

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

**FORM 10-Q**

(Mark One)

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

or

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

**Commission File Number: 000-51904**

**HOME BANCSHARES, INC.**

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

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

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

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

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

**(Registrant's telephone number, including area code)**

**Not Applicable**

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

Common Stock Issued and Outstanding: 67,530,400 shares as of October 31, 2014.



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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

the effects of future economic conditions, including inflation or a decrease in commercial real estate and residential housing values;

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

the impact of the Dodd-Frank financial regulatory reform act and regulations issued thereunder;

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

the effects of terrorism and efforts to combat it;

credit risks;

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

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

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

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

All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this Cautionary Note. Our actual results may differ significantly from those we discuss in these forward-looking statements. For other factors, risks and uncertainties that could cause our actual results to differ materially from estimates and projections contained in these forward-looking statements, see the Risk Factors section of our Form 10-K filed with the Securities and Exchange Commission on February 28, 2014.

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

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



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

See Condensed Notes to Consolidated Financial Statements.

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

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

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

See Condensed Notes to Consolidated Financial Statements.

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

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

**Home BancShares, Inc.****Consolidated Statements of Stockholders Equity****Nine Months Ended September 30, 2014 and 2013**

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

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<b>Balances at September 30, 2013 (unaudited)</b>	563	417,627	128,316	(1,364)	545,142
Comprehensive income:					
Net income			12,950		12,950
Other comprehensive income (loss)				(2,776)	(2,776)
Net issuance of 39,976 shares of common stock from exercise of stock options		155			155
Issuance of 8,763,930 shares of common stock from acquisition of Liberty, net of issuance costs of approximately \$577	88	289,421			289,509
Tax benefit from stock options exercised		497			497
Share-based compensation		358			358
Cash dividends Common Stock, \$0.075 per share			(4,880)		(4,880)
<b>Balances at December 31, 2013</b>	651	708,058	136,386	(4,140)	840,955
Comprehensive income:					
Net income			83,137		83,137
Other comprehensive income (loss)				9,476	9,476
Net issuance of 43,698 shares of common stock from exercise of stock options	1	207			208
Issuance of 1,316,072 shares of common stock from acquisition of Traditions, net of issuance costs of approximately \$215	13	39,254			39,267
Disgorgement of profits		25			25
Tax benefit from stock options exercised		410			410
Share-based compensation		1,619			1,619
Cash dividends Common Stock, \$0.25 per share			(16,416)		(16,416)
<b>Balances at September 30, 2014 (unaudited)</b>	\$ 665	\$ 749,573	\$ 203,107	\$ 5,336	\$ 958,681

See Condensed Notes to Consolidated Financial Statements.

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

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

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

See Condensed Notes to Consolidated Financial Statements.

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**Home BancShares, Inc.**

**Condensed Notes to Consolidated Financial Statements**

(Unaudited)

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

***Nature of Operations***

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

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

***Operating Segments***

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

***Use of Estimates***

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

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

***Principles of Consolidation***



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

***Reclassifications***

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

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The accompanying unaudited consolidated financial statements as of September 30, 2014 and 2013 have been prepared in condensed format, and therefore do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

The information furnished in these interim statements reflects all adjustments, which are, in the opinion of management, necessary for a fair statement of the results for each respective period presented. Such adjustments are of a normal recurring nature. The results of operations in the interim statements are not necessarily indicative of the results that may be expected for any other quarter or for the full year. The interim financial information should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2013 Form 10-K, filed with the Securities and Exchange Commission.

***Earnings per Share***

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

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

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

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

Prior to the acquisition, Traditions operated eight banking locations in Central Florida, including its main office in Dade City, Florida. As of acquisition date, Traditions had \$297.6 million in total assets, \$241.6 million in loans after \$8.5 million of loan discounts, and \$267.3 million in deposits.

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

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

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

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

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

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

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

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

The Company evaluated all of the loans purchased in conjunction with the acquisition in accordance with the provisions of FASB ASC Topic 310-20, *Nonrefundable Fees and Other Costs*. None of the loans evaluated were considered purchased credit impaired loans with in the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. As a result, the fair value discount is being accreted into interest income over the weighted average life of the loans using a constant yield method.

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

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

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

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

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

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

**Core deposit intangible** This intangible asset represents the value of the relationships that Traditions had with its deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the deposit base, and the net maintenance cost attributable to customer deposits. The Company recorded \$2.2 million of core deposit intangible.

**Deposits** The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition equal the amount payable on demand at the acquisition date. No fair value adjustment was applied for time deposits because the weighted average interest rate of Traditions' certificates of deposits were at the market rates of similar funding at the time of acquisition.

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

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

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

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The Company's operating results for the period ended September 30, 2014, include the operating results of the acquired assets and assumed liabilities subsequent to the acquisition date. Due to the fair value adjustments recorded and the fact Traditions total assets acquired are less than 5% of total assets as of September 30, 2014 excluding Traditions as recorded by HBI as of acquisition date, historical results are not believed to be material to the Company's results, and thus no pro-forma information is presented.

**Acquisition Liberty Bancshares, Inc.**

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

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

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

**3. Investment Securities**

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

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

Amortized Cost	Held-to-Maturity		Estimated Fair
	Gross Unrealized	Gross Unrealized	



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

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	<b>December 31, 2013</b>			
	<b>Available-for-Sale</b>			
	<b>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	\$ 467,535	\$ 1,330	\$ (5,324)	\$ 463,541
Mortgage-backed securities	462,510	3,343	(4,265)	461,588
State and political subdivisions	196,472	3,085	(4,045)	195,512
Other securities	55,780	216	(1,153)	54,843
<b>Total</b>	<b>\$ 1,182,297</b>	<b>\$ 7,974</b>	<b>\$ (14,787)</b>	<b>\$ 1,175,484</b>

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

Assets, principally investment securities, having a carrying value of approximately \$1.14 billion and \$1.13 billion at September 30, 2014 and December 31, 2013, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. Also, investment securities pledged as collateral for repurchase agreements totaled approximately \$160.9 million and \$161.0 million at September 30, 2014 and December 31, 2013, respectively.

The amortized cost and estimated fair value of securities classified as available-for-sale and held-to-maturity at September 30, 2014, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

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

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

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

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

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

During the nine-month period ended September 30, 2014, no securities were deemed to have other-than-temporary impairment besides securities for which impairment was taken in prior periods.

As of September 30, 2014, the Company had approximately \$2.6 million in unrealized losses, which have been in continuous loss positions for more than twelve months. Excluding impairment write downs taken in prior periods, the Company's assessments indicated that the cause of the market depreciation was primarily the change in interest rates and not the issuer's financial condition, or downgrades by rating agencies. In addition, approximately 81.8% of the Company's investment portfolio matures in five years or less. As a result, the Company has the ability and intent to hold such securities until maturity.

The following shows gross unrealized losses and estimated fair value of investment securities classified as available-for-sale and held-to-maturity with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position as of September 30, 2014 and December 31, 2013:

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

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

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

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

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

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

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

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

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

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

\$135,000, respectively.

Mortgage loans held for sale of approximately \$37.2 million and \$30.5 million at September 30, 2014 and December 31, 2013, respectively, are included in residential 1-4 family loans. Mortgage loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis. Gains and losses resulting from sales of mortgage loans are recognized when the respective loans are sold to investors. Gains and losses are determined by the difference between the selling price and the carrying amount of the loans sold, net of discounts collected or paid. The Company obtains forward commitments to sell mortgage loans to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. The forward commitments acquired by the Company for mortgage loans in process of origination are not mandatory forward commitments. These commitments are structured on a best efforts basis; therefore, the Company is not required to substitute another loan or to buy back the commitment if the original loan does not fund. Typically, the Company delivers the mortgage loans within a few days after the loans are funded. These commitments are derivative instruments and their fair values at September 30, 2014 and December 31, 2013 were not material.

**Table of Contents****5. Loans Receivable Covered by FDIC Loss Share**

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

The following table reflects the carrying value of all purchased FDIC covered impaired loans as of September 30, 2014 and December 31, 2013 for the Company:

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

The acquired loans were grouped into pools based on common risk characteristics and were recorded at their estimated fair values, which incorporated estimated credit losses at the acquisition dates. These loan pools are systematically reviewed by the Company to determine material changes in cash flow estimates from those identified at the time of the acquisition. Techniques used in determining risk of loss are similar to the Centennial Bank non-covered loan portfolio, with most focus being placed on those loan pools which include the larger loan relationships and those loan pools which exhibit higher risk characteristics. As of September 30, 2014 and December 31, 2013, \$29.0 million and \$35.8 million, respectively, were accruing loans past due 90 days or more.



**Table of Contents****6. Allowance for Loan Losses, Credit Quality and Other**

The following table presents a summary of changes in the allowance for loan losses for the non-covered and covered loan portfolios for the nine months ended September 30, 2014:

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

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

The following tables present the balance in the allowance for loan losses for the non-covered loan portfolio for the three and nine-month periods ended September 30, 2014 and the allowance for loan losses and recorded investment in loans not covered by loss share based on portfolio segment by impairment method as of September 30, 2014. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories. Additionally, the Company's discount for credit losses on non-covered loans acquired was \$148.2 million, \$174.6 million and \$77.4 million at September 30, 2014, December 31, 2013 and September 30, 2013, respectively.

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

the weighted average life of the loans.

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

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

**Nine Months Ended September 30, 2014**

	<b>Other</b>						
	<b>Construction/</b>	<b>Commercial</b>	<b>Residential</b>	<b>Commercial</b>	<b>Consumer</b>	<b>Unallocated</b>	<b>Total</b>
	<b>Land</b>	<b>Real</b>	<b>Real</b>	<b>&amp;</b>	<b>&amp; Other</b>		
	<b>Development</b>	<b>Estate</b>	<b>Estate</b>	<b>Industrial</b>	<b>&amp; Other</b>		
	<b>(In thousands)</b>						
<b>Allowance for loan losses:</b>							
Beginning balance	\$ 6,282	\$ 15,100	\$ 8,889	\$ 1,933	\$ 2,563	\$ 4,255	\$ 39,022
Loans charged off	(553)	(1,148)	(2,045)	(1,600)	(2,148)		(7,494)
Recoveries of loans previously charged off	68	230	385	255	935		1,873
Net loans recovered (charged off)	(485)	(918)	(1,660)	(1,345)	(1,213)		(5,621)
Provision for loan losses	733	4,117	5,160	2,763	3,965	556	17,294
Balance, September 30	\$ 6,530	\$ 18,299	\$ 12,389	\$ 3,351	\$ 5,315	\$ 4,811	\$ 50,695

**As of September 30, 2014**

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

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

**Loans receivable:**

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

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The following tables present the balances in the allowance for loan losses for the non-covered loan portfolio for the nine-month period ended September 30, 2013 and the year ended December 31, 2013, and the allowance for loan losses and recorded investment in loans not covered by loss share based on portfolio segment by impairment method as of December 31, 2013. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories.

**Year Ended December 31, 2013**

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

**As of December 31, 2013**

	Other		Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	Construction/Commercial Development	Real Estate					
<b>Allowance for loan losses:</b>							
Period end amount allocated to:							
	\$ 3,826	\$ 8,359	\$ 2,347	\$ 5	\$	\$	\$ 14,537

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

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

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

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

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

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



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

			September 30, 2014		December 31, 2013	
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses	Average Recorded Investment	Average Interest Recognized	Average Interest Recognized
<b>Loans without a specific valuation allowance</b>						
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	\$	\$	\$	\$	\$	\$ 14
Construction/land development						
Agricultural						
Residential real estate loans						
Residential 1-4 family	6	6		6		32
Multifamily residential						2
Total real estate	6	6		6		877
Consumer						
Commercial and industrial						
Agricultural and other						
Total loans without a specific valuation allowance	6	6		6		877
<b>Loans with a specific valuation allowance</b>						
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	45,736	42,915	7,487	39,202	363	44,028
Construction/land development	17,030	15,335	2,076	21,758	148	21,909
Agricultural	52	33		50		67
Residential real estate loans						
Residential 1-4 family	18,409	16,197	2,236	16,797	97	16,862
Multifamily residential	4,497	4,216	1,183	4,270	47	3,965
Total real estate	85,724	78,696	12,982	82,077	655	86,831
Consumer						
Commercial and industrial	335	300		336	1	295
Agricultural and other	5,758	4,084	9	4,764	32	5,262
Total consumer	6,093	4,384	9	5,100	33	5,557
Total loans with a specific valuation allowance	91,817	83,080	12,991	87,177	688	92,388
Total non-covered impaired loans	92,001	83,264	12,991	87,369	688	92,484

Total loans with a specific valuation allowance

**Total impaired loans**

Real estate:

Commercial real estate loans

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

Residential real estate loans

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

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

Total impaired loans	\$ 92,007	\$ 83,270	\$ 12,991	\$ 87,375	\$ 688	\$ 93,361	\$ 2,314
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*Note:* Purchased non-covered loans acquired with deteriorated credit quality are accounted for on a pooled basis under ASC 310-30. All of these pools are currently considered to be performing resulting in none of the purchased non-covered loans acquired with deteriorated credit quality being classified as non-covered impaired loans as of September 30, 2014.

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

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

*Note:* Purchased non-covered loans acquired with deteriorated credit quality are accounted for on a pooled basis under ASC 310-30. All of these pools are currently considered to be performing resulting in none of the purchased non-covered loans acquired with deteriorated credit quality being classified as non-covered impaired loans as of December 31, 2013.

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

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

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

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

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

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

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

*Risk rating 5 Other Loans Especially Mentioned (OLEM).* A loan criticized as OLEM has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. OLEM assets are not adversely classified and do not expose the institution to sufficient risk to

warrant adverse classification.

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

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

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

The Company's classified loans include loans in risk ratings 6, 7 and 8. The following is a presentation of classified non-covered loans (excluding loans accounted for under ASC Topic 310-30) by class as of September 30, 2014 and December 31, 2013:

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

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

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

Loans may be classified, but not considered impaired, due to one of the following reasons: (1) The Company has established minimum dollar amount thresholds for loan impairment testing. All loans over \$1.0 million that are rated 5-8 are individually assessed for impairment on a quarterly basis. Loans rated 5-8 that fall under the threshold amount are not individually tested for impairment and therefore are not included in impaired loans; (2) of the loans that are above the threshold amount and tested for impairment, after testing, some are considered to not be impaired and are not included in impaired loans.



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

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

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

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

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

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

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

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

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

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

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

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

**Three Months Ended September 30, 2014**

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

**Nine Months Ended September 30, 2014**

	Other		Commercial		Consumer		Unallocated	Total
	Construction Land Development	Real Estate	Residential Real Estate	Commercial & Industrial	& Other			
<b>(In thousands)</b>								
<b>Allowance for loan losses:</b>								
Beginning balance	\$ 1,707	\$ 838	\$ 2,113	\$ 135	\$			\$ 4,793
Loans charged off	(126)	(1,569)	(62)	(157)				(1,914)
Recoveries of loans previously charged off	73	6	306		4			389

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Net loans recovered (charged off)	(53)	(1,563)	244	(157)	4	(1,525)
Provision for loan losses forecasted outside of loss share	11	106	148	15		280
Provision for loan losses before benefit attributable to FDIC loss share agreements	(1,522)	1,388	(1,285)	22	(2)	(1,399)
Benefit attributable to FDIC loss share agreements	1,511	(1,494)	1,137	(37)	2	1,119
Net provision for loan losses						
Increase in FDIC indemnification asset	(1,511)	1,494	(1,137)	37	(2)	(1,119)
Balance, September 30	\$ 143	\$ 769	\$ 1,220	\$ 15	\$ 2	\$ 2,149

As of September 30, 2014

	Other Construction Land Development	Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
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(In thousands)

**Allowance for loan losses:**

Period end amount allocated to:

Loans individually evaluated for impairment

\$	\$	\$	\$	\$	\$	\$
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Loans collectively evaluated for impairment

Loans evaluated for impairment balance, September 30

Purchased credit impaired loans acquired

143	769	1,220	15	2	2,149
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Balance, September 30	\$ 143	\$ 769	\$ 1,220	\$ 15	\$ 2	\$ 2,149
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**Loans receivable:**

Period end amount allocated to:

Loans individually evaluated for impairment

\$	\$	\$	\$	\$	\$	\$
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Loans collectively evaluated for impairment

Loans evaluated for  
impairment balance, June 30

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

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

The following tables present the balance in the allowance for loan losses for the covered loan portfolio for the nine-month period ended September 30, 2013 and the year ended December 31, 2013, and the allowance for loan losses and recorded investment in loans covered by FDIC loss share based on portfolio segment by impairment method as of December 31, 2013.

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



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

As of December 31, 2013

	Other Construction Land Development	Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
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(In thousands)

**Allowance for loan losses:**

Period end amount allocated to:

Loans individually evaluated for impairment

Loans collectively evaluated for impairment

Loans evaluated for impairment balance, December 31

Purchased credit impaired loans acquired

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

**Loans receivable:**

Period end amount allocated to:

Loans individually evaluated for impairment

Loans collectively evaluated for impairment

Loans evaluated for impairment balance, December 31

Purchased credit impaired loans acquired

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



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

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

The loan pools were evaluated by the Company and are currently forecasted to have a slower run-off than originally expected. As a result, the Company has reforecast the total accretible yield expectations for those loan pools by \$7.4 million. This updated forecast does not change the expected weighted average yields on the loan pools.

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

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

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

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

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

**Goodwill**

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

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

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

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

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

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

The carrying amount of the Company's goodwill was \$313.3 million and \$301.7 million at September 30, 2014 and December 31, 2013, respectively. Goodwill is tested annually for impairment during the fourth quarter. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

**8. Other Assets**

Other assets consists primarily of FDIC claims receivable, equity securities without a readily determinable fair value and other miscellaneous assets. As of September 30, 2014 and December 31, 2013 other assets were \$86.4 million and \$81.2 million, respectively.

An indemnification asset was created when the Company acquired FDIC covered loans. The indemnification asset represents the carrying amount of the right to receive payments from the FDIC for losses incurred on specified assets acquired from failed insured depository institutions or otherwise purchased from the FDIC that are covered by loss sharing agreements with the FDIC. When the Company experiences a loss on the covered loans and subsequently requests reimbursement of the loss from the FDIC, the indemnification asset is reduced by the FDIC reimbursable amount. A corresponding claim receivable is consequently recorded in other assets until the cash is received from the FDIC. The FDIC claims receivable was \$12.8 million and \$19.1 million at September 30, 2014 and December 31, 2013, respectively.

The Company has equity securities without readily determinable fair values. These equity securities are outside the scope of ASC Topic 320, *Investments-Debt and Equity Securities*. They include items such as stock holdings in Federal Home Loan Bank, Federal Reserve Bank, Bankers' Bank and other miscellaneous holdings. The equity securities without a readily determinable fair value were \$63.9 million and \$52.6 million at September 30, 2014 and December 31, 2013, respectively and are accounted for at cost.

**9. Deposits**

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

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

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

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

**11. FHLB Borrowed Funds**

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

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

**12. Subordinated Debentures**

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

	As of September 30, 2014	As of December 31, 2013
	(In thousands)	
Subordinated debentures, issued in 2006, due 2036, fixed rate of 6.75% during the first five years and at a floating rate of 1.85% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	\$ 3,093	\$ 3,093
Subordinated debentures, issued in 2004, due 2034, fixed rate of 6.00% during the first five years and at a floating rate of 2.00% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	15,464	15,464
Subordinated debentures, issued in 2005, due 2035, fixed rate of 5.84% during the first five years and at a floating rate of 1.45% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	25,774	25,774
Subordinated debentures, issued in 2004, due 2034, fixed rate of 4.29% during the first five years and at a floating rate of 2.50% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	16,495	16,495
<b>Total</b>	<b>\$ 60,826</b>	<b>\$ 60,826</b>





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

**13. Income Taxes**

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

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

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

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

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

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

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

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and the states of Arkansas, Alabama and Florida. With a few exceptions, the Company is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2010.

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

#### 14. Common Stock and Compensation Plans

##### *Stock Compensation Plans*

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

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

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

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

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

Stock-based compensation expense for stock-based compensation awards granted is based on the grant date fair value. For stock option awards, the fair value is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. Additionally, there may be other factors that would otherwise have a significant effect on the value of employee stock options granted but are not considered by the model. Accordingly, while management believes that the Black-Scholes option-pricing model provides a reasonable estimate of fair value, the model does not necessarily provide the best single measure of fair value for the Company's employee stock options. The weighted-average fair value of options granted during the nine months ended September 30, 2014 was \$10.73 per share. The weighted-average fair value of options granted during the year ended December 31, 2013 was \$4.50 per share. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model based on the weighted-average assumptions for expected dividend yield, expected stock price volatility, risk-free interest rate, and expected life of options granted.

	For the Nine Months Ended	For the Year Ended
	September 30, 2014	December 31, 2013
Expected dividend yield	0.89%	1.42%
Expected stock price volatility	30.94%	22.09%
Risk-free interest rate	2.31%	1.33%
Expected life of options	6.5 years	6.5 years

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

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

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

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

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

On June 4, 2013, 12,666 shares of restricted common stock were issued to a regional president of the Company's bank subsidiary. Of these issued shares, 9,666 shares will vest equally each year over three years beginning on the first

anniversary of the issuance. The remaining 3,000 shares are subject to performance based vesting ( Performance Shares ). The Performance Shares are set up to cliff vest on the third annual anniversary of the date that the performance goal is met. As of September 30, 2013, the performance goal was met when the Company averaged \$0.3125 diluted earnings per share for the past four consecutive quarters or total diluted earnings per share of \$1.25 during the same period. In accordance with the vesting terms of the Performance Shares agreements, the issued shares are due to fully vest on September 30, 2016.

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

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

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

**15. Non-Interest Expense**

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

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

**16. Concentration of Credit Risks**

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

The diversity of the Company's economic base tends to provide a stable lending environment. Although the Company has a loan portfolio that is diversified in both industry and geographic area, a substantial portion of its debtors' ability



to honor their contracts is dependent upon real estate values, tourism demand and the economic conditions prevailing in its market areas.

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### **17. Significant Estimates and Concentrations**

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

Although the Company has a diversified loan portfolio, at September 30, 2014 and December 31, 2013, non-covered commercial real estate loans represented 58.0% and 56.8% of non-covered loans, respectively, and 277.2% and 283.5% of total stockholders' equity, respectively. Non-covered residential real estate loans represented 25.9% and 26.9% of non-covered loans and 123.8% and 134.0% of total stockholders' equity at September 30, 2014 and December 31, 2013, respectively.

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

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

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

### **18. Commitments and Contingencies**

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

At September 30, 2014 and December 31, 2013, commitments to extend credit of \$775.8 million and \$623.5 million, respectively, were outstanding. A percentage of these balances are participated out to other banks; therefore, the Company can call on the participating banks to fund future draws. Since some of these commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

Outstanding standby letters of credit are contingent commitments issued by the Company, generally to guarantee the performance of a customer in third-party borrowing arrangements. The term of the guarantee is dependent upon the credit worthiness of the borrower some of which are long-term. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments. The

maximum amount of future payments the Company could be required to make under these guarantees at September 30, 2014 and December 31, 2013, is \$22.9 million and \$21.4 million, respectively.

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

**Table of Contents****19. Regulatory Matters**

The Bank is subject to a legal limitation on dividends that can be paid to the parent company without prior approval of the applicable regulatory agencies. Arkansas bank regulators have specified that the maximum dividend limit state banks may pay to the parent company without prior approval is 75% of the current year earnings plus 75% of the retained net earnings of the preceding year. Since the Bank is also under supervision of the Federal Reserve, it is further limited if the total of all dividends declared in any calendar year by the Bank exceeds the Bank's net profits to date for that year combined with its retained net profits for the preceding two years. During the first nine months of 2014, the Company requested approximately \$61.4 million in regular dividends from its banking subsidiary. This dividend is equal to approximately 71.5% of our banking subsidiary's first nine months earnings.

The Federal Reserve Board's risk-based capital guidelines include the definitions for (1) a well-capitalized institution, (2) an adequately-capitalized institution, and (3) an undercapitalized institution. The criteria for a well-capitalized institution are: a 5% Tier 1 leverage capital ratio, a 6% Tier 1 risk-based capital ratio, and a 10% total risk-based capital ratio. As of September 30, 2014, the Bank met the capital standards for a well-capitalized institution. The Company's Tier 1 leverage capital ratio, Tier 1 risk-based capital ratio, and total risk-based capital ratio were 10.22%, 12.42%, and 13.39%, respectively, as of September 30, 2014.

**20. Additional Cash Flow Information**

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

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

**21. Financial Instruments**

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

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

Available-for-sale securities are the only material instruments valued on a recurring basis which are held by the Company at fair value. The Company does not have any Level 1 securities. Primarily all of the Company's securities

are considered to be Level 2 securities. These Level 2 securities consist primarily of U.S. government-sponsored enterprises, mortgage-backed securities plus state and political subdivisions. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. As of September 30, 2014 and December 31, 2013, Level 3 securities were immaterial. In addition, there were no material transfers between hierarchy levels during 2014 and 2013.

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

Impaired loans that are collateral dependent are the only material financial assets valued on a non-recurring basis which are held by the Company at fair value. Loan impairment is reported when full payment under the loan terms is not expected. Impaired loans are carried at the net realizable value of the collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require an increase, such increase is reported as a component of the provision for loan losses. The fair value of loans with specific allocated losses was \$70.3 million and \$91.9 million as of September 30, 2014 and December 31, 2013, respectively. This valuation is considered Level 3, consisting of appraisals of underlying collateral. The Company reversed approximately \$183,000 and \$147,000 of accrued interest receivable when non-covered impaired loans were put on non-accrual status during the three months ended September 30, 2014 and 2013, respectively. The Company reversed approximately \$746,000 and \$453,000 of accrued interest receivable when non-covered impaired loans were put on non-accrual status during the nine months ended September 30, 2014 and 2013, respectively.

Foreclosed assets held for sale are the only material non-financial assets valued on a non-recurring basis which are held by the Company at fair value, less estimated costs to sell. At foreclosure, if the fair value, less estimated costs to sell, of the real estate acquired is less than the Company's recorded investment in the related loan, a write-down is recognized through a charge to the allowance for loan losses. Additionally, valuations are periodically performed by management and any subsequent reduction in value is recognized by a charge to income. The fair value of foreclosed assets held for sale is estimated using Level 3 inputs based on appraisals of underlying collateral. As of September 30, 2014 and December 31, 2013, the fair value of foreclosed assets held for sale not covered by loss share, less estimated costs to sell was \$19.4 million and \$29.9 million, respectively.

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

**Fair Values of Financial Instruments**

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

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

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

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

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

*FDIC indemnification asset* Although this asset is a contractual receivable from the FDIC, there is no effective interest rate. The Bank will collect this asset over the next several years. The amount ultimately collected will depend on the timing and amount of collections and charge-offs on the acquired assets covered by the loss sharing agreement. While this asset was recorded at its estimated fair value at acquisition date, it is not practicable to complete a fair value analysis on a quarterly or annual basis. This would involve preparing a fair value analysis of the entire portfolio of loans and foreclosed assets covered by the loss sharing agreement on a quarterly or annual basis in order to estimate the fair value of the FDIC indemnification asset.

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

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

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

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

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

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

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





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

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

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

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

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

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

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

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

financial statements.

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

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**23. Subsequent Events**

***Business Combination Broward Financial Holdings, Inc.*** Subsequent to September 30, 2014, on October 23, 2014, the Company completed its acquisition of Broward Financial Holdings, Inc. ( BFHI ), parent company of Broward Bank of Commerce ( Broward ), pursuant to a previously announced definitive agreement and plan of merger whereby a wholly-owned acquisition subsidiary ( Acquisition Sub II ) of HBI merged with and into BFHI, resulting in BFHI becoming a wholly-owned subsidiary of HBI. Immediately thereafter, Broward was merged into Centennial Bank ( Centennial ). Under the terms of the Agreement and Plan of Merger dated July 30, 2014 by and among HBI, Centennial, BFHI, Broward and Acquisition Sub II, HBI issued approximately 1,021,000 shares of its common stock valued at \$29,754,001 as of October 23, 2014, plus \$3,306,000 in cash in exchange for all outstanding shares of BFHI common stock. HBI has also agreed to pay the BFHI shareholders at an undetermined date up to approximately \$751,000 in additional consideration. The amount and timing of the additional payment, if any, will depend on future payments received or losses incurred by Centennial from certain current Broward loans. At this point, the Company anticipates it will record a fair value of zero for the potential additional consideration.

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

As of the acquisition date, BFHI s common equity totaled \$20,407,000 and the Company paid a purchase price to the BFHI shareholders of \$33,060,001 for the Broward acquisition. As a result, the Company paid a multiple of 1.62 of Broward s book value per share and tangible book value per share.

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**Report of Independent Registered Public Accounting Firm**

Audit Committee, Board of Directors and Stockholders

Home BancShares, Inc.

Conway, Arkansas

We have reviewed the accompanying condensed consolidated balance sheet of Home BancShares, Inc. (the Company) as of September 30, 2014, and the related condensed consolidated statements of income and comprehensive income for the three-month and nine-month periods ended September 30, 2014 and 2013 and condensed consolidated statements of stockholders' equity and cash flows for the nine-month periods ended September 30, 2014 and 2013. These interim financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated February 28, 2014, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2013, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ **BKD, LLP**

Little Rock, Arkansas

November 6, 2014

**Table of Contents****Item 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with our Form 10-K, filed with the Securities and Exchange Commission on February 28, 2014, which includes the audited financial statements for the year ended December 31, 2013. *Unless the context requires otherwise, the terms "Company", "us", "we", and "our" refer to Home BancShares, Inc. on a consolidated basis.*

**General**

We are a bank holding company headquartered in Conway, Arkansas, offering a broad array of financial services through our wholly owned bank subsidiary, Centennial Bank (Centennial). As of September 30, 2014, we had, on a consolidated basis, total assets of \$7.20 billion, loans receivable, net of \$4.78 billion, total deposits of \$5.28 billion, and stockholders' equity of \$958.7 million.

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

**Table 1: Key Financial Measures**

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



Annualized return on average common equity	11.58	13.63	12.48	13.53
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- (1) See Table 26 Diluted Earnings Per Share Excluding Intangible Amortization for a reconciliation to GAAP for diluted earnings per share excluding intangible amortization.

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

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

Tables 2 and 3 summarize the recognition of these positive events and the financial impact to the three and nine month periods ended September 30, 2014 and 2013:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

December 31, 2013.

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

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

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

*Overview.* We prepare our consolidated financial statements based on the selection of certain accounting policies, generally accepted accounting principles and customary practices in the banking industry. These policies, in certain areas, require us to make significant estimates and assumptions. Our accounting policies are described in detail in the notes to our consolidated financial statements in Note 1 of the audited consolidated financial statements included in our Form 10-K, filed with the Securities and Exchange Commission.

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

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

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

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

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

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





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

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

Loans are placed on non-accrual status when management believes that the borrower's financial condition, after giving consideration to economic and business conditions and collection efforts, is such that collection of interest is doubtful, or generally when loans are 90 days or more past due. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. Accrued interest related to non-accrual loans is generally charged against the allowance for loan losses when accrued in prior years and reversed from interest income if accrued in the current year. Interest income on non-accrual loans may be recognized to the extent cash payments are received, although the majority of payments received are usually applied to principal. Non-accrual loans are generally returned to accrual status when principal and interest payments are less than 90 days past due, the customer has made required payments for at least six months, and we reasonably expect to collect all principal and interest.

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

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

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



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

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

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

*Intangible Assets.* Intangible assets consist of goodwill and core deposit intangibles. Goodwill represents the excess purchase price over the fair value of net assets acquired in business acquisitions. The core deposit intangible represents the excess intangible value of acquired deposit customer relationships as determined by valuation specialists. The core deposit intangibles are being amortized over 48 to 121 months on a straight-line basis. Goodwill is not amortized but rather is evaluated for impairment on at least an annual basis. We perform an annual impairment test of goodwill and core deposit intangibles as required by FASB ASC 350, *Intangibles Goodwill and Other*, in the fourth quarter.

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

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

will not be realized.

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

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

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

On October 23, 2014, the Company completed its acquisition of Broward Financial Holdings, Inc. ( **BFHI** ), parent company of Broward Bank of Commerce ( **Broward** ), pursuant to a previously announced definitive agreement and plan of merger whereby a wholly-owned acquisition subsidiary ( **Acquisition Sub II** ) of HBI merged with and into BFHI, resulting in BFHI becoming a wholly-owned subsidiary of HBI. Immediately thereafter, Broward was merged into Centennial. Under the terms of the Agreement and Plan of Merger dated July 30, 2014 by and among HBI, Centennial, BFHI, Broward and Acquisition Sub II, HBI issued approximately 1,021,000 shares of its common stock valued at \$29,754,001 as of October 23, 2014, plus \$3,306,000 in cash in exchange for all outstanding shares of BFHI common stock. HBI has also agreed to pay the BFHI shareholders at an undetermined date up to approximately \$751,000 in additional consideration. The amount and timing of the additional payment, if any, will depend on future payments received or losses incurred by Centennial from certain current Broward loans.

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

As of the acquisition date, BFHI's common equity totaled \$20,407,000 and the Company paid a purchase price to the BFHI shareholders of \$33,060,001 for the Broward acquisition. As a result, the Company paid a multiple of 1.62 of Broward's book value per share and tangible book value per share.

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

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

***Acquisition Florida Traditions Bank***

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

Prior to the acquisition, Traditions operated eight banking locations in Central Florida, including its main office in Dade City, Florida. As of acquisition date, Traditions had \$297.6 million in total assets, \$241.6 million in loans after \$8.5 million of loan discounts, and \$267.3 million in deposits.

The transaction was accretive to the Company's book value per common share and tangible book value per common share.

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



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

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

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

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

***FDIC Indemnification Asset***

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

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

**Table 4: Changes in FDIC Indemnification Asset**

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



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Reduction in provision for loan losses:

Benefit attributable to FDIC loss share agreements			1,119	400
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Ending balance	\$ 42,104	\$ 101,192	\$ 42,104	\$ 101,192
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**Table of Contents*****FDIC-Assisted Acquisitions True-up***

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

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

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

The amount of FDIC-assisted acquisitions true-up accrued at September 30, 2014 and December 31, 2013 was \$9.0 million and \$8.0 million, respectively.

**Branches**

We intend to continue opening new (commonly referred to as *de novo*) branches in our current markets and in other attractive market areas if opportunities arise. During the third quarter of 2014, the Company opened one de novo branch in Naples, Florida and acquired eight branches through the acquisition of Traditions. In an effort to achieve efficiencies primarily from the recent acquisitions, the Company closed or merged two Arkansas locations during the third quarter of 2014. The recent acquisition of Broward has added two Florida locations to the Company's footprint. After the Broward transaction, the Company currently has 82 branches in Arkansas, 61 branches in Florida and 7 branches in Alabama.

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

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

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

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

***Net Interest Income***

Net interest income, our principal source of earnings, is the difference between the interest income generated by earning assets and the total interest cost of the deposits and borrowings obtained to fund those assets. Factors affecting the level of net interest income include the volume of earning assets and interest-bearing liabilities, yields earned on loans and investments and rates paid on deposits and other borrowings, the level of non-performing loans and the amount of non-interest-bearing liabilities supporting earning assets. Net interest income is analyzed in the discussion and tables below on a fully taxable equivalent basis. The adjustment to convert certain income to a fully taxable equivalent basis consists of dividing tax-exempt income by one minus the combined federal and state income tax rate (39.225% for the three and nine-month periods ended September 30, 2014 and 2013).

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

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

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

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

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

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

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

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

Tables 5 and 6 reflect an analysis of net interest income on a fully taxable equivalent basis for the three and nine-month periods ended September 30, 2014 and 2013, as well as changes in fully taxable equivalent net interest margin for the three and nine-month periods ended September 30, 2014, compared to the same period in 2013.

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

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

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

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

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Table 7 shows, for each major category of earning assets and interest-bearing liabilities, the average amount outstanding, the interest income or expense on that amount and the average rate earned or expensed for the three and nine-month periods ended September 30, 2014 and 2013, respectively. The table also shows the average rate earned on all earning assets, the average rate expensed on all interest-bearing liabilities, the net interest spread and the net interest margin for the same periods. The analysis is presented on a fully taxable equivalent basis. Non-accrual loans were included in average loans for the purpose of calculating the rate earned on total loans.

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

	Three Months Ended September 30,					
	2014			2013		
	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
(Dollars in thousands)						
<b>ASSETS</b>						
Earnings assets						
Interest-bearing balances due from banks	\$ 40,723	\$ 20	0.19%	\$ 40,756	\$ 19	0.18%
Federal funds sold	13,604	7	0.20	4,411	2	0.18
Investment securities taxable	1,044,732	4,905	1.86	579,867	2,645	1.81
Investment securities non-taxable	302,859	4,174	5.47	183,341	2,462	5.33
Loans receivable	4,661,600	76,024	6.47	2,668,421	45,121	6.71
Total interest-earning assets	6,063,518	85,130	5.57	3,476,796	50,249	5.73
Non-earning assets	907,407			569,829		
Total assets	\$ 6,970,925			\$ 4,046,625		
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>						
Liabilities						
Interest-bearing liabilities						
Savings and interest-bearing transaction accounts	\$ 2,835,267	\$ 1,376	0.19%	\$ 1,691,077	\$ 637	0.15%
Time deposits	1,315,772	1,867	0.56	832,149	1,173	0.56
Total interest-bearing deposits	4,151,039	3,243	0.31	2,523,226	1,810	0.28
Federal funds purchased	2,364	2	0.34	1,511	3	0.79
Securities sold under agreement to repurchase	150,239	186	0.49	73,924	87	0.47
FHLB borrowed funds	494,650	1,035	0.83	144,467	910	2.50
Subordinated debentures	60,826	330	2.15	3,093	16	2.05
Total interest-bearing liabilities	4,859,118	4,796	0.39	2,746,221	2,826	0.41



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

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

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

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

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Table 8 shows changes in interest income and interest expense resulting from changes in volume and changes in interest rates for the three and nine-month periods ended September 30, 2014 compared to the same periods in 2013, on a fully taxable basis. The changes in interest rate and volume have been allocated to changes in average volume and changes in average rates, in proportion to the relationship of absolute dollar amounts of the changes in rates and volume.

**Table 8: Volume/Rate Analysis**

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

**Provision for Loan Losses**

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

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

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

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

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

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

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

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

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

The Company experienced a \$4.2 million increase in the provision for loan losses for non-covered loans during the three months ended September 30, 2014 versus the same period in 2013. The Company experienced a \$16.5 million increase in the provision for loan losses for non-covered loans during the nine months ended September 30, 2014 versus the same period in 2013. Included in the 2014 three and nine-month periods was \$2.9 million of provision for loan losses associated with purchased credit impaired loans acquired. This expected increase is not an indication of a decline in asset quality, but primarily a reflection of the migration of the Liberty (and other acquired) loans from purchased loan accounting treatment to originated loan accounting treatment. Based upon current accounting guidance, the allowance for loan losses is not carried over in an acquisition. As a result, virtually none of the Liberty footprint loans had any allocation of the allowance for loan losses at year end. This is the result of all loans acquired on October 24, 2013 from Liberty being recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820. As the acquired loans mature and are renewed as new credits, management evaluates the credit risk associated with these new credit decisions and determines the required allowance for loan loss for these new originated loans using the allowance for loan loss methodology for all originated loans as disclosed in Note 1 to the Notes to Consolidated Financial Statements in our Form 10-K. Our current or historical provision levels should not be relied upon as a predictor or indicator of future levels going forward.

***Non-Interest Income***

Total non-interest income was \$10.8 million and \$34.6 million for the three and nine-month periods ended September 30, 2014, respectively, compared to \$9.3 million and \$28.1 million for the same periods in 2013, respectively. Our recurring non-interest income includes service charges on deposit accounts, other service charges and fees, trust fees, mortgage lending, insurance, title fees, increase in cash value of life insurance, dividends and FDIC indemnification accretion/amortization.

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

**Table 9: Non-Interest Income**

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Non-Interest Expense**

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

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

**Table 10: Non-Interest Expense**

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

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

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

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

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

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

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

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

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

The most significant components of the non-covered loan portfolio were commercial real estate, residential real estate, consumer, and commercial and industrial loans. These non-covered loans are primarily originated within our market areas of Arkansas, Florida and South Alabama, and are generally secured by residential or commercial real estate or business or personal property within our market areas. Non-covered loans were \$3.37 billion, \$1.04 billion and \$179.8 million as of September 30, 2014 in Arkansas, Florida and Alabama, respectively.

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

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

**Table 11: Loan Portfolio Not Covered by Loss Share**

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

As of acquisition date, the Company evaluated \$1.61 billion of net loans (\$1.67 billion gross loans less \$62.1 million discount) purchased in conjunction with the acquisition of Liberty in accordance with the provisions of FASB ASC Topic 310-20, *Nonrefundable Fees and Other Costs*. As of September 30, 2014, the net loan balance of the Liberty ASC Topic 310-20 purchased loans is \$1.17 billion (\$1.21 billion gross loans less \$37.7 million discount). The fair value discount is being accreted into interest income over the weighted average life of the loans using a constant yield method.

As of acquisition date, the Company evaluated \$120.5 million of net loans (\$162.4 million gross loans less \$41.9 million discount) purchased in conjunction with the acquisition of Liberty in accordance with the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. As of September 30, 2014, the net loan balance of the Liberty ASC Topic 310-30 purchased loans is \$91.6 million (\$131.4 million gross loans less \$39.8 million discount). These purchased non-covered loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected. During the latter part of the second quarter of 2014 the Company received a \$6.0 million unexpected recovery from one large commercial loan charged down significantly prior to the acquisition date. Since the Liberty impaired loans are accounted for on a pool basis, this recovery is increasing the yield on the impaired loans over the weighted average life of the loans in the pool going forward by \$4.7 million.

*Non-Covered Commercial Real Estate Loans.* We originate non-farm and non-residential loans (primarily secured by commercial real estate), construction/land development loans, and agricultural loans, which are generally secured by real estate located in our market areas. Our commercial mortgage loans are generally collateralized by first liens on real estate and amortized over a 15 to 25 year period with balloon payments due at the end of one to five years. These

loans are generally underwritten by assessing cash flow (debt service coverage), primary and secondary source of repayment, the financial strength of any guarantor, the strength of the tenant (if any), the borrower's liquidity and leverage, management experience, ownership structure, economic conditions and industry specific trends and collateral. Generally, we will loan up to 85% of the value of improved property, 65% of the value of raw land and 75% of the value of land to be acquired and developed. A first lien on the property and assignment of lease is required if the collateral is rental property, with second lien positions considered on a case-by-case basis.

As of September 30, 2014, non-covered commercial real estate loans totaled \$2.66 billion, or 58.0% of our non-covered loan portfolio, which is comparable to \$2.38 billion, or 56.8% of our non-covered loan portfolio, as of December 31, 2013. Our Arkansas, Florida and Alabama non-covered commercial real estate loans were \$1.92 billion, \$638.1 million and \$103.8 million at September 30, 2014, respectively.



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

As of September 30, 2014, non-covered residential real estate loans totaled \$1.19 billion, or 25.9% of our non-covered loan portfolio, compared to \$1.13 billion, or 26.9% of our non-covered loan portfolio, as of December 31, 2013. Our Arkansas, Florida and Alabama non-covered residential real estate loans were \$850.0 million, \$283.2 million and \$54.1 million at September 30, 2014, respectively.

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

As of September 30, 2014, our non-covered consumer loan portfolio totaled \$57.8 million, or 1.3% of our total non-covered loan portfolio, compared to the \$69.6 million, or 1.7% of our non-covered loan portfolio as of December 31, 2013. Our Arkansas, Florida and Alabama non-covered consumer loans were \$41.2 million, \$15.2 million and \$1.4 million at September 30, 2014, respectively.

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

As of September 30, 2014, non-covered commercial and industrial loans outstanding totaled \$547.7 million, or 12.0% of our non-covered loan portfolio, which is comparable to \$511.4 million, or 12.2% of our non-covered loan portfolio, as of December 31, 2013. Our Arkansas, Florida and Alabama non-covered commercial and industrial loans were \$438.1 million, \$89.5 million and \$20.1 million at September 30, 2014, respectively.

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

Table 12 presents total loans receivable by category.

**Table 12: Total Loans Receivable**

**As of September 30, 2014**

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

***Non-Performing Assets Not Covered by Loss Share***

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

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

We have non-covered loans acquired with deteriorated credit quality in our September 30, 2014 financial statements as a result of our acquisitions of Heritage, Premier and Liberty. The credit metrics most heavily impacted by our acquisitions of acquired non-covered loans with deteriorated credit quality were the following credit quality indicators

listed in Table 13 below:

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

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

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

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

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Table 13 sets forth information with respect to our non-performing non-covered assets as of September 30, 2014 and December 31, 2013. As of these dates, all non-performing non-covered restructured loans are included in non-accrual non-covered loans.

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

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

Our non-performing non-covered loans are comprised of non-accrual non-covered loans and accruing non-covered loans that are contractually past due 90 days. Our bank subsidiary recognizes income principally on the accrual basis of accounting. When loans are classified as non-accrual, the accrued interest is charged off and no further interest is accrued, unless the credit characteristics of the loan improve. If a loan is determined by management to be uncollectible, the portion of the loan determined to be uncollectible is then charged to the allowance for loan losses. The Florida franchise contains approximately 39.6% and 53.1% of our non-performing non-covered loans as of September 30, 2014 and December 31, 2013, respectively.

Total non-performing non-covered loans were \$41.0 million as of September 30, 2014, compared to \$38.3 million as of December 31, 2013 for an increase of \$2.7 million. Of the \$2.7 million increase in non-performing loans, \$6.4 million is from an increase in non-performing loans in our Arkansas market combined with a \$403,000 increase in non-performing loans in our Alabama market offset by a \$4.1 million decrease in non-performing loans in Florida. Non-performing loans at September 30, 2014 are approximately \$24.3 million, \$16.3 million and \$410,000 in the Arkansas, Florida and Alabama markets, respectively.

Although the current state of the real estate market has improved, uncertainties still present in the economy may continue to increase our level of non-performing non-covered loans. While we believe our allowance for loan losses is adequate and our purchased loans are adequately discounted at September 30, 2014, as additional facts become known about relevant internal and external factors that affect loan collectability and our assumptions, it may result in us

making additions to the provision for loan losses during 2014. Our current or historical provision levels should not be relied upon as a predictor or indicator of future levels going forward.

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Troubled debt restructurings ( TDR ) generally occur when a borrower is experiencing, or is expected to experience, financial difficulties in the near term. As a result, the Bank will work with the borrower to prevent further difficulties, and ultimately to improve the likelihood of recovery on the loan. In those circumstances it may be beneficial to restructure the terms of a loan and work with the borrower for the benefit of both parties, versus forcing the property into foreclosure and having to dispose of it in an unfavorable and depressed real estate market. When we have modified the terms of a loan, we usually either reduce the monthly payment and/or interest rate for generally about three to twelve months. For our troubled debt restructurings that accrue interest at the time the loan is restructured, it would be a rare exception to have charged-off any portion of the loan. Only non-performing restructured loans are included in our non-performing non-covered loans. As of September 30, 2014, we had \$27.2 million of non-covered restructured loans that are in compliance with the modified terms and are not reported as past due or non-accrual in Table 13. Our Florida market contains \$10.6 million of these non-covered restructured loans.

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

The majority of the Bank's loan modifications relate to commercial lending and involve reducing the interest rate, changing from a principal and interest payment to interest-only, a lengthening of the amortization period, or a combination of some or all of the three. In addition, it is common for the Bank to seek additional collateral or guarantor support when modifying a loan. At September 30, 2014, the amount of troubled debt restructurings was \$27.8 million, a decrease of 36.1% from \$43.5 million at December 31, 2013. As of September 30, 2014 and December 31, 2013, 97.9% and 98.0%, respectively, of all restructured loans were performing to the terms of the restructure.

Total foreclosed assets held for sale not covered by loss share were \$19.4 million as of September 30, 2014, compared to \$29.9 million as of December 31, 2013 for a decrease of \$10.5 million. The foreclosed assets held for sale not covered by loss share as of September 30, 2014 are comprised of \$14.9 million of assets located in Arkansas, \$4.4 million of assets located in Florida and the remaining \$15,000 located in Alabama.

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

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

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

	As of September 30, 2014			As of December 31, 2013		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
(In thousands)						
Commercial real estate loans						
Non-farm/non-residential	\$ 8,261	\$ 4,701	\$ 12,962	\$ 8,422	\$ 9,677	\$ 18,099
Construction/land development	6,372	7,529	13,901	17,675	5,517	23,192
Agricultural		26	26		651	651
Residential real estate loans						
Residential 1-4 family	4,238	1,257	5,495	3,772	5,154	8,926
Multifamily residential	496		496			
Total foreclosed assets held for sale	\$ 19,367	\$ 13,513	\$ 32,880	\$ 29,869	\$ 20,999	\$ 50,868

A loan is considered impaired when it is probable that we will not receive all amounts due according to the contracted terms of the loans. Impaired loans include non-performing loans (loans past due 90 days or more and non-accrual loans), criticized and/or classified loans with a specific allocation, loans categorized as TDR s and certain other loans identified by management that are still performing (loans included in multiple categories are only included once). As of September 30, 2014, average non-covered impaired loans were \$93.4 million compared to \$104.1 million as of December 31, 2013. As of September 30, 2014, non-covered impaired loans were \$83.3 million compared to \$106.5 million as of December 31, 2013 for a decrease of \$23.2 million. This decrease is primarily associated with the improvements in loan balances with a specific allocation and loans categorized as TDR s. As of September 30, 2014, our Florida and Alabama markets accounted for approximately \$37.8 million and \$3.7 million of the non-covered impaired loans, respectively.

We evaluated loans purchased in conjunction with the 2010 FDIC-assisted acquisitions, the 2012 acquisitions of Heritage and Premier and certain loans during the 2013 acquisition of Liberty for impairment in accordance with the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Purchased loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected. Purchased impaired non-covered loans are not classified as non-performing non-covered assets for the recognition of interest income as the pools are considered to be performing. However, for the purpose of calculating the non-performing credit metrics, the Company has included all of the non-covered loans which are contractually 90 days past due and still accruing, including those in performing pools. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all purchased impaired loans.

All non-covered loans acquired with deteriorated credit quality are considered impaired loans at the date of acquisition. Since the loans are accounted for on a pooled basis under ASC 310-30, individual loans are not classified as impaired.

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

As of September 30, 2014 and December 31, 2013, there were no non-covered loans acquired with deteriorated credit quality on non-accrual status as a result of the loans being accounted for on the pool basis and the pools are considered to be performing for the accruing of interest income. Also, acquired loans contractually past due 90 days or more are accruing interest because the pools are considered to be performing for the purpose of accruing interest income.



**Table of Contents****Past Due and Non-Accrual Loans**

Table 15 shows the summary non-accrual loans as of September 30, 2014 and December 31, 2013:

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

	As of September 30, 2014			As of December 31, 2013		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
(In thousands)						
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	\$ 7,339	\$	\$ 7,339	\$ 5,093	\$	\$ 5,093
Construction/land development	1,571		1,571	1,080		1,080
Agricultural				89		89
Residential real estate loans						
Residential 1-4 family	11,856		11,856	7,283		7,283
Multifamily residential				1		1
Total real estate	20,766		20,766	13,546		13,546
Consumer	250		250	124		124
Commercial and industrial	1,181		1,181	1,463		1,463
Other	184		184			
Total non-accrual loans	\$ 22,381	\$	\$ 22,381	\$ 15,133	\$	\$ 15,133

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

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

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

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

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

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

***Allowance for Loan Losses for Non-Covered Loans***

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

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

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

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

Between the receipt of the original appraisal and the updated appraisal, we monitor the loan's repayment history and subject the loan to examination by our internal loan review. If the loan is over \$1.0 million or the total loan

relationship is over \$2.0 million, our policy requires an annual credit review. In addition, we update all financial information and calculate the global repayment ability of the borrower/guarantors.

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

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

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

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

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

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

*Loans Collectively Evaluated for Impairment.* Non-covered loans collectively evaluated for impairment was \$4.25 billion and \$3.77 billion at September 30, 2014 and December 31, 2013, respectively. The percentage of the allowance for loan losses for non-covered loans allocated to non-covered loans collectively evaluated for impairment to the total non-covered loans collectively evaluated for impairment increased from 0.65% at December 31, 2013 to 0.82% at September 30, 2014. This increase is the result of the normal changes associated with the calculation of the allocation of the allowance for loan losses and includes routine changes from the previous year end reporting period such as organic loan growth, unallocated allowance, individual loan impairments, asset quality and net charge-offs.

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

During the first nine months of 2014, there were \$7.5 million in charge-offs and \$1.9 million in recoveries. While the charge-offs and recoveries consisted of many relationships, there were no individual relationships consisting of charge-offs greater than \$1.0 million.

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

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Table 17 shows the allowance for loan losses, charge-offs and recoveries for non-covered loans as of and for the three and nine-month periods ended September 30, 2014 and 2013.

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

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

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

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

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

The changes for the period ended September 30, 2014 and the year ended December 31, 2013 in the allocation of the allowance for loan losses for non-covered loans for the individual types of loans are primarily associated with changes in the ASC 310 calculations, both individual and aggregate, and changes in the ASC 450 calculations. These calculations are affected by changes in individual loan impairments, changes in asset quality, net charge-offs during the period and normal changes in the outstanding loan portfolio, as well any changes to the general allocation factors due to changes within the actual characteristics of the loan portfolio.

Table 18 presents the allocation of allowance for loan losses for non-covered loans as of September 30, 2014 and December 31, 2013.

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

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

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

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



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

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

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

***Investments and Securities***

Our securities portfolio is the second largest component of earning assets and provides a significant source of revenue. Securities within the portfolio are classified as held-to-maturity, available-for-sale, or trading based on the intent and objective of the investment and the ability to hold to maturity. Fair values of securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities. The estimated effective duration of our securities portfolio was 2.8 years as of September 30, 2014.

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

Securities available-for-sale are reported at fair value with unrealized holding gains and losses reported as a separate component of stockholders' equity as other comprehensive income. Securities that are held as available-for-sale are used as a part of our asset/liability management strategy. Securities that may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital, and other similar factors are classified as available-for-sale. Available-for-sale securities were \$1.07 billion and \$1.18 billion as of September 30, 2014 and December 31, 2013, respectively.

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

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

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

***Deposits***

Our deposits averaged \$5.30 billion and \$5.29 billion for the three and nine-month periods ended September 30, 2014. Total deposits decreased \$115.8 million, or an annualized decrease of 2.9%, to \$5.28 billion as of September 30, 2014, from \$5.39 billion as of December 31, 2013. Deposits are our primary source of funds. We offer a variety of products designed to attract and retain deposit customers. Those products consist of checking accounts, regular savings deposits, NOW accounts, money market accounts and certificates of deposit. Deposits are gathered from individuals, partnerships and corporations in our market areas. In addition, we obtain deposits from state and local entities and, to a lesser extent, U.S. Government and other depository institutions.

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

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

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

Table 19 reflects the classification of the average deposits and the average rate paid on each deposit category, which is in excess of 10 percent of average total deposits, for the three and nine-month periods ended September 30, 2014 and 2013.

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

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

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

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

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

We enter into short-term purchases of securities under agreements to resell (resale agreements) and sales of securities under agreements to repurchase (repurchase agreements) of substantially identical securities. The amounts advanced under resale agreements and the amounts borrowed under repurchase agreements are carried on the balance sheet at the amount advanced. Interest incurred on repurchase agreements is reported as interest expense. Securities sold under agreements to repurchase decreased \$89,000, or 0.06%, from \$161.0 million as of December 31, 2013 to \$160.9 million as of September 30, 2014.

***FHLB Borrowed Funds***

Our FHLB borrowed funds were \$713.6 million and \$350.7 million at September 30, 2014 and December 31, 2013, respectively. At September 30, 2014, \$520.0 million and \$193.6 million of the outstanding balance were issued as short-term and long-term advances, respectively. At December 31, 2013, \$130.3 million and \$220.4 million of the outstanding balances were issued as short-term and long-term advances, respectively. Our remaining FHLB borrowing capacity was \$582.8 million and \$373.5 million as of September 30, 2014 and December 31, 2013, respectively. Expected maturities will differ from contractual maturities, because FHLB may have the right to call or HBI may have the right to prepay certain obligations.

***Subordinated Debentures***

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

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

***Stockholders' Equity***

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

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



**Table of Contents****Liquidity and Capital Adequacy Requirements**

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

Quantitative measures established by regulation to ensure capital adequacy require us to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes that, as of September 30, 2014 and December 31, 2013, we met all regulatory capital adequacy requirements to which we were subject.

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

**Table 20: Risk-Based Capital**

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



## Minimum guidelines

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

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

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**Table of Contents*****Non-GAAP Financial Measurements***

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

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

The Company experienced a \$4.2 million and \$17.3 million provision for loan losses for non-covered loans during the three and nine months ended September 30, 2014 which are increases versus the same periods in 2013. Included in the 2014 three and nine-month periods was \$2.9 million of provision for loan losses associated with purchased credit impaired loans acquired. This expected increase is not an indication of a decline in asset quality, but primarily a reflection of the migration of the Liberty (and other acquired) loans from purchased loan accounting treatment to originated loan accounting treatment. Based upon current accounting guidance, the allowance for loan losses is not carried over in an acquisition. As a result, virtually none of the Liberty footprint loans had any allocation of the allowance for loan losses at year end. This is the result of all loans acquired on October 24, 2013 from Liberty being recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820. As the acquired loans mature and are renewed as new credits, management evaluates the credit risk associated with these new credit decisions and determines the required allowance for loan loss for these new originated loans using the allowance for loan loss methodology for all originated loans as disclosed in Note 1 to the Notes to Consolidated Financial Statements in our Form 10-K.

We had \$1.82 billion of purchased non-covered loans, which includes \$148.2 million of discount for credit losses on non-covered loans acquired, at September 30, 2014. We had \$2.04 billion of purchased non-covered loans, which includes \$174.6 million of discount for credit losses on non-covered loans acquired at December 31, 2013. For purchased credit-impaired financial assets, GAAP requires a discount embedded in the purchase price that is attributable to the expected credit losses at the date of acquisition, which is a different approach from non-purchased-credit-impaired assets. While the discount for credit losses on purchased non-covered loans is not available for credit losses on non-purchased non-covered loans, management believes it is useful information to show the same accounting as if applied to all loans, including those acquired in a business combination.

We believe these non-GAAP measures and ratios, when taken together with the corresponding GAAP measures and ratios, provide meaningful supplemental information regarding our performance. We believe investors benefit from referring to these non-GAAP measures and ratios in assessing our operating results and related trends, and when planning and forecasting future periods. However, these non-GAAP measures and ratios should be considered in addition to, and not as a substitute for or preferable to, ratios prepared in accordance with GAAP. In Tables 21 through 25 below, we have provided a reconciliation of, where applicable, the most comparable GAAP financial

measures and ratios to the non-GAAP financial measures and ratios, or a reconciliation of the non-GAAP calculation of the financial measure for the periods indicated:

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

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

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

**Table 22: Average Yield on Loans**

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

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

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

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

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

**Table 24: Net Interest Margin**

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



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

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

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

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



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Total allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired (E)	\$ 39,022	\$ 174,637	\$ 213,659
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Allowance for loan losses for non-covered loans to total non-covered loans (C/A)	1.81%	N/A	0.93%
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Discount for credit losses on non-covered loans acquired to non-covered loans acquired plus discount for credit losses on non-covered loans acquired (D/B)	N/A	7.87%	N/A
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Allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired to total non-covered loans plus discount for credit losses on non-covered loans acquired (E/B)	N/A	N/A	4.89%
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*Note:* Discount for credit losses on purchased credit impaired loans acquired are accounted for on a pool by pool basis and are not available to cover credit losses on non-acquired loans or other pools.

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We had \$334.3 million, \$324.0 million, and \$95.3 million total goodwill, core deposit intangibles and other intangible assets as of September 30, 2014, December 31, 2013 and September 30, 2013, respectively. Because of our level of intangible assets and related amortization expenses, management believes diluted earnings per share excluding intangible amortization, tangible book value per share, return on average assets excluding intangible amortization, return on average tangible equity excluding intangible amortization and tangible equity to tangible assets are useful in evaluating our company. These calculations, which are similar to the GAAP calculation of diluted earnings per share, book value, return on average assets, return on average equity, and equity to assets, are presented in Tables 26 through 30, respectively.

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

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

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

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

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

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

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

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

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

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

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

**Recently Issued Accounting Pronouncements**

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

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**Table of Contents****Item 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*****Liquidity and Market Risk Management***

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

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

Liquidity needs can be met from either assets or liabilities. On the asset side, our primary sources of liquidity include cash and due from banks, federal funds sold, available-for-sale investment securities and scheduled repayments and maturities of loans. We maintain adequate levels of cash and cash equivalents to meet our day-to-day needs. As of September 30, 2014, our cash and cash equivalents were \$137.5 million, or 1.9% of total assets, compared to \$165.5 million, or 2.4% of total assets, as of December 31, 2013. Our available-for-sale investment securities and federal funds sold were \$1.11 billion as of September 30, 2014 and \$1.18 billion as of December 31, 2013.

Our investment portfolio is comprised of approximately 81.8% or \$1.12 billion of securities which mature in less than five years. As of September 30, 2014 and December 31, 2013, \$1.14 billion and \$1.13 billion, respectively, of securities were pledged as collateral for various public fund deposits and securities sold under agreements to repurchase.

On the liability side, our principal sources of liquidity are deposits, borrowed funds, and access to capital markets. Customer deposits are our largest sources of funds. As of September 30, 2014, our total deposits were \$5.28 billion, or 73.3% of total assets, compared to \$5.39 billion, or 79.2% of total assets, as of December 31, 2013. We attract our deposits primarily from individuals, business, and municipalities located in our market areas.

We may occasionally use our Fed funds lines of credit in order to temporarily satisfy short-term liquidity needs. We have Fed funds lines with three other financial institutions pursuant to which we could have borrowed up to \$35.0 million on an unsecured basis as of September 30, 2014 and December 31, 2013. These lines may be terminated by the respective lending institutions at any time.

We also maintain lines of credit with the Federal Home Loan Bank. Our FHLB borrowed funds were \$713.6 million and \$350.7 million at September 30, 2014 and December 31, 2013, respectively. At September 30, 2014, \$520.0 million and \$193.6 million of the outstanding balance were issued as short-term and long-term advances, respectively. At December 31, 2013, \$130.3 million and \$220.4 million of the outstanding balance were issued as short-term and long-term advances, respectively. Our FHLB borrowing capacity was \$582.8 million and \$373.5 million as of September 30, 2014 and December 31, 2013, respectively.

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

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

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

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

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

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

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

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

Gap analysis attempts to capture the amounts and timing of balances exposed to changes in interest rates at a given point in time. Our gap position as of September 30, 2014 was asset sensitive with a one-year cumulative repricing gap of 87.5%. During these periods, the amount of change our asset base realizes in relation to the total change in market interest rate exceeds that of the liability base.

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

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

**Table 31: Interest Rate Sensitivity**

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



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

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**Item 4: CONTROLS AND PROCEDURES**

**Article I. Evaluation of Disclosure Controls**

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

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

There have not been any changes in the Company's internal controls over financial reporting during the quarter ended September 30, 2014, which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II: OTHER INFORMATION**

**Item 1: Legal Proceedings**

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

**Item 1A: Risk Factors**

There were no material changes from the risk factors set forth in Part I, Item 1A, Risk Factors, of our Form 10-K for the year ended December 31, 2013. See the discussion of our risk factors in the Form 10-K, as filed with the SEC. The risks described are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

Not applicable.

**Item 3: Defaults Upon Senior Securities**

Not applicable.

**Item 4: Mine Safety Disclosures**

Not applicable.

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**Item 5: Other Information**

Not applicable.

**Item 6: Exhibits**

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

\* Filed herewith

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**SIGNATURES**

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

**HOME BANCSHARES, INC.**

(Registrant)

Date: November 6, 2014

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

Date: November 6, 2014

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