|-----------|-----------|----------|----------|-----------|
| Balance, September 30 | \$ 10,726 | \$ 25,090 | \$ 16,025 | \$ 14,605 | \$ 4,656 | \$ 5,268 | \$ 76,370 |
|-----------------------|-----------|-----------|-----------|-----------|----------|----------|-----------|

As of September 30, 2016

|  | Construction/<br>Land<br>Development | Other<br>Commercial<br>Real<br>Estate | Residential<br>Real<br>Estate | Commercial<br>&<br>Industrial | Consumer<br>& Other | Unallocated | Total |
|--|--------------------------------------|---------------------------------------|-------------------------------|-------------------------------|---------------------|-------------|-------|
|--|--------------------------------------|---------------------------------------|-------------------------------|-------------------------------|---------------------|-------------|-------|

**Allowance for loan losses:**

Period end amount allocated to:

|   |       |          |       |       |    |    |          |
|---|-------|----------|-------|-------|----|----|----------|
| Loans individually evaluated for impairment | \$ 60 | \$ 1,612 | \$ 66 | \$ 89 | \$ | \$ | \$ 1,827 |
|---|-------|----------|-------|-------|----|----|----------|

|   |        |        |        |        |       |       |        |
|---|--------|--------|--------|--------|-------|-------|--------|
| Loans collectively evaluated for impairment | 10,595 | 22,923 | 15,562 | 14,512 | 4,643 | 5,268 | 73,503 |
|---|--------|--------|--------|--------|-------|-------|--------|

|  |        |        |        |        |       |       |        |
|--|--------|--------|--------|--------|-------|-------|--------|
| Loans evaluated for impairment balance, September 30 | 10,655 | 24,535 | 15,628 | 14,601 | 4,643 | 5,268 | 75,330 |
|--|--------|--------|--------|--------|-------|-------|--------|

|                                 |    |     |     |   |    |  |       |
|---------------------------------|----|-----|-----|---|----|--|-------|
| Purchased credit impaired loans | 71 | 555 | 397 | 4 | 13 |  | 1,040 |
|---------------------------------|----|-----|-----|---|----|--|-------|

|                       |           |           |           |           |          |          |           |
|-----------------------|-----------|-----------|-----------|-----------|----------|----------|-----------|
| Balance, September 30 | \$ 10,726 | \$ 25,090 | \$ 16,025 | \$ 14,605 | \$ 4,656 | \$ 5,268 | \$ 76,370 |
|-----------------------|-----------|-----------|-----------|-----------|----------|----------|-----------|

**Loans receivable:**

Period end amount allocated to:

|   |           |           |           |           |          |    |            |
|---|-----------|-----------|-----------|-----------|----------|----|------------|
| Loans individually evaluated for impairment | \$ 21,375 | \$ 50,384 | \$ 28,381 | \$ 25,156 | \$ 1,334 | \$ | \$ 126,630 |
|---|-----------|-----------|-----------|-----------|----------|----|------------|

|   |           |           |           |           |         |  |           |
|---|-----------|-----------|-----------|-----------|---------|--|-----------|
| Loans collectively evaluated for impairment | 1,025,352 | 2,897,901 | 1,509,655 | 1,184,263 | 194,473 |  | 6,811,644 |
|---|-----------|-----------|-----------|-----------|---------|--|-----------|

|  |           |           |           |           |         |  |           |
|--|-----------|-----------|-----------|-----------|---------|--|-----------|
| Loans evaluated for impairment balance, September 30 | 1,046,727 | 2,948,285 | 1,538,036 | 1,209,419 | 195,807 |  | 6,938,274 |
|--|-----------|-----------|-----------|-----------|---------|--|-----------|

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|                                 |              |              |              |              |            |              |
|---------------------------------|--------------|--------------|--------------|--------------|------------|--------------|
| Purchased credit impaired loans | 18,477       | 83,889       | 54,437       | 15,624       | 1,590      | 174,017      |
| Balance, September 30           | \$ 1,065,204 | \$ 3,032,174 | \$ 1,592,473 | \$ 1,225,043 | \$ 197,397 | \$ 7,112,291 |

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The following tables present the balances in the allowance for loan losses for the nine-month period ended September 30, 2015 and the year ended December 31, 2015, and the allowance for loan losses and recorded investment in loans receivable based on portfolio segment by impairment method as of December 31, 2015. 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, 2015 |           |             |            |          |             |           | Total |
|---|------------------------------|-----------|-------------|------------|----------|-------------|-----------|-------|
|   | Other                        |           | Residential | Commercial | Consumer | Unallocated |           |       |
|   | Construction/Commercial      | Real      |             |            |          |             |           |       |
|   | Land Development             | Estate    | Estate      |            |          |             |           |       |
| <b>(In thousands)</b>                             |                              |           |             |            |          |             |           |       |
| <b>Allowance for loan losses:</b>                 |                              |           |             |            |          |             |           |       |
| Beginning balance                                 | \$ 8,548                     | \$ 18,157 | \$ 14,607   | \$ 5,966   | \$ 5,799 | \$ 1,934    | \$ 55,011 |       |
| Loans charged off                                 | (541)                        | (4,132)   | (3,076)     | (1,774)    | (1,955)  |             | (11,478)  |       |
| Recoveries of loans previously charged off        | 147                          | 728       | 462         | 395        | 661      |             | 2,393     |       |
| Net loans recovered (charged off)                 | (394)                        | (3,404)   | (2,614)     | (1,379)    | (1,294)  |             | (9,085)   |       |
| Provision for loan losses                         | 987                          | 8,025     | 3,578       | 4,115      | 243      | (674)       | 16,274    |       |
| Increase (decrease) in FDIC indemnification asset | 384                          | 695       | 169         | 192        | 19       |             | 1,459     |       |
| Balance, September 30                             | 9,525                        | 23,473    | 15,740      | 8,894      | 4,767    | 1,260       | 63,659    |       |
| Loans charged off                                 | (103)                        | (746)     | (1,641)     | (864)      | (1,120)  |             | (4,474)   |       |
| Recoveries of loans previously charged off        | 89                           | 34        | 453         | 407        | 166      |             | 1,149     |       |
| Net loans recovered (charged off)                 | (14)                         | (712)     | (1,188)     | (457)      | (954)    |             | (3,325)   |       |
| Provision for loan losses                         | 1,286                        | 3,837     | 240         | 1,089      | 1,212    | 1,226       | 8,890     |       |
| Increase (decrease) in FDIC indemnification asset | (15)                         | 200       | 26          | (202)      | (9)      |             |           |       |
| Balance, December 31                              | \$ 10,782                    | \$ 26,798 | \$ 14,818   | \$ 9,324   | \$ 5,016 | \$ 2,486    | \$ 69,224 |       |

|  | As of December 31, 2015 |                        |             |              |          |             | Total |
|--|-------------------------|------------------------|-------------|--------------|----------|-------------|-------|
|  | Construction/           | Other                  | Residential | Commercial   | Consumer | Unallocated |       |
|  | Land Development        | Commercial Real Estate | Real Estate | & Industrial | & Other  |             |       |

## Estate

(In thousands)

**Allowance for loan losses:**

Period end amount allocated to:

Loans individually evaluated for

|            |          |          |        |        |    |    |          |
|------------|----------|----------|--------|--------|----|----|----------|
| impairment | \$ 1,149 | \$ 2,115 | \$ 186 | \$ 921 | \$ | \$ | \$ 4,371 |
|------------|----------|----------|--------|--------|----|----|----------|

|   |       |        |        |       |       |       |        |
|---|-------|--------|--------|-------|-------|-------|--------|
| Loans collectively evaluated for impairment | 9,506 | 24,511 | 12,157 | 8,383 | 5,006 | 2,486 | 62,049 |
|---|-------|--------|--------|-------|-------|-------|--------|

|   |        |        |        |       |       |       |        |
|---|--------|--------|--------|-------|-------|-------|--------|
| Loans evaluated for impairment balance, December 31 | 10,655 | 26,626 | 12,343 | 9,304 | 5,006 | 2,486 | 66,420 |
|---|--------|--------|--------|-------|-------|-------|--------|

|                                 |     |     |       |    |    |  |       |
|---------------------------------|-----|-----|-------|----|----|--|-------|
| Purchased credit impaired loans | 127 | 172 | 2,475 | 20 | 10 |  | 2,804 |
|---------------------------------|-----|-----|-------|----|----|--|-------|

|                      |           |           |           |          |          |          |           |
|----------------------|-----------|-----------|-----------|----------|----------|----------|-----------|
| Balance, December 31 | \$ 10,782 | \$ 26,798 | \$ 14,818 | \$ 9,324 | \$ 5,016 | \$ 2,486 | \$ 69,224 |
|----------------------|-----------|-----------|-----------|----------|----------|----------|-----------|

**Loans receivable:**

Period end amount allocated to:

Loans individually evaluated for

|            |           |           |           |          |          |    |            |
|------------|-----------|-----------|-----------|----------|----------|----|------------|
| impairment | \$ 21,215 | \$ 55,858 | \$ 18,240 | \$ 6,290 | \$ 1,053 | \$ | \$ 102,656 |
|------------|-----------|-----------|-----------|----------|----------|----|------------|

|   |         |           |           |         |         |  |           |
|---|---------|-----------|-----------|---------|---------|--|-----------|
| Loans collectively evaluated for impairment | 901,147 | 2,887,880 | 1,490,866 | 825,640 | 179,391 |  | 6,284,924 |
|---|---------|-----------|-----------|---------|---------|--|-----------|

|   |         |           |           |         |         |  |           |
|---|---------|-----------|-----------|---------|---------|--|-----------|
| Loans evaluated for impairment balance, December 31 | 922,362 | 2,943,738 | 1,509,106 | 831,930 | 180,444 |  | 6,387,580 |
|---|---------|-----------|-----------|---------|---------|--|-----------|

|                                 |        |        |         |        |       |  |         |
|---------------------------------|--------|--------|---------|--------|-------|--|---------|
| Purchased credit impaired loans | 22,425 | 99,624 | 111,429 | 18,657 | 1,856 |  | 253,991 |
|---------------------------------|--------|--------|---------|--------|-------|--|---------|

|                      |            |              |              |            |            |    |              |
|----------------------|------------|--------------|--------------|------------|------------|----|--------------|
| Balance, December 31 | \$ 944,787 | \$ 3,043,362 | \$ 1,620,535 | \$ 850,587 | \$ 182,300 | \$ | \$ 6,641,571 |
|----------------------|------------|--------------|--------------|------------|------------|----|--------------|



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The following is an aging analysis for loans receivable as of September 30, 2016 and December 31, 2015:

|                               | September 30, 2016              |                                 |  |  |                     |                              | Accruing<br>Loans<br>Past<br>Due<br>90 Days<br>or More |
|-------------------------------|---------------------------------|---------------------------------|--|--|---------------------|------------------------------|--|
|                               | Loans<br>Past Due<br>30-59 Days | Loans<br>Past Due<br>60-89 Days | Loans<br>Past<br>Due<br>90 Days<br>or More | Total<br>Past<br>Due<br>(In thousands) | Current<br>Loans    | Total<br>Loans<br>Receivable |  |
| Real estate:                  |                                 |                                 |  |  |                     |                              |  |
| Commercial real estate loans  |                                 |                                 |  |  |                     |                              |  |
| Non-farm/non-residential      | \$ 1,309                        | \$ 839                          | \$ 18,011                                  | \$ 20,159                              | \$ 2,934,459        | \$ 2,954,618                 | \$ 9,015   |
| Construction/land development |                                 |                                 |  |  |                     |                              |  |
|                               | 1,701                           | 222                             | 7,843                                      | 9,766                                  | 1,055,438           | 1,065,204                    | 3,543  |
| Agricultural                  | 110                             |                                 | 399  | 509                                    | 77,047              | 77,556                       |  |
| Residential real estate loans |                                 |                                 |  |  |                     |                              |  |
| Residential 1-4 family        | 3,766                           | 3,195                           | 25,041                                     | 32,002                                 | 1,232,382           | 1,264,384                    | 4,622  |
| Multifamily residential       |                                 |                                 | 409  | 409                                    | 327,680             | 328,089                      | 1  |
| <b>Total real estate</b>      | <b>6,886</b>                    | <b>4,256</b>                    | <b>51,703</b>                              | <b>62,845</b>                          | <b>5,627,006</b>    | <b>5,689,851</b>             | <b>17,181</b>  |
| Consumer                      | 98                              | 70                              | 242  | 410                                    | 42,077              | 42,487                       | 67   |
| Commercial and industrial     | 1,489                           | 270                             | 7,084                                      | 8,843                                  | 1,216,200           | 1,225,043                    | 3,489  |
| Agricultural and other        | 362                             | 3                               | 1,061                                      | 1,426                                  | 153,484             | 154,910                      |  |
| <b>Total</b>                  | <b>\$ 8,835</b>                 | <b>\$ 4,599</b>                 | <b>\$ 60,090</b>                           | <b>\$ 73,524</b>                       | <b>\$ 7,038,767</b> | <b>\$ 7,112,291</b>          | <b>\$ 20,737</b>                                       |

|                               | December 31, 2015                     |                                       |  |  |                  |                              | Accruing<br>Loans<br>Past<br>Due<br>90 Days<br>or More |
|-------------------------------|---------------------------------------|---------------------------------------|--|--|------------------|------------------------------|--|
|                               | Loans<br>Past<br>Due<br>30-59<br>Days | Loans<br>Past<br>Due<br>60-89<br>Days | Loans<br>Past<br>Due<br>90 Days<br>or More | Total<br>Past<br>Due<br>(In thousands) | Current<br>Loans | Total<br>Loans<br>Receivable |  |
| Real estate:                  |                                       |                                       |  |  |                  |                              |  |
| Commercial real estate loans  |                                       |                                       |  |  |                  |                              |  |
| Non-farm/non-residential      | \$ 1,494                              | \$ 292                                | \$ 25,058                                  | \$ 26,844                              | \$ 2,941,491     | \$ 2,968,335                 | \$ 9,247   |
| Construction/land development |                                       |                                       |  |  |                  |                              |  |
|                               | 897                                   | 343                                   | 7,128                                      | 8,368                                  | 936,419          | 944,787                      | 4,176  |
| Agricultural                  | 177                                   |                                       | 561  | 738                                    | 74,289           | 75,027                       | 30   |
| Residential real estate loans |                                       |                                       |  |  |                  |                              |  |
| Residential 1-4 family        | 4,831                                 | 3,694                                 | 19,781                                     | 28,306                                 | 1,161,973        | 1,190,279                    | 7,207  |
| Multifamily residential       | 1,330                                 |                                       | 871  | 2,201                                  | 428,055          | 430,256                      | 1  |

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|                           |          |          |           |           |              |              |           |
|---------------------------|----------|----------|-----------|-----------|--------------|--------------|-----------|
| Total real estate         | 8,729    | 4,329    | 53,399    | 66,457    | 5,542,227    | 5,608,684    | 20,661    |
| Consumer                  | 133      | 66       | 285       | 484       | 51,774       | 52,258       | 46        |
| Commercial and industrial | 679      | 781      | 8,793     | 10,253    | 840,334      | 850,587      | 6,430     |
| Agricultural and other    | 347      | 164      | 1,034     | 1,545     | 128,497      | 130,042      |           |
| Total                     | \$ 9,888 | \$ 5,340 | \$ 63,511 | \$ 78,739 | \$ 6,562,832 | \$ 6,641,571 | \$ 27,137 |

Non-accruing loans at September 30, 2016 and December 31, 2015 were \$39.4 million and \$36.4 million, respectively.

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The following is a summary of the impaired loans as of September 30, 2016 and December 31, 2015:

|   |   |                                 | September 30, 2016                                  |                                   | Three Months           |                                   | Nine Months            |  |
|---|---|---------------------------------|---|-----------------------------------|------------------------|-----------------------------------|------------------------|--|
|   | Unpaid<br>Contractual<br>Principal<br>Balance | Total<br>Recorded<br>Investment | Allocation<br>of Allowance<br>for<br>Loan<br>Losses | Average<br>Recorded<br>Investment | Interest<br>Recognized | Average<br>Recorded<br>Investment | Interest<br>Recognized |  |
| <b>(In thousands)</b>                               |   |                                 |   |                                   |                        |                                   |                        |  |
| <b>Loans without a specific valuation allowance</b> |   |                                 |   |                                   |                        |                                   |                        |  |
| Real estate:  |   |                                 |   |                                   |                        |                                   |                        |  |
| Commercial real estate loans                        |   |                                 |   |                                   |                        |                                   |                        |  |
| Non-farm/non-residential                            | \$ 29   | \$                              | \$  | \$ 15                             | \$                     | \$ 22                             | \$ 1                   |  |
| Construction/land development                       |   | 29                              |   | 15                                |                        | 7                                 |                        |  |
| Agricultural  |   |                                 |   |                                   |                        |                                   |                        |  |
| Residential real estate loans                       |   |                                 |   |                                   |                        |                                   |                        |  |
| Residential 1-4 family                              | 237   | 116                             |   | 102                               | 2                      | 91                                | 3                      |  |
| Multifamily residential                             |   | 47                              |   | 24                                |                        | 23                                |                        |  |
| Total real estate                                   | 266   | 192                             |   | 156                               | 2                      | 143                               | 4                      |  |
| Consumer  |   |                                 |   |                                   |                        |                                   |                        |  |
| Commercial and industrial                           | 38  | 45                              |   | 67                                | 2                      | 49                                | 3                      |  |
| Agricultural and other                              |   |                                 |   |                                   |                        |                                   |                        |  |
| Total loans without a specific valuation allowance  | 304   | 237                             |   | 223                               | 4                      | 192                               | 7                      |  |
| <b>Loans with a specific valuation allowance</b>    |   |                                 |   |                                   |                        |                                   |                        |  |
| Real estate:  |   |                                 |   |                                   |                        |                                   |                        |  |
| Commercial real estate loans                        |   |                                 |   |                                   |                        |                                   |                        |  |
| Non-farm/non-residential                            | 42,521  | 39,929                          | 1,612   | 39,352                            | 338                    | 41,134                            | 944                    |  |
| Construction/land development                       | 10,123  | 9,743                           | 60  | 13,155                            | 90                     | 14,199                            | 268                    |  |
| Agricultural  | 399   | 398                             |   | 401                               |                        | 477                               |                        |  |
| Residential real estate loans                       |   |                                 |   |                                   |                        |                                   |                        |  |
| Residential 1-4 family                              | 26,820  | 25,918                          | 66  | 22,065                            | 95                     | 18,881                            | 201                    |  |
| Multifamily residential                             | 410   | 362                             |   | 856                               |                        | 1,015                             | 5                      |  |
| Total real estate                                   | 80,273  | 76,350                          | 1,738   | 75,829                            | 523                    | 75,706                            | 1,418                  |  |
| Consumer  |   |                                 |   |                                   |                        |                                   |                        |  |
| Commercial and industrial                           | 265   | 222                             |   | 223                               | 1                      | 238                               | 3                      |  |
| Agricultural and other                              | 10,962  | 10,426                          | 89  | 9,676                             | 69                     | 11,530                            | 250                    |  |
|   | 1,061   | 1,058                           |   | 1,084                             |                        | 1,062                             |                        |  |
|   | 92,561  | 88,056                          | 1,827   | 86,812                            | 593                    | 88,536                            | 1,671                  |  |

Total loans with a specific valuation allowance

**Total impaired loans**

Real estate:

Commercial real estate loans

|                               |        |        |       |        |     |        |     |
|-------------------------------|--------|--------|-------|--------|-----|--------|-----|
| Non-farm/non-residential      | 42,550 | 39,929 | 1,612 | 39,367 | 338 | 41,156 | 945 |
| Construction/land development | 10,123 | 9,772  | 60    | 13,170 | 90  | 14,206 | 268 |
| Agricultural                  | 399    | 398    |       | 401    |     | 477    |     |

Residential real estate loans

|                         |        |        |    |        |    |        |     |
|-------------------------|--------|--------|----|--------|----|--------|-----|
| Residential 1-4 family  | 27,057 | 26,034 | 66 | 22,167 | 97 | 18,972 | 204 |
| Multifamily residential | 410    | 409    |    | 880    |    | 1,038  | 5   |

|                           |        |        |       |        |     |        |       |
|---------------------------|--------|--------|-------|--------|-----|--------|-------|
| Total real estate         | 80,539 | 76,542 | 1,738 | 75,985 | 525 | 75,849 | 1,422 |
| Consumer                  | 265    | 222    |       | 223    | 1   | 238    | 3     |
| Commercial and industrial | 11,000 | 10,471 | 89    | 9,743  | 71  | 11,579 | 253   |
| Agricultural and other    | 1,061  | 1,058  |       | 1,084  |     | 1,062  |       |

|                      |           |           |          |           |        |           |          |
|----------------------|-----------|-----------|----------|-----------|--------|-----------|----------|
| Total impaired loans | \$ 92,865 | \$ 88,293 | \$ 1,827 | \$ 87,035 | \$ 597 | \$ 88,728 | \$ 1,678 |
|----------------------|-----------|-----------|----------|-----------|--------|-----------|----------|

*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 September 30, 2016.

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|   | December 31, 2015 |            |              |            |            |
|---|-------------------|------------|--------------|------------|------------|
|   | Unpaid            | Total      | Allocation   | Year Ended |            |
|   | Contractual       | Recorded   | of Allowance | Average    | Interest   |
|   | Principal         | Investment | for Loan     | Recorded   | Recognized |
|   | Balance           |            | Losses       | Investment |            |
|   | (In thousands)    |            |              |            |            |
| <b>Loans without a specific valuation allowance</b> |                   |            |              |            |            |
| Real estate:  |                   |            |              |            |            |
| Commercial real estate loans                        |                   |            |              |            |            |
| Non-farm/non-residential                            | \$ 29             | \$ 29      | \$           | \$ 6       | \$ 2       |
| Construction/land development                       |                   |            |              |            |            |
| Agricultural  |                   |            |              |            |            |
| Residential real estate loans                       |                   |            |              |            |            |
| Residential 1-4 family                              | 80                | 80         |              | 21         | 6          |
| Multifamily residential                             |                   |            |              |            |            |
| Total real estate                                   | 109               | 109        |              | 27         | 8          |
| Consumer  |                   |            |              |            |            |
| Commercial and industrial                           | 12                | 12         |              | 2          | 1          |
| Agricultural and other                              |                   |            |              |            |            |
| Total loans without a specific valuation allowance  | 121               | 121        |              | 29         | 9          |
| <b>Loans with a specific valuation allowance</b>    |                   |            |              |            |            |
| Real estate:  |                   |            |              |            |            |
| Commercial real estate loans                        |                   |            |              |            |            |
| Non-farm/non-residential                            | 47,861            | 44,858     | 2,115        | 43,900     | 1,139      |
| Construction/land development                       | 17,025            | 15,077     | 1,149        | 16,026     | 303        |
| Agricultural  | 583               | 561        |              | 153        |            |
| Residential real estate loans                       |                   |            |              |            |            |
| Residential 1-4 family                              | 18,454            | 17,333     | 168          | 16,947     | 390        |
| Multifamily residential                             | 1,160             | 1,160      | 18           | 3,281      | 34         |
| Total real estate                                   | 85,083            | 78,989     | 3,450        | 80,307     | 1,866      |
| Consumer  |                   |            |              |            |            |
| Commercial and industrial                           | 306               | 286        |              | 570        | 7          |
| Commercial and industrial                           | 13,385            | 11,163     | 921          | 6,542      | 191        |
| Agricultural and other                              | 1,034             | 1,034      |              | 614        | 4          |
| Total loans with a specific valuation allowance     | 99,808            | 91,472     | 4,371        | 88,033     | 2,068      |
| <b>Total impaired loans</b>                         |                   |            |              |            |            |
| Real estate:  |                   |            |              |            |            |
| Commercial real estate loans                        |                   |            |              |            |            |
| Non-farm/non-residential                            | 47,890            | 44,887     | 2,115        | 43,906     | 1,141      |
| Construction/land development                       | 17,025            | 15,077     | 1,149        | 16,026     | 303        |
| Agricultural  | 583               | 561        |              | 153        |            |
| Residential real estate loans                       |                   |            |              |            |            |
| Residential 1-4 family                              | 18,534            | 17,413     | 168          | 16,968     | 396        |
| Multifamily residential                             | 1,160             | 1,160      | 18           | 3,281      | 34         |

|                           |           |           |          |           |          |
|---------------------------|-----------|-----------|----------|-----------|----------|
| Total real estate         | 85,192    | 79,098    | 3,450    | 80,334    | 1,874    |
| Consumer                  | 306       | 286       |          | 570       | 7        |
| Commercial and industrial | 13,397    | 11,175    | 921      | 6,544     | 192      |
| Agricultural and other    | 1,034     | 1,034     |          | 614       | 4        |
| Total impaired loans      | \$ 99,929 | \$ 91,593 | \$ 4,371 | \$ 88,062 | \$ 2,077 |

*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, 2015.

Interest recognized on impaired loans during the three months ended September 30, 2016 and 2015 was approximately \$597,000 and \$456,000, respectively. Interest recognized on impaired loans during the nine months ended September 30, 2016 and 2015 was approximately \$1.7 million and \$1.5 million, respectively. The amount of interest recognized on impaired loans on the cash basis is not materially different than the accrual basis.

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

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

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

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

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

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

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

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

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

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

*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.



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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 September 30, 2016 and December 31, 2015:

|                               | <b>September 30, 2016</b> |                     |                     |                         |
|-------------------------------|---------------------------|---------------------|---------------------|-------------------------|
|                               | <b>Risk Rated 6</b>       | <b>Risk Rated 7</b> | <b>Risk Rated 8</b> | <b>Classified Total</b> |
|                               | <b>(In thousands)</b>     |                     |                     |                         |
| <b>Real estate:</b>           |                           |                     |                     |                         |
| Commercial real estate loans  |                           |                     |                     |                         |
| Non-farm/non-residential      | \$ 32,680                 | \$ 462              | \$                  | \$ 33,142               |
| Construction/land development | 10,331                    | 36                  |                     | 10,367                  |
| Agricultural                  | 446                       |                     |                     | 446                     |
| Residential real estate loans |                           |                     |                     |                         |
| Residential 1-4 family        | 33,889                    | 906                 |                     | 34,795                  |
| Multifamily residential       | 1,278                     |                     |                     | 1,278                   |
| <b>Total real estate</b>      | <b>78,624</b>             | <b>1,404</b>        |                     | <b>80,028</b>           |
| Consumer                      | 204                       | 17                  |                     | 221                     |
| Commercial and industrial     | 12,963                    | 55                  |                     | 13,018                  |
| Agricultural and other        | 1,069                     |                     |                     | 1,069                   |
| <b>Total risk rated loans</b> | <b>\$ 92,860</b>          | <b>\$ 1,476</b>     | <b>\$</b>           | <b>\$ 94,336</b>        |

|                               | <b>December 31, 2015</b> |                     |                     |                         |
|-------------------------------|--------------------------|---------------------|---------------------|-------------------------|
|                               | <b>Risk Rated 6</b>      | <b>Risk Rated 7</b> | <b>Risk Rated 8</b> | <b>Classified Total</b> |
|                               | <b>(In thousands)</b>    |                     |                     |                         |
| <b>Real estate:</b>           |                          |                     |                     |                         |
| Commercial real estate loans  |                          |                     |                     |                         |
| Non-farm/non-residential      | \$ 42,077                | \$ 706              | \$                  | \$ 42,783               |
| Construction/land development | 17,821                   | 1                   |                     | 17,822                  |
| Agricultural                  | 534                      |                     |                     | 534                     |
| Residential real estate loans |                          |                     |                     |                         |
| Residential 1-4 family        | 18,497                   | 276                 |                     | 18,773                  |
| Multifamily residential       | 2,075                    | 30                  |                     | 2,105                   |
| <b>Total real estate</b>      | <b>81,004</b>            | <b>1,013</b>        |                     | <b>82,017</b>           |
| Consumer                      | 320                      | 18                  |                     | 338                     |
| Commercial and industrial     | 5,869                    | 29                  |                     | 5,898                   |
| Agricultural and other        | 1,582                    | 90                  |                     | 1,672                   |
| <b>Total risk rated loans</b> | <b>\$ 88,775</b>         | <b>\$ 1,150</b>     | <b>\$</b>           | <b>\$ 89,925</b>        |

Loans may be classified, but not considered impaired, due to one of the following reasons: (1) The Company has established minimum dollar amount thresholds for loan impairment testing. All loans over \$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.

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The following is a presentation of loans receivable by class and risk rating as of September 30, 2016 and December 31, 2015:

|                                 | September 30, 2016 |                 |                 |                 |                 | Classified<br>Total | Total        |
|---------------------------------|--------------------|-----------------|-----------------|-----------------|-----------------|---------------------|--------------|
|                                 | Risk<br>Rated 1    | Risk<br>Rated 2 | Risk<br>Rated 3 | Risk<br>Rated 4 | Risk<br>Rated 5 |                     |              |
| (In thousands)                  |                    |                 |                 |                 |                 |                     |              |
| Real estate:                    |                    |                 |                 |                 |                 |                     |              |
| Commercial real estate loans    |                    |                 |                 |                 |                 |                     |              |
| Non-farm/non-residential        | \$ 472             | \$ 4,882        | \$ 1,695,297    | \$ 1,099,046    | \$ 37,890       | \$ 33,142           | \$ 2,870,729 |
| Construction/land development   |                    |                 |                 |                 |                 |                     |              |
| Agricultural                    | 1,003              | 834             | 202,473         | 818,785         | 13,265          | 10,367              | 1,046,727    |
| Residential real estate loans   |                    |                 |                 |                 |                 |                     |              |
| Residential 1-4 family          | 1,960              | 1,952           | 921,440         | 246,039         | 10,340          | 34,795              | 1,216,526    |
| Multifamily residential         | 6                  |                 | 269,986         | 41,595          | 8,645           | 1,278               | 321,510      |
| Total real estate               | 3,441              | 7,862           | 3,142,072       | 2,228,721       | 70,924          | 80,028              | 5,533,048    |
| Consumer                        | 15,471             | 235             | 15,545          | 9,737           | 89              | 221                 | 41,298       |
| Commercial and industrial       | 12,974             | 4,335           | 462,785         | 701,381         | 14,926          | 13,018              | 1,209,419    |
| Agricultural and other          | 3,431              | 898             | 77,842          | 70,924          | 345             | 1,069               | 154,509      |
| Total risk rated loans          | \$ 35,317          | \$ 13,330       | \$ 3,698,244    | \$ 3,010,763    | \$ 86,284       | \$ 94,336           | 6,938,274    |
| Purchased credit impaired loans |                    |                 |                 |                 |                 |                     |              |
|                                 |                    |                 |                 |                 |                 |                     | 174,017      |
| Total loans receivable          |                    |                 |                 |                 |                 |                     | \$ 7,112,291 |

|                               | December 31, 2015 |                 |                 |                 |                 | Classified<br>Total | Total        |
|-------------------------------|-------------------|-----------------|-----------------|-----------------|-----------------|---------------------|--------------|
|                               | Risk<br>Rated 1   | Risk<br>Rated 2 | Risk<br>Rated 3 | Risk<br>Rated 4 | Risk<br>Rated 5 |                     |              |
| (In thousands)                |                   |                 |                 |                 |                 |                     |              |
| Real estate:                  |                   |                 |                 |                 |                 |                     |              |
| Commercial real estate loans  |                   |                 |                 |                 |                 |                     |              |
| Non-farm/non-residential      | \$ 1,064          | \$ 5,950        | \$ 1,603,950    | \$ 1,183,898    | \$ 31,405       | \$ 42,783           | \$ 2,869,050 |
| Construction/land development |                   |                 |                 |                 |                 |                     |              |
| Agricultural                  | 61                | 696             | 254,907         | 645,249         | 3,627           | 17,822              | 922,362      |
| Residential real estate loans |                   |                 |                 |                 |                 |                     |              |
|                               |                   | 298             | 47,413          | 26,262          | 181             | 534                 | 74,688       |

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|                                    |           |           |              |              |            |           |              |
|------------------------------------|-----------|-----------|--------------|--------------|------------|-----------|--------------|
| Residential 1-4 family             | 1,193     | 1,838     | 850,744      | 198,304      | 15,015     | 18,773    | 1,085,867    |
| Multifamily residential            |           | 155       | 301,113      | 63,640       | 56,226     | 2,105     | 423,239      |
| Total real estate                  | 2,318     | 8,937     | 3,058,127    | 2,117,353    | 106,454    | 82,017    | 5,375,206    |
| Consumer                           | 16,367    | 318       | 23,768       | 10,266       | 109        | 338       | 51,166       |
| Commercial and industrial          | 10,885    | 6,729     | 495,064      | 307,818      | 5,536      | 5,898     | 831,930      |
| Agricultural and other             | 4,572     | 926       | 73,447       | 48,386       | 275        | 1,672     | 129,278      |
| Total risk rated loans             | \$ 34,142 | \$ 16,910 | \$ 3,650,406 | \$ 2,483,823 | \$ 112,374 | \$ 89,925 | 6,387,580    |
| Purchased credit impaired<br>loans |           |           |              |              |            |           | 253,991      |
| Total loans receivable             |           |           |              |              |            |           | \$ 6,641,571 |

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The following is a presentation of troubled debt restructurings ( TDRs ) by class as of September 30, 2016 and December 31, 2015:

|                               | <b>September 30, 2016</b>                            |                                |                              |                              |   |   |
|-------------------------------|--|--------------------------------|------------------------------|------------------------------|---|---|
|                               | <b>Pre-<br/>Modification<br/>Number<br/>of Loans</b> | <b>Outstanding<br/>Balance</b> | <b>Rate<br/>Modification</b> | <b>Term<br/>Modification</b> | <b>Rate<br/>&amp; Term<br/>Modification</b> | <b>Post-<br/>Modification<br/>Outstanding<br/>Balance</b> |
| <b>(Dollars in thousands)</b> |  |                                |                              |                              |   |   |
| Real estate:                  |  |                                |                              |                              |   |   |
| Commercial real estate loans  |  |                                |                              |                              |   |   |
| Non-farm/non-residential      | 17   | \$ 20,261                      | \$ 13,271                    | \$ 266                       | \$ 5,876                                    | \$ 19,413   |
| Construction/land development | 2  | 1,943                          | 1,929                        |                              |   | 1,929   |
| Residential real estate loans |  |                                |                              |                              |   |   |
| Residential 1-4 family        | 18   | 3,369                          | 1,730                        | 127                          | 520   | 2,377   |
| Multifamily residential       |  |                                |                              |                              |   |   |
| Total real estate             | 37   | 25,573                         | 16,930                       | 393                          | 6,396                                       | 23,719  |
| Commercial and industrial     | 5  | 159                            | 47                           | 76                           | 11  | 134   |
| Total                         | 42   | \$ 25,732                      | \$ 16,977                    | \$ 469                       | \$ 6,407                                    | \$ 23,853   |

|                               | <b>December 31, 2015</b>                             |                                |                              |                              |   |   |
|-------------------------------|--|--------------------------------|------------------------------|------------------------------|---|---|
|                               | <b>Pre-<br/>Modification<br/>Number<br/>of Loans</b> | <b>Outstanding<br/>Balance</b> | <b>Rate<br/>Modification</b> | <b>Term<br/>Modification</b> | <b>Rate<br/>&amp; Term<br/>Modification</b> | <b>Post-<br/>Modification<br/>Outstanding<br/>Balance</b> |
| <b>(Dollars in thousands)</b> |  |                                |                              |                              |   |   |
| Real estate:                  |  |                                |                              |                              |   |   |
| Commercial real estate loans  |  |                                |                              |                              |   |   |
| Non-farm/non-residential      | 13   | \$ 14,422                      | \$ 9,189                     | \$ 273                       | \$ 4,626                                    | \$ 14,088   |
| Construction/land development | 2  | 1,026                          | 1,018                        |                              |   | 1,018   |
| Residential real estate loans |  |                                |                              |                              |   |   |
| Residential 1-4 family        | 8  | 2,813                          | 811                          | 1,925                        |   | 2,736   |
| Multifamily residential       | 1  | 295                            |                              |                              | 290   | 290   |
| Total real estate             | 24   | 18,556                         | 11,018                       | 2,198                        | 4,916                                       | 18,132  |
| Commercial and industrial     | 2  | 69                             |                              | 69                           |   | 69  |
| Total                         | 26   | \$ 18,625                      | \$ 11,018                    | \$ 2,267                     | \$ 4,916                                    | \$ 18,201   |

The following is a presentation of TDRs on non-accrual status as of September 30, 2016 and December 31, 2015 because they are not in compliance with the modified terms:

|                               | September 30, 2016     |                  | December 31, 2015 |                  |
|-------------------------------|------------------------|------------------|-------------------|------------------|
|                               | Number of Loans        | Recorded Balance | Number of Loans   | Recorded Balance |
|                               | (Dollars in thousands) |                  |                   |                  |
| <b>Real estate:</b>           |                        |                  |                   |                  |
| Commercial real estate loans  |                        |                  |                   |                  |
| Non-farm/non-residential      | 2                      | \$ 699           | 3                 | \$ 1,604         |
| Residential real estate loans |                        |                  |                   |                  |
| Residential 1-4 family        | 11                     | 1,499            | 2                 | 1,812            |
| Total real estate             | 13                     | 2,198            | 5                 | 3,416            |
| Commercial and industrial     | 1                      | 11               |                   |                  |
| Total                         | 14                     | \$ 2,209         | 5                 | \$ 3,416         |

In addition to the TDRs that occurred during the period provided in the preceding tables, the Company had TDRs with pre-modification loan balances of zero and \$3.4 million as of September 30, 2016 and December 31, 2015, respectively, for which other real estate owned ( OREO ) was received in full or partial satisfaction of the loans. The majority of such TDRs were in commercial real estate and residential real estate as of September 30, 2016 and December 31, 2015, respectively. At September 30, 2016, the Company had \$2.8 million of residential real estate properties in OREO.

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The following is a presentation of total foreclosed assets as of September 30, 2016 and December 31, 2015:

|   | September 30, 2016 | December 31, 2015 |
|---|--------------------|-------------------|
|   | (In thousands)     |                   |
| <b>Commercial real estate loans</b>       |                    |                   |
| Non-farm/non-residential                  | \$ 9,632           | \$ 9,787          |
| Construction/land development             | 4,631              | 5,286             |
| Agricultural                              |                    |                   |
| <b>Residential real estate loans</b>      |                    |                   |
| Residential 1-4 family                    | 2,218              | 3,847             |
| Multifamily residential                   | 572                | 220               |
| <br>Total foreclosed assets held for sale | <br>\$ 17,053      | <br>\$ 19,140     |

Changes in the carrying amount of the accretable yield for purchased credit impaired loans were as follows for the nine-month period ended September 30, 2016 for the Company's acquisitions:

|  | Accretable Yield | Carrying<br>Amount<br>of<br>Loans |
|--|------------------|-----------------------------------|
|  | (In thousands)   |                                   |
| Balance at beginning of period                                 | \$ 68,980        | \$ 253,991                        |
| Reforecasted future interest payments for loan pools           | 5,388            |                                   |
| Accretion recorded to interest income                          | (21,300)         | 21,300                            |
| Adjustment to yield  | 9,372            |                                   |
| Reclassification out of purchased credit impaired loans<br>(1) | (21,541)         | (57,440)                          |
| Transfers to foreclosed assets held for sale                   |                  | (1,399)                           |
| Payments received, net   |                  | (42,435)                          |
| <br>Balance at end of period                                   | <br>\$ 40,899    | <br>\$ 174,017                    |

- (1) At acquisition, 100% of the loans acquired from Old Southern, Key West, Coastal, Bayside, Wakulla and Gulf State were recorded for as purchased credit impaired loans on a pool by pool basis during 2010. In July 2016, the Company reached an agreement with the FDIC terminating our remaining loss-share agreements. As a result, the pools associated with the terminated loss-share agreements have been reevaluated and are no longer deemed to have a material projected credit impairment. As such, the remaining loans in these pools are performing and have been reclassified out of purchased credit impaired loans.

The 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

\$5.4 million. This updated forecast does not change the expected weighted average yields on the loan pools.

During the 2016 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 \$9.4 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**

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

Changes in the carrying amount and accumulated amortization of the Company's goodwill and core deposits and other intangibles at September 30, 2016 and December 31, 2015, were as follows:

|                                    | September 30, 2016 | December 31, 2015 |
|------------------------------------|--------------------|-------------------|
|                                    | (In thousands)     |                   |
| <b><u>Goodwill</u></b>             |                    |                   |
| Balance, beginning of period       | \$ 377,983         | \$ 325,423        |
| Acquisitions                       |                    | 55,255            |
| Sale of insurance book of business |                    | (2,695)           |
| Balance, end of period             | \$ 377,983         | \$ 377,983        |

|  | September 30, 2016 | December 31, 2015 |
|--|--------------------|-------------------|
|  | (In thousands)     |                   |
| <b><u>Core Deposit and Other Intangibles</u></b> |                    |                   |
| Balance, beginning of period                     | \$ 21,443          | \$ 20,925         |
| Acquisition                                      |                    | 1,363             |
| Sale of insurance book of business               |                    | (243)             |
| Amortization expense                             | (2,370)            | (3,217)           |
| Balance, September 30                            | \$ 19,073          | 18,828            |
| Acquisitions                                     |                    | 3,477             |
| Amortization expense                             |                    | (862)             |
| Balance, end of year                             |                    | \$ 21,443         |

The carrying basis and accumulated amortization of core deposits and other intangibles at September 30, 2016 and December 31, 2015 were:

|                          | September 30, 2016 | December 31, 2015 |
|--------------------------|--------------------|-------------------|
|                          | (In thousands)     |                   |
| Gross carrying basis     | \$ 51,378          | \$ 51,378         |
| Accumulated amortization | (32,305)           | (29,935)          |
| Net carrying amount      | \$ 19,073          | \$ 21,443         |

Core deposit and other intangible amortization expense was approximately \$762,000 and \$988,000 for the three months ended September 30, 2016 and 2015, respectively. Core deposit and other intangible amortization expense was approximately \$2.4 million and \$3.2 million for the nine months ended September 30, 2016 and 2015, respectively. Including all of the mergers completed as of September 30, 2016, the Company's estimated amortization expense of core deposits and other intangibles for each of the years 2016 through 2020 is approximately: 2016 \$3.1 million; 2017 \$3.0 million; 2018 \$2.9 million; 2019 \$2.8 million; 2020 \$2.3 million.

The carrying amount of the Company's goodwill was \$378.0 million at both September 30, 2016 and December 31, 2015. 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.

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**Table of Contents****7. Other Assets**

Other assets consists primarily of FDIC indemnification asset, FDIC claims receivable, equity securities without a readily determinable fair value and other miscellaneous assets. As of September 30, 2016 and December 31, 2015 other assets were \$127.2 million.

An indemnification asset was created when the Company acquired FDIC covered loans. Effective July 27, 2016, the Company reached an agreement with the FDIC terminating the remaining loss-share agreements. The indemnification asset represented the carrying amount of the right to receive payments from the FDIC for losses incurred on specified assets acquired from failed insured depository institutions or otherwise purchased from the FDIC that were covered by loss sharing agreements with the FDIC. When the Company experienced a loss on the covered loans and subsequently requested reimbursement of the loss from the FDIC, the indemnification asset was reduced by the FDIC reimbursable amount. A corresponding claim receivable was consequently recorded in other assets until the cash was received from the FDIC. The FDIC indemnification asset was zero and approximately \$9.3 million at September 30, 2016 and December 31, 2015, respectively. The FDIC claims receivable was zero and approximately \$3.2 million at September 30, 2016 and December 31, 2015, 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 \$111.0 million and \$97.5 million at September 30, 2016 and December 31, 2015, respectively, and are accounted for at cost.

**8. Deposits**

The aggregate amount of time deposits with a minimum denomination of \$250,000 was \$582.1 million and \$503.3 million at September 30, 2016 and December 31, 2015, respectively. The aggregate amount of time deposits with a minimum denomination of \$100,000 was \$838.8 million and \$885.3 million at September 30, 2016 and December 31, 2015, respectively. Interest expense applicable to certificates in excess of \$100,000 totaled \$1.1 million and \$1.2 million for the three months ended September 30, 2016 and 2015, respectively. Interest expense applicable to certificates in excess of \$100,000 totaled \$3.2 million and \$3.8 million for the nine months ended September 30, 2016 and 2015, respectively. As of September 30, 2016 and December 31, 2015, brokered deposits were \$477.6 million and \$199.3 million, respectively.

Deposits totaling approximately \$1.18 billion and \$1.25 billion at September 30, 2016 and December 31, 2015, respectively, were public funds obtained primarily from state and political subdivisions in the United States.

**9. Securities Sold Under Agreements to Repurchase**

At September 30, 2016 and December 31, 2015, securities sold under agreements to repurchase totaled \$109.4 million and \$128.4 million, respectively. For the three-month periods ended September 30, 2016 and 2015, securities sold under agreements to repurchase daily weighted-average totaled \$118.2 million and \$143.7 million, respectively. For the nine-month periods ended September 30, 2016 and 2015, securities sold under agreements to repurchase daily weighted-average totaled \$121.0 million and \$163.7 million, respectively.



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The gross amount of recognized liabilities for securities sold under agreements to repurchase was \$109.4 million and \$128.4 million at September 30, 2016 and December 31, 2015, respectively. The remaining contractual maturity of securities sold under agreements to repurchase in the consolidated balance sheets as of September 30, 2016 and December 31, 2015 is presented in the following tables:

|  | <b>September 30, 2016</b>       |                      |                   |                             | <b>Total</b>      |
|--|---------------------------------|----------------------|-------------------|-----------------------------|-------------------|
|  | <b>Overnight and Continuous</b> | <b>Up to 30 Days</b> | <b>30-90 Days</b> | <b>Greater than 90 Days</b> |                   |
| <b>(In thousands)</b>                                  |                                 |                      |                   |                             |                   |
| <b>Securities sold under agreements to repurchase:</b> |                                 |                      |                   |                             |                   |
| U.S. government-sponsored enterprises                  | \$ 833                          | \$                   | \$                | \$                          | \$ 833            |
| Mortgage-backed securities                             | 22,133                          |                      |                   |                             | 22,133            |
| State and political subdivisions                       | 85,586                          |                      |                   |                             | 85,586            |
| Other securities                                       | 798                             |                      |                   |                             | 798               |
| <b>Total borrowings</b>                                | <b>\$ 109,350</b>               | <b>\$</b>            | <b>\$</b>         | <b>\$</b>                   | <b>\$ 109,350</b> |

|  | <b>December 31, 2015</b>        |                      |                   |                             | <b>Total</b>      |
|--|---------------------------------|----------------------|-------------------|-----------------------------|-------------------|
|  | <b>Overnight and Continuous</b> | <b>Up to 30 Days</b> | <b>30-90 Days</b> | <b>Greater than 90 Days</b> |                   |
| <b>(In thousands)</b>                                  |                                 |                      |                   |                             |                   |
| <b>Securities sold under agreements to repurchase:</b> |                                 |                      |                   |                             |                   |
| U.S. government-sponsored enterprises                  | \$ 7,216                        | \$                   | \$                | \$                          | \$ 7,216          |
| Mortgage-backed securities                             | 54,512                          |                      |                   |                             | 54,512            |
| State and political subdivisions                       | 65,294                          |                      |                   |                             | 65,294            |
| Other securities                                       | 1,367                           |                      |                   |                             | 1,367             |
| <b>Total borrowings</b>                                | <b>\$ 128,389</b>               | <b>\$</b>            | <b>\$</b>         | <b>\$</b>                   | <b>\$ 128,389</b> |

**10. FHLB Borrowed Funds**

The Company's FHLB borrowed funds were \$1.42 billion and \$1.41 billion at September 30, 2016 and December 31, 2015, respectively. At September 30, 2016, \$155.0 million and \$1.27 billion of the outstanding balance were issued as short-term and long-term advances, respectively. At December 31, 2015, all of the outstanding balance was issued as long-term advances. The FHLB advances mature from the current year to 2025 with fixed interest rates ranging from 0.36% to 5.96% and are secured by loans and investments securities. Maturities of borrowings as of September 30, 2016 include: 2016 \$155.7 million; 2017 \$515.5 million; 2018 \$459.2 million; 2019 \$143.1 million; 2020 \$146.4 million; after 2020 \$464,000. 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 \$226.2 million and \$261.1 million at September 30, 2016 and December 31, 2015, respectively, in letters of credit under a FHLB blanket borrowing line of credit, which are used to collateralize public deposits at September 30, 2016 and December 31, 2015, respectively.

**11. Other Borrowings**

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

**Table of Contents****12. Subordinated Debentures**

Subordinated debentures at September 30, 2016 and December 31, 2015 consisted of guaranteed payments on trust preferred securities with the following components:

|  | <b>As of<br/>September 30,<br/>2016</b> | <b>As of<br/>December 31,<br/>2015</b> |
|--|---|--|
|  | <b>(In thousands)</b>                   |  |
| Subordinated debentures, issued in 2006, due 2036, fixed rate of 6.75% during the first five years and at a floating rate of 1.85% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty | \$ 3,093                                | \$ 3,093                               |
| Subordinated debentures, issued in 2004, due 2034, fixed rate of 6.00% during the first five years and at a floating rate of 2.00% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty | 15,464                                  | 15,464                                 |
| Subordinated debentures, issued in 2005, due 2035, fixed rate of 5.84% during the first five years and at a floating rate of 1.45% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty | 25,774                                  | 25,774                                 |
| Subordinated debentures, issued in 2004, due 2034, fixed rate of 4.29% during the first five years and at a floating rate of 2.50% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty | 16,495                                  | 16,495                                 |
| <b>Total</b>   | <b>\$ 60,826</b>                        | <b>\$ 60,826</b>                       |

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

**13. Income Taxes**

The following is a summary of the components of the provision (benefit) for income taxes for the three and nine-month periods ended September 30, 2016 and 2015:

|                           | <b>Three Months<br/>Ended<br/>September 30,<br/>2016</b> |                  | <b>Nine Months Ended<br/>September 30,<br/>2016</b> |                  |
|---------------------------|--|------------------|---|------------------|
|                           | <b>2015</b>  |                  | <b>2015</b>   |                  |
|                           | <b>(In thousands)</b>                                    |                  |   |                  |
| <b>Current:</b>           |  |                  |   |                  |
| Federal                   | \$ 15,523  | \$ 18,873        | \$ 53,216   | \$ 47,403        |
| State                     | 3,083  | 3,749            | 10,570  | 9,416            |
| Total current             | 18,606   | 22,622           | 63,786  | 56,819           |
| <b>Deferred:</b>          |  |                  |   |                  |
| Federal                   | 5,739  | (2,024)          | 10,400  | 1,200            |
| State                     | 1,140  | (402)            | 2,066   | 238              |
| Total deferred            | 6,879  | (2,426)          | 12,466  | 1,438            |
| <b>Income tax expense</b> | <b>\$ 25,485</b>   | <b>\$ 20,196</b> | <b>\$ 76,252</b>                                    | <b>\$ 58,257</b> |



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The reconciliation between the statutory federal income tax rate and effective income tax rate is as follows for the three and nine-month periods ended September 30, 2016 and 2015:

|  | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2016</b>               | <b>2015</b> | <b>2016</b>              | <b>2015</b> |
| Statutory federal income tax rate          | 35.00%                    | 35.00%      | 35.00%                   | 35.00%      |
| Effect of nontaxable interest income       | (1.47)                    | (1.89)      | (1.54)                   | (1.94)      |
| Cash value of life insurance               | (0.17)                    | (0.17)      | (0.19)                   | (0.19)      |
| State income taxes, net of federal benefit | 4.07                      | 4.02        | 4.07                     | 4.01        |
| Other                                      | (0.55)                    | (0.86)      | (0.11)                   | (0.25)      |
| Effective income tax rate                  | 36.88%                    | 36.10%      | 37.23%                   | 36.63%      |

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:

|  | <b>September 30, 2016</b> | <b>December 31, 2015</b> |
|--|---------------------------|--------------------------|
|  | <b>(In thousands)</b>     |                          |
| <b>Deferred tax assets:</b>                        |                           |                          |
| Allowance for loan losses                          | \$ 29,956                 | \$ 27,153                |
| Deferred compensation                              | 3,175                     | 3,505                    |
| Stock options                                      | 781                       | 1,800                    |
| Real estate owned                                  | 2,117                     | 1,988                    |
| Loan discounts                                     | 10,330                    | 21,298                   |
| Tax basis premium/discount on acquisitions         | 15,098                    | 15,772                   |
| Investments  | 2,206                     | 2,637                    |
| Other  | 8,559                     | 13,667                   |
| Gross deferred tax assets                          | 72,222                    | 87,820                   |
| <b>Deferred tax liabilities:</b>                   |                           |                          |
| Accelerated depreciation on premises and equipment | 1,541                     | 3,946                    |
| Unrealized gain on securities available-for-sale   | 5,360                     | 2,696                    |
| Core deposit intangibles                           | 5,187                     | 5,930                    |
| Indemnification asset                              |                           | 678                      |
| FHLB dividends                                     | 1,839                     | 1,689                    |
| Other  | 1,860                     | 1,316                    |
| Gross deferred tax liabilities                     | 15,787                    | 16,255                   |
| Net deferred tax assets                            | \$ 56,435                 | \$ 71,565                |

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 2011.

**14. Common Stock, Compensation Plans and Other**

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 Company's Restated Articles of Incorporation to increase the number of authorized shares of common stock from 100,000,000 to 200,000,000.

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.

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On April 21, 2016, the Company's Board of Directors declared a two-for-one stock split to be paid in the form of a 100% stock dividend on June 8, 2016 (the "Payment Date") to shareholders of record at the close of business on May 18, 2016. The additional shares were distributed by the Company's transfer agent, Computershare, and the Company's common stock began trading on a split-adjusted basis on the NASDAQ Global Select Market on or about June 9, 2016. The stock split increased the Company's total shares of common stock outstanding as of June 8, 2016 from 70,191,253 shares to 140,382,506 shares. All previously reported share and per share data included in filings subsequent to the Payment Date are restated to reflect the retroactive effect of this two-for-one stock split.

***Stock Repurchases***

During the first nine months of 2016, the Company utilized a portion of its previously approved stock repurchase program. This program authorized the repurchase of 4,752,000 shares (split adjusted) of the Company's common stock. During first nine months of 2016, the Company repurchased a total of 461,800 shares (split adjusted) with a weighted-average stock price of \$19.15 per share (split adjusted). The 2016 earnings were used to fund the repurchases during the year. Shares repurchased to date under the program total 3,618,256 shares (split adjusted). The remaining balance available for repurchase is 1,133,744 shares (split adjusted) at September 30, 2016.

***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 (split adjusted) 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 September 30, 2016, 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 September 30, 2016, the Company had approximately 2,668,000 shares of common stock remaining available for future grants and approximately 5,119,000 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 September 30, 2016 was \$14.0 million and \$8.1 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 \$6.6 million as of September 30, 2016. For the first nine months of 2016, the Company has expensed approximately \$1.0 million for the non-vested awards.

The table below summarizes the stock option transactions under the Plan at September 30, 2016 and December 31, 2015 (split adjusted) and changes during the nine-month period and year then ended:

| <b>For the Nine Months Ended<br/>September 30, 2016</b> |  | <b>For the Year Ended<br/>December 31, 2015</b> |  |
|---|--|---|--|
| <b>Shares (000)</b>                                     | <b>Weighted-<br/>Average<br/>Exercisable</b> | <b>Shares (000)</b>                             | <b>Weighted-<br/>Average<br/>Exercisable</b> |

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|                                   |              | <b>Price</b> |              | <b>Price</b> |
|-----------------------------------|--------------|--------------|--------------|--------------|
| Outstanding, beginning of year    | 2,794        | 12.71        | 1,810        | \$ 5.90      |
| Granted                           | 140          | 21.25        | 1,486        | 18.15        |
| Forfeited/Expired                 | (14)         | 17.28        | (40)         | 20.16        |
| Exercised                         | (491)        | 3.44         | (462)        | 2.90         |
| <b>Outstanding, end of period</b> | <b>2,429</b> | <b>15.05</b> | <b>2,794</b> | <b>12.71</b> |
| Exercisable, end of period        | 646          | 8.29         | 960          | \$ 5.13      |

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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 year ended September 30, 2016 was \$5.08 per share (split adjusted). The weighted-average fair value of options granted during the year ended December 31, 2015 was \$4.28 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.

|                                 | <b>For the Nine Months Ended<br/>September 30,<br/>2016</b> | <b>For the Year Ended<br/>December 31,<br/>2015</b> |
|---------------------------------|---|---|
| Expected dividend yield         | 1.65%   | 1.60%   |
| Expected stock price volatility | 26.66%  | 25.91%  |
| Risk-free interest rate         | 1.65%   | 1.74%   |
| Expected life of options        | 6.5 years   | 6.5 years   |

The following is a summary of currently outstanding and exercisable options (split adjusted) at September 30, 2016:

| <b>Exercise Prices</b> | <b>Options Outstanding</b>              |   |  | <b>Options Exercisable</b>              |  |
|------------------------|---|---|--|---|--|
|                        | <b>Options Outstanding Shares (000)</b> | <b>Weighted-Average Remaining Contractual Life (in years)</b> | <b>Weighted-Average Exercise Price</b> | <b>Options Exercisable Shares (000)</b> | <b>Weighted-Average Exercise Price</b> |
| \$ 1.96 to \$2.66      | 39                                      | 1.65  | 2.45                                   | 39                                      | 2.45                                   |
| \$ 4.27 to \$4.62      | 104                                     | 1.27  | 4.29                                   | 104                                     | 4.29                                   |
| \$ 5.08 to \$6.56      | 251                                     | 3.21  | 5.94                                   | 215                                     | 5.84                                   |
| \$ 8.62 to \$9.54      | 284                                     | 6.43  | 9.09                                   | 164                                     | 9.07                                   |
| \$ 14.71 to \$16.86    | 262                                     | 8.01  | 16.00                                  | 70                                      | 16.19                                  |
| \$ 17.12 to \$17.40    | 219                                     | 8.19  | 17.19                                  | 54                                      | 17.23                                  |
| \$ 18.46 to \$18.46    | 1,050                                   | 8.90  | 18.46                                  |   |  |
| \$ 20.16 to \$20.58    | 80                                      | 9.02  | 20.37                                  |   |  |
| \$ 21.25 to \$21.25    | 140                                     | 9.56  | 21.25                                  |   |  |
|                        | 2,429                                   |   |  | 646                                     |  |

The table below summarized the activity for the Company's restricted stock issued and outstanding (split adjusted) at September 30, 2016 and December 31, 2015 and changes during the period and year then ended:

|  | <b>As of<br/>September 30, 2016</b> | <b>As of<br/>December 31, 2015</b> |
|--|-------------------------------------|------------------------------------|
|  | <b>(In thousands)</b>               |                                    |
| Beginning of year  | 975                                 | 514                                |
| Issued   | 244                                 | 704                                |
| Vested   | (53)                                | (204)                              |
| Forfeited  | (5)                                 | (39)                               |
| <b>End of period</b>   | <b>1,161</b>                        | <b>975</b>                         |
| <br>Amount of expense for nine months and<br>twelve months ended, respectively | <br>\$ 3,058                        | <br>\$ 2,511                       |

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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 \$12.7 million as of September 30, 2016.

**15. Non-Interest Expense**

The table below shows the components of non-interest expense for the three and nine months ended September 30, 2016 and 2015:

|                                 | <b>Three Months<br/>Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|---------------------------------|---|-------------|--|-------------|
|                                 | <b>2016</b>                                     | <b>2015</b> | <b>2016</b>                                | <b>2015</b> |
|                                 | <b>(In thousands)</b>                           |             |  |             |
| Salaries and employee benefits  | \$ 25,623                                       | \$ 22,225   | \$ 75,018                                  | \$ 63,671   |
| Occupancy and equipment         | 6,668   | 6,540       | 19,848                                     | 19,267      |
| Data processing expense         | 2,791   | 2,619       | 8,221                                      | 8,101       |
| Other operating expenses:       |   |             |  |             |
| Advertising                     | 866   | 906         | 2,422                                      | 2,342       |
| Merger and acquisition expenses |   | 474         |  | 1,891       |
| FDIC loss share buy-out expense | 3,849   |             | 3,849                                      |             |
| Amortization of intangibles     | 762   | 988         | 2,370                                      | 3,217       |
| Electronic banking expense      | 1,428   | 1,352       | 4,121                                      | 3,883       |
| Directors fees                  | 292   | 233         | 856  | 809         |
| Due from bank service charges   | 319   | 291         | 961  | 792         |
| FDIC and state assessment       | 1,502   | 1,276       | 4,394                                      | 3,844       |
| Insurance                       | 553   | 617         | 1,630                                      | 1,900       |
| Legal and accounting            | 583   | 338         | 1,764                                      | 1,491       |
| Other professional fees         | 1,137   | 947         | 3,106                                      | 1,995       |
| Operating supplies              | 437   | 464         | 1,292                                      | 1,407       |
| Postage                         | 269   | 293         | 815  | 897         |
| Telephone                       | 449   | 444         | 1,391                                      | 1,418       |
| Other expense                   | 3,498   | 4,586       | 12,203                                     | 11,631      |
| <br>                            |   |             |  |             |
| Total other operating expenses  | 15,944  | 13,209      | 41,174                                     | 37,517      |
| <br>                            |   |             |  |             |
| Total non-interest expense      | \$ 51,026                                       | \$ 44,593   | \$ 144,261                                 | \$ 128,556  |

**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 Centennial CFG. 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.



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Although the Company has a diversified loan portfolio, at September 30, 2016 and December 31, 2015, commercial real estate loans represented 57.6% and 60.0% of total loans receivable, respectively, and 316.2% and 332.4% of total stockholders' equity, respectively. Residential real estate loans represented 22.4% and 24.4% of total loans receivable and 122.9% and 135.1% of total stockholders' equity at September 30, 2016 and December 31, 2015, respectively.

Approximately 77.7% of the Company's loans as of September 30, 2016, are to borrowers whose collateral is located in Alabama, Arkansas and Florida, the three primary states in which the Company has its branch locations. Additionally, 80.0% of the Company's loans are real estate loans primarily in Arkansas, Florida and South Alabama.

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

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 September 30, 2016 and December 31, 2015, commitments to extend credit of \$1.85 billion and \$1.43 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 September 30, 2016 and December 31, 2015, is \$41.1 million and \$24.3 million, respectively.

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

financial position or results of operations or cash flows of the Company and its subsidiary.

**Table of Contents****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 nine months of 2016, the Company requested approximately \$32.6 million in regular dividends from its banking subsidiary. This dividend is equal to approximately 24.3% of the Company's banking subsidiary's earnings for the first nine months of 2016.

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 September 30, 2016, 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 September 30, 2016, 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 11.0%, 10.4%, 11.7%, and 12.6%, respectively, as of September 30, 2016.

**19. Additional Cash Flow Information**

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

|                                | <b>September 30,</b>  |             |
|--------------------------------|-----------------------|-------------|
|                                | <b>2016</b>           | <b>2015</b> |
|                                | <b>(In thousands)</b> |             |
| Interest paid                  | \$ 22,295             | \$ 14,759   |
| Income taxes paid              | 66,450                | 53,310      |
| Assets acquired by foreclosure | 9,448                 | 17,521      |



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

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Available-for-sale securities are the only material instruments valued on a recurring basis which are held by the Company at fair value. The Company does not have any Level 1 securities. Primarily all of the Company's securities are considered to be Level 2 securities. These Level 2 securities consist primarily of U.S. government-sponsored enterprises, mortgage-backed securities plus state and political subdivisions. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. As of September 30, 2016 and December 31, 2015, Level 3 securities were immaterial. In addition, there were no material transfers between hierarchy levels during 2016 and 2015.

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 \$86.5 million and \$87.2 million as of September 30, 2016 and December 31, 2015, respectively. This valuation is considered Level 3, consisting of appraisals of underlying collateral. The Company reversed approximately \$156,000 and \$218,000 of accrued interest receivable when impaired loans were put on non-accrual status during the three months ended September 30, 2016 and 2015, respectively. The Company reversed approximately \$457,000 and \$524,000 of accrued interest receivable when impaired loans were put on non-accrual status during the nine months ended September 30, 2016 and 2015, respectively.

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

management and any subsequent reduction in value is recognized by a charge to income. The fair value of foreclosed assets held for sale is estimated using Level 3 inputs based on appraisals of underlying collateral. As of September 30, 2016 and December 31, 2015, the fair value of foreclosed assets held for sale, less estimated costs to sell, was \$17.0 million and \$19.1 million, respectively.

Foreclosed assets held for sale with a carrying value of approximately \$3.8 million were remeasured during the nine months ended September 30, 2016, resulting in a write-down of approximately \$1.1 million.

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

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.

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

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

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

*FHLB 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.



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*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.

|   | <b>September 30, 2016</b>  |                   |              |
|---|----------------------------|-------------------|--------------|
|   | <b>Carrying<br/>Amount</b> | <b>Fair Value</b> | <b>Level</b> |
|   | <b>(In thousands)</b>      |                   |              |
| <b>Financial assets:</b>                              |                            |                   |              |
| Cash and cash equivalents                             | \$ 296,160                 | \$ 296,160        | 1            |
| Federal funds sold                                    | 1,850                      | 1,850             | 1            |
| Investment securities held-to-maturity                | 275,544                    | 282,940           | 2            |
| Loans receivable, net of impaired loans and allowance | 6,949,455                  | 6,893,148         | 3            |
| Accrued interest receivable                           | 29,398                     | 29,398            | 1            |
| <b>Financial liabilities:</b>                         |                            |                   |              |
| <b>Deposits:</b>                                      |                            |                   |              |
| Demand and non-interest bearing                       | \$ 1,717,467               | \$ 1,717,467      | 1            |
| Savings and interest-bearing transaction accounts     | 3,792,229                  | 3,792,229         | 1            |
| Time deposits   | 1,330,597                  | 1,321,216         | 3            |
| Federal funds purchased                               |                            |                   | N/A          |
| Securities sold under agreements to repurchase        | 109,350                    | 109,350           | 1            |
| FHLB and other borrowed funds                         | 1,420,369                  | 1,426,484         | 2            |
| Accrued interest payable                              | 1,907                      | 1,907             | 1            |
| Subordinated debentures                               | 60,826                     | 60,826            | 3            |

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|   | December 31, 2015  |              |       |
|---|--------------------|--------------|-------|
|   | Carrying<br>Amount | Fair Value   | Level |
|   | (In thousands)     |              |       |
| Financial assets:                                     |                    |              |       |
| Cash and cash equivalents                             | \$ 255,823         | \$ 255,823   | 1     |
| Federal funds sold                                    | 1,550              | 1,550        | 1     |
| Investment securities held-to-maturity                | 309,042            | 313,944      | 2     |
| Loans receivable, net of impaired loans and allowance | 6,425,543          | 6,380,927    | 3     |
| FDIC indemnification asset                            | 9,284              | 9,284        | 3     |
| Accrued interest receivable                           | 29,132             | 29,132       | 1     |
| Financial liabilities:                                |                    |              |       |
| Deposits:   |                    |              |       |
| Demand and non-interest bearing                       | \$ 1,456,624       | \$ 1,456,624 | 1     |
| Savings and interest-bearing transaction accounts     | 3,551,684          | 3,551,684    | 1     |
| Time deposits   | 1,430,201          | 1,418,462    | 3     |
| Federal funds purchased                               |                    |              | N/A   |
| Securities sold under agreements to repurchase        | 128,389            | 128,389      | 1     |
| FHLB and other borrowed funds                         | 1,405,945          | 1,410,019    | 2     |
| Accrued interest payable                              | 1,804              | 1,804        | 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. The Company is currently evaluating the impact, if any, ASU 2014-09 will have on its financial position, results of operations, and its financial statement disclosures.

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

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, which amends the consolidation requirements of ASU 810 by changing the consolidation analysis required under GAAP. The revised guidance amends the consolidation analysis based on certain fee arrangements or relationships to the reporting entity and, for limited partnerships, requires entities to consider the limited partner's rights relative to the general partner. ASU 2015-02 became effective for annual and interim periods beginning after December 15, 2015. ASU 2015-02 did not have an impact on the Company's financial position, results of operations, or its financial statement disclosures.

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In September 2015, the FASB issued ASU 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*. ASU 2015-16 requires entities to recognize measurement period adjustments during the reporting period in which the adjustments are determined. The income effects, if any, of a measurement period adjustment are cumulative and are to be reported in the period in which the adjustment to a provisional amount is determined. Also, ASU 2015-16 requires presentation on the face of the income statement or in the notes, the effect of the measurement period adjustment as if the adjustment had been recognized at acquisition date. ASU 2015-16 is effective for fiscal periods beginning after December 15, 2015 for public business entities and should be applied prospectively to measurement period adjustments that occur after the effective date. Adoption of ASU 2015-16 did not have an impact on the Company's financial position, results of operations or its financial statement disclosures.

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.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 introduces a lessee model that brings most leases on the balance sheet and aligns many of the underlying principles of the new lessor model with those in ASU 2014-09, the FASB's new revenue recognition standard. 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. Management is currently evaluating the impact of the adoption of this guidance to the Company's financial statements.

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. Early adoption is permitted in any interim or annual period. Management is currently evaluating the impact of the adoption of this guidance to the Company's financial statements.

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 2016-10's effective date and transition provisions are aligned with the requirements in ASU 2014-09, which is not yet effective. The Company is currently evaluating the impact, if any, ASU 2016-10 will have on its financial position, results of operations, and its financial statement disclosures.

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 EITF's 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.

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, which is not yet effective. The Company is currently evaluating the impact, if any, ASU 2016-12 will have on its financial position, results of operations, and its financial statement disclosures.

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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. ASU 2016-13 adds to U.S. GAAP an impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses. 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 Company is currently evaluating the impact, if any, ASU 2016-13 will have on its financial position, results of operations, and its financial statement disclosures. It is too early to assess the impact that the implementation of this guidance will have on the Company's consolidated financial statements.

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.

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**Report of Independent Registered Public Accounting Firm**

Audit Committee, Board of Directors and Stockholders

Home BancShares, Inc.

Conway, Arkansas

We have reviewed the accompanying condensed consolidated balance sheet of Home BancShares, Inc. (the Company) as of September 30, 2016, and the related condensed consolidated statements of income and comprehensive income for the three- and nine-month periods ended September 30, 2016 and 2015, and the related statements of stockholders equity and cash flows for the nine-month periods ended September 30, 2016 and 2015. 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, 2015, 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 26, 2016, 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, 2015, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ **BKD, LLP**

Little Rock, Arkansas

November 4, 2016

**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 26, 2016, which includes the audited financial statements for the year ended December 31, 2015. *Unless the context requires otherwise, the terms "Company", "us", "we", and "our" refer to Home BancShares, Inc. on a consolidated basis.*

**General**

We are a bank holding company headquartered in Conway, Arkansas, offering a broad array of financial services through our wholly-owned bank subsidiary, Centennial Bank (sometimes referred to as "Centennial" or the "Bank"). As of September 30, 2016, we had, on a consolidated basis, total assets of \$9.76 billion, loans receivable, net of \$7.04 billion, total deposits of \$6.84 billion, and stockholders' equity of \$1.30 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                                 |              | As of or for the Nine Months |              |
|---|---|--------------|------------------------------|--------------|
|   | Ended September 30,   |              | Ended September 30,          |              |
|   | 2016  | 2015         | 2016                         | 2015         |
|   | (Dollars in thousands, except per share data <sup>(2)</sup> ) |              |                              |              |
| Total assets  | \$ 9,764,238  | \$ 8,515,553 | \$ 9,764,238                 | \$ 8,515,553 |
| Loans receivable  | 7,112,291   | 6,005,589    | 7,112,291                    | 6,005,589    |
| Allowance for loan losses   | 76,370  | 63,659       | 76,370                       | 63,659       |
| Total deposits  | 6,840,293   | 5,953,014    | 6,840,293                    | 5,953,014    |
| Total stockholders' equity  | 1,296,018   | 1,091,278    | 1,296,018                    | 1,091,278    |
| Net income  | 43,620  | 35,741       | 128,556                      | 100,766      |
| Basic earnings per share  | 0.31  | 0.26         | 0.92                         | 0.74         |
| Diluted earnings per share  | 0.31  | 0.26         | 0.91                         | 0.74         |
| Diluted earnings per share excluding intangible amortization <sup>(1)</sup> | 0.31  | 0.27         | 0.92                         | 0.76         |
| Annualized net interest margin - FTE  | 4.86%   | 5.03%        | 4.83%                        | 4.99%        |
| Efficiency ratio  | 39.41   | 39.79        | 38.16                        | 40.49        |
| Annualized return on average assets   | 1.81  | 1.72         | 1.81                         | 1.71         |
| Annualized return on average common equity                                  | 13.62   | 13.23        | 13.83                        | 12.86        |



- (1) See Table 24 Diluted Earnings Per Share Excluding Intangible Amortization for a reconciliation to GAAP for diluted earnings per share excluding intangible amortization.
- (2) All per share amounts have been restated to reflect the effect of the 2-for-1 stock split during June 2016.

**Table of Contents****Overview*****Credit Improvement in Purchased Credit Impaired Loan Pools***

Impairment testing on the estimated cash flows of the purchased credit impaired loan pools is performed each quarter. Because the economy has improved since the impaired loans were acquired, quite often the impairment test has revealed a projected credit improvement in certain loan pools. As a result of these improvements, we are recognizing additional adjustments to yield over the weighted-average life of the loans.

Tables 2 and 3 summarize the recognition of these positive events and the financial impact to the three and nine-month periods ended September 30, 2016 and 2015:

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

|                        | <b>Additional<br/>Adjustment to<br/>Yield</b> | <b>Reduction of<br/>Indemnification<br/>Asset<br/>(In thousands)</b> | <b>Increase of<br/>FDIC True-up<br/>Liability</b> |
|------------------------|---|--|---|
| <b>Periods Tested:</b> |   |  |   |
| Prior to 2015          | \$ 83,278                                     | \$ 58,535  | \$ 6,764  |
| March 31, 2015         |   |  |   |
| June 30, 2015          |   |  |   |
| September 30, 2015     | 28,522  |  |   |
| December 31, 2015      |   |  |   |
| March 31, 2016         | 4,319   |  |   |
| June 30, 2016          | 2,539   |  |   |
| September 30, 2016     | 2,514   |  |   |
| Total                  | \$ 121,172                                    | \$ 58,535  | \$ 6,764  |

**Table 3: Financial Impact for the Three and Nine Months Ended September 30, 2016 and 2015**

|                              | <b>Yield Accretion<br/>Income</b> | <b>Amortization<br/>of<br/>Indemnification<br/>Asset<br/>(In thousands)</b> | <b>FDIC True-up<br/>Expense</b> |
|------------------------------|-----------------------------------|---|---------------------------------|
| <b>Three Months Ended:</b>   |                                   |   |                                 |
| September 30, 2015           | \$ 7,347                          | \$ (2,109)  | \$ (383)                        |
| September 30, 2016           | 5,939                             |   |                                 |
| Pre-tax earnings improvement | \$ (1,408)                        | \$ 2,109  | \$ 383                          |

| <b>Nine Months Ended:</b>    |           |            |            |
|------------------------------|-----------|------------|------------|
| September 30, 2015           | \$ 16,239 | \$ (8,485) | \$ (1,148) |
| September 30, 2016           | 17,170    | (912)      |            |
| Pre-tax earnings improvement | \$ 931    | \$ 7,573   | \$ 1,148   |

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**Table of Contents*****Results of Operations for Three Months Ended September 30, 2016 and 2015***

Our net income increased \$7.9 million, or 22.0%, to \$43.6 million for the three-month period ended September 30, 2016, from \$35.7 million for the same period in 2015. On a diluted earnings per share basis, our earnings were \$0.31 per share and \$0.26 per share (split adjusted) for the three-month periods ended September 30, 2016 and 2015, respectively. Excluding the \$3.8 million of FDIC loss share buy-out expense, net income was \$46.0 million, and diluted earnings per share for the three months ended September 30, 2016 was \$0.33 per share. The \$10.2 million increase in net income, excluding FDIC loss share buy-out 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 third quarter of 2016, growth in non-interest income and the reduced amortization of the indemnification asset when compared to the same period in 2015. These improvements were partially offset by an increase in the costs associated with the asset growth when compared to the same period in 2015.

Our GAAP net interest margin decreased from 5.03% for the three-month period ended September 30, 2015 to 4.86% for the three-month period ended September 30, 2016. The yield on loans was 5.84% and 6.08% for the three months ended September 30, 2016 and 2015, respectively. For the three months ended September 30, 2016 and 2015, we recognized \$11.9 million and \$13.1 million in total net accretion for acquired loans and deposits. The non-GAAP margin excluding accretion income was relatively flat at 4.25% and 4.24% for the three months ended September 30, 2016 and 2015, respectively. Additionally, the non-GAAP yield on loans excluding accretion income was also relatively flat at 5.10% and 5.07% for the three months ended September 30, 2016 and 2015, respectively. Consequently, with a growth of the average loan balance of \$1.23 billion, we experienced a decline in the GAAP yield on loans and net interest margin because the organic loan growth was approximately at our lower non-GAAP loan yields.

Our efficiency ratio was 39.41% for the three months ended September 30, 2016, compared to 39.79% for the same period in 2015. For the third quarter of 2016, our core efficiency ratio was 36.51%, which is improved from the 39.30% reported for third quarter of 2015. While we have realized the cost savings from our acquisitions and reduced costs from our recent branch closures, the improvement in the core efficiency ratio was primarily achieved through revenue from additional net interest income resulting from our acquisitions and our organic loan growth, plus growth in non-interest income and the buy-out of the FDIC loss share portfolio during the third 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 1.81% for the three months ended September 30, 2016, compared to 1.72% for the same period in 2015. Our annualized return on average common equity was 13.62% for the three months ended September 30, 2016, compared to 13.23% for the same period in 2015. We have been making notable progress in improving the performance of our legacy and acquired franchises, which is reflected in the improvement in our return on average assets and return on average common equity from 2015 to 2016.

***Results of Operations for Nine Months Ended September 30, 2016 and 2015***

Our net income increased \$27.8 million, or 27.6%, to \$128.6 million for the nine-month period ended September 30, 2016, from \$100.8 million for the same period in 2015. On a diluted earnings per share basis, our earnings were \$0.91 per share and \$0.74 per share (split adjusted) for the nine-month periods ended September 30, 2016 and 2015, respectively. Excluding the \$3.8 million of FDIC loss share buy-out expense, net income was \$130.9 million and diluted earnings per share for the nine months ended September 30, 2016 was \$0.93 per share. The \$30.0 million increase in net income, excluding FDIC loss share buy-out expense, is primarily associated with additional net interest

income largely resulting from our acquisitions and our organic loan growth, plus growth in non-interest income and the reduced amortization of the indemnification asset, when compared to the same period in 2015. These improvements were partially offset by a slight increase in provision for loan losses during the first nine months of 2016 and an increase in the costs associated with the asset growth when compared to the same period in 2015.

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Our GAAP net interest margin decreased from 4.99% for the nine-month period ended September 30, 2015 to 4.83% for the nine-month period ended September 30, 2016. For the nine months ended September 30, 2016 and 2015, we recognized \$33.7 million and \$34.4 million, respectively, in total net accretion for acquired loans and deposits. The non-GAAP margin excluding accretion income was flat at 4.24% and 4.23% for the nine months ended September 30, 2016 and 2015. Additionally, the non-GAAP yield on loans excluding accretion income was also relatively flat at 5.09% and 5.07% for the nine months ended September 30, 2016 and 2015, respectively. Consequently, with a growth of the average loan balance of \$1.45 billion, we experienced a decline in the GAAP yield on loans and net interest margin because the organic loan growth was approximately at our lower non-GAAP loan yields.

Our efficiency ratio was 38.16% for the nine months ended September 30, 2016, compared to 40.49% for the same period in 2015. For the first nine months of 2016, our core efficiency ratio was 36.75% which is improved from the 40.11% reported for the first nine months of 2015. While we have realized the cost savings from our acquisitions and reduced costs from our recent branch closures, the improvement in the core efficiency ratio was primarily achieved through revenue from additional net interest income resulting from our acquisitions and our organic loan growth, growth in non-interest income and the buy-out of the FDIC loss share portfolio during the third quarter of 2016. 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 1.81% for the nine months ended September 30, 2016, compared to 1.71% for the same period in 2015. Our annualized return on average common equity was 13.83% for the nine months ended September 30, 2016, compared to 12.86% for the same period in 2015. As noted previously, we have been making notable progress in improving the performance of our legacy and acquired franchises, which is reflected in the improvement in our return on average assets and return on average common equity from 2015 to 2016.

***Financial Condition as of and for the Period Ended September 30, 2016 and December 31, 2015***

Our total assets as of September 30, 2016 increased \$475.1 million to \$9.76 billion from the \$9.29 billion reported as of December 31, 2015. Our loan portfolio increased \$470.7 million to \$7.11 billion as of September 30, 2016, from \$6.64 billion as of December 31, 2015. This increase is a result of our organic loan growth since December 31, 2015. Stockholders' equity increased \$96.3 million to \$1.30 billion as of September 30, 2016, compared to \$1.20 billion as of December 31, 2015. The annualized improvement in stockholders' equity for the first nine months of 2016 was 10.7%. The increase in stockholders' equity is primarily associated with the \$93.1 million increase in retained earnings.

As of September 30, 2016, our non-performing loans decreased to \$60.1 million, or 0.84%, of total loans from \$63.5 million, or 0.96%, of total loans as of December 31, 2015. The allowance for loan losses as a percent of non-performing loans increased to 127.09% as of September 30, 2016, compared to 109.00% as of December 31, 2015. Non-performing loans from our Arkansas franchise were \$25.1 million at September 30, 2016 compared to \$28.3 million as of December 31, 2015. Non-performing loans from our Florida franchise were \$33.9 million at September 30, 2016 compared to \$35.1 million as of December 31, 2015. Non-performing loans from our Alabama franchise were \$1.1 million at September 30, 2016 compared to \$132,000 as of December 31, 2015. There were no non-performing loans from our Centennial CFG franchise.

As of September 30, 2016, our non-performing assets decreased to \$77.1 million, or 0.79%, of total assets from \$82.7 million, or 0.89%, of total assets as of December 31, 2015. Non-performing assets from our Arkansas franchise were \$38.1 million at September 30, 2016 compared to \$40.3 million as of December 31, 2015. Non-performing assets from our Florida franchise were \$37.3 million at September 30, 2016 compared to \$41.5 million as of December 31,

2015. Non-performing assets from our Alabama franchise were \$1.7 million at September 30, 2016 compared to \$892,000 as of December 31, 2015. There were no non-performing assets from our Centennial CFG franchise.

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**Table of Contents****Critical Accounting Policies**

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

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

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

*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.





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Loans considered impaired, under FASB ASC 310-10-35, are loans for which, based on current information and events, it is probable that 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, Acquired Loans and Related Indemnification Asset.* 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.

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

**Acquisitions*****Acquisition of Florida Business BancGroup, Inc.***

On October 1, 2015, we completed our acquisition of Florida Business BancGroup, Inc. ( *FBBI* ), parent company of Bay Cities Bank ( *Bay Cities* ). We paid a purchase price to the *FBBI* shareholders of \$104.1 million for the *FBBI* acquisition. Under the terms of the agreement, shareholders of *FBBI* received 4,159,708 shares (split adjusted) of our common stock valued at approximately \$83.8 million as of October 1, 2015, plus approximately \$20.3 million in cash in exchange for all outstanding shares of *FBBI* common stock. A portion of the cash consideration, \$2.0 million, has been placed into escrow, and *FBBI* shareholders will have a contingent right to receive their pro-rata portions of such amount. The amount, if any, of such escrowed funds to be released to *FBBI* shareholders will depend upon the amount of losses that we incur in the two years following the completion of the merger related to two class action lawsuits that are pending against Bay Cities.

*FBBI* formerly operated six branch locations and a loan production office in the Tampa Bay area and in Sarasota, Florida. Including the effects of any purchase accounting adjustments, as of October 1, 2015, *FBBI* had approximately \$564.5 million in total assets, \$408.3 million in loans after \$14.1 million of loan discounts, and \$472.0 million in deposits.

See Note 2 *Business Combinations* in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2015 for an additional discussion regarding the acquisition of *FBBI*.



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**Table of Contents*****Acquisition of Pool of National Commercial Real Estate Loans***

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

In connection with this acquisition of loans, we opened a loan production office on April 23, 2015 in New York City, which became a branch on September 1, 2016. Through the New York office, Centennial CFG is building out a national lending platform focusing on commercial real estate plus commercial and industrial loans. As of September 30, 2016 and December 31, 2015, Centennial CFG had \$963.8 million and \$715.7 million in total loans net of discount, respectively. Centennial CFG currently anticipates building this loan portfolio to approximately \$1.5 billion with no predetermined time frame set to accomplish this goal. We will consider strategic loan growth opportunities on a case by case basis as they present themselves.

***Acquisition of Doral Bank s Florida Panhandle operations***

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

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

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2015 for an additional discussion regarding the acquisition of Doral Florida.

***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 will, however, 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. 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.

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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 third quarter of 2016, we added deposit operations to our loan production office in New York City and opened one branch location in Davie, Florida.

During 2014, we initiated a branch efficiency study. Since that time, we have gathered data and evaluated over 40 branch locations across our footprint. The branch efficiency study considers many variables, such as proximity to other branches, deposits, transactions, market share and profitability. As a result of the study, we closed two Arkansas and two Florida locations during the first quarter of 2016. During the second quarter of 2016, we closed and sold our Clermont, Florida location for a gain of \$738,000. During the remainder of 2016, we have plans to close one Arkansas location and may announce additional strategic consolidations where it improves efficiency in certain markets.

As of September 30, 2016, we had 77 branches in Arkansas, 59 branches in Florida, 6 branches in Alabama and one branch in New York City.

### **Results of Operations**

#### ***For the Three and Nine Months Ended September 30, 2016 and 2015***

Our net income increased \$7.9 million, or 22.0%, to \$43.6 million for the three-month period ended September 30, 2016, from \$35.7 million for the same period in 2015. On a diluted earnings per share basis, our earnings were \$0.31 per share and \$0.26 per share (split adjusted) for the three-month periods ended September 30, 2016 and 2015, respectively. Excluding the \$3.8 million of FDIC loss share buy-out expense, net income was \$46.0 million, and diluted earnings per share for the three months ended September 30, 2016 was \$0.33 per share. The \$10.2 million increase in net income, excluding FDIC loss share buy-out 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 third quarter of 2016, growth in non-interest income and the reduced amortization of the indemnification asset when compared to the same period in 2015. These improvements were partially offset by an increase in the costs associated with the asset growth when compared to the same period in 2015.

Our net income increased \$27.8 million, or 27.6%, to \$128.6 million for the nine-month period ended September 30, 2016, from \$100.8 million for the same period in 2015. On a diluted earnings per share basis, our earnings were \$0.91 per share and \$0.74 per share (split adjusted) for the nine-month periods ended September 30, 2016 and 2015, respectively. Excluding the \$3.8 million of FDIC loss share buy-out expense, net income was \$130.9 million and diluted earnings per share for the nine months ended September 30, 2016 was \$0.93 per share. The \$30.0 million increase in net income, excluding FDIC loss share buy-out expense, is primarily associated with additional net interest income largely resulting from our acquisitions and our organic loan growth, plus growth in non-interest income and the reduced amortization of the indemnification asset, when compared to the same period in 2015. These improvements were partially offset by a slight increase in provision for loan losses during the first nine months of 2016 and an increase in the costs associated with the asset growth when compared to the same period in 2015.





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**Table of Contents*****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-month periods ended September 30, 2016 and 2015).

The Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. The Federal Funds rate, which is the cost to banks of immediately available overnight funds, was lowered on December 16, 2008 to a historic low of 0.25% to 0% where it remained until December 16, 2015 when the rate was increased slightly to 0.50% to 0.25%.

Our GAAP net interest margin decreased from 5.03% for the three-month period ended September 30, 2015 to 4.86% for the three-month period ended September 30, 2016. The yield on loans was 5.84% and 6.08% for the three months ended September 30, 2016 and 2015, respectively. For the three months ended September 30, 2016 and 2015, we recognized \$11.9 million and \$13.1 million in total net accretion for acquired loans and deposits. The non-GAAP margin excluding accretion income was relatively flat at 4.25% and 4.24% for the three months ended September 30, 2016 and 2015, respectively. Additionally, the non-GAAP yield on loans excluding accretion income was also relatively flat at 5.10% and 5.07% for the three months ended September 30, 2016 and 2015, respectively. Consequently, with a growth of the average loan balance of \$1.23 billion, we experienced a decline in the GAAP yield on loans and net interest margin because the organic loan growth was approximately at our lower non-GAAP loan yields.

Our GAAP net interest margin decreased from 4.99% for the nine-month period ended September 30, 2015 to 4.83% for the nine-month period ended September 30, 2016. For the nine months ended September 30, 2016 and 2015, we recognized \$33.7 million and \$34.4 million, respectively, in total net accretion for acquired loans and deposits. The non-GAAP margin excluding accretion income was flat at 4.24% and 4.23% for the nine months ended September 30, 2016 and 2015. Additionally, the non-GAAP yield on loans excluding accretion income was also relatively flat at 5.09% and 5.07% for the nine months ended September 30, 2016 and 2015, respectively. Consequently, with a growth of the average loan balance of \$1.45 billion, we experienced a decline in the GAAP yield on loans and net interest margin because the organic loan growth was approximately at our lower non-GAAP loan yields.

Net interest income on a fully taxable equivalent basis increased \$12.5 million, or 13.4%, to \$105.5 million for the three-month period ended September 30, 2016, from \$93.0 million for the same period in 2015. This increase in net interest income for the three-month period ended September 30, 2016 was the result of a \$14.6 million increase in interest income offset by a \$2.2 million increase in interest expense. The \$14.6 million increase in interest income was primarily the result of a higher level of earning assets offset by lower yields on our loans. The higher level of earning assets resulted in an increase in interest income of approximately \$18.4 million. The lower yield on our loans resulted in an approximately \$3.8 million decrease in interest income. The \$2.2 million increase in interest expense for the three-month period ended September 30, 2016, is primarily the result of an increase in higher level of our interest bearing liabilities combined with our interest bearing liabilities repricing in a slightly higher interest rate environment. The higher level of our interest bearing liabilities resulted in an increase in interest expense of approximately \$998,000. The repricing of our interest bearing liabilities in a slightly higher interest rate environment

resulted in an approximately \$1.2 million increase in interest expense.

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Net interest income on a fully taxable equivalent basis increased \$47.3 million, or 18.1%, to \$308.6 million for the nine-month period ended September 30, 2016, from \$261.3 million for the same period in 2015. This increase in net interest income for the nine-month period ended September 30, 2016 was the result of a \$54.4 million increase in interest income offset by a \$7.1 million increase in interest expense. The \$54.4 million increase in interest income was primarily the result of a higher level of earning assets offset by lower yields on our loans. The higher level of earning assets resulted in an increase in interest income of approximately \$64.6 million. The lower yield on our loans resulted in an approximately \$10.2 million decrease in interest income. The \$7.1 million increase in interest expense for the nine-month period ended September 30, 2016, is primarily the result of an increase in higher level of our interest bearing liabilities combined with our interest bearing liabilities repricing in a slightly higher interest rate environment. The higher level of our interest bearing liabilities resulted in an increase in interest expense of approximately \$4.5 million. The repricing of our interest bearing liabilities in a slightly higher interest rate environment resulted in approximately \$2.6 million increase in interest expense.

Additional information and analysis for our net interest margin can be found in Tables 20 through 22 of our Non-GAAP Financial Measurements section of the Management Discussion and Analysis.

Tables 4 and 5 reflect an analysis of net interest income on a fully taxable equivalent basis for the three and nine-month periods ended September 30, 2016 and 2015, as well as changes in fully taxable equivalent net interest margin for the three and nine-month periods ended September 30, 2016, compared to the same periods in 2015.

**Table 4: Analysis of Net Interest Income**

|  | Three Months Ended<br>September 30,<br>2016 |           | Nine Months Ended<br>September 30,<br>2016 |            |
|--|---|-----------|--|------------|
|  | 2016  | 2015      | 2016                                       | 2015       |
|  | (Dollars in thousands)                      |           |  |            |
| Interest income                                  | \$ 111,375                                  | \$ 96,653 | \$ 325,149                                 | \$ 270,845 |
| Fully taxable equivalent adjustment              | 1,869                                       | 1,951     | 5,816                                      | 5,685      |
| Interest income fully taxable equivalent         | 113,244                                     | 98,604    | 330,965                                    | 276,530    |
| Interest expense                                 | 7,722                                       | 5,562     | 22,398                                     | 15,234     |
| Net interest income fully taxable equivalent     | \$ 105,522                                  | \$ 93,042 | \$ 308,567                                 | \$ 261,296 |
| Yield on earning assets fully taxable equivalent | 5.21%                                       | 5.33%     | 5.18%                                      | 5.28%      |
| Cost of interest-bearing liabilities             | 0.46  | 0.39      | 0.45                                       | 0.37       |
| Net interest spread fully taxable equivalent     | 4.75  | 4.94      | 4.73                                       | 4.91       |
| Net interest margin fully taxable equivalent     | 4.86  | 5.03      | 4.83                                       | 4.99       |

**Table 5: Changes in Fully Taxable Equivalent Net Interest Margin**

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

|  | <b>September<br/>30,<br/>2016 vs.<br/>2015</b> |           |
|--|--|-----------|
|  | <b>2016 vs. 2015</b>                           |           |
|  | <b>(In thousands)</b>                          |           |
| Increase (decrease) in interest income due to change in earning assets                                       | \$ 18,412                                      | \$ 64,664 |
| Increase (decrease) in interest income due to change in earning asset yields                                 | (3,772)  | (10,229)  |
| (Increase) decrease in interest expense due to change in interest-bearing liabilities                        | (998)  | (4,546)   |
| (Increase) decrease in interest expense due to change in interest rates paid on interest-bearing liabilities | (1,162)  | (2,618)   |
| Increase (decrease) in net interest income   | \$ 12,480                                      | \$ 47,271 |

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Table 6 shows, for each major category of earning assets and interest-bearing liabilities, the average amount outstanding, the interest income or expense on that amount and the average rate earned or expensed for the three and nine-month periods ended September 30, 2016 and 2015, 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 6: Average Balance Sheets and Net Interest Income Analysis**

|   | Three Months Ended September 30, |                             |                 |                    |                             |                 |
|---|----------------------------------|-----------------------------|-----------------|--------------------|-----------------------------|-----------------|
|   | Average<br>Balance               | 2016<br>Income /<br>Expense | Yield /<br>Rate | Average<br>Balance | 2015<br>Income /<br>Expense | Yield /<br>Rate |
| <b>(Dollars in thousands)</b>                     |                                  |                             |                 |                    |                             |                 |
| <b>ASSETS</b>                                     |                                  |                             |                 |                    |                             |                 |
| Earnings assets                                   |                                  |                             |                 |                    |                             |                 |
| Interest-bearing balances due from banks          | \$ 110,993                       | \$ 117                      | 0.42%           | \$ 78,783          | \$ 32                       | 0.16%           |
| Federal funds sold                                | 1,136                            | 2                           | 0.70            | 5,293              | 4                           | 0.30            |
| Investment securities taxable                     | 1,177,284                        | 5,583                       | 1.89            | 1,129,453          | 5,157                       | 1.81            |
| Investment securities non-taxable                 | 328,979                          | 4,407                       | 5.33            | 326,069            | 4,557                       | 5.54            |
| Loans receivable                                  | 7,027,634                        | 103,135                     | 5.84            | 5,800,688          | 88,854                      | 6.08            |
| Total interest-earning assets                     | 8,646,026                        | 113,244                     | 5.21            | 7,340,286          | 98,604                      | 5.33            |
| Non-earning assets                                | 956,337                          |                             |                 | 890,551            |                             |                 |
| Total assets                                      | \$ 9,602,363                     |                             |                 | \$ 8,230,837       |                             |                 |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>        |                                  |                             |                 |                    |                             |                 |
| Liabilities                                       |                                  |                             |                 |                    |                             |                 |
| Interest-bearing liabilities                      |                                  |                             |                 |                    |                             |                 |
| Savings and interest-bearing transaction accounts | \$ 3,721,019                     | \$ 2,268                    | 0.24%           | \$ 3,157,279       | \$ 1,514                    | 0.19%           |
| Time deposits                                     | 1,361,589                        | 1,772                       | 0.52            | 1,320,995          | 1,531                       | 0.46            |
| Total interest-bearing deposits                   | 5,082,608                        | 4,040                       | 0.32            | 4,478,274          | 3,045                       | 0.27            |
| Federal funds purchased                           |                                  |                             |                 | 1,250              | 1                           | 0.32            |
| Securities sold under agreement to repurchase     | 118,183                          | 142                         | 0.48            | 143,672            | 146                         | 0.40            |
| FHLB and other borrowed funds                     | 1,357,716                        | 3,139                       | 0.92            | 1,044,369          | 2,030                       | 0.77            |
| Subordinated debentures                           | 60,826                           | 401                         | 2.62            | 60,826             | 340                         | 2.22            |
| Total interest-bearing liabilities                | 6,619,333                        | 7,722                       | 0.46            | 5,728,391          | 5,562                       | 0.39            |

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|   |              |       |              |       |
|---|--------------|-------|--------------|-------|
| Non-interest bearing liabilities          |              |       |              |       |
| Non-interest bearing deposits             | 1,663,621    |       | 1,371,924    |       |
| Other liabilities                         | 45,332       |       | 58,729       |       |
| Total liabilities                         |              |       |              |       |
|   | 8,328,286    |       | 7,159,044    |       |
| Stockholders equity                       | 1,274,077    |       | 1,071,793    |       |
| Total liabilities and stockholders equity |              |       |              |       |
|   | \$ 9,602,363 |       | \$ 8,230,837 |       |
| Net interest spread                       |              |       |              |       |
|   |              | 4.75% |              | 4.94% |
| Net interest income and margin            | \$ 105,522   | 4.86% | \$ 93,042    | 5.03% |

**Table of Contents****Table 6: Average Balance Sheets and Net Interest Income Analysis**

|  | Nine Months Ended September 30, |                             |                 |                    |                             |                 |
|--|---------------------------------|-----------------------------|-----------------|--------------------|-----------------------------|-----------------|
|  | Average<br>Balance              | 2016<br>Income /<br>Expense | Yield /<br>Rate | Average<br>Balance | 2015<br>Income /<br>Expense | Yield /<br>Rate |
| <b>(Dollars in thousands)</b>              |                                 |                             |                 |                    |                             |                 |
| <b>ASSETS</b>                              |                                 |                             |                 |                    |                             |                 |
| Earnings assets                            |                                 |                             |                 |                    |                             |                 |
| Interest-bearing balances due from         |                                 |                             |                 |                    |                             |                 |
| banks                                      | \$ 110,893                      | \$ 325                      | 0.39%           | \$ 104,764         | \$ 167                      | 0.21%           |
| Federal funds sold                         | 1,895                           | 7                           | 0.49            | 8,276              | 15                          | 0.24            |
| Investment securities taxable              | 1,174,998                       | 16,178                      | 1.84            | 1,097,901          | 15,830                      | 1.93            |
| Investment securities non-taxable          | 333,336                         | 13,616                      | 5.46            | 327,040            | 13,604                      | 5.56            |
| Loans receivable                           | 6,909,240                       | 300,839                     | 5.82            | 5,461,573          | 246,914                     | 6.04            |
| Total interest-earning assets              | 8,530,362                       | 330,965                     | 5.18            | 6,999,554          | 276,530                     | 5.28            |
| Non-earning assets                         | 968,553                         |                             |                 | 894,092            |                             |                 |
| Total assets                               | \$ 9,498,915                    |                             |                 | \$ 7,893,646       |                             |                 |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b> |                                 |                             |                 |                    |                             |                 |
| Liabilities                                |                                 |                             |                 |                    |                             |                 |
| Interest-bearing liabilities               |                                 |                             |                 |                    |                             |                 |
| Savings and interest-bearing transaction   |                                 |                             |                 |                    |                             |                 |
| accounts                                   | \$ 3,664,401                    | \$ 6,426                    | 0.23%           | \$ 3,116,308       | \$ 4,564                    | 0.20%           |
| Time deposits                              | 1,382,657                       | 5,102                       | 0.49            | 1,358,539          | 5,050                       | 0.50            |
| Total interest-bearing deposits            | 5,047,058                       | 11,528                      | 0.31            | 4,474,847          | 9,614                       | 0.29            |
| Federal funds purchased                    | 312                             | 2                           | 0.86            | 863                | 3                           | 0.46            |
| Securities sold under agreement to         |                                 |                             |                 |                    |                             |                 |
| repurchase                                 | 120,966                         | 421                         | 0.46            | 163,718            | 481                         | 0.39            |
| FHLB and other borrowed funds              | 1,376,145                       | 9,283                       | 0.90            | 788,393            | 4,133                       | 0.70            |
| Subordinated debentures                    | 60,826                          | 1,164                       | 2.56            | 60,826             | 1,003                       | 2.20            |
| Total interest-bearing liabilities         | 6,605,307                       | 22,398                      | 0.45            | 5,488,647          | 15,234                      | 0.37            |
| Non-interest bearing liabilities           |                                 |                             |                 |                    |                             |                 |
| Non-interest bearing deposits              | 1,596,603                       |                             |                 | 1,315,160          |                             |                 |
| Other liabilities                          | 55,411                          |                             |                 | 41,982             |                             |                 |
| Total liabilities                          | 8,257,321                       |                             |                 | 6,845,789          |                             |                 |
| Stockholders equity                        | 1,241,594                       |                             |                 | 1,047,857          |                             |                 |



|   |              |       |              |       |
|---|--------------|-------|--------------|-------|
| Total liabilities and stockholders equity | \$ 9,498,915 |       | \$ 7,893,646 |       |
| Net interest spread                       |              | 4.73% |              | 4.91% |
| Net interest income and margin            | \$ 308,567   | 4.83% | \$ 261,296   | 4.99% |

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Table 7 shows changes in interest income and interest expense resulting from changes in volume and changes in interest rates for the three and nine-month periods ended September 30, 2016 compared to the same periods in 2015, 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 7: Volume/Rate Analysis**

|   | Three Months Ended September 30,<br>2016 over 2015 |            |           | Nine Months Ended September<br>30,<br>2016 over 2015 |             |           |
|---|--|------------|-----------|--|-------------|-----------|
|   | Volume   | Yield/Rate | Total     | Volume   | Yield/Rate  | Total     |
| (In thousands)                                    |  |            |           |  |             |           |
| Increase (decrease) in:                           |  |            |           |  |             |           |
| Interest income:                                  |  |            |           |  |             |           |
| Interest-bearing balances due from banks          | \$ 17  | \$ 68      | \$ 85     | \$ 11  | \$ 147      | \$ 158    |
| Federal funds sold                                | (5)  | 3          | (2)       | (17)   | 9           | (8)       |
| Investment securities taxable                     | 223  | 203        | 426       | 1,082  | (734)       | 348       |
| Investment securities non-taxable                 | 41   | (191)      | (150)     | 259  | (247)       | 12        |
| Loans receivable                                  | 18,136   | (3,855)    | 14,281    | 63,329   | (9,404)     | 53,925    |
| Total interest income                             | 18,412   | (3,772)    | 14,640    | 64,664   | (10,229)    | 54,435    |
| Interest expense:                                 |  |            |           |  |             |           |
| Interest-bearing transaction and savings deposits | 299  | 455        | 754       | 877  | 985         | 1,862     |
| Time deposits                                     | 48   | 193        | 241       | 89   | (37)        | 52        |
| Federal funds purchased                           |  | (1)        | (1)       |  | (1)         | (1)       |
| Securities sold under agreement to repurchase     | (28)   | 24         | (4)       | (139)  | 79          | (60)      |
| FHLB borrowed funds                               | 679  | 430        | 1,109     | 3,719  | 1,431       | 5,150     |
| Subordinated debentures                           |  | 61         | 61        |  | 161         | 161       |
| Total interest expense                            | 998  | 1,162      | 2,160     | 4,546  | 2,618       | 7,164     |
| Increase (decrease) in net interest income        | \$ 17,414  | \$ (4,934) | \$ 12,480 | \$ 60,118  | \$ (12,847) | \$ 47,271 |

**Provision for Loan Losses**

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

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

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

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

Our Company is primarily a real estate lender in the markets we serve. As such, we are subject to declines in asset quality when real estate prices fall. 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 \$5.5 million and \$16.9 million of provision for loan losses for the three and nine months ended September 30, 2016, respectively. There was \$7.1 million and \$16.3 million of provision for loan losses for the three and nine months ended September 30, 2015, respectively.

We experienced a \$1.6 million decrease in the provision for loan losses during the third quarter of 2016 versus the third quarter of 2015. This \$1.6 million decrease is primarily a result of lower organic loan growth versus the third quarter of 2015.

We experienced a \$631,000 increase in the provision for loan losses during the first nine months of 2016 versus the first nine months of 2015. This \$631,000 increase is primarily a result of additional provisioning from higher net charge-offs offset by lower organic loan growth versus the first nine months of 2015.

Based upon current accounting guidance, the allowance for loan losses is not carried over in an acquisition. As a result, none of the acquired loans had any allocation of the allowance for loan losses at merger date. This is the result of all 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 \$22.0 million and \$63.2 million for the three and nine-month periods ended September 30, 2016, compared to \$16.5 million and \$48.2 million for the same periods in 2015, 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.

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Table 8 measures the various components of our non-interest income for the three and nine-month periods ended September 30, 2016 and 2015, respectively, as well as changes for the three and nine-month periods ended September 30, 2016 compared to the same period in 2015.

**Table 8: Non-Interest Income**

|  | Three Months Ended |                  | 2016 Change     |              | Nine Months Ended  |                  | 2016 Change      |              |
|--|--------------------|------------------|-----------------|--------------|--------------------|------------------|------------------|--------------|
|  | September 30, 2016 | 2015             | from 2015       |              | September 30, 2016 | 2015             | from 2015        |              |
| (Dollars in thousands)   |                    |                  |                 |              |                    |                  |                  |              |
| Service charges on deposit accounts                              | \$ 6,527           | \$ 6,250         | \$ 277          | 4.4%         | \$ 18,607          | \$ 17,724        | \$ 883           | 5.0%         |
| Other service charges and fees                                   | 7,504              | 6,644            | 860             | 12.9         | 22,589             | 19,359           | 3,230            | 16.7         |
| Trust fees   | 365                | 398              | (33)            | (8.3)        | 1,128              | 2,016            | (888)            | (44.0)       |
| Mortgage lending income  | 3,932              | 3,132            | 800             | 25.5         | 10,276             | 8,019            | 2,257            | 28.1         |
| Insurance commissions  | 534                | 548              | (14)            | (2.6)        | 1,808              | 1,755            | 53               | 3.0          |
| Increase in cash value of life insurance                         | 344                | 268              | 76              | 28.4         | 1,092              | 871              | 221              | 25.4         |
| Dividends from FHLB, FRB, Bankers bank & other                   | 808                | 433              | 375             | 86.6         | 2,147              | 1,267            | 880              | 69.5         |
| Gain on acquisitions   |                    |                  |                 |              |                    | 1,635            | (1,635)          | (100.0)      |
| Gain on sale of SBA loans  | 364                | 151              | 213             | 141.1        | 443                | 151              | 292              | 193.4        |
| Gain (loss) on sale of branches, equipment and other assets, net | (86)               | (266)            | 180             | 67.7         | 701                | (237)            | 938              | 395.8        |
| Gain (loss) on OREO, net   | 132                | (40)             | 172             | 430.0        | (713)              | 190              | (903)            | (475.3)      |
| Gain (loss) on securities, net                                   |                    |                  |                 |              | 25                 | 4                | 21               | 525.0        |
| FDIC indemnification accretion/(amortization), net               |                    | (1,994)          | 1,994           | 100.0        | (772)              | (8,152)          | 7,380            | 90.5         |
| Other income   | 1,590              | 1,021            | 569             | 55.7         | 5,892              | 3,640            | 2,252            | 61.9         |
| <b>Total non-interest income</b>                                 | <b>\$ 22,014</b>   | <b>\$ 16,545</b> | <b>\$ 5,469</b> | <b>33.1%</b> | <b>\$ 63,223</b>   | <b>\$ 48,242</b> | <b>\$ 14,981</b> | <b>31.1%</b> |

Non-interest income increased \$5.5 million, or 33.1%, to \$22.0 million for the three-month period ended September 30, 2016 from \$16.5 million for the same period in 2015. Non-interest income increased \$15.0 million, or 31.1%, to \$63.2 million for the nine-month period ended September 30, 2016 from \$48.2 million for the same period in 2015. Non-interest income excluding gain on acquisitions increased \$16.6 million, or 35.7%, to \$63.2 million for the nine months ended September 30, 2016 from \$46.6 million for the same period in 2015.

Excluding gain on acquisitions, the primary factors that resulted in this increase were changes related to other service charges and fees, mortgage lending, dividends, gain (loss) on sale of branches, equipment and other assets, net, net changes in OREO gains and losses, amortization on our FDIC indemnification asset and other income.

Additional details for the three months ended September 30, 2016 on some of the more significant changes are as follows:

The \$860,000 increase in other service charges and fees is primarily from our 2015 acquisitions plus additional loan payoff fees generated by Centennial CFG.

The \$800,000 increase in mortgage lending income is from the additional lending volume from our 2015 acquisitions combined with organic loan growth. We hired a mortgage lending president during 2014 to oversee this product offering. This additional management position is responsible for improved pricing and efficiencies which are ultimately generating more revenue from the organic growth.

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The \$375,000 increase in dividends from FHLB, FRB, Bankers bank & other is primarily associated with additional dividends from the FHLB. We have been increasing our use of FHLB borrowings, which has caused us to increase our ownership in FHLB stock, plus the FHLB has been increasing the rate on their cash dividend.

The \$2.0 million 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.

Other income for the third quarter of 2016 includes loan recoveries of approximately \$642,000 on historical losses.

Additional details for the nine months ended September 30, 2016 on some of the more significant changes are as follows:

The \$883,000 increase in service charges on deposit accounts primarily results from an increase in overdraft fees from additional volume from our 2015 acquisitions and deposit growth.

The \$3.2 million increase in other service charges and fees is primarily from our 2015 acquisition plus additional loan payoff fees generated by Centennial CFG.

The \$888,000 decrease in trust fees is primarily associated with \$865,000 in 12B-1 trust fees during the second quarter of 2015, of which the Company anticipates only \$77,000 will be received on a recurring basis.

The \$2.3 million increase in mortgage lending income is from the additional lending volume from our 2015 acquisitions combined with organic loan growth. We hired a mortgage lending president during 2014 to oversee this product offering. This additional management position is responsible for improved pricing and efficiencies which are ultimately generating more revenue from the organic growth.

The \$880,000 increase in dividends from FHLB, FRB, Bankers bank & other is primarily associated with additional dividends from the FHLB. We have been increasing our use of FHLB borrowings, which has caused us to increase our ownership in the FHLB stock, plus the FHLB has been increasing the rate on their cash dividend.

The \$938,000 increase in gain (loss) on sale of branches, equipment and other assets, net is primarily associated with a gain on the sale of our Clermont, Florida branch location and a gain on the sale of a piece of software for \$738,000 and \$102,000, respectively, during the second quarter of 2016 offset by a \$55,000 loss on sale of a vacant property from closed branches during the first quarter of 2016.

The \$903,000 million decrease in gain (loss) on OREO is primarily related to the revaluation of seven OREO properties during the second quarter of 2016 versus realizing a gain on sale from an OREO properties acquired

during our historical acquisitions in the first quarter of 2015.

The \$7.4 million increase in FDIC indemnification accretion/amortization, net, is primarily associated with the conclusion of the five-year covered loan loss-share agreements plus the buy-out of the FDIC loss share portfolio during the third quarter of 2016.

Other income includes loan recoveries of \$591,000 on our former FDIC covered transactions, \$244,000 on other purchased loans and \$925,000 on other historical losses.



**Table of Contents****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 9 below sets forth a summary of non-interest expense for the three and nine-month periods ended September 30, 2016 and 2015, as well as changes for the three and nine-month periods ended September 30, 2016 compared to the same periods in 2015.

**Table 9: Non-Interest Expense**

|                                 | Three Months Ended     |           | 2016 Change |         | Nine Months Ended  |           | 2016 Change |         |
|---------------------------------|------------------------|-----------|-------------|---------|--------------------|-----------|-------------|---------|
|                                 | September 30, 2016     | 2015      | from 2015   |         | September 30, 2016 | 2015      | from 2015   |         |
|                                 | (Dollars in thousands) |           |             |         |                    |           |             |         |
| Salaries and employee benefits  | \$ 25,623              | \$ 22,225 | \$ 3,398    | 15.3%   | \$ 75,018          | \$ 63,671 | \$ 11,347   | 17.8%   |
| Occupancy and equipment         | 6,668                  | 6,540     | 128         | 2.0     | 19,848             | 19,267    | 581         | 3.0     |
| Data processing expense         | 2,791                  | 2,619     | 172         | 6.6     | 8,221              | 8,101     | 120         | 1.5     |
| Other operating expenses:       |                        |           |             |         |                    |           |             |         |
| Advertising                     | 866                    | 906       | (40)        | (4.4)   | 2,422              | 2,342     | 80          | 3.4     |
| Merger and acquisition expenses |                        | 474       | (474)       | (100.0) |                    | 1,891     | (1,891)     | (100.0) |
| FDIC loss share buy-out expense | 3,849                  |           | 3,849       |         | 3,849              |           | 3,849       |         |
| Amortization of intangibles     | 762                    | 988       | (226)       | (22.9)  | 2,370              | 3,217     | (847)       | (26.3)  |
| Electronic banking expense      | 1,428                  | 1,352     | 76          | 5.6     | 4,121              | 3,883     | 238         | 6.1     |
| Directors fees                  | 292                    | 233       | 59          | 25.3    | 856                | 809       | 47          | 5.8     |
| Due from bank service charges   | 319                    | 291       | 28          | 9.6     | 961                | 792       | 169         | 21.3    |
| FDIC and state assessment       | 1,502                  | 1,276     | 226         | 17.7    | 4,394              | 3,844     | 550         | 14.3    |
| Insurance                       | 553                    | 617       | (64)        | (10.4)  | 1,630              | 1,900     | (270)       | (14.2)  |
| Legal and accounting            | 583                    | 338       | 245         | 72.5    | 1,764              | 1,491     | 273         | 18.3    |
| Other professional fees         | 1,137                  | 947       | 190         | 20.1    | 3,106              | 1,995     | 1,111       | 55.7    |
| Operating supplies              | 437                    | 464       | (27)        | (5.8)   | 1,292              | 1,407     | (115)       | (8.2)   |
| Postage                         | 269                    | 293       | (24)        | (8.2)   | 815                | 897       | (82)        | (9.1)   |
| Telephone                       | 449                    | 444       | 5           | 1.1     | 1,391              | 1,418     | (27)        | (1.9)   |

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|                            |           |           |          |        |            |            |           |       |
|----------------------------|-----------|-----------|----------|--------|------------|------------|-----------|-------|
| Other expense              | 3,498     | 4,586     | (1,088)  | (23.7) | 12,203     | 11,631     | 572       | 4.9   |
| Total non-interest expense | \$ 51,026 | \$ 44,593 | \$ 6,433 | 14.4%  | \$ 144,261 | \$ 128,556 | \$ 15,705 | 12.2% |

Non-interest expense increased \$6.4 million, or 14.4%, to \$51.0 million for the three months ended September 30, 2016 from \$44.6 million for the same period in 2015. Non-interest expense increased \$15.7 million, or 12.2%, to \$144.3 million for the nine months ended September 30, 2016 from \$128.6 million for the same period in 2015. Non-interest expense, excluding merger expenses and FDIC loss share buy-out expense, was \$140.4 million for the nine months ended September 30, 2016 compared to \$126.7 million for the same period in 2015.

The change in non-interest expense for 2016 when compared to 2015 is primarily related to the completion of our 2015 acquisitions, the opening of the Centennial CFG loan production office during the second quarter of 2015, write-downs on vacant properties from closed branches and the normal increased cost of doing business.

The Centennial CFG loan production office incurred \$3.7 million and \$10.5 million of non-interest expense during the three and nine months ended September 30, 2016, respectively, compared to \$2.5 million and \$4.8 million of non-interest expense during the three and nine months ended September 30, 2015. While the cost of doing business in New York City 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 third quarter and first nine months of 2016, the Company had write-downs on vacant property from closed branches of zero and approximately \$1.9 million, respectively. These write-downs are included in other expense.

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

The income tax expense increased \$5.3 million, or 26.2%, to \$25.5 million for the three-month period ended September 30, 2016, from \$20.2 million for the same period in 2015. The income tax expense increased \$18.0 million, or 30.9%, to \$76.3 million for the nine-month period ended September 30, 2016, from \$58.3 million for the same period ended in 2015. The effective income tax rate was 36.88% and 37.23% for the three and nine-month periods ended September 30, 2016, compared to 36.10% and 36.63% for the same periods in 2015. The primary cause of the increase in taxes is the result of our higher earnings at our marginal tax rate of 39.225%.

**Financial Condition as of and for the Period Ended September 30, 2016 and December 31, 2015**

Our total assets as of September 30, 2016 increased \$475.1 million to \$9.76 billion from the \$9.29 billion reported as of December 31, 2015. Our loan portfolio increased \$470.7 million to \$7.11 billion as of September 30, 2016, from \$6.64 billion as of December 31, 2015. This increase is a result of our organic loan growth since December 31, 2015. Stockholders' equity increased \$96.3 million to \$1.30 billion as of September 30, 2016, compared to \$1.20 billion as of December 31, 2015. The annualized improvement in stockholders' equity for the first nine months of 2016 was 10.7%. The increase in stockholders' equity is primarily associated with the \$93.1 million increase in retained earnings.

**Loan Portfolio*****Loans Receivable***

Our loan portfolio averaged \$7.03 billion and \$5.80 billion during the three-month periods ended September 30, 2016 and 2015, respectively. Our loan portfolio averaged \$6.91 billion and \$5.46 billion during the nine-month periods ended September 30, 2016 and 2015, respectively. Loans receivable were \$7.11 billion as of September 30, 2016 compared to \$6.64 billion as of December 31, 2015, which is a \$470.7 million, or 9.5%, annualized increase.

On February 27, 2015, we acquired \$37.9 million of loans after \$4.3 million of loan discounts from Doral Florida. On April 1, 2015, we acquired a pool of national commercial real estate loans from J.C. Flowers & Co. LLC totaling approximately \$289.1 million. On October 1, 2015, we acquired \$408.3 million of loans after \$14.1 million of loan discounts from FBBI. All of these acquired loans are being accounted for in accordance with the provisions of ASC Topic 310-20 and ASC Topic 310-30.

We produced approximately \$470.7 million of organic loan growth since December 31, 2015, of which \$248.0 million is associated with Centennial CFG with the remaining \$222.7 million being associated with loan originations in the legacy footprint. Centennial CFG had total loans of \$963.8 million at September 30, 2016.

During 2015, the five-year loss share coverage on the commercial real estate and commercial and industrial loans acquired through the FDIC-assisted acquisitions of Old Southern, Key West, Coastal, Bayside, Wakulla and Gulf State concluded. As a result, \$145.2 million of these loans including their associated discounts previously classified as covered loans migrated to non-covered loans status during 2015.

During 2016, we reached an agreement terminating our remaining loss-share agreements with the FDIC. As a result, \$57.4 million of these loans including their associated discounts previously classified as covered loans migrated to non-covered loans status during 2016.



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The most significant components of the loan portfolio were commercial real estate, residential real estate, consumer, commercial and industrial and agricultural 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 \$3.50 billion, \$2.40 billion, \$245.5 million and \$963.8 million as of September 30, 2016 in Arkansas, Florida, Alabama and New York, respectively.

As of September 30, 2016, we had \$454.7 million of construction land development loans which were collateralized by land. This consisted of \$265.7 million for raw land and \$189.0 million for land with commercial and or residential lots.

Table 10 presents our loans receivable balances by category as of the September 30, 2016 and December 31, 2015.

**Table 10: Loans Receivable**

|                                | As of<br>September 30, 2016 | As of<br>December 31, 2015 |
|--------------------------------|-----------------------------|----------------------------|
| (In thousands)                 |                             |                            |
| Real estate:                   |                             |                            |
| Commercial real estate loans:  |                             |                            |
| Non-farm/non-residential       | \$ 2,954,618                | \$ 2,968,335               |
| Construction/land development  | 1,065,204                   | 944,787                    |
| Agricultural                   | 77,556                      | 75,027                     |
| Residential real estate loans: |                             |                            |
| Residential 1-4 family         | 1,264,384                   | 1,190,279                  |
| Multifamily residential        | 328,089                     | 430,256                    |
| <b>Total real estate</b>       | <b>5,689,851</b>            | <b>5,608,684</b>           |
| Consumer                       | 42,487                      | 52,258                     |
| Commercial and industrial      | 1,225,043                   | 850,587                    |
| Agricultural                   | 73,413                      | 67,109                     |
| Other                          | 81,497                      | 62,933                     |
| <b>Total loans receivable</b>  | <b>\$ 7,112,291</b>         | <b>\$ 6,641,571</b>        |

As of acquisition date, we evaluated \$1.61 billion of net loans (\$1.67 billion gross loans less \$62.1 million discount) purchased in conjunction with the 2013 acquisition of Liberty Bancshares ( Liberty ) in accordance with the provisions of FASB ASC Topic 310-20, *Nonrefundable Fees and Other Costs*. As of September 30, 2016, the net loan balance of the Liberty ASC Topic 310-20 purchased loans is \$436.5 million (\$447.1 million gross loans less \$10.6 million discount). The fair value discount is being accreted into interest income over the weighted average life of the loans using a constant yield method.

As of acquisition date, we evaluated \$120.5 million of net loans (\$162.4 million gross loans less \$41.9 million discount) purchased in conjunction with the acquisition of Liberty in accordance with the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. As of September 30, 2016, the

net loan balance of the Liberty ASC Topic 310-30 purchased loans is \$61.9 million (\$84.2 million gross loans less \$22.3 million discount). These 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.

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

As of September 30, 2016, commercial real estate loans totaled \$4.10 billion, or 57.6% of loans receivable, as compared to \$3.99 billion, or 60.0% of loans receivable, as of December 31, 2015. Commercial real estate loans originated in our Arkansas, Florida, Alabama and Centennial CFG markets were \$1.96 billion, \$1.53 billion, \$128.8 million and \$475.0 million at September 30, 2016, 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 40.8% and 46.6% 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 September 30, 2016. Residential real estate loans generally have a loan-to-value ratio of up to 90%. These loans are underwritten by giving consideration to the borrower's ability to pay, stability of employment or source of income, debt-to-income ratio, credit history and loan-to-value ratio.

As of September 30, 2016, residential real estate loans totaled \$1.59 billion, or 22.4%, of loans receivable, compared to \$1.62 billion, or 24.4% of loans receivable, as of December 31, 2015. Residential real estate loans originated in our Arkansas, Florida, Alabama and Centennial CFG markets were \$876.9 million, \$621.0 million, \$82.9 million and \$11.7 million at September 30, 2016, 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 September 30, 2016, consumer loans totaled \$42.5 million, or 0.6% of loans receivable, compared to \$52.3 million, or 0.8% of loans receivable, as of December 31, 2015. Consumer loans originated in our Arkansas, Florida, Alabama and Centennial CFG markets were \$26.9 million, \$14.6 million, \$1.0 million and zero at September 30, 2016, 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.

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As of September 30, 2016, commercial and industrial loans totaled \$1.23 billion, or 17.2% of loans receivable, which is comparable to \$850.6 million, or 12.8% of loans receivable, as of December 31, 2015. Commercial and industrial loans originated in our Arkansas, Florida, Alabama and Centennial CFG markets were \$515.3 million, \$202.0 million, \$30.7 million and \$477.1 million at September 30, 2016, respectively.



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*Agricultural Loans.* Agricultural loans include loans for financing agricultural production, including loans to businesses or individuals engaged in the production of timber, poultry, livestock or crops and are not categorized as part of real estate loans. Our agricultural loans are generally secured by farm machinery, livestock, crops, vehicles or other agricultural-related collateral. A portion of our portfolio of agricultural loans is comprised of loans to individuals which would normally be characterized as consumer loans except for the fact that the individual borrowers are primarily engaged in the production of timber, poultry, livestock or crops.

As of September 30, 2016, agricultural loans totaled \$73.4 million, or 1.0% of loans receivable, compared to the \$67.1 million, or 1.0% of loans receivable as of December 31, 2015. Agricultural loans originated in our Arkansas, Florida, Alabama and Centennial CFG markets were \$56.0 million, \$17.4 million, zero and zero at September 30, 2016, 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 September 30, 2016 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 11 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.

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Table 11 sets forth information with respect to our non-performing assets as of September 30, 2016 and December 31, 2015. As of these dates, all non-performing restructured loans are included in non-accrual loans.

**Table 11: Non-performing Assets**

|   | <b>As of<br/>September 30,<br/>2016</b> | <b>As of<br/>December 31,<br/>2015</b> |
|---|---|--|
|   | <b>(Dollars in thousands)</b>           |  |
| Non-accrual loans   | \$ 39,353                               | \$ 36,374                              |
| Loans past due 90 days or more (principal or interest payments) | 20,737                                  | 27,137                                 |
| <b>Total non-performing loans</b>                               | <b>60,090</b>                           | <b>63,511</b>                          |
| Other non-performing assets                                     |   |  |
| Foreclosed assets held for sale, net                            | 17,053                                  | 19,140                                 |
| Other non-performing assets                                     |   | 38                                     |
| <b>Total other non-performing assets</b>                        | <b>17,053</b>                           | <b>19,178</b>                          |
| <b>Total non-performing assets</b>                              | <b>\$ 77,143</b>                        | <b>\$ 82,689</b>                       |
| Allowance for loan losses to non-performing loans               | 127.09%                                 | 109.00%                                |
| Non-performing loans to total loans                             | 0.84                                    | 0.96                                   |
| Non-performing assets to total assets                           | 0.79                                    | 0.89                                   |

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 \$60.1 million as of September 30, 2016, compared to \$63.5 million as of December 31, 2015, for a decrease of \$3.4 million. The \$3.4 million decrease in non-performing loans is the result of a \$3.2 million decrease in non-performing loans in our Arkansas market and a \$1.2 million decrease in non-performing loans in our Florida market offset by a \$976,000 increase in non-performing loans in our Alabama market. Non-performing loans at September 30, 2016 are \$25.1 million, \$33.9 million, \$1.1 million and zero in the Arkansas, Florida, Alabama and Centennial CFG markets, respectively.

Although the current state of the real estate market has improved, uncertainties still present in the economy may continue to increase our level of non-performing loans. While we believe our allowance for loan losses is adequate and our purchased loans are adequately discounted at September 30, 2016, 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 2016. 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 September 30, 2016, we had \$21.6 million of restructured loans that are in compliance with the modified terms and are not reported as past due or non-accrual in Table 16. Our Florida market contains \$19.8 million and our Arkansas market contains \$1.8 million of these restructured loans.

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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 the new terms and may result in the loan being returned to an accrual status after a shorter performance period. If the borrower's ability to meet the revised payment schedule is not reasonably assured, the loan will remain in a non-accrual status.

The majority of the Bank's loan modifications relate to commercial lending and involve reducing the interest rate, changing from a principal and interest payment to interest-only, a lengthening of the amortization period, or a combination of some or all of the three. In addition, it is common for the Bank to seek additional collateral or guarantor support when modifying a loan. At September 30, 2016, the amount of TDRs was \$23.9 million, an increase of 31.1% from \$18.2 million at December 31, 2015. As of September 30, 2016 and December 31, 2015, 90.7% and 81.2%, respectively, of all restructured loans were performing to the terms of the restructure.

Total foreclosed assets held for sale were \$17.0 million as of September 30, 2016, compared to \$19.1 million as of December 31, 2015 for a decrease of \$2.1 million. The foreclosed assets held for sale as of September 30, 2016 are comprised of \$13.1 million of assets located in Arkansas, \$3.4 million of assets located in Florida, \$581,000 located in Alabama and zero from Centennial CFG.

During the first nine months of 2016, we had one foreclosed property with a carrying value greater than \$1.0 million. This property is a development loan in Northwest Arkansas which has been foreclosed since the first quarter of 2011. The carrying value was \$2.0 million at September 30, 2016. The Company does not currently anticipate any additional losses on this property. As of September 30, 2016, no other foreclosed assets held for sale have a carrying value greater than \$1.0 million.

Table 12 shows the summary of foreclosed assets held for sale as of September 30, 2016 and December 31, 2015.

**Table 12: Foreclosed Assets Held For Sale**

|  | As of<br>September 30, 2016 | As of<br>December 31, 2015 |
|--|-----------------------------|----------------------------|
| (In thousands)                               |                             |                            |
| Real estate:                                 |                             |                            |
| Commercial real estate loans                 |                             |                            |
| Non-farm/non-residential                     | \$ 9,632                    | \$ 9,787                   |
| Construction/land development                | 4,631                       | 5,286                      |
| Agricultural                                 |                             |                            |
| Residential real estate loans                |                             |                            |
| Residential 1-4 family                       | 2,218                       | 3,847                      |
| Multifamily residential                      | 572                         | 220                        |
| <b>Total foreclosed assets held for sale</b> | <b>\$ 17,053</b>            | <b>\$ 19,140</b>           |

A loan is considered impaired when it is probable that we will not receive all amounts due according to the contracted terms of the loans. Impaired loans include non-performing loans (loans past due 90 days or more and non-accrual loans), criticized and/or classified loans with a specific allocation, loans categorized as TDRs and certain other loans identified by management that are still performing (loans included in multiple categories are only included once). As of September 30, 2016, average impaired loans were \$88.7 million compared to \$88.1 million as of December 31, 2015. As of September 30, 2016, impaired loans were \$88.3 million compared to \$91.6 million as of December 31, 2015, for a decrease of \$3.3 million. This decrease is primarily associated with the decrease in loan balances with a specific allocation offset by an increase in the level of loans categorized as TDRs and non-performing loans. As of September 30, 2016, our Arkansas, Florida, Alabama and Centennial CFG markets accounted for approximately \$33.3 million, \$53.8 million, \$1.1 million and zero of the impaired loans, respectively.

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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 September 30, 2016 and December 31, 2015, 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 13 shows the summary of non-accrual loans as of September 30, 2016 and December 31, 2015:

**Table 13: Total Non-Accrual Loans**

|                               | As of<br>September 30, 2016 | As of<br>December 31, 2015 |
|-------------------------------|-----------------------------|----------------------------|
|                               | (In thousands)              |                            |
| Real estate:                  |                             |                            |
| Commercial real estate loans  |                             |                            |
| Non-farm/non-residential      | \$ 8,996                    | \$ 15,811                  |
| Construction/land development | 4,300                       | 2,952                      |
| Agricultural                  | 399                         | 531                        |
| Residential real estate loans |                             |                            |
| Residential 1-4 family        | 20,419                      | 12,574                     |
| Multifamily residential       | 408                         | 870                        |
| <b>Total real estate</b>      | <b>34,522</b>               | <b>32,738</b>              |
| Consumer                      | 175                         | 239                        |
| Commercial and industrial     | 3,595                       | 2,363                      |
| Agricultural                  | 679                         |                            |
| Other                         | 382                         | 1,034                      |

|                         |           |    |        |
|-------------------------|-----------|----|--------|
| Total non-accrual loans | \$ 39,353 | \$ | 36,374 |
|-------------------------|-----------|----|--------|

If the non-accrual loans had been accruing interest in accordance with the original terms of their respective agreements, interest income of approximately \$558,000 and \$509,000 for the three-month periods ended September 30, 2016 and 2015, respectively, would have been recorded. If the non-accrual loans had been accruing interest in accordance with the original terms of their respective agreements, interest income of approximately \$1.7 million and \$1.4 million for the nine-month periods ended September 30, 2016 and 2015, respectively, would have been recorded. The interest income recognized on the non-accrual loans for the three and nine-month periods ended September 30, 2016 and 2015 was considered immaterial.

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Table 14 shows the summary of accruing past due loans 90 days or more as of September 30, 2016 and December 31, 2015:

**Table 14: Loans Accruing Past Due 90 Days or More**

|  | As of<br>September 30, 2016 | As of<br>December 31, 2015 |
|--|-----------------------------|----------------------------|
| (In thousands)                                       |                             |                            |
| <b>Real estate:</b>                                  |                             |                            |
| Commercial real estate loans                         |                             |                            |
| Non-farm/non-residential                             | \$ 9,015                    | \$ 9,247                   |
| Construction/land development                        | 3,543                       | 4,176                      |
| Agricultural   |                             | 30                         |
| Residential real estate loans                        |                             |                            |
| Residential 1-4 family                               | 4,622                       | 7,207                      |
| Multifamily residential                              | 1                           | 1                          |
| <b>Total real estate</b>                             | <b>17,181</b>               | <b>20,661</b>              |
| Consumer   | 67                          | 46                         |
| Commercial and industrial                            | 3,489                       | 6,430                      |
| Agricultural   |                             |                            |
| Other  |                             |                            |
| <b>Total loans accruing past due 90 days or more</b> | <b>\$ 20,737</b>            | <b>\$ 27,137</b>           |

Our total loans accruing past due 90 days or more and non-accrual loans to total loans was 0.84% and 0.96% as of September 30, 2016 and December 31, 2015, 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.

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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 \$526.7 million from \$6.28 billion at December 31, 2015 to \$6.81 billion at September 30, 2016. The percentage of the allowance for loan losses allocated to loans receivable collectively evaluated for impairment to the total loans collectively evaluated for impairment increased from 0.99% at December 31, 2015 to 1.08% at September

30, 2016. This increase is the result of the normal changes associated with the calculation of the allocation of the allowance for loan losses and includes routine changes from the previous year end reporting period such as organic loan growth, unallocated allowance, asset quality and net charge-offs.

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*Charge-offs and Recoveries.* Total charge-offs increased to \$4.4 million and \$12.7 million for the three and nine months ended September 30, 2016, compared to \$4.2 million and \$11.5 million for the same periods in 2015. Total recoveries increased to \$844,000 and \$2.9 million for the three and nine months ended September 30, 2016, compared to \$217,000 million and \$2.4 million for the same periods in 2015. For the three months ended September 30, 2016, net charge-offs were \$3.9 million for Arkansas, net recoveries were \$347,000 for Florida, net recoveries were \$16,000 for Alabama and net charge-offs were zero for Centennial CFG, equaling a net charge-off position of \$3.5 million. For the nine months ended September 30, 2016, net charge-offs were \$9.9 million for Arkansas, net recoveries were \$149,000 for Florida, net charge-offs were \$5,000 for Alabama, and net charge-offs were zero for Centennial CFG, equaling a net charge-off position of \$9.8 million.

During the first nine months of 2016, there were \$12.7 million in charge-offs and \$2.9 million in recoveries. While these charge-offs and recoveries consisted of many relationships, there were two 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.

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Table 15 shows the allowance for loan losses, charge-offs and recoveries as of and for the three and nine-month periods ended September 30, 2016 and 2015.

**Table 15: Analysis of Allowance for Loan Losses**

|  | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|--|-------------------------------------|-----------|------------------------------------|-----------|
|  | 2016                                | 2015      | 2016                               | 2015      |
|  | (Dollars in thousands)              |           |                                    |           |
| Balance, beginning of period               | \$ 74,341                           | \$ 60,258 | \$ 69,224                          | \$ 55,011 |
| Loans charged off                          |                                     |           |                                    |           |
| Real estate:                               |                                     |           |                                    |           |
| Commercial real estate loans:              |                                     |           |                                    |           |
| Non-farm/non-residential                   | 741                                 | 1,785     | 2,590                              | 4,132     |
| Construction/land development              | 181                                 | 64        | 334                                | 541       |
| Agricultural                               |                                     |           |                                    |           |
| Residential real estate loans:             |                                     |           |                                    |           |
| Residential 1-4 family                     | 1,069                               | 1,043     | 3,345                              | 2,995     |
| Multifamily residential                    | 435                                 |           | 465                                | 81        |
| Total real estate                          | 2,426                               | 2,892     | 6,734                              | 7,749     |
| Consumer                                   | 23                                  | 401       | 131                                | 507       |
| Commercial and industrial                  | 1,388                               | 355       | 4,424                              | 1,774     |
| Agricultural                               |                                     |           |                                    |           |
| Other                                      | 514                                 | 569       | 1,376                              | 1,448     |
| Total loans charged off                    | 4,351                               | 4,217     | 12,665                             | 11,478    |
| Recoveries of loans previously charged off |                                     |           |                                    |           |
| Real estate:                               |                                     |           |                                    |           |
| Commercial real estate loans:              |                                     |           |                                    |           |
| Non-farm/non-residential                   | 380                                 | (82)      | 608                                | 729       |
| Construction/land development              | 74                                  | (90)      | 107                                | 146       |
| Agricultural                               |                                     |           |                                    |           |
| Residential real estate loans:             |                                     |           |                                    |           |
| Residential 1-4 family                     | 140                                 | 41        | 814                                | 461       |
| Multifamily residential                    | 8                                   | 1         | 22                                 | 1         |
| Total real estate                          | 602                                 | (130)     | 1,551                              | 1,337     |
| Consumer                                   | 19                                  | 18        | 55                                 | 58        |
| Commercial and industrial                  | 42                                  | 159       | 656                                | 395       |
| Agricultural                               |                                     |           |                                    |           |
| Other                                      | 181                                 | 170       | 644                                | 603       |
| Total recoveries                           | 844                                 | 217       | 2,906                              | 2,393     |

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|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Net loans charged off (recovered)                         | 3,507     | 4,000     | 9,759     | 9,085     |
| Provision for loan losses                                 | 5,536     | 7,106     | 16,905    | 16,274    |
| Increase (decrease) in FDIC indemnification asset         |           | 295       |           | 1,459     |
| Balance, September 30                                     | \$ 76,370 | \$ 63,659 | \$ 76,370 | \$ 63,659 |
| Net charge-offs (recoveries) to average loans receivable  | 0.20%     | 0.27%     | 0.19%     | 0.22%     |
| Allowance for loan losses to total loans <sup>(1)</sup>   | 1.07      | 1.06      | 1.07      | 1.06      |
| Allowance for loan losses to net charge-offs (recoveries) | 547       | 401       | 586       | 524       |

- (1) See Management's Discussion and Analysis of Financial Condition and Results of Operations Table 23, for additional information on non-GAAP tabular disclosure.

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*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 September 30, 2016 and the year ended December 31, 2015 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 16 presents the allocation of allowance for loan losses as of September 30, 2016 and December 31, 2015.

**Table 16: Allocation of Allowance for Loan Losses**

|                                 | As of September 30, 2016 |                              | As of December 31, 2015 |                              |
|---------------------------------|--------------------------|------------------------------|-------------------------|------------------------------|
|                                 | Allowance<br>Amount      | % of<br>loans <sup>(1)</sup> | Allowance<br>Amount     | % of<br>loans <sup>(1)</sup> |
| (Dollars in thousands)          |                          |                              |                         |                              |
| Real estate:                    |                          |                              |                         |                              |
| Commercial real estate loans:   |                          |                              |                         |                              |
| Non-farm/non-residential        | \$ 24,562                | 41.6%                        | \$ 26,330               | 44.7%                        |
| Construction/land development   | 10,726                   | 15.0                         | 10,782                  | 14.3                         |
| Agricultural                    | 528                      | 1.1                          | 468                     | 1.1                          |
| Residential real estate loans:  |                          |                              |                         |                              |
| Residential 1-4 family          | 14,121                   | 17.8                         | 12,552                  | 17.9                         |
| Multifamily residential         | 1,904                    | 4.6                          | 2,266                   | 6.5                          |
| Total real estate               | 51,841                   | 80.1                         | 52,398                  | 84.5                         |
| Consumer                        | 409                      | 0.6                          | 544                     | 0.8                          |
| Commercial and industrial       | 14,605                   | 17.2                         | 9,324                   | 12.8                         |
| Agricultural                    | 4,247                    | 1.0                          | 4,463                   | 1.0                          |
| Other                           |                          | 1.1                          | 9                       | 0.9                          |
| Unallocated                     | 5,268                    |                              | 2,486                   |                              |
| Total allowance for loan losses | \$ 76,370                | 100.0%                       | \$ 69,224               | 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 2.2 years as of September 30, 2016.

As of September 30, 2016 and December 31, 2015, we had \$275.5 million and \$309.0 million of held-to-maturity securities, respectively. Of the \$275.5 million of held-to-maturity securities as of September 30, 2016, \$6.9 million were invested in U.S. Government-sponsored enterprises, \$118.3 million were invested in mortgage-backed securities and \$150.3 million were invested in state and political subdivisions. Of the \$309.0 million of held-to-maturity securities as of December 31, 2015, \$7.4 million were invested in U.S. Government-sponsored enterprises, \$134.2 million were invested in mortgage-backed securities and \$167.5 million were invested in state and political subdivisions.



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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 \$1.23 billion and \$1.21 billion as of September 30, 2016 and December 31, 2015, respectively.

As of September 30, 2016, \$654.8 million, or 53.1%, of our available-for-sale securities were invested in mortgage-backed securities, compared to \$565.3 million, or 46.9%, of our available-for-sale securities as of December 31, 2015. To reduce our income tax burden, \$220.8 million, or 17.9%, of our available-for-sale securities portfolio as of September 30, 2016, was primarily invested in tax-exempt obligations of state and political subdivisions, compared to \$219.1 million, or 18.2%, of our available-for-sale securities as of December 31, 2015. Also, we had approximately \$306.1 million, or 24.8%, invested in obligations of U.S. Government-sponsored enterprises as of September 30, 2016, compared to \$368.5 million, or 30.5%, of our available-for-sale securities as of December 31, 2015.

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 \$6.75 billion and \$6.64 billion for the three and nine-month periods ended September 30, 2016. Total deposits as of September 30, 2016 were \$6.84 billion, for an annualized increase of 8.3% from December 31, 2015. 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.



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Table 17 reflects the classification of the brokered deposits as of September 30, 2016 and December 31, 2015.

**Table 17: Brokered Deposits**

|  | September 30, 2016 | December 31, 2015 |
|--|--------------------|-------------------|
|  | (In thousands)     |                   |
| Time Deposits  | \$ 70,003          | \$ 55,149         |
| CDARS  | 22,611             | 26,920            |
| Insured Cash Sweep and Other Transaction<br>Accounts | 385,009            | 117,185           |
| Total Brokered Deposits                              | \$ 477,623         | \$ 199,254        |

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

The Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. The Federal Funds rate, which is the cost to banks of immediately available overnight funds, was lowered on December 16, 2008 to a historic low of 0.25% to 0% where it remained until December 16, 2015 when the rate was increased slightly to 0.50% to 0.25%.

Table 18 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 nine-month periods ended September 30, 2016 and 2015.

**Table 18: Average Deposit Balances and Rates**

|   | Three Months Ended September 30, |                      |                   |                      |
|---|----------------------------------|----------------------|-------------------|----------------------|
|   | 2016                             |                      | 2015              |                      |
|   | Average<br>Amount                | Average<br>Rate Paid | Average<br>Amount | Average Rate<br>Paid |
|   | (Dollars in thousands)           |                      |                   |                      |
| Non-interest-bearing transaction accounts | \$ 1,663,621                     | %                    | \$ 1,371,924      | %                    |
| Interest-bearing transaction accounts     | 3,243,984                        | 0.27                 | 2,717,417         | 0.21                 |
| Savings deposits                          | 477,035                          | 0.06                 | 439,862           | 0.07                 |
| Time deposits:                            |                                  |                      |                   |                      |
| \$100,000 or more                         | 880,098                          | 0.60                 | 762,285           | 0.50                 |
| Other time deposits                       | 481,491                          | 0.37                 | 558,710           | 0.40                 |
| Total                                     | \$ 6,746,229                     | 0.24%                | \$ 5,850,198      | 0.21%                |

|   | 2016                |                         | 2015                |                      |
|---|---------------------|-------------------------|---------------------|----------------------|
|   | Average<br>Amount   | Average<br>Rate<br>Paid | Average<br>Amount   | Average<br>Rate Paid |
|   |                     |                         |                     |                      |
| <b>Nine Months Ended September 30,</b>    |                     |                         |                     |                      |
| <b>(Dollars in thousands)</b>             |                     |                         |                     |                      |
| Non-interest-bearing transaction accounts | \$ 1,596,603        | %                       | \$ 1,315,160        | %                    |
| Interest-bearing transaction accounts     | 3,202,095           | 0.26                    | 2,695,967           | 0.22                 |
| Savings deposits                          | 462,306             | 0.06                    | 420,341             | 0.06                 |
| Time deposits:                            |                     |                         |                     |                      |
| \$100,000 or more                         | 874,648             | 0.55                    | 745,071             | 0.56                 |
| Other time deposits                       | 508,009             | 0.39                    | 613,468             | 0.42                 |
| <b>Total</b>                              | <b>\$ 6,643,661</b> | <b>0.23%</b>            | <b>\$ 5,790,007</b> | <b>0.22%</b>         |

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

We enter into short-term purchases of securities under agreements to resell (resale agreements) and sales of securities under agreements to repurchase (repurchase agreements) of substantially identical securities. The amounts advanced under resale agreements and the amounts borrowed under repurchase agreements are carried on the balance sheet at the amount advanced. Interest incurred on repurchase agreements is reported as interest expense. Securities sold under agreements to repurchase decreased \$19.0 million, or 14.8%, from \$128.4 million as of December 31, 2015 to \$109.4 million as of September 30, 2016.

***FHLB Borrowed Funds***

Our FHLB borrowed funds were \$1.42 billion and \$1.41 billion at September 30, 2016 and December 31, 2015, respectively. At September 30, 2016, \$155.0 million and \$1.27 billion of the outstanding balance were issued as short-term and long-term advances, respectively. At December 31, 2015, all of the outstanding balance was issued as long-term advances. Our remaining FHLB borrowing capacity was \$888.5 million and \$581.9 million as of September 30, 2016 and December 31, 2015, respectively. We received additional borrowing capacity due to an increase in loan volume since December 31, 2015. Maturities of borrowings as of September 30, 2016 include: 2016 \$155.7 million; 2017 \$515.5 million; 2018 \$459.2 million; 2019 \$143.1 million; 2020 \$146.4 million; after 2020 \$464,000. Expected maturities will differ from contractual maturities because FHLB may have the right to call or we may have the right to prepay certain obligations.

***Subordinated Debentures***

Subordinated debentures, which consist of guaranteed payments on trust preferred securities, were \$60.8 million as of September 30, 2016 and December 31, 2015.

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

***Stockholders' Equity***

Stockholders' equity was \$1.30 billion at September 30, 2016 compared to \$1.20 billion at December 31, 2015, an annualized increase of 10.7%. The increase in stockholders' equity is primarily associated with the \$93.1 million increase in retained earnings plus the \$4.1 million of comprehensive income offset by the \$1.7 million of decrease in capital surplus as a result of the \$8.8 million repurchase of common stock net of activity related to stock based compensation during the quarter. As of September 30, 2016 and December 31, 2015, our equity to asset ratio was 13.3% and 12.9%, respectively. Book value per share was \$9.22 as of September 30, 2016, compared to \$8.55 (split adjusted) as of December 31, 2015, a 10.5% annualized increase.

*Common Stock Cash Dividends.* We declared cash dividends on our common stock of \$0.09 per share and \$0.075 per share (split adjusted) for each of the three-month periods ended September 30, 2016 and 2015, respectively. The common stock dividend payout ratio for the three months ended September 30, 2016 and 2015 was 28.97% and 28.44%, respectively. The common stock dividend payout ratio for the nine months ended September 30, 2016 and 2015 was 27.58% and 26.86%, respectively. For the fourth quarter of 2016, the Board of Directors declared a regular \$0.09 per share quarterly cash dividend payable December 7, 2016, to shareholders of record November 16, 2016.

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*Two-for-One Stock Split.* On April 21, 2016, our Board of Directors declared a two-for-one stock split paid in the form of a 100% stock dividend on June 8, 2016 to shareholders of record at the close of business on May 18, 2016. The additional shares were distributed by the Company's transfer agent, Computershare, and the Company's common stock began trading on a split-adjusted basis on the NASDAQ Global Select Market on June 9, 2016. The stock split increased the Company's total shares of common stock outstanding as of June 8, 2016 from 70,191,253 shares to 140,382,506 shares.

All share and per share amounts reported prior to the two-for-one stock split have been restated to reflect the retroactive effect of the stock split.

*Stock Repurchase Program.* During the first nine months of 2016, we utilized a portion of our previously approved stock repurchase program. This program authorized the repurchase of 4,752,000 shares (split adjusted) of our common stock. We repurchased a total of 461,800 shares (split adjusted) with a weighted-average stock price of \$19.15 per share (split adjusted) during the first quarter of 2016. The Company repurchased 95,428 shares (split adjusted) at an average price of \$18.16 per share (split adjusted) during January 2016, 364,572 shares (split adjusted) at an average price of \$19.45 per share (split adjusted) during February 2016, and 1,800 shares (split adjusted) at an average price of \$20.00 per share (split adjusted) during March 2016. No shares were repurchased during the second or third quarters of 2016. Shares repurchased to date under the program total 3,618,256 shares (split adjusted). The remaining balance available for repurchase is 1,133,744 shares (split adjusted) at September 30, 2016.

## **Liquidity and Capital Adequacy Requirements**

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

Quantitative measures established by regulation to ensure capital adequacy require us to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes that, as of September 30, 2016 and December 31, 2015, we met all regulatory capital adequacy requirements to which we were subject.

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Table 19 presents our risk-based capital ratios as of September 30, 2016 and December 31, 2015.

**Table 19: Risk-Based Capital**

|  | As of<br>September 30, 2016 | As of<br>December 31, 2015 |
|--|-----------------------------|----------------------------|
|  | (Dollars in thousands)      |                            |
| <b>Tier 1 capital</b>                                      |                             |                            |
| Stockholders equity  | \$ 1,296,018                | \$ 1,199,757               |
| Goodwill and core deposit intangibles, net                 | (388,801)                   | (385,957)                  |
| Unrealized (gain) loss on<br>available-for-sale securities | (8,304)                     | (4,285)                    |
| Deferred tax assets  |                             |                            |
| <b>Total common equity Tier 1 capital</b>                  | <b>898,913</b>              | <b>809,515</b>             |
| Qualifying trust preferred securities                      | 59,000                      | 59,000                     |
| <b>Total Tier 1 capital</b>                                | <b>957,913</b>              | <b>868,515</b>             |
| <b>Tier 2 capital</b>                                      |                             |                            |
| Qualifying allowance for loan losses                       | 76,370                      | 69,224                     |
| <b>Total Tier 2 capital</b>                                | <b>76,370</b>               | <b>69,224</b>              |
| <b>Total risk-based capital</b>                            | <b>\$ 1,034,283</b>         | <b>\$ 937,739</b>          |
| <b>Average total assets for leverage ratio</b>             | <b>\$ 9,213,562</b>         | <b>\$ 8,766,685</b>        |
| <b>Risk weighted assets</b>                                | <b>\$ 8,203,028</b>         | <b>\$ 7,710,439</b>        |
| <b>Ratios at end of period</b>                             |                             |                            |
| Common equity Tier 1 capital                               | 10.96%                      | 10.50%                     |
| Leverage ratio   | 10.40                       | 9.91                       |
| Tier 1 risk-based capital                                  | 11.68                       | 11.26                      |
| Total risk-based capital                                   | 12.61                       | 12.16                      |
| <b>Minimum guidelines</b>                                  |                             |                            |
| Common equity Tier 1 capital                               | 4.50%                       | 4.50%                      |
| Leverage ratio   | 4.00                        | 4.00                       |
| Tier 1 risk-based capital                                  | 6.00                        | 6.00                       |
| Total risk-based capital                                   | 8.00                        | 8.00                       |
| <b>Well-capitalized guidelines</b>                         |                             |                            |
| 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.

***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, efficiency ratio and the allowance for loan losses to total loans receivable.

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Because of our significant number of historical acquisitions, our net interest margin and the allowance for loan losses to total loans receivable were 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 had \$1.37 billion of purchased loans, which includes \$108.0 million of discount for credit losses on purchased loans, at September 30, 2016. We have \$37.3 million and \$70.7 million remaining of non-accretable discount for credit losses on purchased loans and accretable discount for credit losses on purchased loans, respectively, as of September 30, 2016. We had \$2.16 billion of purchased loans, which includes \$149.4 million of discount for credit losses on purchased loans, at December 31, 2015. For purchased financial assets, GAAP requires a discount embedded in the purchase price that is attributable to the expected credit losses at the date of acquisition, which is a different approach from non-purchased assets. While the discount for credit losses on purchased credit impaired loans is not available for credit losses on non-purchased credit impaired loans, management believes it is useful information to show the same accounting as if applied to all loans receivable, including those acquired in a business combination.

We believe these non-GAAP measures and ratios, when taken together with the corresponding GAAP measures and ratios, provide meaningful supplemental information regarding our performance. We believe investors benefit from referring to these non-GAAP measures and ratios in assessing our operating results and related trends, and when planning and forecasting future periods. However, these non-GAAP measures and ratios should be considered in addition to, and not as a substitute for or preferable to, ratios prepared in accordance with GAAP. In Tables 20 through 23 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 20: Average Yield on Loans**

|   |     | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |              |
|---|-----|-------------------------------------|--------------|------------------------------------|--------------|
|   |     | 2016                                | 2015         | 2016                               | 2015         |
| (Dollars in thousands)                                    |     |                                     |              |                                    |              |
| Interest income on loans receivable                       | FTE | \$ 103,135                          | \$ 88,854    | \$ 300,839                         | \$ 246,914   |
| Purchase accounting accretion                             |     | 11,576                              | 12,852       | 32,590                             | 33,755       |
| Non-GAAP interest income on loans receivable              | FTE | \$ 91,559                           | \$ 76,002    | \$ 268,249                         | \$ 213,159   |
| Average loans   |     | \$ 7,027,634                        | \$ 5,800,688 | \$ 6,909,240                       | \$ 5,461,573 |
| Average purchase accounting loan discounts <sup>(1)</sup> |     | 115,766                             | 148,747      | 131,506                            | 163,984      |
| Average loans (non-GAAP)                                  |     | \$ 7,143,400                        | \$ 5,949,435 | \$ 7,040,746                       | \$ 5,625,557 |
| Average yield on loans (reported)                         |     | 5.84%                               | 6.08%        | 5.82%                              | 6.04%        |
|   |     | 5.10                                | 5.07         | 5.09                               | 5.07         |

Average contractual yield on loans  
(non-GAAP)

- (1) Balance includes \$108.0 million and \$148.9 million of discount for credit losses on purchased loans as of September 30, 2016 and 2015, respectively.

**Table of Contents****Table 21: Average Cost of Deposits**

|   | Three Months Ended     |                       | Nine Months Ended     |                       |
|---|------------------------|-----------------------|-----------------------|-----------------------|
|   | September 30,<br>2016  | September 30,<br>2015 | September 30,<br>2016 | September 30,<br>2015 |
|   | (Dollars in thousands) |                       |                       |                       |
| Interest expense on deposits                              | \$ 4,040               | \$ 3,045              | \$ 11,528             | \$ 9,614              |
| Amortization of time deposit<br>(premiums)/discounts, net | 361                    | 234                   | 1,094                 | 633                   |
| Non-GAAP interest expense on deposits                     | \$ 4,401               | \$ 3,279              | \$ 12,622             | \$ 10,247             |
| Average deposits  | \$ 5,082,608           | \$ 4,478,274          | \$ 5,047,058          | \$ 4,474,847          |
| Average unamortized CD<br>(premium)/discount, net         | (732)                  | (1,107)               | (1,096)               | (1,062)               |
| Average deposits (non-GAAP)                               | \$ 5,081,876           | \$ 4,477,167          | \$ 5,045,962          | \$ 4,473,785          |
| Average cost of deposits (reported)                       | 0.32%                  | 0.27%                 | 0.31%                 | 0.29%                 |
| Average contractual cost of deposits<br>(non-GAAP)        | 0.34                   | 0.29                  | 0.33                  | 0.31                  |

**Table 22: Net Interest Margin**

|  | Three Months Ended     |                       | Nine Months Ended     |                       |
|--|------------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2016  | September 30,<br>2015 | September 30,<br>2016 | September 30,<br>2015 |
|  | (Dollars in thousands) |                       |                       |                       |
| Net interest income FTE                                      | \$ 105,522             | \$ 93,042             | \$ 308,567            | \$ 261,296            |
| Total purchase accounting accretion                          | 11,937                 | 13,086                | 33,684                | 34,388                |
| Non-GAAP net interest income FTE                             | \$ 93,585              | \$ 79,956             | \$ 274,883            | \$ 226,908            |
| Average interest-earning assets                              | \$ 8,646,026           | \$ 7,340,286          | \$ 8,530,362          | \$ 6,999,554          |
| Average purchase accounting loan<br>discounts <sup>(1)</sup> | 115,766                | 148,747               | 131,506               | 163,984               |
| Average interest-earning assets<br>(non-GAAP)                | \$ 8,761,792           | \$ 7,489,033          | \$ 8,661,868          | \$ 7,163,538          |
| Net interest margin (reported)                               | 4.86%                  | 5.03%                 | 4.83%                 | 4.99%                 |
| Net interest margin (non-GAAP)                               | 4.25                   | 4.24                  | 4.24                  | 4.23                  |

- (1) Balance includes \$108.0 million and \$148.9 million of discount for credit losses on purchased loans as of September 30, 2016 and 2015, respectively.

Table of Contents**Table 23: Allowance for Loan Losses to Total Loans Receivable**

|  | <b>As of September 30, 2016</b>     |                                      |                                       |
|--|-------------------------------------|--------------------------------------|---------------------------------------|
|  | <b>Net<br/>Loans<br/>Receivable</b> | <b>Total<br/>Purchased<br/>Loans</b> | <b>Total<br/>Loans<br/>Receivable</b> |
|  | <b>(Dollars in thousands)</b>       |                                      |                                       |
| Loan balance reported (A)  | \$ 5,743,986                        | \$ 1,368,305                         | \$ 7,112,291                          |
| Loan balance reported plus discount (B)  | 5,743,986                           | 1,476,322                            | 7,220,308                             |
| Allowance for loan losses (C)  | 76,370                              |                                      | 76,370                                |
| Discount for credit losses on purchased loans (D)  |                                     | 108,017                              | 108,017                               |
| Total allowance for loan losses plus discount for credit losses on purchased loans (E)   | \$ 76,370                           | \$ 108,017                           | \$ 184,387                            |
| Allowance for loan losses to total loans receivable (C/A)  | 1.33%                               | N/A                                  | 1.07%                                 |
| Discount for credit losses on purchased loans to purchased loans plus discount for credit losses on purchased loans (D/B)                            | N/A                                 | 7.32%                                | N/A                                   |
| Allowance for loan losses plus discount for credit losses on purchased loans to total loans plus discount for credit losses on purchased loans (E/B) | N/A                                 | N/A                                  | 2.55%                                 |

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

|  | <b>As of December 31, 2015</b>      |                                      |                                       |
|--|-------------------------------------|--------------------------------------|---------------------------------------|
|  | <b>Net<br/>Loans<br/>Receivable</b> | <b>Total<br/>Purchased<br/>Loans</b> | <b>Total<br/>Loans<br/>Receivable</b> |
|  | <b>(Dollars in thousands)</b>       |                                      |                                       |
| Loan balance reported (A)  | \$ 4,482,601                        | \$ 2,158,970                         | \$ 6,641,571                          |
| Loan balance reported plus discount (B)  | 4,482,601                           | 2,308,364                            | 6,790,965                             |
| Allowance for loan losses (C)  | 69,224                              |                                      | 69,224                                |
| Discount for credit losses on purchased loans (D)                                      |                                     | 149,394                              | 149,394                               |
| Total allowance for loan losses plus discount for credit losses on purchased loans (E) | \$ 69,224                           | \$ 149,394                           | \$ 218,618                            |

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|  |       |       |       |
|--|-------|-------|-------|
| Allowance for loan losses to total loans receivable (C/A)  | 1.54% | N/A   | 1.04% |
| Discount for credit losses on purchased loans to purchased loans plus discount for credit losses on purchased loans (D/B)                            | N/A   | 6.47% | N/A   |
| Allowance for loan losses plus discount for credit losses on purchased loans to total loans plus discount for credit losses on purchased loans (E/B) | N/A   | N/A   | 3.22% |

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

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We had \$397.1 million, \$399.4 million, and \$341.6 million total goodwill, core deposit intangibles and other intangible assets as of September 30, 2016, December 31, 2015 and September 30, 2015, respectively. Because of our level of intangible assets and related amortization expenses, management believes diluted earnings per share excluding intangible amortization, tangible book value per share, return on average assets excluding intangible amortization, return on average tangible equity excluding intangible amortization and tangible equity to tangible assets are useful in evaluating our company. These calculations, which are similar to the GAAP calculation of diluted earnings per share, tangible book value, return on average assets, return on average equity, and equity to assets, are presented in Tables 24 through 28, respectively. All previously reported share and per share amounts have been restated to reflect the retroactive effect of the stock split.

**Table 24: Diluted Earnings Per Share Excluding Intangible Amortization**

|  | Three Months Ended                            |                    | Nine Months Ended  |                    |
|--|---|--------------------|--------------------|--------------------|
|  | September 30, 2016                            | September 30, 2015 | September 30, 2016 | September 30, 2015 |
|  | (Dollars in thousands, except per share data) |                    |                    |                    |
| GAAP net income  | \$ 43,620                                     | \$ 35,741          | \$ 128,556         | \$ 100,766         |
| Intangible amortization after-tax                            | 463   | 600                | 1,440              | 1,955              |
| Earnings excluding intangible amortization                   | \$ 44,083                                     | \$ 36,341          | \$ 129,996         | \$ 102,721         |
| GAAP diluted earnings per share                              | \$ 0.31                                       | \$ 0.26            | \$ 0.91            | \$ 0.74            |
| Intangible amortization after-tax                            |   | 0.01               | 0.01               | 0.02               |
| Diluted earnings per share excluding intangible amortization | \$ 0.31                                       | \$ 0.27            | \$ 0.92            | \$ 0.76            |

**Table 25: Tangible Book Value Per Share**

|  | As of                                 | As of             |
|--|---------------------------------------|-------------------|
|  | September 30, 2016                    | December 31, 2015 |
|  | (In thousands, except per share data) |                   |
| Book value per share: A/B                | \$ 9.22                               | \$ 8.55           |
| Tangible book value per share: (A-C-D)/B | 6.40                                  | 5.71              |
| (A) Total equity                         | \$ 1,296,018                          | \$ 1,199,757      |
| (B) Shares outstanding                   | 140,490                               | 140,241           |
| (C) Goodwill                             | \$ 377,983                            | \$ 377,983        |
| (D) Core deposit and other intangibles   | 19,073                                | 21,443            |

**Table 26: Return on Average Assets Excluding Intangible Amortization**



|  | <b>Three Months Ended<br/>September 30,</b> |              | <b>Nine Months Ended<br/>September 30,</b> |              |
|--|---|--------------|--|--------------|
|  | <b>2016</b>                                 | <b>2015</b>  | <b>2016</b>                                | <b>2015</b>  |
|  | <b>(Dollars in thousands)</b>               |              |  |              |
| Return on average assets: A/C  | 1.81%                                       | 1.72%        | 1.81%                                      | 1.71%        |
| Return on average assets excluding<br>intangible amortization: B/(C-D) | 1.91  | 1.83         | 1.91                                       | 1.82         |
| (A) Net income   | \$ 43,620                                   | \$ 35,741    | \$ 128,556                                 | \$ 100,766   |
| Intangible amortization after-tax                                      | 463   | 600          | 1,440                                      | 1,955        |
| (B) Earnings excluding intangible<br>amortization                      | \$ 44,083                                   | \$ 36,341    | \$ 129,996                                 | \$ 102,721   |
| (C) Average assets   | \$ 9,602,363                                | \$ 8,230,837 | \$ 9,498,915                               | \$ 7,893,646 |
| (D) Average goodwill, core deposits<br>and other intangible assets     | 397,429                                     | 342,009      | 398,195                                    | 343,099      |

**Table of Contents****Table 27: Return on Average Tangible Equity Excluding Intangible Amortization**

|  | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|-----------|------------------------------------|------------|
|  | 2016                                | 2015      | 2016                               | 2015       |
|  | (Dollars in thousands)              |           |                                    |            |
| Return on average equity: A/C  | 13.62%                              | 13.23%    | 13.83%                             | 12.86%     |
| Return on average tangible equity<br>excluding intangible amortization:<br>B/(C-D) | 20.01                               | 19.76     | 20.59                              | 19.49      |
| (A) Net income   | \$ 43,620                           | \$ 35,741 | \$ 128,556                         | \$ 100,766 |
| (B) Earnings excluding intangible<br>amortization                                  | 44,083                              | 36,341    | 129,996                            | 102,721    |
| (C) Average equity   | 1,274,077                           | 1,071,793 | 1,241,594                          | 1,047,857  |
| (D) Average goodwill, core deposits<br>and other intangible assets                 | 397,429                             | 342,009   | 398,195                            | 343,099    |

**Table 28: Tangible Equity to Tangible Assets**

|  | As of<br>September 30,<br>2016 | As of<br>December 31,<br>2015 |
|--|--------------------------------|-------------------------------|
|  | (Dollars in thousands)         |                               |
| Equity to assets: B/A                                  | 13.27%                         | 12.92%                        |
| Tangible equity to tangible assets:<br>(B-C-D)/(A-C-D) | 9.60                           | 9.00                          |
| (A) Total assets                                       | \$ 9,764,238                   | \$ 9,289,122                  |
| (B) Total equity                                       | 1,296,018                      | 1,199,757                     |
| (C) Goodwill   | 377,983                        | 377,983                       |
| (D) Core deposit and other intangibles                 | 19,073                         | 21,443                        |

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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, FDIC loss share buy-out expense and/or gains and losses. In Table 29 below, we have provided a reconciliation of the non-GAAP calculation of the financial measure for the periods indicated.

**Table 29: Efficiency Ratio**

|  | <b>Three Months Ended</b>     |             | <b>Nine Months Ended</b> |             |
|--|-------------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>          |             | <b>September 30,</b>     |             |
|  | <b>2016</b>                   | <b>2015</b> | <b>2016</b>              | <b>2015</b> |
|  | <b>(Dollars in thousands)</b> |             |                          |             |
| Net interest income (A)  | \$ 103,653                    | \$ 91,091   | \$ 302,751               | \$ 255,611  |
| Non-interest income (B)  | 22,014                        | 16,545      | 63,223                   | 48,242      |
| Non-interest expense (C)   | 51,026                        | 44,593      | 144,261                  | 128,556     |
| FTE Adjustment (D)   | 1,869                         | 1,951       | 5,816                    | 5,685       |
| Amortization of intangibles (E)                                  | 762                           | 988         | 2,370                    | 3,217       |
| Non-fundamental items:   |                               |             |                          |             |
| Non-interest income:   |                               |             |                          |             |
| Gain on acquisitions   | \$                            | \$          | \$                       | \$ 1,635    |
| Gain (loss) on OREO, net   | 132                           | (40)        | (713)                    | 190         |
| Gain on sale of SBA loans  | 364                           | 151         | 443                      | 151         |
| Gain (loss) on sale of branches, equipment and other assets, net | (86)                          | (266)       | 701                      | (237)       |
| Gain (loss) on securities, net                                   |                               |             | 25                       | 4           |
| Other income <sup>(1)</sup>                                      |                               |             | 925                      |             |
| Total non-fundamental non-interest income (F)                    | 410                           | (155)       | 1,381                    | 1,743       |
| Non-interest expense:  |                               |             |                          |             |
| Merger expenses  | \$                            | \$ 474      | \$                       | \$ 1,891    |
| FDIC buyout expense  | 3,849                         |             | 3,849                    |             |
| Other expense <sup>(2)</sup>                                     |                               |             | 1,914                    |             |
| Total non-fundamental non-interest expense (G)                   | \$ 3,849                      | \$ 474      | \$ 5,763                 | \$ 1,891    |
| Efficiency ratio (reported): ((C-E)/(A+B+D))                     | 39.41%                        | 39.79%      | 38.16%                   | 40.49%      |
| Core efficiency ratio<br>(non-GAAP): ((C-E-G)/(A+B+D-F))         | 36.51                         | 39.30       | 36.75                    | 40.11       |

(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.

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

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

Liquidity needs can be met from either assets or liabilities. On the asset side, our primary sources of liquidity include cash and due from banks, federal funds sold, available-for-sale investment securities and scheduled repayments and maturities of loans. We maintain adequate levels of cash and cash equivalents to meet our day-to-day needs. As of September 30, 2016, our cash and cash equivalents were \$296.2 million, or 3.0% of total assets, compared to \$255.8 million, or 2.8% of total assets, as of December 31, 2015. Our available-for-sale investment securities and federal funds sold were \$1.24 billion and \$1.21 billion as of September 30, 2016 and December 31, 2015, respectively.

As of September 30, 2016, our investment portfolio was comprised of approximately 79.8% or \$1.20 billion of securities which mature in less than five years. As of September 30, 2016 and December 31, 2015, \$1.30 billion and \$1.25 billion, respectively, of securities were pledged as collateral for various public fund deposits and securities sold under agreements to repurchase.

On the liability side, our principal sources of liquidity are deposits, borrowed funds, and access to capital markets. Customer deposits are our largest sources of funds. As of September 30, 2016, our total deposits were \$6.84 billion, or 70.1% of total assets, compared to \$6.44 billion, or 69.3% of total assets, as of December 31, 2015. 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 September 30, 2016 and December 31, 2015, we could have borrowed up to \$115.9 million and \$115.8 million, respectively, on a secured basis with the Federal Reserve, up to \$30.0 million with Bankers Bank on an unsecured basis, and up to \$30.0 million in the aggregate, with 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 \$1.42 billion and \$1.41 billion at September 30, 2016 and December 31, 2015, respectively. At September 30, 2016, \$155.0 million and \$1.27 billion of the outstanding balance were issued as short-term and long-term advances, respectively. At December 31, 2015, all of the outstanding balance was

issued as long-term advances. Our FHLB borrowing capacity was \$888.5 million and \$581.9 million as of September 30, 2016 and December 31, 2015, respectively.

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

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*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 September 30, 2016, our gap position was asset sensitive with a one-year cumulative repricing gap as a percentage of total earning assets of 4.8%. 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.





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Table 30 presents a summary of the repricing schedule of our interest-earning assets and interest-bearing liabilities (gap) as of September 30, 2016.

**Table 30: Interest Rate Sensitivity**

|                         | Interest Rate Sensitivity Period |               |                |   |              |              |                 | Total        |
|-------------------------|----------------------------------|---------------|----------------|---|--------------|--------------|-----------------|--------------|
|                         | 0-30<br>Days                     | 31-90<br>Days | 91-180<br>Days | 181-365<br>Days<br>(Dollars in thousands) | 1-2<br>Years | 2-5<br>Years | Over 5<br>Years |              |
| <b>Earning assets</b>   |                                  |               |                |   |              |              |                 |              |
| <b>Interest-bearing</b> |                                  |               |                |   |              |              |                 |              |
| deposits due            |                                  |               |                |   |              |              |                 |              |
| from banks              | \$ 173,034                       | \$            | \$             | \$  | \$           | \$           | \$              | \$ 173,034   |
| Federal funds           |                                  |               |                |   |              |              |                 |              |
| sold                    | 1,850                            |               |                |   |              |              |                 | 1,850        |
| Investment              |                                  |               |                |   |              |              |                 |              |
| securities              | 239,538                          | 100,612       | 75,282         | 116,035                                   | 231,343      | 387,800      | 358,203         | 1,508,813    |
| Loans                   |                                  |               |                |   |              |              |                 |              |
| receivable              | 1,882,914                        | 479,510       | 567,414        | 926,049                                   | 1,095,105    | 1,817,941    | 343,358         | 7,112,291    |
| Total earning           | 2,297,336                        | 580,122       | 642,696        | 1,042,084                                 | 1,326,448    | 2,205,741    | 701,561         | 8,795,988    |
| assets                  |                                  |               |                |   |              |              |                 |              |
| <b>Interest-bearing</b> |                                  |               |                |   |              |              |                 |              |
| <b>liabilities</b>      |                                  |               |                |   |              |              |                 |              |
| <b>Interest-bearing</b> |                                  |               |                |   |              |              |                 |              |
| transaction and         |                                  |               |                |   |              |              |                 |              |
| savings deposits        | 531,586                          | 296,206       | 444,309        | 888,617                                   | 557,093      | 540,265      | 534,153         | 3,792,229    |
| Time deposits           | 148,297                          | 131,998       | 201,038        | 379,333                                   | 327,211      | 140,644      | 2,076           | 1,330,597    |
| Securities sold         |                                  |               |                |   |              |              |                 |              |
| under                   |                                  |               |                |   |              |              |                 |              |
| repurchase              |                                  |               |                |   |              |              |                 |              |
| agreements              | 109,350                          |               |                |   |              |              |                 | 109,350      |
| FHLB and other          |                                  |               |                |   |              |              |                 |              |
| borrowed funds          | 745,076                          | 125,148       | 213            | 75,264                                    | 154,765      | 319,903      |                 | 1,420,369    |
| Subordinated            |                                  |               |                |   |              |              |                 |              |
| debentures              | 60,826                           |               |                |   |              |              |                 | 60,826       |
| Total                   | 1,595,135                        | 553,352       | 645,560        | 1,343,214                                 | 1,039,069    | 1,000,812    | 536,229         | 6,713,371    |
| interest-bearing        |                                  |               |                |   |              |              |                 |              |
| liabilities             |                                  |               |                |   |              |              |                 |              |
| Interest rate           |                                  |               |                |   |              |              |                 |              |
| sensitivity gap         | \$ 702,201                       | \$ 26,770     | \$ (2,864)     | \$ (301,130)                              | \$ 287,379   | \$ 1,204,929 | \$ 165,332      | \$ 2,082,617 |

|  |            |            |            |            |            |              |              |
|--|------------|------------|------------|------------|------------|--------------|--------------|
| Cumulative interest rate sensitivity gap                       | \$ 702,201 | \$ 728,971 | \$ 726,107 | \$ 424,977 | \$ 712,356 | \$ 1,917,285 | \$ 2,082,617 |
| Cumulative rate sensitive assets to rate sensitive liabilities | 144.0%     | 133.9%     | 126.0%     | 110.3%     | 113.8%     | 131.0%       | 131.0%       |
| Cumulative gap as a % of total earning assets                  | 8.0%       | 8.3%       | 8.3%       | 4.8%       | 8.1%       | 21.8%        | 23.7%        |

#### Item 4: CONTROLS AND PROCEDURES

##### Article I. Evaluation of Disclosure Controls

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

##### Article II. Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal controls over financial reporting during the quarter ended September 30, 2016, which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**PART II: OTHER INFORMATION**

**Item 1: Legal Proceedings**

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

**Item 1A: Risk Factors**

Except for the risk factors set forth below, there were no material changes from the risk factors set forth in Part I, Item 1A, Risk Factors, of our Form 10-K for the year ended December 31, 2015. 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.

Following the termination of our remaining loss-sharing agreements with the FDIC in July 2016, we determined that the following risk factors set forth in our Form 10-K for the year ended December 31, 2015 are no longer applicable:

Our loss-sharing agreements with the FDIC limit our ability to enter into certain change of control transactions, including the sale of significant amounts of our common stock by us or our shareholders, without the consent of the FDIC.

The expiration of our loss-sharing agreements in connection with our 2010 FDIC-assisted acquisitions may result in write-downs to our FDIC indemnification asset to the extent expected loan losses do not occur within the loss share coverage window, which could have a material adverse effect on our financial condition.

Our failure to fully comply with the loss-sharing provisions relating to our FDIC acquisitions could jeopardize the loss-share coverage afforded to certain individual or pools of assets, rendering us financially responsible for the full amount of any losses related to such assets.

In addition, the following risk factors have been materially updated to reflect the termination of the Company's loss-sharing agreements with the FDIC and other recent developments:

**Risks Related to Our Industry**

*If we exceed \$10 billion in assets, we will be subject to increased regulatory requirements, which could materially and adversely affect us.*

Based on our historic organic growth rates, we expect that our total assets and our bank subsidiary's total assets could exceed \$10 billion within the next year, likely during 2017. The Dodd-Frank Act and its implementing regulations impose various additional requirements on bank holding companies with \$10 billion or more in total assets, including compliance with portions of the Federal Reserve's enhanced prudential oversight requirements and annual stress testing requirements. Failure to meet the enhanced prudential standards and stress testing requirements could limit, among other things, our ability to engage in expansionary activities or make dividend payments to our shareholders. In

In addition, banks with \$10 billion or more in total assets are primarily examined by the Consumer Financial Protection Bureau (CFPB) with respect to various federal consumer financial protection laws and regulations. Currently, our bank subsidiary is subject to regulations adopted by the CFPB, but the Federal Reserve is primarily responsible for examining our bank subsidiary's compliance with consumer protection laws and those CFPB regulations. As a relatively new agency with evolving regulations and practices, there is uncertainty as to how the CFPB's examination and regulatory authority might impact our business.

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With respect to deposit-taking activities, banks with assets in excess of \$10 billion are subject to two changes. First, these institutions are subject to a deposit assessment based on a new scorecard issued by the FDIC. This scorecard considers, among other things, the bank's CAMELS rating, results of asset-related stress testing and funding-related stress, as well as our use of core deposits, among other things. Depending on the results of the bank's performance under that scorecard, the total base assessment rate is between 2.5 to 45 basis points. Any increase in our bank subsidiary's deposit insurance assessments may result in an increased expense related to our use of deposits as a funding source. Additionally, banks with over \$10 billion in total assets are no longer exempt from the requirements of the Federal Reserve's rules on interchange transaction fees for debit cards. This means that, beginning on July 1 of the year following the time when our total assets reach or exceed \$10 billion, our bank subsidiary will be limited to receiving only a reasonable interchange transaction fee for any debit card transactions processed using debit cards issued by our bank subsidiary to our customers. The Federal Reserve has determined that it is unreasonable for a bank with more than \$10 billion in total assets to receive more than \$0.21 plus 5 basis points of the transaction plus a \$0.01 fraud adjustment for an interchange transaction fee for debit card transactions. A reduction in the amount of interchange fees we receive for electronic debit interchange will reduce our revenues. In 2015, we collected \$20.4 million in debit card interchange fees. We estimate that had we been subject to this limitation during 2015, our interchange fee revenue would have been reduced by approximately \$7.0 million.

In anticipation of becoming subject to the heightened regulatory requirements, we have begun to hire additional compliance personnel and implement structural initiatives to address these requirements. However, compliance with these requirements may necessitate that we hire additional compliance or other personnel, design and implement additional internal controls, and/or incur other significant expenses, any of which could have a material adverse effect on our business, financial condition or results of operations. Compliance with the annual stress testing requirements, part of which must be publicly disclosed, may also be misinterpreted by the market generally or our customers and, as a result, may adversely affect our stock price or our ability to retain our customers or effectively compete for new business opportunities. To ensure compliance with these heightened requirements when effective, our regulators may require us to fully comply with these requirements or take actions to prepare for compliance even before our or our bank subsidiary's total assets equal or exceed \$10 billion at the end of four consecutive quarters. As a result, we may incur compliance-related costs before we might otherwise be required, including if we do not continue to grow at the rate we expect or at all. Our regulators may also consider our preparation for compliance with these regulatory requirements when examining our operations generally or considering any request for regulatory approval we may make, even requests for approvals on unrelated matters.

**Risks Related to Our Business**

*If the value of real estate in our Florida markets were to once again deteriorate, a significant portion of our loans in our Florida market could become under-collateralized, which could have a material adverse effect on us.*

As of September 30, 2016, loans in the Florida market totaled \$2.4 billion, or 33.7% of our loans receivable. Of the Florida loans, approximately 89.8% were secured by real estate. In prior years, the difficult local economic conditions have adversely affected the values of our real estate collateral in Florida, and they could do so again if the markets were to once again deteriorate in the future. The real estate collateral in each case provides an alternate source of repayment on our loans in the event of default by the borrower but may deteriorate in value during the time credit is extended. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected.

*Changes in national and local economic conditions could lead to higher loan charge-offs in connection with our acquisitions.*

In connection with our acquisitions since 2010, we have acquired a significant portfolio of loans. Although we marked down the loan portfolios we have acquired, there is no assurance that the non-impaired loans we acquired will not become impaired or that the impaired loans will not suffer further deterioration in value resulting in additional charge-offs to the acquired loan portfolio. Fluctuations in national, regional and local economic conditions, including those related to local residential and commercial real estate and construction markets, may increase the level of charge-offs we make to our loan portfolio, and, may consequently, reduce our net income. Such fluctuations may also increase the level of charge-offs on the loan portfolios we have acquired in the acquisitions and correspondingly reduce our net income. These fluctuations are not predictable, cannot be controlled and may have a material adverse impact on our operations and financial condition even if other favorable events occur.

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

Not applicable.

**Item 3: Defaults Upon Senior Securities**

Not applicable.

**Item 4: Mine Safety Disclosures**

Not applicable.

**Item 5: Other Information**

Not applicable.

**Item 6: Exhibits**

Exhibit  
No.

- 2.1 Agreement and Plan of Merger among Home Bancshares, Inc., Centennial Bank, Liberty Bancshares, Inc., Liberty Bank of Arkansas and Acquisition Sub dated June 25, 2013 (incorporated by reference to Exhibit 2.1 of Home BancShares' s Current Report on Form 8-K/A filed on June 27, 2013)
- 2.2 First Amendment to Agreement and Plan of Merger among Home Bancshares, Inc., Centennial Bank, Liberty Bancshares, Inc., Liberty Bank of Arkansas and Acquisition Sub dated July 31, 2013 (incorporated by reference to Exhibit 2.1 of Home BancShares' s Current Report on Form 8-K filed on August 2, 2013)
- 2.3 Agreement and Plan of Merger among Home Bancshares, Inc., Centennial Bank, and Florida Traditions Bank dated April 25, 2014 (incorporated by reference to Exhibit 2.1 of Home BancShares' s Current Report on Form 8-K filed on April 28, 2014)
- 2.4 Agreement and Plan of Merger among Home Bancshares, Inc., Centennial Bank, Broward Financial Holdings, Inc., Broward Bank of Commerce and HOMB Acquisition Sub II, Inc. dated July 30, 2014 (incorporated by reference to Exhibit 2.1 of Home BancShares' s Current Report on Form 8-K filed on July 31, 2014)
- 2.5 Purchase and Assumption Agreement Between Banco Popular de Puerto Rico and Centennial Bank, dated as of February 18, 2015 (incorporated by reference to Exhibit 2.1 of Home BancShares' s Current Report on Form 8-K/A filed on March 4, 2015)
- 2.6 Purchase and Assumption Agreement all Deposits among Federal Deposit Insurance Corporation, Receiver of Doral Bank. San Juan Puerto Rico, Puerto Rico Federal Deposit Insurance Corporation and Banco Popular de Puerto Rico, dated as of February 27, 2015 (incorporated by reference to Exhibit 10.25

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to Banco Popular de Puerto Rico's Annual Report on Form 10-K for the year ended December 31, 2014, filed by Banco Popular de Puerto Rico on March 2, 2015 (Commission File No. 001-34084))

- 2.7 Agreement and Plan of Merger among Home Bancshares, Inc., Centennial Bank, Florida Business BancGroup, Inc. and Bay Cities Bank (incorporated by reference to Exhibit 2.1 of Home BancShares's Current Report on Form 8-K filed on June 22, 2015)
- 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)



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- 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.
- 10.1 Amended and Restated 2006 Stock Option and Performance Incentive Plan of Home BancShares, Inc. (incorporated by reference to Exhibit 10.1 of Home BancShares' s Current Report on Form 8-K filed on March 30, 2012)
- 10.2 Amendment to Amended and Restated 2006 Stock Option and Performance Incentive Plan of Home BancShares, Inc. (incorporated by reference to Exhibit 10.1 of Home BancShares' s Quarterly Report on Form 10-Q for the period ended June 30, 2015, filed on August 6, 2015)
- 10.3 Amendment to Amended and Restated 2006 Stock Option and Performance Incentive Plan of Home BancShares, Inc. (incorporated by reference to Exhibit 10.1 of Home BancShares' s Current Report on Form 8-K filed on April 22, 2016)
- 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\*

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|         |   |
|---------|---|
| 101.INS | XBRL Instance Document*                                 |
| 101.SCH | XBRL Taxonomy Extension Schema Document*                |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document*  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document*        |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document* |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document*   |

\* Filed herewith

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**SIGNATURES**

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

**HOME BANCSHARES, INC.**

(Registrant)

Date: November 4, 2016

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

Date: November 4, 2016

*/s/ Brian S. Davis*  
Brian S. Davis, Chief Financial Officer