

HOME BANCSHARES INC  
Form 10-Q  
November 05, 2018  
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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, 2018**

or

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

**Commission File Number: 000-51904**

**HOME BANCSHARES, INC.**

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

Arkansas  
(State or other jurisdiction of  
incorporation or organization)

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

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

72032  
(Zip Code)

(501) 339-2929

(Registrant's telephone number, including area code)

Not Applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes    No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes    No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

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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: 172,932,360 shares as of November 2, 2018.

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**HOME BANCSHARES, INC.**

**FORM 10-Q**

**September 30, 2018**

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

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

changes in the level of nonperforming assets and charge-offs, and credit risk generally;

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

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

the risk that expected cost savings and other benefits from acquisitions may not be fully realized or may take longer to realize than expected;

the possibility that an acquisition does not close when expected or at all because required regulatory, shareholder or other approvals and other conditions to closing are not received or satisfied on a timely basis or at all;

the reaction to a proposed acquisition transaction of the respective companies' customers, employees and counterparties;

diversion of management time on acquisition-related issues;

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

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

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

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

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

the effects of terrorism and efforts to combat it;

political instability;

risks associated with our customer relationship with the Cuban government and our correspondent banking relationship with Banco Internacional de Comercio, S.A. (BICSA), a Cuban commercial bank, through our recently completed acquisition of Stonegate Bank;

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

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

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

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

higher defaults on our loan portfolio than we expect; and

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

All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this Cautionary Note. Our actual results may differ significantly from those we discuss in these forward-looking statements. For other factors, risks and uncertainties that could cause our actual results to differ materially from estimates and projections contained in these forward-looking statements, see the Risk Factors sections of our Form 10-K filed with the Securities and Exchange Commission (the SEC) on February 27, 2018.

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

| (In thousands, except share data)                 | September 30,<br>2018<br>(Unaudited) | December 31,<br>2017 |
|---|--------------------------------------|----------------------|
| <b>Assets</b>                                     |                                      |                      |
| Cash and due from banks                           | \$ 208,681                           | \$ 166,915           |
| Interest-bearing deposits with other banks        | 323,376                              | 469,018              |
| Cash and cash equivalents                         | 532,057                              | 635,933              |
| Federal funds sold                                | 500                                  | 24,109               |
| Investment securities available-for-sale          | 1,744,430                            | 1,663,517            |
| Investment securities held-to-maturity            | 199,266                              | 224,756              |
| Loans receivable                                  | 10,832,815                           | 10,331,188           |
| Allowance for loan losses                         | (110,191)                            | (110,266)            |
| Loans receivable, net                             | 10,722,624                           | 10,220,922           |
| Bank premises and equipment, net                  | 233,652                              | 237,439              |
| Foreclosed assets held for sale                   | 13,507                               | 18,867               |
| Cash value of life insurance                      | 148,014                              | 146,866              |
| Accrued interest receivable                       | 48,909                               | 45,708               |
| Deferred tax asset, net                           | 79,548                               | 76,564               |
| Goodwill  | 958,408                              | 927,949              |
| Core deposit and other intangibles                | 44,484                               | 49,351               |
| Other assets                                      | 187,339                              | 177,779              |
| <b>Total assets</b>                               | <b>\$ 14,912,738</b>                 | <b>\$ 14,449,760</b> |
| <b>Liabilities and Stockholders Equity</b>        |                                      |                      |
| <b>Deposits:</b>                                  |                                      |                      |
| Demand and non-interest-bearing                   | \$ 2,482,857                         | \$ 2,385,252         |
| Savings and interest-bearing transaction accounts | 6,420,951                            | 6,476,819            |
| Time deposits                                     | 1,720,930                            | 1,526,431            |
| Total deposits                                    | 10,624,738                           | 10,388,502           |
| Securities sold under agreements to repurchase    | 142,146                              | 147,789              |
| FHLB and other borrowed funds                     | 1,363,851                            | 1,299,188            |
| Accrued interest payable and other liabilities    | 72,381                               | 41,959               |
| Subordinated debentures                           | 368,596                              | 368,031              |



|   |                      |                      |
|---|----------------------|----------------------|
| <b>Total liabilities</b>  | 12,571,712           | 12,245,469           |
| <b>Stockholders equity:</b>   |                      |                      |
| Common stock, par value \$0.01; shares authorized 200,000,000 in 2018 and 2017; shares issued and outstanding 174,134,811 in 2018 and 173,632,983 in 2017 | 1,741                | 1,736                |
| Capital surplus   | 1,668,106            | 1,675,318            |
| Retained earnings   | 701,900              | 530,658              |
| Accumulated other comprehensive loss  | (30,721)             | (3,421)              |
| <b>Total stockholders equity</b>  | 2,341,026            | 2,204,291            |
| <b>Total liabilities and stockholders equity</b>  | <b>\$ 14,912,738</b> | <b>\$ 14,449,760</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<br>September 30, |                | Nine Months Ended<br>September 30, |                |
|--|-------------------------------------|----------------|------------------------------------|----------------|
|  | 2018                                | 2017           | 2018                               | 2017           |
|  | (Unaudited)                         |                |                                    |                |
| <b>Interest income:</b>  |                                     |                |                                    |                |
| Loans  | \$ 166,334                          | \$ 113,269     | \$ 467,395                         | \$ 331,763     |
| Investment securities  |                                     |                |                                    |                |
| Taxable  | 9,011                               | 7,071          | 26,960                             | 18,983         |
| Tax-exempt   | 3,427                               | 3,032          | 9,801                              | 8,942          |
| Deposits other banks   | 1,273                               | 538            | 3,408                              | 1,573          |
| Federal funds sold   | 6                                   | 3              | 24                                 | 9              |
| <b>Total interest income</b>                                     | <b>180,051</b>                      | <b>123,913</b> | <b>507,588</b>                     | <b>361,270</b> |
| <b>Interest expense:</b>   |                                     |                |                                    |                |
| Interest on deposits   | 21,412                              | 8,535          | 54,382                             | 20,831         |
| Federal funds purchased  |                                     |                | 1                                  |                |
| FHLB and other borrowed funds                                    | 7,055                               | 3,408          | 15,880                             | 10,707         |
| Securities sold under agreements to repurchase                   | 472                                 | 232            | 1,220                              | 593            |
| Subordinated debentures  | 5,202                               | 4,969          | 15,374                             | 10,203         |
| <b>Total interest expense</b>                                    | <b>34,141</b>                       | <b>17,144</b>  | <b>86,857</b>                      | <b>42,334</b>  |
| <b>Net interest income</b>                                       | <b>145,910</b>                      | <b>106,769</b> | <b>420,731</b>                     | <b>318,936</b> |
| Provision for loan losses  |                                     | 35,023         | 4,322                              | 39,324         |
| <b>Net interest income after provision for loan losses</b>       | <b>145,910</b>                      | <b>71,746</b>  | <b>416,409</b>                     | <b>279,612</b> |
| <b>Non-interest income:</b>                                      |                                     |                |                                    |                |
| Service charges on deposit accounts                              | 6,992                               | 6,408          | 19,847                             | 18,356         |
| Other service charges and fees                                   | 9,041                               | 8,490          | 28,993                             | 25,983         |
| Trust fees   | 437                                 | 365            | 1,262                              | 1,130          |
| Mortgage lending income  | 3,691                               | 3,172          | 9,825                              | 9,713          |
| Insurance commissions  | 463                                 | 472            | 1,668                              | 1,482          |
| Increase in cash value of life insurance                         | 735                                 | 478            | 2,119                              | 1,251          |
| Dividends from FHLB, FRB, FNBB & other                           | 1,288                               | 834            | 3,765                              | 2,455          |
| Gain on acquisitions   |                                     |                |                                    | 3,807          |
| Gain on sale of SBA loans  | 47                                  | 163            | 491                                | 738            |
| Gain (loss) on sale of branches, equipment and other assets, net | (102)                               | (1,337)        | (95)                               | (962)          |
| Gain (loss) on OREO, net   | 836                                 | 335            | 2,287                              | 849            |
| Gain (loss) on securities, net                                   |                                     | 136            |                                    | 939            |
| Other income   | 2,419                               | 1,941          | 9,163                              | 6,603          |

|                                   |           |           |            |            |
|-----------------------------------|-----------|-----------|------------|------------|
| Total non-interest income         | 25,847    | 21,457    | 79,325     | 72,344     |
| <b>Non-interest expense:</b>      |           |           |            |            |
| Salaries and employee benefits    | 37,825    | 28,510    | 107,315    | 83,965     |
| Occupancy and equipment           | 8,148     | 7,887     | 25,650     | 21,602     |
| Data processing expense           | 3,461     | 2,853     | 10,786     | 8,439      |
| Other operating expenses          | 16,689    | 31,596    | 48,980     | 62,984     |
| Total non-interest expense        | 66,123    | 70,846    | 192,731    | 176,990    |
| <b>Income before income taxes</b> | 105,634   | 22,357    | 303,003    | 174,966    |
| Income tax expense                | 25,350    | 7,536     | 73,630     | 63,192     |
| <b>Net income</b>                 | \$ 80,284 | \$ 14,821 | \$ 229,373 | \$ 111,774 |
| <b>Basic earnings per share</b>   | \$ 0.46   | \$ 0.10   | \$ 1.32    | \$ 0.78    |
| <b>Diluted earnings per share</b> | \$ 0.46   | \$ 0.10   | \$ 1.32    | \$ 0.78    |

See Condensed Notes to Consolidated Financial Statements.

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## Home BancShares, Inc.

## Consolidated Statements of Comprehensive Income

| (In thousands)   | Three Months Ended |                    | Nine Months Ended  |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
|  | (Unaudited)        |                    |                    |                    |
| Net income   | \$ 80,284          | \$ 14,821          | \$ 229,373         | \$ 111,774         |
| Net unrealized gain (loss) on available-for-sale securities                      | (6,979)            | (4,065)            | (35,957)           | 6,681              |
| Less: reclassification adjustment for realized (gains) losses included in income |                    | (136)              |                    | (939)              |
| Other comprehensive (loss) income, before tax effect                             | (6,979)            | (4,201)            | (35,957)           | 5,742              |
| Tax effect on other comprehensive income   | 2,867              | 1,648              | 9,647              | (2,253)            |
| Other comprehensive income (loss)  | (4,112)            | (2,553)            | (26,310)           | 3,489              |
| Comprehensive income   | \$ 76,172          | \$ 12,268          | \$ 203,063         | \$ 115,263         |

## Home BancShares, Inc.

## Consolidated Statements of Stockholders Equity

## Nine Months Ended September 30, 2018 and 2017

| (In thousands, except share data)  | Common Stock | Capital Surplus | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total     |
|--|--------------|-----------------|-------------------|---|-----------|
| <b>Balances at January 1, 2017</b>   | 1,405        | 869,737         | 455,948           | 400   | 1,327,490 |
| Comprehensive income:  |              |                 |                   |   |           |
| Net income   |              |                 | 111,774           |   | 111,774   |
| Other comprehensive income (loss)  |              |                 |                   | 3,489   | 3,489     |
| Net issuance of 160,237 shares of common stock from exercise of stock options                                      | 2            | 847             |                   |   | 849       |
| Issuance of 2,738,038 shares of common stock from acquisition of GHI, net of issuance costs of approximately \$195 | 27           | 77,290          |                   |   | 77,317    |
| Issuance of 30,863,658 shares of common stock from acquisition of Stonegate, net of issuance                       | 309          | 741,324         |                   |   | 741,633   |

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|  |                 |                     |                   |                    |                     |
|--|-----------------|---------------------|-------------------|--------------------|---------------------|
| costs of approximately \$630   |                 |                     |                   |                    |                     |
| Repurchase of 800,000 shares of common stock   | (8)             | (19,530)            |                   |                    | (19,538)            |
| Share-based compensation net issuance of 231,766 shares of restricted common stock     | 2               | 4,974               |                   |                    | 4,976               |
| Cash dividends Common Stock, \$0.29 per share  |                 |                     | (41,274)          |                    | (41,274)            |
| <b>Balances at September 30, 2017 (unaudited)</b>                                      | <b>\$ 1,737</b> | <b>\$ 1,674,642</b> | <b>\$ 526,448</b> | <b>\$ 3,889</b>    | <b>\$ 2,206,716</b> |
| Comprehensive income:  |                 |                     |                   |                    |                     |
| Net income   |                 |                     | 23,309            |                    | 23,309              |
| Other comprehensive income (loss)  |                 |                     |                   | (7,310)            | (7,310)             |
| Net issuance of 24,879 shares of common stock from exercise of stock options           |                 | 233                 |                   |                    | 233                 |
| Repurchase of 57,800 shares of common stock  | (1)             | (1,286)             |                   |                    | (1,287)             |
| Share-based compensation   |                 | 1,729               |                   |                    | 1,729               |
| Cash dividends Common Stock, \$0.11 per share  |                 |                     | (19,099)          |                    | (19,099)            |
| <b>Balances at December 31, 2017</b>   | <b>\$ 1,736</b> | <b>\$ 1,675,318</b> | <b>\$ 530,658</b> | <b>\$ (3,421)</b>  | <b>\$ 2,204,291</b> |
| Comprehensive income:  |                 |                     |                   |                    |                     |
| Net Income   |                 |                     | 229,373           |                    | 229,373             |
| Other comprehensive income (loss)  |                 |                     |                   | (26,310)           | (26,310)            |
| Net issuance of 176,821 shares of common stock from exercise of stock options          | 2               | 1,255               |                   |                    | 1,257               |
| Issuance of 1,250,000 shares of common stock from acquisition of Shore Premier Finance | 13              | 28,188              |                   |                    | 28,201              |
| Impact of adoption of new accounting standards <sup>(1)</sup>                          |                 |                     | 990               | (990)              |                     |
| Repurchase of 1,863,400 shares of common stock   | (19)            | (43,151)            |                   |                    | (43,170)            |
| Share-based compensation net issuance of 956,125 shares of restricted common stock     | 9               | 6,496               |                   |                    | 6,505               |
| Cash dividends Common Stock, \$0.34 per share  |                 |                     | (59,121)          |                    | (59,121)            |
| <b>Balances at September 30, 2018 (unaudited)</b>                                      | <b>\$ 1,741</b> | <b>\$ 1,668,106</b> | <b>\$ 701,900</b> | <b>\$ (30,721)</b> | <b>\$ 2,341,026</b> |

(1) Represents the impact of adopting Accounting Standard Update ( ASU ) 2016-01. See Note 1 to the consolidated financial statements for more information.

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,<br>2018 | 2017<br>(Unaudited) |
| <b>Operating Activities</b>   |                       |                     |
| Net income  | \$ 229,373            | \$ 111,774          |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                       |                     |
| Depreciation  | 9,156                 | 8,634               |
| Investment amortization   | 16,033                | 12,087              |
| Accretion of purchased loans  | (32,021)              | (23,319)            |
| Share-based compensation  | 6,505                 | 4,976               |
| Gain on assets  | (3,436)               | (1,720)             |
| Gain on acquisitions  |                       | (3,807)             |
| Provision for loan losses   | 4,322                 | 39,324              |
| Deferred income tax effect  | 14,593                | (15,867)            |
| Increase in cash value of life insurance  | (2,119)               | (1,251)             |
| Originations of mortgage loans held for sale  | (258,520)             | (243,948)           |
| Proceeds from sales of mortgage loans held for sale   | 262,900               | 250,784             |
| Changes in assets and liabilities:  |                       |                     |
| Accrued interest receivable   | (2,377)               | (1,814)             |
| Other assets  | (17,485)              | (22,642)            |
| Accrued interest payable and other liabilities  | 28,547                | (35,436)            |
| Net cash provided by operating activities   | 255,471               | 77,775              |
| <b>Investing Activities</b>   |                       |                     |
| Net decrease (increase) in federal funds sold   | 23,609                | (1,480)             |
| Net increase in loans, excluding purchased loans  | (119,723)             | (92,015)            |
| Purchases of investment securities available-for-sale                                       | (380,847)             | (522,329)           |
| Proceeds from maturities of investment securities available-for-sale                        | 252,795               | 120,785             |
| Proceeds from sale of investment securities available-for-sale                              | 1,064                 | 28,368              |
| Purchases of investment securities held-to-maturity   |                       | (219)               |
| Proceeds from maturities of investment securities held-to-maturity                          | 25,007                | 48,144              |
| Proceeds from sale of investment securities held-to-maturity                                |                       | 491                 |
| Proceeds from foreclosed assets held for sale   | 17,744                | 13,315              |
| Proceeds from sale of SBA Loans   | 7,938                 | 13,630              |
| Purchases of premises and equipment, net  | (5,070)               | (4,383)             |
| Return of investment on cash value of life insurance  | 1,325                 | 592                 |
| Net cash (paid) proceeds received market acquisitions                                       | (377,411)             | 227,845             |
| Net cash used in investing activities   | (553,569)             | (167,256)           |

| <b>Financing Activities</b>   |                   |                   |
|---|-------------------|-------------------|
| Net increase in deposits, excluding deposits acquired                     | 236,236           | 536,891           |
| Net (decrease) increase in securities sold under agreements to repurchase | (5,643)           | 2,078             |
| Net increase (decrease) in FHLB and other borrowed funds                  | 64,663            | (350,230)         |
| Proceeds from exercise of stock options                                   | 1,257             | 849               |
| Proceeds from issuance of subordinated notes                              |                   | 297,201           |
| Repurchase of common stock  | (43,170)          | (19,538)          |
| Common stock issuance costs market acquisitions                           |                   | (825)             |
| Dividends paid on common stock  | (59,121)          | (41,274)          |
| Net cash provided by used in financing activities                         | 194,222           | 425,152           |
| <b>Net change in cash and cash equivalents</b>                            | <b>(103,876)</b>  | <b>335,671</b>    |
| <b>Cash and cash equivalents beginning of year</b>                        | <b>635,933</b>    | <b>216,649</b>    |
| <b>Cash and cash equivalents end of period</b>                            | <b>\$ 532,057</b> | <b>\$ 552,320</b> |

See Condensed Notes to Consolidated Financial Statements.

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**Home BancShares, Inc.**

**Condensed Notes to Consolidated Financial Statements**

(Unaudited)

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

***Nature of Operations***

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

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

***Operating Segments***

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Bank is the only significant subsidiary upon which management makes decisions regarding how to allocate resources and assess performance. Each of the branches of the Bank provide a group of similar 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 banking services and branch locations are considered by management to be aggregated into one reportable operating segment.

***Use of Estimates***

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

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

***Principles of Consolidation***

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



***Reclassifications***

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

***Interim financial information***

The accompanying unaudited consolidated financial statements as of September 30, 2018 and 2017 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.

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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 2017 Form 10-K, filed with the Securities and Exchange Commission.

***Revenue Recognition.***

Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (ASC Topic 606), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied. The majority of our revenue-generating transactions are not subject to ASC Topic 606, including revenue generated from financial instruments, such as our loans, letters of credit and investment securities, as these activities are subject to other GAAP discussed elsewhere within our disclosures. Descriptions of our revenue-generating activities that are within the scope of ASC Topic 606, which are presented in our income statements as components of non-interest income are as follows:

**Service charges on deposit accounts** These represent general service fees for monthly account maintenance and activity or transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when our performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed (such as a wire transfer). Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

**Other service charges and fees** These represent credit card interchange fees and Centennial CFG loan fees. The interchange fees are recorded in the period the performance obligation is satisfied which is generally the cash basis based on agreed upon contracts. The Centennial CFG loan fees are based on loan or other negotiated agreements with customers and are accounted for under ASC Topic 310.

**Mortgage lending income** This represents fee income on secondary market lending which is accounted for under ASC Topic 310 and transfer of loans based on a bid agreement with the investor which is accounted for under ASC Topic 860, *Transfers and Servicing*.

***Earnings per Share***

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

|                                    | <b>Three Months<br/>Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|------------------------------------|---|-------------|--|-------------|
|                                    | <b>2018</b>                                     | <b>2017</b> | <b>2018</b>                                | <b>2017</b> |
|                                    | <b>(In thousands)</b>                           |             |  |             |
| Net income                         | \$ 80,284                                       | \$ 14,821   | \$ 229,373                                 | \$ 111,774  |
| Average shares outstanding         | 174,440   | 144,238     | 173,870                                    | 143,111     |
| Effect of common stock options     | 427   | 749         | 524  | 728         |
| Average diluted shares outstanding | 174,867   | 144,987     | 174,394                                    | 143,839     |
| Basic earnings per share           | \$ 0.46   | \$ 0.10     | \$ 1.32                                    | \$ 0.78     |
| Diluted earnings per share         | \$ 0.46   | \$ 0.10     | \$ 1.32                                    | \$ 0.78     |

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**Table of Contents****2. Business Combinations*****Acquisition of Shore Premier Finance***

On June 30, 2018, the Company, completed the acquisition of Shore Premier Finance ( SPF ), a division of Union Bank & Trust of Richmond, Virginia, the bank subsidiary of Union Bankshares Corporation. The Company paid a purchase price of approximately \$377.4 million in cash, subject to certain post-closing adjustments, and 1,250,000 shares of HBI common stock valued at approximately \$28.2 million. SPF provides direct consumer financing for United States Coast Guard ( USCG ) registered high-end sail and power boats. Additionally, SPF provides inventory floor plan lines of credit to marine dealers, primarily those selling USCG documented vessels.

Including the effects of known purchase accounting adjustments, as of acquisition date, SPF had approximately \$377.0 million in total assets, including \$376.2 million in total loans and \$1.9 million in assumed liabilities, which resulted in tentative goodwill of \$30.5 million being recorded. The purchase price allocation and certain fair value measurements remain preliminary due to the timing of the acquisition. The Company will continue to review the estimated fair values of loans and intangible assets and to evaluate the assumed tax positions and contingencies.

This portfolio of loans is now housed in a division of Centennial known as Shore Premier Finance. The SPF division of Centennial is responsible for servicing the acquired loan portfolio and originating new loan production. In connection with this acquisition and the creation of the SPF division of Centennial, Centennial has opened a new loan production office in Chesapeake, Virginia. Through this loan production office, the SPF division of Centennial will continue its vision to build out a lending platform focusing on commercial and consumer marine loans.

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

***Acquisition of Stonegate Bank***

On September 26, 2017, the Company, completed the acquisition of all of the issued and outstanding shares of common stock of Stonegate Bank ( Stonegate ), and merged Stonegate into Centennial. The Company paid a purchase price to the Stonegate shareholders of approximately \$792.4 million for the Stonegate acquisition. Under the terms of the merger agreement, shareholders of Stonegate received 30,863,658 shares of HBI common stock valued at approximately \$742.3 million plus approximately \$50.1 million in cash in exchange for all outstanding shares of Stonegate common stock. In addition, the holders of outstanding stock options of Stonegate received approximately \$27.6 million in cash in connection with the cancellation of their options immediately before the acquisition closed, for a total transaction value of approximately \$820.0 million.

Including the effects of the purchase accounting adjustments, as of acquisition date, Stonegate had approximately \$2.89 billion in total assets, \$2.37 billion in loans and \$2.53 billion in customer deposits. Stonegate formerly operated its banking business from 24 locations in key Florida markets with significant presence in Broward and Sarasota counties.

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

determination of these fair values required

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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>Acquired<br/>from<br/>Stonegate</b> | <b>Stonegate Bank<br/>Fair Value<br/>Adjustments<br/>(Dollars in thousands)</b> | <b>As<br/>Recorded<br/>by HBI</b> |
|---|--|---|-----------------------------------|
| <b>Assets</b>                                     |  |   |                                   |
| Cash and due from banks                           | \$ 100,958                             | \$  | \$ 100,958                        |
| Interest-bearing deposits with other banks        | 135,631                                |   | 135,631                           |
| Federal funds sold                                | 1,515                                  |   | 1,515                             |
| Investment securities                             | 103,041                                | 474   | 103,515                           |
| Loans receivable                                  | 2,446,149                              | (74,067)  | 2,372,082                         |
| Allowance for loan losses                         | (21,507)                               | 21,507  |                                   |
| Loans receivable, net                             | 2,424,642                              | (52,560)  | 2,372,082                         |
| Bank premises and equipment, net                  | 38,868                                 | (3,572)   | 35,296                            |
| Foreclosed assets held for sale                   | 4,187                                  | (801)   | 3,386                             |
| Cash value of life insurance                      | 48,000                                 |   | 48,000                            |
| Accrued interest receivable                       | 7,088                                  |   | 7,088                             |
| Deferred tax asset, net                           | 27,340                                 | 11,990  | 39,330                            |
| Goodwill  | 81,452                                 | (81,452)  |                                   |
| Core deposit and other intangibles                | 10,505                                 | 20,364  | 30,869                            |
| Other assets                                      | 9,598                                  | 255   | 9,853                             |
| Total assets acquired                             | \$ 2,992,825                           | \$ (105,302)  | \$ 2,887,523                      |
| <b>Liabilities</b>                                |  |   |                                   |
| <b>Deposits</b>                                   |  |   |                                   |
| Demand and non-interest-bearing                   | \$ 585,959                             | \$  | \$ 585,959                        |
| Savings and interest-bearing transaction accounts | 1,776,256                              |   | 1,776,256                         |
| Time deposits                                     | 163,567                                | (85)  | 163,482                           |
| Total deposits                                    | 2,525,782                              | (85)  | 2,525,697                         |
| FHLB borrowed funds                               | 32,667                                 | 184   | 32,851                            |
| Securities sold under agreements to repurchase    | 26,163                                 |   | 26,163                            |
| Accrued interest payable and other liabilities    | 8,100                                  | (484)   | 7,616                             |
| Subordinated debentures                           | 8,345                                  | 1,489   | 9,834                             |
| Total liabilities assumed                         | 2,601,057                              | 1,104   | 2,602,161                         |
| <b>Equity</b>                                     |  |   |                                   |
| Total equity assumed                              | 391,768                                | (391,768)   |                                   |

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|                                      |              |              |            |
|--------------------------------------|--------------|--------------|------------|
| Total liabilities and equity assumed | \$ 2,992,825 | \$ (390,664) | 2,602,161  |
| Net assets acquired                  |              |              | 285,362    |
| Purchase price                       |              |              | 792,370    |
| Goodwill                             |              |              | \$ 507,008 |

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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.

Investment securities Investment securities were acquired from Stonegate with an approximately \$474,000 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 \$2.37 billion of the loans purchased in conjunction with the acquisition in accordance with the provisions of FASB ASC Topic 310-20, *Nonrefundable Fees and Other Costs*, which were recorded with a \$73.3 million discount. As a result, the fair value discount on these loans is being accreted into interest income over the weighted average life of the loans using a constant yield method. The remaining \$74.3 million of loans evaluated were considered purchased credit impaired loans within the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, and were recorded with a \$23.3 million discount. These purchase credit impaired loans will recognize interest income through accretion of the difference between the carrying amount of the loans and the expected cash flows. The acquired Stonegate loan balance and the fair value adjustment on loans receivable includes \$22.6 million of discount on purchased loans, respectively.

Bank premises and equipment Bank premises and equipment were acquired from Stonegate with a \$3.6 million adjustment to market value. This represents the difference between current appraisals completed in connection with the acquisition and book value acquired.

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

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

Accrued interest receivable Accrued interest receivable was acquired from Stonegate 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 which was 39.225% at the time of acquisition.

Core deposit intangible This intangible asset represents the value of the relationships that Stonegate 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 \$30.9 million of core deposit intangible.

Deposits The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition equal the amount payable on demand at the acquisition date. The \$85,000 fair value adjustment applied for time deposits was because the weighted average interest rate of Stonegate's certificates of deposits were estimated



to be below the current market rates.

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

Securities sold under agreements to repurchase Securities sold under agreements to repurchase were acquired from Stonegate at market value.

Accrued interest payable and other liabilities Accrued interest payable and other liabilities were acquired from Stonegate at market value.

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

The unaudited pro-forma combined consolidated financial information presents how the combined financial information of HBI and Stonegate might have appeared had the businesses actually been combined. The following schedule represents the unaudited pro forma combined financial information as of the years ended December 31, 2017 and 2016, assuming the acquisition was completed as of January 1, 2017 and 2016, respectively:

|  | <b>Years Ended</b>           |             |
|--|------------------------------|-------------|
|  | <b>December 31,</b>          |             |
|  | <b>2017</b>                  | <b>2016</b> |
|  | <b>(In thousands, except</b> |             |
|  | <b>per</b>                   |             |
|  | <b>share data)</b>           |             |
| Total interest income                    | \$ 610,697                   | \$ 538,258  |
| Total non-interest income                | 107,179                      | 95,555      |
| Net income available to all shareholders | 143,979                      | 206,081     |
| Basic earnings per common share          | \$ 0.79                      | \$ 1.20     |
| Diluted earnings per common share        | 0.79                         | 1.20        |

The unaudited pro-forma consolidated financial information is presented for illustrative purposes only and does not indicate the financial results of the combined company had the companies actually been combined at the beginning of the period presented and had the impact of possible significant revenue enhancements and expense efficiencies from in-market cost savings, among other factors, been considered and, accordingly, does not attempt to predict or suggest future results. It also does not necessarily reflect what the historical results of the combined company would have been had the companies been combined during this period.

***Acquisition of The Bank of Commerce***

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

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

Under the terms of the acquisition agreement, the Company paid an aggregate of approximately \$4.2 million in cash for the acquisition, which included the purchase of all outstanding shares of BOC common stock, the discounted purchase of certain subordinated debentures issued by BOC from the existing holders of the subordinated debentures,

and an expense reimbursement to BCHI for approved administrative claims in connection with the bankruptcy proceeding.

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

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

|   | <b>The Bank of Commerce</b>      |                                   |                                   |
|---|----------------------------------|-----------------------------------|-----------------------------------|
|   | <b>Acquired<br/>from<br/>BOC</b> | <b>Fair Value<br/>Adjustments</b> | <b>As<br/>Recorded<br/>by HBI</b> |
|   | <b>(Dollars in thousands)</b>    |                                   |                                   |
| <b>Assets</b>                                     |                                  |                                   |                                   |
| Cash and due from banks                           | \$ 4,610                         | \$                                | \$ 4,610                          |
| Interest-bearing deposits with other banks        | 14,360                           |                                   | 14,360                            |
| Investment securities                             | 25,926                           | (113)                             | 25,813                            |
| Loans receivable                                  | 124,289                          | (5,751)                           | 118,538                           |
| Allowance for loan losses                         | (2,037)                          | 2,037                             |                                   |
| Loans receivable, net                             | 122,252                          | (3,714)                           | 118,538                           |
| Bank premises and equipment, net                  | 1,887                            |                                   | 1,887                             |
| Foreclosed assets held for sale                   | 8,523                            | (3,165)                           | 5,358                             |
| Accrued interest receivable                       | 481                              |                                   | 481                               |
| Deferred tax asset, net                           |                                  | 4,198                             | 4,198                             |
| Core deposit intangible                           |                                  | 968                               | 968                               |
| Other assets                                      | 1,880                            |                                   | 1,880                             |
| <b>Total assets acquired</b>                      | <b>\$ 179,919</b>                | <b>\$ (1,826)</b>                 | <b>\$ 178,093</b>                 |
| <b>Liabilities</b>                                |                                  |                                   |                                   |
| <b>Deposits</b>                                   |                                  |                                   |                                   |
| Demand and non-interest-bearing                   | \$ 27,245                        | \$                                | \$ 27,245                         |
| Savings and interest-bearing transaction accounts | 32,300                           |                                   | 32,300                            |
| Time deposits                                     | 79,945                           | 270                               | 80,215                            |
| <b>Total deposits</b>                             | <b>139,490</b>                   | <b>270</b>                        | <b>139,760</b>                    |
| FHLB borrowed funds                               | 30,000                           | 42                                | 30,042                            |
| Accrued interest payable and other liabilities    | 564                              | (255)                             | 309                               |
| <b>Total liabilities assumed</b>                  | <b>\$ 170,054</b>                | <b>\$ 57</b>                      | <b>170,111</b>                    |
| <b>Net assets acquired</b>                        |                                  |                                   | <b>7,982</b>                      |
| <b>Purchase price</b>                             |                                  |                                   | <b>4,175</b>                      |
| <b>Pre-tax gain on acquisition</b>                |                                  |                                   | <b>\$ 3,807</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 and interest-bearing deposits with other banks The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets.

Investment securities Investment securities were acquired from BOC with an \$113,000 adjustment to market value based upon quoted market prices.

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

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

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

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

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

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

**Core deposit intangible** This intangible asset represents the value of the relationships that BOC had with its deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the deposit base, and the net maintenance cost attributable to customer deposits. The Company recorded \$968,000 of core deposit intangible.

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

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

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

The Company's operating results for the period ended December 31, 2017, include the operating results of the acquired assets and assumed liabilities subsequent to the acquisition date. Due to the fair value adjustments recorded and the fact BOC total assets acquired are less than 5% of total assets as of December 31, 2017 excluding BOC as recorded by HBI as of acquisition date, historical results are not believed to be material to the Company's results, and thus no pro-forma information is presented.

***Acquisition of Giant Holdings, Inc.***

On February 23, 2017, the Company completed its acquisition of Giant Holdings, Inc. ( GHI ), parent company of Landmark Bank, N.A. ( Landmark ), pursuant to a definitive agreement and plan of merger whereby GHI merged with and into HBI and, immediately thereafter, Landmark merged with and into Centennial. The Company paid a purchase

price to the GHI shareholders of approximately \$96.0 million for the GHI acquisition. Under the terms of the agreement, shareholders of GHI received 2,738,038 shares of the Company's common stock valued at approximately \$77.5 million as of February 23, 2017, plus approximately \$18.5 million in cash in exchange for all outstanding shares of GHI common stock.

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

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

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



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

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

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

Investment securities Investment securities were acquired from GHI with an approximately \$5,000 adjustment to market value based upon quoted market prices.

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

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

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

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

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

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

**Core deposit intangible** This intangible asset represents the value of the relationships that GHI had with its deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the deposit base, and the net maintenance cost attributable to customer deposits. The Company recorded \$3.4 million of core deposit intangible.

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

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

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

**Table of Contents****3. Investment Securities**

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

|  | <b>September 30, 2018</b> |  |  | <b>Estimated<br/>Fair Value</b> |
|--|---------------------------|--|--|---------------------------------|
|  | <b>Amortized<br/>Cost</b> | <b>Available-for-Sale<br/>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>(Losses)</b> |                                 |
| <b>(In thousands)</b>                  |                           |  |  |                                 |
| U.S. government-sponsored enterprises  | \$ 427,722                | \$ 138   | \$ (7,985)                               | \$ 419,875                      |
| Residential mortgage-backed securities | 533,106                   | 294  | (15,386)                                 | 518,014                         |
| Commercial mortgage-backed securities  | 478,409                   | 87   | (14,636)                                 | 463,860                         |
| State and political subdivisions       | 311,117                   | 1,235  | (6,202)                                  | 306,150                         |
| Other securities                       | 35,554                    | 1,160  | (183)                                    | 36,531                          |
| <b>Total</b>                           | <b>\$ 1,785,908</b>       | <b>\$ 2,914</b>  | <b>\$ (44,392)</b>                       | <b>\$ 1,744,430</b>             |

|  | <b>Held-to-Maturity</b>   |                                       |  | <b>Estimated<br/>Fair<br/>Value</b> |
|--|---------------------------|---------------------------------------|--|-------------------------------------|
|  | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>(Losses)</b> |                                     |
| <b>(In thousands)</b>                  |                           |                                       |  |                                     |
| U.S. government-sponsored enterprises  | \$ 3,587                  | \$                                    | \$ (87)                                  | \$ 3,500                            |
| Residential mortgage-backed securities | 47,670                    | 23                                    | (1,395)                                  | 46,298                              |
| Commercial mortgage-backed securities  | 12,705                    |                                       | (370)                                    | 12,335                              |
| State and political subdivisions       | 135,304                   | 1,368                                 | (253)                                    | 136,419                             |
| <b>Total</b>                           | <b>\$ 199,266</b>         | <b>\$ 1,391</b>                       | <b>\$ (2,105)</b>                        | <b>\$ 198,552</b>                   |

|  | <b>December 31, 2017</b>  |  |  | <b>Estimated<br/>Fair Value</b> |
|--|---------------------------|--|--|---------------------------------|
|  | <b>Amortized<br/>Cost</b> | <b>Available-for-Sale<br/>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>(Losses)</b> |                                 |
| <b>(In thousands)</b>                  |                           |  |  |                                 |
| U.S. government-sponsored enterprises  | \$ 407,387                | \$ 899   | \$ (1,982)                               | \$ 406,304                      |
| Residential mortgage-backed securities | 481,981                   | 538  | (4,919)                                  | 477,600                         |
| Commercial mortgage-backed securities  | 497,870                   | 332  | (4,430)                                  | 493,772                         |
| State and political subdivisions       | 247,292                   | 3,783  | (774)                                    | 250,301                         |
| Other securities                       | 34,617                    | 1,225  | (302)                                    | 35,540                          |

Total \$ 1,669,147 \$ 6,777 \$ (12,407) \$ 1,663,517

|  | Amortized<br>Cost | Held-to-Maturity<br>Gross<br>Unrealized |                        | Estimated<br>Fair<br>Value |
|--|-------------------|---|------------------------|----------------------------|
|  |                   | Gains                                   | Unrealized<br>(Losses) |                            |
|  |                   | (In thousands)                          |                        |                            |
| U.S. government-sponsored enterprises  | \$ 5,791          | \$ 15                                   | \$ (15)                | \$ 5,791                   |
| Residential mortgage-backed securities | 56,982            | 107                                     | (402)                  | 56,687                     |
| Commercial mortgage-backed securities  | 16,625            | 114                                     | (40)                   | 16,699                     |
| State and political subdivisions       | 145,358           | 3,031                                   | (27)                   | 148,362                    |
| <b>Total</b>                           | <b>\$ 224,756</b> | <b>\$ 3,267</b>                         | <b>\$ (484)</b>        | <b>\$ 227,539</b>          |

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Assets, principally investment securities, having a carrying value of approximately \$1.17 billion and \$1.18 billion at September 30, 2018 and December 31, 2017, 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 \$142.1 million and \$147.8 million at September 30, 2018 and December 31, 2017, respectively.

The amortized cost and estimated fair value of securities classified as available-for-sale and held-to-maturity at September 30, 2018, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

|  | Available-for-Sale  |                      | Held-to-Maturity  |                      |
|--|---------------------|----------------------|-------------------|----------------------|
|  | Amortized Cost      | Estimated Fair Value | Amortized Cost    | Estimated Fair Value |
|  | (In thousands)      |                      |                   |                      |
| Due in one year or less                | \$ 188,664          | \$ 185,303           | \$ 64,821         | \$ 65,527            |
| Due after one year through five years  | 997,039             | 975,767              | 89,950            | 89,016               |
| Due after five years through ten years | 468,969             | 455,579              | 11,773            | 11,472               |
| Due after ten years                    | 131,236             | 127,781              | 32,722            | 32,537               |
| <b>Total</b>                           | <b>\$ 1,785,908</b> | <b>\$ 1,744,430</b>  | <b>\$ 199,266</b> | <b>\$ 198,552</b>    |

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

During the three-month period ended September 30, 2018, approximately \$1.4 million in available-for-sale securities were sold. During nine-month period ended September 30, 2018, approximately \$2.1 million in available-for-sale securities were sold. There were no realized gains or losses recorded on the sales for the three and nine-month periods ended September 30, 2018. The income tax expense/benefit to net security gains and losses was 26.135% of the gross amounts.

During the three and nine-month periods ended September 30, 2017, approximately \$234,000 and \$27.4 million, respectively, in available-for-sale securities were sold. The gross realized gains on the sale for the three-month period ended September 30, 2017 totaled approximately \$136,000. The gross realized gains and losses on the sales for the nine-month period ended September 30, 2017 totaled approximately \$1.1 million and \$127,000, respectively. The income tax expense/benefit to net security gains and losses was 39.225% of the gross amounts.

During the three-month and nine-month periods ended September 30, 2018, no held-to-maturity securities were sold. During the nine-month period ended September 30, 2017, one held-to-maturity security experienced its second downgrade in its credit rating. The Company made a strategic decision to sell this held-to-maturity security for approximately \$483,000, which resulted in a gross realized loss on the sale for the nine-month period ended September 30, 2017 of approximately \$7,000.

The Company evaluates all securities quarterly to determine if any unrealized losses are deemed to be other than temporary. In completing these evaluations, the Company follows the requirements of FASB ASC 320,

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

During the three and nine-month periods ended September 30, 2018, no securities were deemed to have other-than-temporary impairment.

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At September 30, 2018, the Company had investment securities with approximately \$26.9 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 67.7% 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, 2018 and December 31, 2017:

|  | <b>September 30, 2018</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  | \$ 253,980                 | \$ (3,686)               | \$ 135,156               | \$ (4,386)               | \$ 389,136          | \$ (8,072)               |
| Residential mortgage-backed securities | 212,531                    | (4,745)                  | 315,803                  | (12,036)                 | 528,334             | (16,781)                 |
| Commercial mortgage-backed securities  | 233,726                    | (6,738)                  | 226,854                  | (8,268)                  | 460,580             | (15,006)                 |
| State and political subdivisions       | 174,397                    | (4,385)                  | 42,238                   | (2,070)                  | 216,635             | (6,455)                  |
| Other securities                       |                            |                          | 9,792                    | (183)                    | 9,792               | (183)                    |
| <b>Total</b>                           | <b>\$ 874,634</b>          | <b>\$ (19,554)</b>       | <b>\$ 729,843</b>        | <b>\$ (26,943)</b>       | <b>\$ 1,604,477</b> | <b>\$ (46,497)</b>       |

|  | <b>December 31, 2017</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  | \$ 234,213                 | \$ (1,288)               | \$ 40,122                | \$ (709)                 | \$ 274,335          | \$ (1,997)               |
| Residential mortgage-backed securities | 389,541                    | (3,656)                  | 99,989                   | (1,665)                  | 489,530             | (5,321)                  |
| Commercial mortgage-backed securities  | 314,301                    | (2,343)                  | 120,365                  | (2,127)                  | 434,666             | (4,470)                  |
| State and political subdivisions       | 41,299                     | (331)                    | 20,980                   | (470)                    | 62,279              | (801)                    |
| Other securities                       |                            |                          | 9,852                    | (302)                    | 9,852               | (302)                    |
| <b>Total</b>                           | <b>\$ 979,354</b>          | <b>\$ (7,618)</b>        | <b>\$ 291,308</b>        | <b>\$ (5,273)</b>        | <b>\$ 1,270,662</b> | <b>\$ (12,891)</b>       |

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Income earned on securities for the three and nine months ended September 30, 2018 and 2017, is as follows:

|                    | <b>Three Months<br/>Ended<br/>September 30,<br/>2018</b> |           | <b>Nine Months<br/>Ended<br/>September 30,<br/>2018</b> |           |
|--------------------|--|-----------|---|-----------|
|                    | <b>2017</b>  |           | <b>2017</b>   |           |
|                    | <b>(In thousands)</b>                                    |           |   |           |
| Taxable:           |  |           |   |           |
| Available-for-sale | \$ 8,578   | \$ 6,527  | \$ 25,571   | \$ 17,001 |
| Held-to-maturity   | 433  | 544       | 1,389   | 1,982     |
| Non-taxable:       |  |           |   |           |
| Available-for-sale | 2,205  | 1,627     | 6,006   | 4,757     |
| Held-to-maturity   | 1,222  | 1,405     | 3,795   | 4,185     |
| Total              | \$ 12,438  | \$ 10,103 | \$ 36,761   | \$ 27,925 |



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

The various categories of loans receivable are summarized as follows:

|                               | September 30,<br>2018 | December 31,<br>2017 |
|-------------------------------|-----------------------|----------------------|
|                               | (In thousands)        |                      |
| Real estate:                  |                       |                      |
| Commercial real estate loans  |                       |                      |
| Non-farm/non-residential      | \$ 4,685,827          | \$ 4,600,117         |
| Construction/land development | 1,550,910             | 1,700,491            |
| Agricultural                  | 72,930                | 82,229               |
| Residential real estate loans |                       |                      |
| Residential 1-4 family        | 1,982,666             | 1,970,311            |
| Multifamily residential       | 608,608               | 441,303              |
| <b>Total real estate</b>      | <b>8,900,941</b>      | <b>8,794,451</b>     |
| Consumer                      | 428,192               | 46,148               |
| Commercial and industrial     | 1,303,841             | 1,297,397            |
| Agricultural                  | 58,644                | 49,815               |
| Other                         | 141,197               | 143,377              |
| <b>Total loans receivable</b> | <b>\$ 10,832,815</b>  | <b>\$ 10,331,188</b> |

During the three and nine-month periods ended September 30, 2018, the Company sold \$836,000 and \$7.4 million, respectively, of the guaranteed portion of certain SBA loans, which resulted in a gain of approximately \$47,000 and \$491,000, respectively. During the three and nine-month periods ended September 30, 2017, the Company sold \$3.1 million and \$12.9 million, respectively, of the guaranteed portion of certain SBA loans, which resulted in a gain of approximately \$163,000 and \$738,000, respectively.

Mortgage loans held for sale of approximately \$39.9 million and \$44.3 million at September 30, 2018 and December 31, 2017, respectively, are included in residential 1-4 family loans. Mortgage loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis. Gains and losses resulting from sales of mortgage loans are recognized when the respective loans are sold to investors. Gains and losses are determined by the difference between the selling price and the carrying amount of the loans sold, net of discounts collected or paid. The Company obtains forward commitments to sell mortgage loans to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. The forward commitments acquired by the Company for mortgage loans in process of origination are considered mandatory forward commitments. Because these commitments are structured on a mandatory basis, the Company is required to substitute another loan or to buy back the commitment if the original loan does not fund. These commitments are derivative instruments and their fair values at September 30, 2018 and December 31, 2017 were not material.

The Company had \$3.08 billion of purchased loans, which includes \$120.8 million of discount for credit losses on purchased loans, at September 30, 2018. The Company had \$40.5 million and \$80.3 million remaining of non-accretable discount for credit losses on purchased loans and accretable discount for credit losses on purchased loans, respectively, as of September 30, 2018. The Company had \$3.46 billion of purchased loans, which includes

\$146.6 million of discount for credit losses on purchased loans, at December 31, 2017. The Company had \$51.9 million and \$94.7 million remaining of non-accretable discount for credit losses on purchased loans and accretable discount for credit losses on purchased loans, respectively, as of December 31, 2017.

A description of our accounting policies for loans, impaired loans, non-accrual loans and allowance for loan losses are set forth in our 2017 Form 10-K filed with the SEC on February 27, 2018. There have been no significant changes to these policies since December 31, 2017.

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

The Company's allowance for loan loss as of September 30, 2018 and December 31, 2017 was significantly impacted by Hurricane Irma which made initial landfall in the Florida Keys and a second landfall just south of Naples, Florida, as a Category 4 hurricane on September 10, 2017. Based on initial assessments of the potential credit impact and damage to the approximately \$2.41 billion in legacy loans receivable we have in the disaster area, the Company established a \$32.9 million storm-related provision for loan losses as of December 31, 2017. As of September 30, 2018, charge-offs of \$2.5 million have been taken against the storm-related provision for loan losses.

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

|  | <b>Nine Months Ended<br/>September 30,<br/>2018</b> |
|--|---|
|  | <b>(In thousands)</b>                               |
| <b>Allowance for loan losses:</b>          |   |
| Beginning balance                          | \$ 110,266  |
| Loans charged off                          | (7,173)   |
| Recoveries of loans previously charged off | 2,776   |
| Net loans recovered (charged off)          | (4,397)   |
| Provision for loan losses                  | 4,322   |
| Balance, September 30, 2018                | \$ 110,191  |

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The following tables present the balance in the allowance for loan losses for the three and nine-month period ended September 30, 2018, and the allowance for loan losses and recorded investment in loans based on portfolio segment by impairment method as of September 30, 2018. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories.

**Three Months Ended September 30, 2018**

|  | Other                          |                        | Residential Real Estate | Commercial & Industrial | Consumer & Other | Unallocated | Total      |
|--|--------------------------------|------------------------|-------------------------|-------------------------|------------------|-------------|------------|
|  | Construction/ Land Development | Commercial Real Estate |                         |                         |                  |             |            |
| <b>Allowance for loan losses:</b>          | <b>(In thousands)</b>          |                        |                         |                         |                  |             |            |
| Beginning balance                          | \$ 20,243                      | \$ 45,985              | \$ 24,205               | \$ 16,193               | \$ 3,518         | \$ 1,372    | \$ 111,516 |
| Loans charged off                          | (337)                          | (144)                  | (608)                   | (744)                   | (668)            |             | (2,501)    |
| Recoveries of loans previously charged off | 90                             | 195                    | 309                     | 251                     | 331              |             | 1,176      |
| Net loans recovered (charged off)          | (247)                          | 51                     | (299)                   | (493)                   | (337)            |             | (1,325)    |
| Provision for loan losses                  | (982)                          | (683)                  | 193                     | (1,923)                 | 479              | 2,916       |            |
| Balance, September 30                      | \$ 19,014                      | \$ 45,353              | \$ 24,099               | \$ 13,777               | \$ 3,660         | \$ 4,288    | \$ 110,191 |

**Nine Months Ended September 30, 2018**

|  | Other                          |                        | Residential Real Estate | Commercial & Industrial | Consumer & Other | Unallocated | Total      |
|--|--------------------------------|------------------------|-------------------------|-------------------------|------------------|-------------|------------|
|  | Construction/ Land Development | Commercial Real Estate |                         |                         |                  |             |            |
| <b>Allowance for loan losses:</b>          | <b>(In thousands)</b>          |                        |                         |                         |                  |             |            |
| Beginning balance                          | \$ 20,343                      | \$ 43,939              | \$ 24,506               | \$ 15,292               | \$ 3,334         | \$ 2,852    | \$ 110,266 |
| Loans charged off                          | (399)                          | (981)                  | (2,339)                 | (1,816)                 | (1,638)          |             | (7,173)    |
| Recoveries of loans previously charged off | 209                            | 383                    | 844                     | 568                     | 772              |             | 2,776      |
| Net loans recovered (charged off)          | (190)                          | (598)                  | (1,495)                 | (1,248)                 | (866)            |             | (4,397)    |
| Provision for loan losses                  | (1,139)                        | 2,012                  | 1,088                   | (267)                   | 1,192            | 1,436       | 4,322      |
| Balance, September 30                      | \$ 19,014                      | \$ 45,353              | \$ 24,099               | \$ 13,777               | \$ 3,660         | \$ 4,288    | \$ 110,191 |

**As of September 30, 2018**

| Construction/ Land | Other Commercial | Residential Real Estate | Commercial & Industrial | Consumer & Other | Unallocated | Total |
|--------------------|------------------|-------------------------|-------------------------|------------------|-------------|-------|
|--------------------|------------------|-------------------------|-------------------------|------------------|-------------|-------|

|  | Development  | Real<br>Estate | Estate       | Industrial   |            |          |    |            |
|--|--------------|----------------|--------------|--------------|------------|----------|----|------------|
| <b>Allowance for loan losses:</b>                    |              |                |              |              |            |          |    |            |
| (In thousands)                                       |              |                |              |              |            |          |    |            |
| Period end amount allocated to:                      |              |                |              |              |            |          |    |            |
| Loans individually evaluated for impairment          | \$ 854       | \$ 533         | \$ 115       | \$ 9         | \$         | \$       | \$ | 1,511      |
| Loans collectively evaluated for impairment          | 18,150       | 44,590         | 23,355       | 13,672       | 3,660      | 4,288    |    | 107,715    |
| Loans evaluated for impairment balance, September 30 | 19,004       | 45,123         | 23,470       | 13,681       | 3,660      | 4,288    |    | 109,226    |
| Purchased credit impaired loans                      | 10           | 230            | 629          | 96           |            |          |    | 965        |
| Balance, September 30                                | \$ 19,014    | \$ 45,353      | \$ 24,099    | \$ 13,777    | \$ 3,660   | \$ 4,288 | \$ | 110,191    |
| <b>Loans receivable:</b>                             |              |                |              |              |            |          |    |            |
| Period end amount allocated to:                      |              |                |              |              |            |          |    |            |
| Loans individually evaluated for impairment          | \$ 14,876    | \$ 60,572      | \$ 19,933    | \$ 30,716    | \$ 2,064   | \$       | \$ | 128,161    |
| Loans collectively evaluated for impairment          | 1,526,689    | 4,613,352      | 2,534,630    | 1,256,796    | 623,747    |          |    | 10,555,214 |
| Loans evaluated for impairment balance, September 30 | 1,541,565    | 4,673,924      | 2,554,563    | 1,287,512    | 625,811    |          |    | 10,683,375 |
| Purchased credit impaired loans                      | 9,345        | 84,833         | 36,711       | 16,329       | 2,222      |          |    | 149,440    |
| Balance, September 30                                | \$ 1,550,910 | \$ 4,758,757   | \$ 2,591,274 | \$ 1,303,841 | \$ 628,033 | \$       | \$ | 10,832,815 |

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The following tables present the balances in the allowance for loan losses for the nine-month period ended September 30, 2017 and the year ended December 31, 2017, and the allowance for loan losses and recorded investment in loans receivable based on portfolio segment by impairment method as of December 31, 2017. 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, 2017**

|  | Other                          |                        | Residential Real Estate | Commercial & Industrial | Consumer & Other | Unallocated | Total      |
|--|--------------------------------|------------------------|-------------------------|-------------------------|------------------|-------------|------------|
|  | Construction/ Land Development | Commercial Real Estate |                         |                         |                  |             |            |
| <b>Allowance for loan losses:</b>          | <b>(In thousands)</b>          |                        |                         |                         |                  |             |            |
| Beginning balance                          | \$ 11,522                      | \$ 28,188              | \$ 16,517               | \$ 12,756               | \$ 4,188         | \$ 6,831    | \$ 80,002  |
| Loans charged off                          | (326)                          | (1,655)                | (2,288)                 | (779)                   | (1,063)          |             | (6,111)    |
| Recoveries of loans previously charged off | 227                            | 710                    | 254                     | 252                     | 503              |             | 1,946      |
| Net loans recovered (charged off)          | (99)                           | (945)                  | (2,034)                 | (527)                   | (560)            |             | (4,165)    |
| Provision for loan losses                  | 1,419                          | 600                    | 3,232                   | 599                     | (565)            | (984)       | 4,301      |
| Balance, September 30                      | 12,842                         | 27,843                 | 17,715                  | 12,828                  | 3,063            | 5,847       | 80,138     |
| Loans charged off                          | (1,306)                        | (2,094)                | (1,692)                 | (4,799)                 | (1,469)          |             | (11,360)   |
| Recoveries of loans previously charged off | 235                            | 332                    | 422                     | 212                     | 338              |             | 1,539      |
| Net loans recovered (charged off)          | (1,071)                        | (1,762)                | (1,270)                 | (4,587)                 | (1,131)          |             | (9,821)    |
| Provision for loan losses                  | 8,572                          | 17,858                 | 8,061                   | 7,051                   | 1,402            | (2,995)     | 39,949     |
| Balance, December 31                       | \$ 20,343                      | \$ 43,939              | \$ 24,506               | \$ 15,292               | \$ 3,334         | \$ 2,852    | \$ 110,266 |

**As of December 31, 2017**

|   | Other                          |                        | Residential Real Estate | Commercial & Industrial | Consumer & Other | Unallocated | Total    |
|---|--------------------------------|------------------------|-------------------------|-------------------------|------------------|-------------|----------|
|   | Construction/ Land Development | Commercial Real Estate |                         |                         |                  |             |          |
| <b>Allowance for loan losses:</b>           | <b>(In thousands)</b>          |                        |                         |                         |                  |             |          |
| Period end amount allocated to:             |                                |                        |                         |                         |                  |             |          |
| Loans individually evaluated for impairment | \$ 1,378                       | \$ 768                 | \$ 188                  | \$ 843                  | \$ 7             | \$          | \$ 3,184 |

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|   |              |              |              |              |            |          |               |
|---|--------------|--------------|--------------|--------------|------------|----------|---------------|
| Loans collectively evaluated for impairment         | 18,954       | 42,824       | 23,341       | 14,290       | 3,310      | 2,852    | 105,571       |
| Loans evaluated for impairment balance, December 31 | 20,332       | 43,592       | 23,529       | 15,133       | 3,317      | 2,852    | 108,755       |
| Purchased credit impaired loans                     | 11           | 347          | 977          | 159          | 17         |          | 1,511         |
| Balance, December 31                                | \$ 20,343    | \$ 43,939    | \$ 24,506    | \$ 15,292    | \$ 3,334   | \$ 2,852 | \$ 110,266    |
| <b>Loans receivable:</b>                            |              |              |              |              |            |          |               |
| Period end amount allocated to:                     |              |              |              |              |            |          |               |
| Loans individually evaluated for impairment         |              |              |              |              |            |          |               |
|   | \$ 26,860    | \$ 124,124   | \$ 20,431    | \$ 21,867    | \$ 500     | \$       | \$ 193,782    |
| Loans collectively evaluated for impairment         | 1,658,519    | 4,442,201    | 2,341,081    | 1,261,161    | 236,392    |          | 9,939,354     |
| Loans evaluated for impairment balance, December 31 | 1,685,379    | 4,566,325    | 2,361,512    | 1,283,028    | 236,892    |          | 10,133,136    |
| Purchased credit impaired loans                     | 15,112       | 116,021      | 50,102       | 14,369       | 2,448      |          | 198,052       |
| Balance, December 31                                | \$ 1,700,491 | \$ 4,682,346 | \$ 2,411,614 | \$ 1,297,397 | \$ 239,340 | \$       | \$ 10,331,188 |

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The following is an aging analysis for loans receivable as of September 30, 2018 and December 31, 2017:

|                               | September 30, 2018                 |                                 |   |                      |                  |                           |  |
|-------------------------------|------------------------------------|---------------------------------|---|----------------------|------------------|---------------------------|--|
|                               | Loans<br>Past<br>Due<br>30-59 Days | Loans<br>Past Due<br>60-89 Days | Loans<br>Past<br>Due<br>90 Days<br>or<br>More | Total<br>Past<br>Due | Current<br>Loans | Total Loans<br>Receivable | Accruing<br>Loans<br>Past<br>Due<br>90 Days<br>or More |
| Real estate:                  | (In thousands)                     |                                 |   |                      |                  |                           |  |
| Commercial real estate loans  |                                    |                                 |   |                      |                  |                           |  |
| Non-farm/non-residential      | \$ 6,496                           | \$ 4,411                        | \$ 22,628                                     | \$ 33,535            | \$ 4,652,292     | \$ 4,685,827              | \$ 11,405  |
| Construction/land development | 803                                | 584                             | 8,517   | 9,904                | 1,541,006        | 1,550,910                 | 3,551  |
| Agricultural                  |                                    |                                 | 30  | 30                   | 72,900           | 72,930                    |  |
| Residential real estate loans |                                    |                                 |   |                      |                  |                           |  |
| Residential 1-4 family        | 9,141                              | 2,441                           | 15,821  | 27,403               | 1,955,263        | 1,982,666                 | 1,509  |
| Multifamily residential       | 482                                |                                 | 983   | 1,465                | 607,143          | 608,608                   |  |
| Total real estate             | 16,922                             | 7,436                           | 47,979  | 72,337               | 8,828,604        | 8,900,941                 | 16,465   |
| Consumer                      | 784                                | 73                              | 2,004   | 2,861                | 425,331          | 428,192                   | 1,796  |
| Commercial and industrial     | 4,868                              | 384                             | 6,449   | 11,701               | 1,292,140        | 1,303,841                 | 2,006  |
| Agricultural and other        | 1,260                              | 23                              | 33  | 1,316                | 198,525          | 199,841                   |  |
| Total                         | \$ 23,834                          | \$ 7,916                        | \$ 56,465                                     | \$ 88,215            | \$ 10,744,600    | \$ 10,832,815             | \$ 20,267  |

|                               | December 31, 2017                  |                                 |   |                      |                  |                           |  |
|-------------------------------|------------------------------------|---------------------------------|---|----------------------|------------------|---------------------------|--|
|                               | Loans<br>Past<br>Due<br>30-59 Days | Loans<br>Past Due<br>60-89 Days | Loans<br>Past<br>Due<br>90 Days<br>or<br>More | Total<br>Past<br>Due | Current<br>Loans | Total Loans<br>Receivable | Accruing<br>Loans<br>Past<br>Due<br>90 Days<br>or More |
| Real estate:                  | (In thousands)                     |                                 |   |                      |                  |                           |  |
| Commercial real estate loans  |                                    |                                 |   |                      |                  |                           |  |
| Non-farm/non-residential      | \$ 6,331                           | \$ 1,480                        | \$ 12,719                                     | \$ 20,530            | \$ 4,579,587     | \$ 4,600,117              | \$ 3,119   |
| Construction/land development | 834                                | 13                              | 8,258   | 9,105                | 1,691,386        | 1,700,491                 | 3,247  |
| Agricultural                  |                                    | 221                             | 19  | 240                  | 81,989           | 82,229                    |  |
| Residential real estate loans |                                    |                                 |   |                      |                  |                           |  |
| Residential 1-4 family        | 9,066                              | 2,013                           | 16,612  | 27,691               | 1,942,620        | 1,970,311                 | 2,175  |
| Multifamily residential       |                                    |                                 | 253   | 253                  | 441,050          | 441,303                   | 100  |
| Total real estate             | 16,231                             | 3,727                           | 37,861  | 57,819               | 8,736,632        | 8,794,451                 | 8,641  |
| Consumer                      | 252                                | 51                              | 171   | 474                  | 45,674           | 46,148                    | 26   |
| Commercial and industrial     | 2,073                              | 1,030                           | 6,528   | 9,631                | 1,287,766        | 1,297,397                 | 1,944  |



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|                        |           |          |           |           |               |               |           |
|------------------------|-----------|----------|-----------|-----------|---------------|---------------|-----------|
| Agricultural and other | 288       | 113      | 137       | 538       | 192,654       | 193,192       | 54        |
| Total                  | \$ 18,844 | \$ 4,921 | \$ 44,697 | \$ 68,462 | \$ 10,262,726 | \$ 10,331,188 | \$ 10,665 |

Non-accruing loans at September 30, 2018 and December 31, 2017 were \$36.2 million and \$34.0 million, respectively.

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The following is a summary of the impaired loans as of September 30, 2018 and December 31, 2017:

|   |                                      |                           | September 30, 2018                      |                             | Three Months Ended  |                             | Nine Months Ended   |  |
|---|--------------------------------------|---------------------------|---|-----------------------------|---------------------|-----------------------------|---------------------|--|
|   | Unpaid Contractual Principal Balance | Total Recorded Investment | Allocation of Allowance for Loan Losses | Average Recorded Investment | Interest Recognized | Average Recorded Investment | Interest Recognized |  |
| <b>Loans without a specific valuation allowance</b> |                                      |                           |   |                             |                     |                             |                     |  |
| (In thousands)                                      |                                      |                           |   |                             |                     |                             |                     |  |
| Real estate:  |                                      |                           |   |                             |                     |                             |                     |  |
| Commercial real estate loans                        |                                      |                           |   |                             |                     |                             |                     |  |
| Non-farm/non-residential                            | \$ 44                                | \$ 44                     | \$                                      | \$ 36                       | \$ 1                | \$ 33                       | \$ 2                |  |
| Construction/land development                       | 18                                   | 18                        |   | 18                          |                     | 30                          | 1                   |  |
| Agricultural  | 13                                   | 13                        |   | 14                          |                     | 16                          | 1                   |  |
| Residential real estate loans                       |                                      |                           |   |                             |                     |                             |                     |  |
| Residential 1-4 family                              | 286                                  | 286                       |   | 237                         | 5                   | 186                         | 14                  |  |
| Multifamily residential                             |                                      |                           |   |                             |                     |                             |                     |  |
| Total real estate                                   | 361                                  | 361                       |   | 305                         | 6                   | 265                         | 18                  |  |
| Consumer  | 27                                   | 28                        |   | 29                          | 1                   | 23                          | 2                   |  |
| Commercial and industrial                           | 202                                  | 202                       |   | 225                         | 3                   | 189                         | 8                   |  |
| Agricultural and other                              |                                      |                           |   |                             |                     |                             |                     |  |
| Total loans without a specific valuation allowance  | 590                                  | 591                       |   | 559                         | 10                  | 477                         | 28                  |  |
| <b>Loans with a specific valuation allowance</b>    |                                      |                           |   |                             |                     |                             |                     |  |
| Real estate:  |                                      |                           |   |                             |                     |                             |                     |  |
| Commercial real estate loans                        |                                      |                           |   |                             |                     |                             |                     |  |
| Non-farm/non-residential                            | 41,299                               | 37,365                    | 524                                     | 37,770                      | 375                 | 33,965                      | 1,107               |  |
| Construction/land development                       | 13,509                               | 12,446                    | 854                                     | 12,614                      | 75                  | 12,398                      | 234                 |  |
| Agricultural  | 299                                  | 303                       | 9                                       | 410                         | 4                   | 412                         | 14                  |  |
| Residential real estate loans                       |                                      |                           |   |                             |                     |                             |                     |  |
| Residential 1-4 family                              | 19,248                               | 17,241                    | 67                                      | 17,678                      | 51                  | 18,639                      | 429                 |  |
| Multifamily residential                             | 2,405                                | 2,405                     | 48                                      | 2,561                       | 16                  | 2,116                       | 66                  |  |
| Total real estate                                   | 76,760                               | 69,760                    | 1,502                                   | 71,033                      | 521                 | 67,530                      | 1,850               |  |
| Consumer  | 2,245                                | 2,003                     |   | 1,092                       | 24                  | 638                         | 42                  |  |
| Commercial and industrial                           | 10,269                               | 6,619                     | 9                                       | 8,276                       | 35                  | 11,361                      | 223                 |  |
| Agricultural and other                              | 33                                   | 33                        |   | 103                         |                     | 174                         | 3                   |  |
| Total loans with a specific valuation allowance     | 89,307                               | 78,415                    | 1,511                                   | 80,504                      | 580                 | 79,703                      | 2,118               |  |
| <b>Total impaired loans</b>                         |                                      |                           |   |                             |                     |                             |                     |  |

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|                               |           |           |          |           |        |           |          |
|-------------------------------|-----------|-----------|----------|-----------|--------|-----------|----------|
| Real estate:                  |           |           |          |           |        |           |          |
| Commercial real estate loans  |           |           |          |           |        |           |          |
| Non-farm/non-residential      | 41,343    | 37,409    | 524      | 37,806    | 376    | 33,998    | 1,109    |
| Construction/land development | 13,527    | 12,464    | 854      | 12,632    | 75     | 12,428    | 235      |
| Agricultural                  | 312       | 316       | 9        | 424       | 4      | 428       | 15       |
| Residential real estate loans |           |           |          |           |        |           |          |
| Residential 1-4 family        | 19,534    | 17,527    | 67       | 17,915    | 56     | 18,825    | 443      |
| Multifamily residential       | 2,405     | 2,405     | 48       | 2,561     | 16     | 2,116     | 66       |
| Total real estate             | 77,121    | 70,121    | 1,502    | 71,338    | 527    | 67,795    | 1,868    |
| Consumer                      | 2,272     | 2,031     |          | 1,121     | 25     | 661       | 44       |
| Commercial and industrial     | 10,471    | 6,821     | 9        | 8,501     | 38     | 11,550    | 231      |
| Agricultural and other        | 33        | 33        |          | 103       |        | 174       | 3        |
| Total impaired loans          | \$ 89,897 | \$ 79,006 | \$ 1,511 | \$ 81,063 | \$ 590 | \$ 80,180 | \$ 2,146 |

*Note:* Purchased credit impaired loans are accounted for on a pooled basis under ASC 310-30. All of these pools are currently considered to be performing, resulting in none of the purchased credit impaired loans being classified as impaired loans as of September 30, 2018.

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|   | December 31, 2017                             |                                 |  |                                   |                        |
|---|---|---------------------------------|--|-----------------------------------|------------------------|
|   |   |                                 | Year Ended                                       |                                   |                        |
|   | Unpaid<br>Contractual<br>Principal<br>Balance | Total<br>Recorded<br>Investment | Allocation<br>of Allowance<br>for Loan<br>Losses | Average<br>Recorded<br>Investment | Interest<br>Recognized |
|   | (In thousands)                                |                                 |  |                                   |                        |
| <b>Loans without a specific valuation allowance</b>       |   |                                 |  |                                   |                        |
| Real estate:  |   |                                 |  |                                   |                        |
| Commercial real estate loans                              |   |                                 |  |                                   |                        |
| Non-farm/non-residential                                  | \$ 29   | \$ 29                           | \$   | \$ 23                             | \$ 2                   |
| Construction/land development                             | 64  | 64                              |  | 31                                | 3                      |
| Agricultural  | 19  |                                 |  |                                   | 1                      |
| Residential real estate loans                             |   |                                 |  |                                   |                        |
| Residential 1-4 family                                    | 115   | 115                             |  | 135                               | 7                      |
| Multifamily residential                                   |   |                                 |  |                                   |                        |
| <b>Total real estate</b>                                  | <b>227</b>                                    | <b>208</b>                      |  | <b>189</b>                        | <b>13</b>              |
| Consumer  | 18  |                                 |  |                                   | 1                      |
| Commercial and industrial                                 | 105   | 105                             |  | 85                                | 7                      |
| Agricultural and other                                    |   |                                 |  |                                   |                        |
| <b>Total loans without a specific valuation allowance</b> | <b>350</b>                                    | <b>313</b>                      |  | <b>274</b>                        | <b>21</b>              |
| <b>Loans with a specific valuation allowance</b>          |   |                                 |  |                                   |                        |
| Real estate:  |   |                                 |  |                                   |                        |
| Commercial real estate loans                              |   |                                 |  |                                   |                        |
| Non-farm/non-residential                                  | 29,666  | 29,040                          | 757  | 41,772                            | 1,498                  |
| Construction/land development                             | 12,976  | 12,157                          | 1,378  | 10,556                            | 262                    |
| Agricultural  | 281   | 303                             | 11   | 268                               | 11                     |
| Residential real estate loans                             |   |                                 |  |                                   |                        |
| Residential 1-4 family                                    | 19,770  | 18,689                          | 124  | 22,347                            | 363                    |
| Multifamily residential                                   | 1,627   | 1,627                           | 64   | 1,412                             | 81                     |
| <b>Total real estate</b>                                  | <b>64,320</b>                                 | <b>61,816</b>                   | <b>2,334</b>                                     | <b>76,355</b>                     | <b>2,215</b>           |
| Consumer  | 179   | 191                             |  | 163                               |                        |
| Commercial and industrial                                 | 16,777  | 13,007                          | 843  | 9,726                             | 121                    |
| Agricultural and other                                    | 297   | 309                             | 7  | 644                               | 8                      |
| <b>Total loans with a specific valuation allowance</b>    | <b>81,573</b>                                 | <b>75,323</b>                   | <b>3,184</b>                                     | <b>86,888</b>                     | <b>2,344</b>           |
| <b>Total impaired loans</b>                               |   |                                 |  |                                   |                        |
| Real estate:  |   |                                 |  |                                   |                        |
| Commercial real estate loans                              |   |                                 |  |                                   |                        |
| Non-farm/non-residential                                  | 29,695  | 29,069                          | 757  | 41,795                            | 1,500                  |
| Construction/land development                             | 13,040  | 12,221                          | 1,378  | 10,587                            | 265                    |
| Agricultural  | 300   | 303                             | 11   | 268                               | 12                     |
| Residential real estate loans                             |   |                                 |  |                                   |                        |
| Residential 1-4 family                                    | 19,885  | 18,804                          | 124  | 22,482                            | 370                    |
| Multifamily residential                                   | 1,627   | 1,627                           | 64   | 1,412                             | 81                     |

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|                           |           |           |          |           |          |
|---------------------------|-----------|-----------|----------|-----------|----------|
| Total real estate         | 64,547    | 62,024    | 2,334    | 76,544    | 2,228    |
| Consumer                  | 197       | 191       |          | 163       | 1        |
| Commercial and industrial | 16,882    | 13,112    | 843      | 9,811     | 128      |
| Agricultural and other    | 297       | 309       | 7        | 644       | 8        |
| Total impaired loans      | \$ 81,923 | \$ 75,636 | \$ 3,184 | \$ 87,162 | \$ 2,365 |

*Note:* Purchased credit impaired loans are accounted for on a pooled basis under ASC 310-30. All of these pools are currently considered to be performing resulting in none of the purchased credit impaired loans being classified as impaired loans as of December 31, 2017.

Interest recognized on impaired loans during the three months ended September 30, 2018 and 2017 was approximately \$590,000 and \$957,000, respectively. Interest recognized on impaired loans during the nine months ended September 30, 2018 and 2017 was approximately \$2.1 million and \$2.0 million, respectively. The amount of interest recognized on impaired loans on the cash basis is not materially different than the accrual basis.

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

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

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

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

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

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

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

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

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

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

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The Company's classified loans include loans in risk ratings 6, 7 and 8. The following is a presentation of classified loans (excluding loans accounted for under ASC Topic 310-30) by class as of September 30, 2018 and December 31, 2017:

|                                      | <b>September 30, 2018</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>                  |                           |                     |                     |                         |
| <b>Commercial real estate loans</b>  |                           |                     |                     |                         |
| Non-farm/non-residential             | \$ 41,424                 | \$ 484              | \$                  | \$ 41,908               |
| Construction/land development        | 14,502                    | 860                 |                     | 15,362                  |
| Agricultural                         | 315                       | 3                   |                     | 318                     |
| <b>Residential real estate loans</b> |                           |                     |                     |                         |
| Residential 1-4 family               | 23,782                    | 253                 |                     | 24,035                  |
| Multifamily residential              | 983                       |                     |                     | 983                     |
| <b>Total real estate</b>             | <b>81,006</b>             | <b>1,600</b>        |                     | <b>82,606</b>           |
| Consumer                             | 1,117                     | 1                   |                     | 1,118                   |
| Commercial and industrial            | 11,237                    | 881                 |                     | 12,118                  |
| Agricultural and other               | 50                        |                     |                     | 50                      |
| <b>Total risk rated loans</b>        | <b>\$ 93,410</b>          | <b>\$ 2,482</b>     | <b>\$</b>           | <b>\$ 95,892</b>        |

|                                      | <b>December 31, 2017</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>                  |                          |                     |                     |                         |
| <b>Commercial real estate loans</b>  |                          |                     |                     |                         |
| Non-farm/non-residential             | \$ 20,933                | \$ 518              | \$                  | \$ 21,451               |
| Construction/land development        | 24,013                   | 204                 |                     | 24,217                  |
| Agricultural                         | 321                      |                     |                     | 321                     |
| <b>Residential real estate loans</b> |                          |                     |                     |                         |
| Residential 1-4 family               | 23,420                   | 564                 |                     | 23,984                  |
| Multifamily residential              | 939                      |                     |                     | 939                     |
| <b>Total real estate</b>             | <b>69,626</b>            | <b>1,286</b>        |                     | <b>70,912</b>           |
| Consumer                             | 159                      | 9                   |                     | 168                     |
| Commercial and industrial            | 12,818                   | 80                  |                     | 12,898                  |
| Agricultural and other               | 136                      |                     |                     | 136                     |
| <b>Total risk rated loans</b>        | <b>\$ 82,739</b>         | <b>\$ 1,375</b>     | <b>\$</b>           | <b>\$ 84,114</b>        |

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



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

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The following is a presentation of loans receivable by class and risk rating as of September 30, 2018 and December 31, 2017:

|                                 | September 30, 2018 |                 |                 |                 |                 |           | Classified<br>Total | Total |
|---------------------------------|--------------------|-----------------|-----------------|-----------------|-----------------|-----------|---------------------|-------|
|                                 | Risk<br>Rated 1    | Risk<br>Rated 2 | Risk<br>Rated 3 | Risk<br>Rated 4 | Risk<br>Rated 5 |           |                     |       |
| Real estate:                    | (In thousands)     |                 |                 |                 |                 |           |                     |       |
| Commercial real estate loans    |                    |                 |                 |                 |                 |           |                     |       |
| Non-farm/non-residential        | \$ 993             | \$ 299          | \$ 2,660,482    | \$ 1,863,651    | \$ 33,857       | \$ 41,908 | \$ 4,601,190        |       |
| Construction/land development   | 20                 | 736             | 261,009         | 1,263,515       | 923             | 15,362    | 1,541,565           |       |
| Agricultural                    |                    |                 | 35,336          | 36,099          | 981             | 318       | 72,734              |       |
| Residential real estate loans   |                    |                 |                 |                 |                 |           |                     |       |
| Residential 1-4 family          | 770                | 750             | 1,454,690       | 461,225         | 7,536           | 24,035    | 1,949,006           |       |
| Multifamily residential         |                    |                 | 398,294         | 206,280         |                 | 983       | 605,557             |       |
| Total real estate               | 1,783              | 1,785           | 4,809,811       | 3,830,770       | 43,297          | 82,606    | 8,770,052           |       |
| Consumer                        | 13,051             | 995             | 397,060         | 13,617          | 129             | 1,118     | 425,970             |       |
| Commercial and industrial       | 21,669             | 8,805           | 589,856         | 624,100         | 30,964          | 12,118    | 1,287,512           |       |
| Agricultural and other          | 1,045              | 3,388           | 134,301         | 60,520          | 537             | 50        | 199,841             |       |
| Total risk rated loans          | \$ 37,548          | \$ 14,973       | \$ 5,931,028    | \$ 4,529,007    | \$ 74,927       | \$ 95,892 | 10,683,375          |       |
| Purchased credit impaired loans |                    |                 |                 |                 |                 |           | 149,440             |       |
| Total loans receivable          |                    |                 |                 |                 |                 |           | \$ 10,832,815       |       |

|                               | December 31, 2017 |                 |                 |                 |                 |           | Classified<br>Total | Total |
|-------------------------------|-------------------|-----------------|-----------------|-----------------|-----------------|-----------|---------------------|-------|
|                               | Risk<br>Rated 1   | Risk<br>Rated 2 | Risk<br>Rated 3 | Risk<br>Rated 4 | Risk<br>Rated 5 |           |                     |       |
| Real estate:                  | (In thousands)    |                 |                 |                 |                 |           |                     |       |
| Commercial real estate loans  |                   |                 |                 |                 |                 |           |                     |       |
| Non-farm/non-residential      | \$ 1,015          | \$ 558          | \$ 2,595,844    | \$ 1,745,778    | \$ 119,656      | \$ 21,451 | \$ 4,484,302        |       |
| Construction/land development | 28                | 583             | 280,980         | 1,373,133       | 6,438           | 24,217    | 1,685,379           |       |
| Agricultural                  |                   | 19              | 53,018          | 27,515          | 1,150           | 321       | 82,023              |       |
| Residential real estate loans |                   |                 |                 |                 |                 |           |                     |       |
| Residential 1-4 family        | 1,140             | 969             | 1,414,849       | 475,619         | 11,658          | 23,984    | 1,928,219           |       |
| Multifamily residential       |                   |                 | 329,070         | 103,071         | 213             | 939       | 433,293             |       |
| Total real estate             | 2,183             | 2,129           | 4,673,761       | 3,725,116       | 139,115         | 70,912    | 8,613,216           |       |
| Consumer                      | 13,106            | 808             | 22,479          | 8,532           | 70              | 168       | 45,163              |       |
| Commercial and industrial     | 20,870            | 7,543           | 627,316         | 592,088         | 22,313          | 12,898    | 1,283,028           |       |

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|                                 |           |           |              |              |            |           |               |
|---------------------------------|-----------|-----------|--------------|--------------|------------|-----------|---------------|
| Agricultural and other          | 1,986     | 3,914     | 147,323      | 38,370       |            | 136       | 191,729       |
| Total risk rated loans          | \$ 38,145 | \$ 14,394 | \$ 5,470,879 | \$ 4,364,106 | \$ 161,498 | \$ 84,114 | 10,133,136    |
| Purchased credit impaired loans |           |           |              |              |            |           | 198,052       |
| Total loans receivable          |           |           |              |              |            |           | \$ 10,331,188 |

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The following is a presentation of troubled debt restructurings ( TDRs ) by class as of September 30, 2018 and December 31, 2017:

|                               | <b>September 30, 2018</b>                            |                                |                              |                              |   |   |
|-------------------------------|--|--------------------------------|------------------------------|------------------------------|---|---|
|                               | <b>Pre-<br/>Modification<br/>Number<br/>of Loans</b> | <b>Outstanding<br/>Balance</b> | <b>Rate<br/>Modification</b> | <b>Term<br/>Modification</b> | <b>Rate<br/>&amp; Term<br/>Modification</b> | <b>Post-<br/>Modification<br/>Outstanding<br/>Balance</b> |
| (Dollars in thousands)        |  |                                |                              |                              |   |   |
| Real estate:                  |  |                                |                              |                              |   |   |
| Commercial real estate loans  |  |                                |                              |                              |   |   |
| Non-farm/non-residential      | 16   | \$ 16,018                      | \$ 8,177                     | \$ 742                       | \$ 4,494                                    | \$ 13,413   |
| Construction/land development | 3  | 641                            | 546                          | 69                           |   | 615   |
| Agricultural                  | 2  | 345                            | 283                          | 16                           |   | 299   |
| Residential real estate loans |  |                                |                              |                              |   |   |
| Residential 1-4 family        | 24   | 4,494                          | 1,105                        | 353                          | 1,035                                       | 2,493   |
| Multifamily residential       | 3  | 1,701                          | 1,281                        |                              | 287   | 1,568   |
| Total real estate             | 48   | 23,199                         | 11,392                       | 1,180                        | 5,816                                       | 18,388  |
| Consumer                      | 4  | 36                             | 17                           | 11                           |   | 28  |
| Commercial and industrial     | 13   | 1,062                          | 396                          | 105                          |   | 501   |
| <b>Total</b>                  | <b>65</b>  | <b>\$ 24,297</b>               | <b>\$ 11,805</b>             | <b>\$ 1,296</b>              | <b>\$ 5,816</b>                             | <b>\$ 18,917</b>  |

|                               | <b>December 31, 2017</b>                             |                                |                              |                              |   |   |
|-------------------------------|--|--------------------------------|------------------------------|------------------------------|---|---|
|                               | <b>Pre-<br/>Modification<br/>Number<br/>of Loans</b> | <b>Outstanding<br/>Balance</b> | <b>Rate<br/>Modification</b> | <b>Term<br/>Modification</b> | <b>Rate<br/>&amp; Term<br/>Modification</b> | <b>Post-<br/>Modification<br/>Outstanding<br/>Balance</b> |
| (Dollars in thousands)        |  |                                |                              |                              |   |   |
| Real estate:                  |  |                                |                              |                              |   |   |
| Commercial real estate loans  |  |                                |                              |                              |   |   |
| Non-farm/non-residential      | 16   | \$ 16,853                      | \$ 8,815                     | \$ 250                       | \$ 5,513                                    | \$ 14,578   |
| Construction/land development | 5  | 782                            | 689                          | 75                           |   | 764   |
| Agricultural                  | 2  | 345                            | 282                          | 22                           |   | 304   |
| Residential real estate loans |  |                                |                              |                              |   |   |
| Residential 1-4 family        | 21   | 5,607                          | 1,926                        | 81                           | 1,238                                       | 3,245   |
| Multifamily residential       | 3  | 1,701                          | 1,340                        |                              | 287   | 1,627   |
| Total real estate             | 47   | 25,288                         | 13,052                       | 428                          | 7,038                                       | 20,518  |
| Consumer                      | 3  | 19                             |                              | 18                           |   | 18  |
| Commercial and industrial     | 11   | 951                            | 445                          | 50                           | 1   | 496   |
| Agricultural and other        | 1  | 166                            | 166                          |                              |   | 166   |
| <b>Total</b>                  | <b>62</b>  | <b>\$ 26,424</b>               | <b>\$ 13,663</b>             | <b>\$ 496</b>                | <b>\$ 7,039</b>                             | <b>\$ 21,198</b>  |



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The following is a presentation of TDRs on non-accrual status as of September 30, 2018 and December 31, 2017 because they are not in compliance with the modified terms:

|                               | September 30,<br>2018 |   | December 31,<br>2017 |                     |
|-------------------------------|-----------------------|---|----------------------|---------------------|
|                               | Number<br>of Loans    | Recorded<br>Balance<br>(Dollars in thousands) | Number<br>of Loans   | Recorded<br>Balance |
| Real estate:                  |                       |   |                      |                     |
| Commercial real estate loans  |                       |   |                      |                     |
| Non-farm/non-residential      | 3                     | \$ 758  | 2                    | \$ 1,161            |
| Agricultural                  | 1                     | 16  | 1                    | 22                  |
| Residential real estate loans |                       |   |                      |                     |
| Residential 1-4 family        | 9                     | 787   | 8                    | 850                 |
| Multifamily residential       | 1                     | 146   | 1                    | 153                 |
| <b>Total real estate</b>      | <b>14</b>             | <b>1,707</b>                                  | <b>12</b>            | <b>2,186</b>        |
| Commercial and industrial     | 6                     | 128   | 1                    |                     |
| <b>Total</b>                  | <b>20</b>             | <b>\$ 1,835</b>                               | <b>13</b>            | <b>\$ 2,186</b>     |

The following is a presentation of total foreclosed assets as of September 30, 2018 and December 31, 2017:

|  | September 30,<br>2018 | December 31,<br>2017 |
|--|-----------------------|----------------------|
|  | (In thousands)        |                      |
| Commercial real estate loans                 |                       |                      |
| Non-farm/non-residential                     | \$ 5,858              | \$ 9,766             |
| Construction/land development                | 3,539                 | 5,920                |
| Agriculture                                  | 155                   |                      |
| Residential real estate loans                |                       |                      |
| Residential 1-4 family                       | 3,885                 | 2,654                |
| Multifamily residential                      | 70                    | 527                  |
| <b>Total foreclosed assets held for sale</b> | <b>\$ 13,507</b>      | <b>\$ 18,867</b>     |

The following is a summary of the purchased credit impaired loans acquired in the SPF, GHI, BOC and Stonegate acquisitions as of the dates of acquisition:

|  | SPF            | GHI       | BOC       | Stonegate |
|--|----------------|-----------|-----------|-----------|
|  | (In thousands) |           |           |           |
| Contractually required principal and interest at acquisition | \$ 3,496       | \$ 22,379 | \$ 18,586 | \$ 98,444 |

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|   |          |           |           |           |
|---|----------|-----------|-----------|-----------|
| Non-accretable difference (expected losses and foregone interest) | 285      | 4,462     | 2,811     | 23,297    |
| Cash flows expected to be collected at acquisition                | 3,211    | 17,917    | 15,775    | 75,147    |
| Accretable yield  | 808      | 2,071     | 1,043     | 11,761    |
| Basis in purchased credit impaired loans at acquisition           | \$ 2,403 | \$ 15,846 | \$ 14,732 | \$ 63,386 |

Changes in the carrying amount of the accretable yield for purchased credit impaired loans were as follows for the nine-month period ended September 30, 2018 for the Company's acquisitions:

|  | <b>Accretable<br/>Yield<br/>(In thousands)</b> | <b>Carrying<br/>Amount<br/>of<br/>Loans</b> |
|--|--|---|
| Balance at beginning of period                       | \$ 41,803                                      | \$ 198,052                                  |
| Reforecasted future interest payments for loan pools | (459)  |   |
| Contractual accretion recorded to interest income    | (13,206)                                       | 13,206                                      |
| Acquisitions   | 808  | 2,403                                       |
| Adjustment to yield                                  | 8,519  |   |
| Transfers to foreclosed assets held for sale         |  | (2,156)                                     |
| Payments received, net                               |  | (62,065)                                    |
| Balance at end of period                             | \$ 37,465                                      | \$ 149,440                                  |

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The loan pools were evaluated by the Company and are currently forecasted to have a slower run-off than originally expected. As a result, the Company has reforecast the total accretable yield expectations for those loan pools by \$459,000. This updated forecast does not change the expected weighted average yields on the loan pools.

During the 2018 impairment tests on the estimated cash flows of loans, the Company established that several loan pools were determined to have a materially projected credit improvement. As a result of this improvement, the Company will recognize approximately \$8.5 million as an additional adjustment to yield over the weighted average life of the loans.

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

Changes in the carrying amount and accumulated amortization of the Company's goodwill and core deposits and other intangibles at September 30, 2018 and December 31, 2017, were as follows:

|                              | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|------------------------------|-------------------------------|------------------------------|
| <b><u>Goodwill</u></b>       | <b>(In thousands)</b>         |                              |
| Balance, beginning of period | \$ 927,949                    | \$ 377,983                   |
| Acquisitions                 | 30,459                        | 549,966                      |
| Balance, end of period       | \$ 958,408                    | \$ 927,949                   |

|  | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|--|-------------------------------|------------------------------|
| <b><u>Core Deposit and Other Intangibles</u></b> | <b>(In thousands)</b>         |                              |
| Balance, beginning of period                     | \$ 49,351                     | \$ 18,311                    |
| Acquisition                                      |                               | 35,247                       |
| Amortization expense                             | (4,867)                       | (2,576)                      |
| Balance, September 30                            | \$ 44,484                     | 50,982                       |
| Acquisitions                                     |                               |                              |
| Amortization expense                             |                               | (1,631)                      |
| Balance, end of year                             |                               | \$ 49,351                    |

The carrying basis and accumulated amortization of core deposits and other intangibles at September 30, 2018 and December 31, 2017 were:

|  | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|--|-------------------------------|------------------------------|
|  | <b>(In thousands)</b>         |                              |



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|                          |           |           |
|--------------------------|-----------|-----------|
| Gross carrying basis     | \$ 86,625 | \$ 86,625 |
| Accumulated amortization | (42,141)  | (37,274)  |
| Net carrying amount      | \$ 44,484 | \$ 49,351 |

Core deposit and other intangible amortization expense was approximately \$1.6 million and \$906,000 for the three months ended September 30, 2018 and 2017, respectively. Core deposit and other intangible amortization expense was approximately \$4.9 million and \$2.6 million for the nine months ended September 30, 2018 and 2017, respectively. Including all of the mergers completed as of December 31, 2017, HBI's estimated amortization expense of core deposits and other intangibles for each of the years 2018 through 2023 is approximately: 2018 \$6.6 million; 2019 \$6.5 million; 2020 \$5.9 million; 2021 \$5.7 million; 2022 \$5.7 million; 2023 \$5.5 million.

The carrying amount of the Company's goodwill was \$958.4 million and \$927.9 million at September 30, 2018 and December 31, 2017, 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.

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

Other assets consist primarily of equity securities without a readily determinable fair value and other miscellaneous assets. As of September 30, 2018 and December 31, 2017, other assets were \$187.3 million and \$177.8 million, respectively.

The Company has equity securities without readily determinable fair values such as stock holdings in the Federal Home Loan Bank ( FHLB ) and the Federal Reserve Bank ( Federal Reserve ) which are outside the scope of ASC Topic 321, *Investments – Equity Securities* ( ASC Topic 321 ). These equity securities without a readily determinable fair value were \$134.1 million and \$132.1 million at September 30, 2018 and December 31, 2017, respectively, and are accounted for at cost.

The Company has equity securities such as stock holdings in First National Bankers Bank and other miscellaneous holdings which are accounted for under ASC Topic 321. These equity securities without a readily determinable fair value were \$24.5 million and \$23.9 million at September 30, 2018 and December 31, 2017, respectively. There were no transactions during the period that would indicate a material change in fair value. Therefore, these investments were accounted for at cost.

**8. Deposits**

The aggregate amount of time deposits with a minimum denomination of \$250,000 was \$784.8 million and \$636.9 million at September 30, 2018 and December 31, 2017, respectively. The aggregate amount of time deposits with a minimum denomination of \$100,000 was \$1.25 billion and \$998.3 million at September 30, 2018 and December 31, 2017, respectively. Interest expense applicable to certificates in excess of \$100,000 totaled \$4.9 million and \$2.2 million for the three months ended September 30, 2018 and 2017, respectively. Interest expense applicable to certificates in excess of \$100,000 totaled \$11.5 million and \$5.8 million for the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018 and December 31, 2017, brokered deposits were \$591.6 million and \$1.03 billion, respectively.

Deposits totaling approximately \$1.84 billion and \$1.51 billion at September 30, 2018 and December 31, 2017, respectively, were public funds obtained primarily from state and political subdivisions in the United States.

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

At September 30, 2018 and December 31, 2017, securities sold under agreements to repurchase totaled \$142.1 million and \$147.8 million, respectively. For the three-month periods ended September 30, 2018 and 2017, securities sold under agreements to repurchase daily weighted-average totaled \$148.8 million and \$135.9 million, respectively. For the nine-month periods ended September 30, 2018 and 2017, securities sold under agreements to repurchase daily weighted-average totaled \$148.5 million and \$129.6 million, respectively.

The remaining contractual maturity of securities sold under agreements to repurchase in the consolidated balance sheets as of September 30, 2018 and December 31, 2017 is presented in the following tables:

| <b>September 30, 2018</b>                    |                       |                                 |  | <b>Total</b> |
|--|-----------------------|---------------------------------|--|--------------|
| <b>Overnight and Up to 30<br/>Continuous</b> | <b>30-90<br/>Days</b> | <b>Greater than<br/>90 Days</b> |  |              |

**(In thousands)**

| Securities sold under agreements to repurchase: |            |    |    |            |
|---|------------|----|----|------------|
| U.S. government-sponsored enterprises           | \$ 26,134  | \$ | \$ | \$ 26,134  |
| Mortgage-backed securities                      | 9,694      |    |    | 9,694      |
| State and political subdivisions                | 90,715     |    |    | 90,715     |
| Other securities                                | 15,603     |    |    | 15,603     |
| Total borrowings                                | \$ 142,146 | \$ | \$ | \$ 142,146 |

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|   | December 31, 2017           |                  |               |                         | Total      |
|---|-----------------------------|------------------|---------------|-------------------------|------------|
|   | Overnight and<br>Continuous | Up to 30<br>Days | 30-90<br>Days | Greater than<br>90 Days |            |
| Securities sold under agreements to repurchase: |                             |                  |               |                         |            |
| U.S. government-sponsored enterprises           | \$ 11,525                   | \$               | \$            | \$ 10,000               | \$ 21,525  |
| Mortgage-backed securities                      | 21,255                      |                  |               |                         | 21,255     |
| State and political subdivisions                | 85,428                      |                  |               |                         | 85,428     |
| Other securities                                | 19,581                      |                  |               |                         | 19,581     |
| Total borrowings                                | \$ 137,789                  | \$               | \$            | \$ 10,000               | \$ 147,789 |

**10. FHLB Borrowed Funds**

The Company's FHLB borrowed funds, which are secured by our loan portfolio, were \$ 1.36 billion and \$1.30 billion at September 30, 2018 and December 31, 2017, respectively. At September 30, 2018, \$750.0 million and \$609.9 million of the outstanding balance were issued as short-term and long-term advances, respectively. At December 31, 2017, \$525.0 million and \$774.2 million of the outstanding balance were issued as short-term and long-term advances, respectively. The FHLB advances mature from the current year to 2033 with fixed interest rates ranging from 1.00% to 4.80% and are secured by loans and investments securities. Maturities of borrowings as of September 30, 2018 include: 2018 \$770.0 million; 2019 \$143.0 million; 2020 \$146.4 million; 2021 zero; 2022 zero; 2023 zero; after 2023 \$300.4 million. Expected maturities will differ from contractual maturities because FHLB may have the right to call or HBI the right to prepay certain obligations. \$300 million of the borrowings maturing after 2023 are callable by the FHLB within one year.

Additionally, the Company had \$941.3 million and \$695.3 million at September 30, 2018 and December 31, 2017, respectively, in letters of credit under a FHLB blanket borrowing line of credit, which are used to collateralize public deposits at September 30, 2018 and December 31, 2017, respectively.

**11. Other Borrowings**

The Company had zero other borrowings at September 30, 2018. The Parent Company took out a \$20.0 million unsecured line of credit for general corporate purposes during 2015. The balance on this line of credit at September 30, 2018 and December 31, 2017 was zero.

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

Subordinated debentures at September 30, 2018 and December 31, 2017 consisted of guaranteed payments on trust preferred securities with the following components:

|   | <b>As of<br/>September 30,<br/>2018</b> | <b>As of<br/>December 31,<br/>2017</b> |
|---|---|--|
|   | <b>(In thousands)</b>                   |  |
| <b>Trust preferred securities</b>   |   |  |
| Subordinated debentures, issued in 2006, due 2036, fixed rate of 6.75% during the first five years and at a floating rate of 1.85% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty                        | \$ 3,093                                | \$ 3,093                               |
| Subordinated debentures, issued in 2004, due 2034, fixed rate of 6.00% during the first five years and at a floating rate of 2.00% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty                        | 15,464                                  | 15,464                                 |
| Subordinated debentures, issued in 2005, due 2035, fixed rate of 5.84% during the first five years and at a floating rate of 1.45% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty                        | 25,774                                  | 25,774                                 |
| Subordinated debentures, issued in 2004, due 2034, fixed rate of 4.29% during the first five years and at a floating rate of 2.50% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty                        | 16,495                                  | 16,495                                 |
| Subordinated debentures, issued in 2005, due 2035, floating rate of 2.15% above the three-month LIBOR rate, reset quarterly, currently callable without penalty   | 4,341                                   | 4,304                                  |
| Subordinated debentures, issued in 2006, due 2036, fixed rate of 7.38% during the first five years and at a floating rate of 1.62% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty                        | 5,638                                   | 5,569                                  |
| <b>Subordinated debt securities</b>   |   |  |
| Subordinated notes, net of issuance costs, issued in 2017, due 2027, fixed rate of 5.625% during the first five years and at a floating rate of 3.575% above the then three-month LIBOR rate, reset quarterly, thereafter, callable in 2022 without penalty | 297,791                                 | 297,332                                |
| <b>Total</b>  | <b>\$ 368,596</b>                       | <b>\$ 368,031</b>                      |

The Company holds trust preferred securities with a face amount of \$73.3 million 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.

The Bank acquired \$12.5 million in trust preferred securities with a carrying value of \$9.9 million and \$9.8 million at September 30, 2018 and December 31, 2017, respectively, from the Stonegate acquisition. The difference between the fair value purchased of \$9.9 million and the \$12.5 million face amount, will be amortized into interest expense over the remaining life of the debentures. The associated subordinated debentures are redeemable, in whole or in part, prior to maturity at our option on a quarterly basis when interest is due and payable and in whole at any time within 90 days following the occurrence and continuation of certain changes in the tax treatment or capital treatment of the debentures.

**Table of Contents****13. Income Taxes**

On December 22, 2017, the Tax Cuts and Jobs Act ( TCJA ) was signed into law. The TCJA makes broad and complex changes to the U.S. tax code that affected our income tax rate in 2017. The TCJA reduced the U.S. federal corporate income tax rate from 35% to 21%. The TCJA also established new tax laws that will affect 2018.

On December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118 ( SAB 118 ), which provides guidance on accounting for the tax effects of the 2017 Act. SAB 118 provides a measurement period that should not extend beyond one year from the 2017 Act enactment date for companies to complete the accounting under ASC 740, Income Taxes. As such, the company's 2017 financial results reflect the income tax effects for the 2017 Act for which the accounting under ASC 740 is complete and provisional amounts for those specific income tax effects of the 2017 Act for which the accounting under ASC 740 is incomplete, but a reasonable estimate could be determined. The company did not identify items for which the income tax effects of the 2017 Act have not been completed and a reasonable estimate could not be determined as of December 31, 2017. The tax expense recorded in 2017 is a reasonable estimate based on published guidance available at this time and is considered provisional. The ultimate impact of the 2017 Act may differ from these estimates due to changes in interpretations and assumptions made by the Company, as well as additional regulatory guidance. Any adjustments will be reflected in the Company's financial statements in future periods.

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, 2018 and 2017:

|                           | <b>Three Months<br/>Ended<br/>September 30,</b> |                 | <b>Nine Months Ended<br/>September 30,</b> |                  |
|---------------------------|---|-----------------|--|------------------|
|                           | <b>2018</b>                                     | <b>2017</b>     | <b>2018</b>                                | <b>2017</b>      |
|                           | <b>(In thousands)</b>                           |                 |  |                  |
| <b>Current:</b>           |   |                 |  |                  |
| Federal                   | \$ 17,999                                       | \$ 17,289       | \$ 44,354                                  | \$ 65,958        |
| State                     | 5,958   | 3,434           | 14,683                                     | 13,101           |
| Total current             | 23,957  | 20,723          | 59,037                                     | 79,059           |
| <b>Deferred:</b>          |   |                 |  |                  |
| Federal                   | 1,047   | (11,002)        | 10,964                                     | (13,238)         |
| State                     | 346   | (2,185)         | 3,629                                      | (2,629)          |
| Total deferred            | 1,393   | (13,187)        | 14,593                                     | (15,867)         |
| <b>Income tax expense</b> | <b>\$ 25,350</b>                                | <b>\$ 7,536</b> | <b>\$ 73,630</b>                           | <b>\$ 63,192</b> |

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, 2018 and 2017:

|  | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2018</b>               | <b>2017</b> | <b>2018</b>              | <b>2017</b> |
| Statutory federal income tax rate          | 21.00%                    | 35.00%      | 21.00%                   | 35.00%      |
| Effect of non-taxable interest income      | (0.84)                    | (4.48)      | (0.80)                   | (1.82)      |
| Effect of gain on acquisitions             |                           |             |                          | (0.76)      |
| Stock compensation                         | (0.12)                    | (0.09)      | (0.18)                   | (0.49)      |
| State income taxes, net of federal benefit | 3.30                      | 3.91        | 3.60                     | 4.01        |
| Other                                      | 0.66                      | (0.63)      | 0.68                     | 0.18        |
| Effective income tax rate                  | 24.00%                    | 33.71%      | 24.30%                   | 36.12%      |



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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,<br>2018 | December 31,<br>2017 |
|--|-----------------------|----------------------|
|  | (In thousands)        |                      |
| Deferred tax assets:                               |                       |                      |
| Allowance for loan losses                          | \$ 30,023             | \$ 29,515            |
| Deferred compensation                              | 2,868                 | 1,142                |
| Stock compensation                                 | 3,674                 | 2,731                |
| Real estate owned                                  | 1,419                 | 1,731                |
| Unrealized loss on securities available-for-sale   | 11,118                | 1,471                |
| Loan discounts                                     | 25,144                | 32,784               |
| Tax basis premium/discount on acquisitions         | 8,387                 | 8,802                |
| Investments  | 1,008                 | 1,155                |
| Other  | 10,552                | 11,663               |
| <b>Gross deferred tax assets</b>                   | <b>94,193</b>         | <b>90,994</b>        |
| Deferred tax liabilities:                          |                       |                      |
| Accelerated depreciation on premises and equipment | 1,157                 | 291                  |
| Core deposit intangibles                           | 10,163                | 11,258               |
| FHLB dividends                                     | 1,712                 | 1,625                |
| Other  | 1,613                 | 1,256                |
| <b>Gross deferred tax liabilities</b>              | <b>14,645</b>         | <b>14,430</b>        |
| <b>Net deferred tax assets</b>                     | <b>\$ 79,548</b>      | <b>\$ 76,564</b>     |

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and the states of Arkansas, Alabama, Florida and New York. The Company is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2013.

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

The Company's Restated Articles of Incorporation, as amended, authorize the issuance of up to 200,000,000 shares of common stock, par value \$0.01 per share.

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

***Stock Repurchases***

On February 21, 2018, the Company's Board of Directors authorized the repurchase of up to an additional 5,000,000 shares of its common stock under the previously approved stock repurchase program, which brought the total amount of authorized shares to repurchase to 14,752,000 shares. During 2018, the Company utilized a portion of this stock repurchase program.

During the first nine months of 2018, the Company repurchased a total of 1,863,400 shares with a weighted-average stock price of \$23.14 per share. The 2018 earnings were used to fund the repurchases during the year. Shares repurchased under the program as of September 30, 2018 total 6,388,264 shares. The remaining balance available for repurchase is 8,363,736 shares at September 30, 2018.

**Table of Contents****Stock Compensation Plans**

The Company has a stock option and performance incentive plan known as the Amended and Restated 2006 Stock Option and Performance Incentive Plan (the "Plan"). The purpose of the Plan is to attract and retain highly qualified officers, directors, key employees, and other persons, and to motivate those persons to improve the Company's business results. On April 19, 2018 at the Annual Meeting of Shareholders of the Company, the shareholders approved, as proposed in the Proxy Statement, an amendment to the Plan to increase the number of shares of the Company's common stock available for issuance under the Plan by 2,000,000 shares to 13,288,000 shares. The Plan provides for the granting of incentive and non-qualified stock options and other equity awards, including the issuance of restricted shares. As of September 30, 2018, the maximum total number of shares of the Company's common stock available for issuance under the Plan was 13,288,000. At September 30, 2018, the Company had approximately 1,841,443 shares of common stock remaining available for future grants and approximately 5,477,700 shares of common stock reserved for issuance pursuant to outstanding awards under the Plan.

During the third quarter of 2018, the Company granted 1,452,000 stock options and 843,500 shares of restricted stock to certain employees under the HOMB \$2.00 program ("HOMB \$2.00"). The purpose of the performance-based incentive plan is to motivate employees to help the Company achieve \$2.00 of diluted earnings per share over a consecutive four-quarter period.

The intrinsic value of the stock options outstanding and stock options vested at September 30, 2018 was \$11.0 million and \$8.0 million, respectively. Total unrecognized compensation cost, net of income tax benefit, related to non-vested stock option awards, which are expected to be recognized over the vesting periods, was approximately \$13.3 million as of September 30, 2018. For the first nine months of 2018, the Company has expensed approximately \$1.4 million for the non-vested awards.

The table below summarizes the stock option transactions under the Plan at September 30, 2018 and December 31, 2017 and changes during the nine-month period and year then ended:

|                                | For the Nine Months<br>Ended September 30, 2018 |  | For the Year Ended<br>December 31, 2017 |  |
|--------------------------------|---|--|---|--|
|                                | Shares  | Weighted-<br>Average<br>Exercisable<br>Price | Shares                                  | Weighted-<br>Average<br>Exercisable<br>Price |
|                                | (000)   |  | (000)                                   |  |
| Outstanding, beginning of year | 2,274   | \$ 16.23                                     | 2,397                                   | \$ 15.19                                     |
| Granted                        | 1,576   | 23.24  | 80                                      | 25.96  |
| Forfeited/Expired              | (37)  | 22.30  |   |  |
| Exercised                      | (177)   | 9.42   | (203)                                   | 7.82   |
| Outstanding, end of period     | 3,636   | 19.54  | 2,274                                   | 16.23  |
| Exercisable, end of period     | 1,171   | 15.10  | 1,016                                   | \$ 13.55                                     |

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, 2018 was \$5.58 per share. The weighted-average fair value of options granted during the year ended December 31, 2017 was \$7.10 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.

|                                 | <b>For the Nine<br/>Months Ended<br/>September 30, 2018</b> | <b>For the<br/>Year Ended<br/>December 31, 2017</b> |
|---------------------------------|---|---|
| Expected dividend yield         | 2.05%   | 1.39%   |
| Expected stock price volatility | 25.59%  | 28.47%  |
| Risk-free interest rate         | 2.82%   | 2.06%   |
| 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, 2018:

| Exercise Prices    | Options Outstanding              |   |                                 | Options Exercisable              |                                 |  |
|--------------------|----------------------------------|---|---------------------------------|----------------------------------|---------------------------------|--|
|                    | Options Outstanding Shares (000) | Average Remaining Contractual Life (in years) | Weighted-Average Exercise Price | Options Exercisable Shares (000) | Weighted-Average Exercise Price |  |
| \$2.10 to \$2.66   | 12                               | 0.73  | 2.60                            | 12                               | 2.60                            |  |
| \$5.68 to \$6.56   | 89                               | 3.22  | 6.54                            | 89                               | 6.54                            |  |
| \$8.62 to \$9.54   | 259                              | 4.41  | 9.04                            | 259                              | 9.04                            |  |
| \$14.71 to \$16.86 | 252                              | 6.02  | 15.97                           | 168                              | 16.05                           |  |
| \$17.12 to \$17.40 | 195                              | 6.15  | 17.20                           | 118                              | 17.22                           |  |
| \$18.46            | 1,010                            | 6.90  | 18.46                           | 433                              | 18.46                           |  |
| \$20.16 to \$20.58 | 68                               | 7.02  | 20.41                           | 28                               | 20.34                           |  |
| \$21.25 to \$22.22 | 230                              | 8.51  | 21.71                           | 48                               | 21.25                           |  |
| \$22.70 to \$23.51 | 1,441                            | 9.81  | 23.32                           |                                  |                                 |  |
| \$25.96            | 80                               | 8.56  | 25.96                           | 16                               | 25.96                           |  |
|                    | 3,636                            |   |                                 | 1,171                            |                                 |  |

The table below summarized the activity for the Company's restricted stock issued and outstanding at September 30, 2018 and December 31, 2017 and changes during the period and year then ended:

|   | As of<br>September 30,<br>2018 | As of<br>December 31,<br>2017 |
|---|--------------------------------|-------------------------------|
|   | (In thousands)                 |                               |
| Beginning of year   | 1,145                          | 958                           |
| Issued  | 1,005                          | 232                           |
| Vested  | (229)                          | (45)                          |
| Forfeited   | (49)                           |                               |
| End of period   | 1,872                          | 1,145                         |
| Amount of expense for nine months and twelve months ended, respectively | \$ 5,153                       | \$ 5,237                      |

Total unrecognized compensation cost, net of income tax benefit, related to non-vested restricted stock awards, which are expected to be recognized over the 7.8 weighted average remaining contractual life, was approximately

\$30.2 million as of September 30, 2018.

**Table of Contents****15. Non-Interest Expense**

The table below shows the components of non-interest expense for the three and nine months ended September 30, 2018 and 2017:

|                                       | <b>Three Months<br/>Ended<br/>September 30,<br/>2018</b> |                  | <b>Nine Months Ended<br/>September 30,<br/>2018</b> |                   |
|---------------------------------------|--|------------------|---|-------------------|
|                                       | <b>2018</b>  | <b>2017</b>      | <b>2018</b>   | <b>2017</b>       |
|                                       | <b>(In thousands)</b>                                    |                  |   |                   |
| Salaries and employee benefits        | \$ 37,825  | \$ 28,510        | \$ 107,315  | \$ 83,965         |
| Occupancy and equipment               | 8,148  | 7,887            | 25,650  | 21,602            |
| Data processing expense               | 3,461  | 2,853            | 10,786  | 8,439             |
| Other operating expenses:             |  |                  |   |                   |
| Advertising                           | 1,154  | 795              | 3,258   | 2,305             |
| Merger and acquisition expenses       |  | 18,227           |   | 25,743            |
| Amortization of intangibles           | 1,617  | 906              | 4,867   | 2,576             |
| Electronic banking expense            | 1,947  | 1,712            | 5,653   | 4,885             |
| Directors fees                        | 314  | 309              | 962   | 946               |
| Due from bank service charges         | 253  | 472              | 714   | 1,348             |
| FDIC and state assessment             | 2,293  | 1,293            | 6,689   | 3,763             |
| Insurance                             | 762  | 577              | 2,363   | 1,698             |
| Legal and accounting                  | 761  | 698              | 2,397   | 1,799             |
| Other professional fees               | 1,748  | 1,436            | 4,988   | 3,822             |
| Operating supplies                    | 510  | 432              | 1,712   | 1,376             |
| Postage                               | 311  | 280              | 978   | 861               |
| Telephone                             | 337  | 305              | 1,081   | 1,027             |
| Other expense                         | 4,682  | 4,154            | 13,318  | 10,835            |
| <b>Total other operating expenses</b> | <b>16,689</b>  | <b>31,596</b>    | <b>48,980</b>                                       | <b>62,984</b>     |
| <b>Total non-interest expense</b>     | <b>\$ 66,123</b>   | <b>\$ 70,846</b> | <b>\$ 192,731</b>                                   | <b>\$ 176,990</b> |

**16. Significant Estimates and Concentrations of Credit Risks**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses and certain concentrations of credit risk are reflected in Note 5, while deposit concentrations are reflected in Note 8.

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

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

in its market areas.

Although the Company has a diversified loan portfolio, commercial real estate loans represented 58.3% and 61.8% of total loans receivable at September 30, 2018 and December 31, 2017, respectively, and 269.5% and 289.6% of total stockholders' equity at September 30, 2018 and December 31, 2017, respectively. Residential real estate loans represented 23.9% and 23.3% of total loans receivable and 110.7% and 109.4% of total stockholders' equity at September 30, 2018 and December 31, 2017, respectively.

Approximately 89.1% of the Company's total loans and 91.1% of the Company's real estate loans as of September 30, 2018, are to borrowers whose collateral is located in Alabama, Arkansas, Florida and New York, the states in which the Company has its branch locations.



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

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

**17. Commitments and Contingencies**

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

At September 30, 2018 and December 31, 2017, commitments to extend credit of \$2.25 billion and \$2.38 billion, respectively, were outstanding. A percentage of these balances are participated out to other banks; therefore, the Company can call on the participating banks to fund future draws. Since some of these commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

Outstanding standby letters of credit are contingent commitments issued by the Company, generally to guarantee the performance of a customer in third-party borrowing arrangements. The term of the guarantee is dependent upon the creditworthiness of the borrower, some of which are long-term. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments. The maximum amount of future payments the Company could be required to make under these guarantees at September 30, 2018 and December 31, 2017, is \$55.0 million and \$70.5 million, respectively.

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

**18. Regulatory Matters**

The Bank is subject to a legal limitation on dividends that can be paid to the parent company without prior approval of the applicable regulatory agencies. Arkansas bank regulators have specified that the maximum dividend limit state banks may pay to the parent company without prior approval is 75% of the current year earnings plus 75% of the retained net earnings of the preceding year. Since the Bank is also under supervision of the Federal Reserve, it is further limited if the total of all dividends declared in any calendar year by the Bank exceeds the Bank's net profits to date for that year combined with its retained net profits for the preceding two years. During the first nine months of 2018, the Company requested approximately \$155.5 million in regular dividends from its banking subsidiary. This

dividend is equal to approximately 63.0% of the Company's banking subsidiary's year-to-date 2018 earnings.

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total, common Tier 1 equity and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes that, as of September 30, 2018, the Company meets all capital adequacy requirements to which it is subject.

In July 2013, the Federal Reserve Board and the other federal bank regulatory agencies issued a final rule to revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to make them consistent with the agreements that were reached by the Basel Committee on Banking Supervision in *Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems* and certain provisions of the Dodd-Frank Act ( *Basel III* ). *Basel III* applies to all depository institutions, bank holding companies with total consolidated assets of \$500 million or more, and savings and loan holding companies. *Basel III* became effective for the Company and its bank subsidiary on January 1, 2015. The capital conservation buffer requirement began being phased in beginning January 1, 2016 at the 0.625% level and will increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019 when the phase-in period ends and the full capital conservation buffer requirement becomes effective.

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

The Federal Reserve Board's risk-based capital guidelines include the definitions for (1) a well-capitalized institution, (2) an adequately-capitalized institution, and (3) an undercapitalized institution. Under *Basel III*, the criteria for a well-capitalized institution are now: a 6.5% common equity Tier 1 risk-based capital ratio, a 5% Tier 1 leverage capital ratio, an 8% Tier 1 risk-based capital ratio, and a 10% total risk-based capital ratio. As of September 30, 2018, the Bank met the capital standards for a well-capitalized institution. The Company's common equity Tier 1 risk-based capital ratio, Tier 1 leverage capital ratio, Tier 1 risk-based capital ratio, and total risk-based capital ratio were 11.65%, 10.38%, 12.25%, and 15.73%, respectively, as of September 30, 2018.

**19. Additional Cash Flow Information**

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

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

In connection with the Stonegate acquisition, accounted for using the purchase method, the Company acquired approximately \$2.89 billion in assets, including \$101.0 million in cash and cash equivalents, assumed \$2.60 billion in liabilities, issued 30,863,658 shares of its common stock valued at approximately \$742.3 million as of September 26, 2017, and paid \$50.1 million in cash in exchange for all outstanding shares of Stonegate common stock.

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In connection with the SPF acquisition, accounted for using the purchase method, the Company acquired approximately \$377.0 million in assets, including \$376.2 million in loans, issued 1,250,000 shares of its common stock valued at approximately \$28.2 million as of June 30, 2018, and paid \$377.4 million in cash.

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

|                                | <b>September 30,</b>  |             |
|--------------------------------|-----------------------|-------------|
|                                | <b>2018</b>           | <b>2017</b> |
|                                | <b>(In thousands)</b> |             |
| Interest paid                  | \$ 80,057             | \$ 34,573   |
| Income taxes paid              | 47,682                | 117,025     |
| Assets acquired by foreclosure | 10,098                | 9,255       |

**20. Financial Instruments**

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There is a hierarchy of three levels of inputs that may be used to measure fair values:

- 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

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Transfers of financial instruments between levels within the fair value hierarchy are recognized on the date management determines that the underlying circumstances or assumptions have changed.

***Financial Assets and Liabilities Measured on a Recurring Basis***

Available-for-sale securities are the only material financial 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, 2018 and December 31, 2017, Level 3 securities were immaterial. In addition, there were no material transfers between hierarchy levels during 2018 and 2017. See Note 3 for additional detail related to investment securities.

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

investment securities is fairly generic and is easily obtained.

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**Table of Contents*****Financial Assets and Liabilities Measured on a Nonrecurring Basis***

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 \$77.5 million and \$72.5 million as of September 30, 2018 and December 31, 2017, respectively. This valuation is considered Level 3, consisting of appraisals of underlying collateral. The Company reversed approximately \$164,000 and \$314,000 of accrued interest receivable when non-covered impaired loans were put on non-accrual status during the three months ended September 30, 2018 and 2017, respectively. The Company reversed approximately \$728,000 and \$523,000 of accrued interest receivable when non-covered impaired loans were put on non-accrual status during the nine months ended September 30, 2018 and 2017, respectively.

***Nonfinancial Assets and Liabilities Measured on a Nonrecurring Basis***

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, 2018 and December 31, 2017, the fair value of foreclosed assets held for sale, less estimated costs to sell, was \$13.5 million and \$18.9 million, respectively.

No foreclosed assets held for sale were remeasured during the nine months ended September 30, 2018. Regulatory guidelines require the Company to reevaluate the fair value of foreclosed assets held for sale on at least an annual basis. The Company's policy is to comply with the regulatory guidelines.

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 30% for commercial and residential real estate collateral.

**Table of Contents****Fair Values of Financial Instruments**

The following table presents the estimated fair values of the Company's financial instruments. Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

|   | <b>September 30, 2018</b>  |                   |              |
|---|----------------------------|-------------------|--------------|
|   | <b>Carrying<br/>Amount</b> | <b>Fair Value</b> | <b>Level</b> |
|   | <b>(In thousands)</b>      |                   |              |
| <b>Financial assets:</b>                              |                            |                   |              |
| Cash and cash equivalents                             | \$ 532,057                 | \$ 532,057        | 1            |
| Federal funds sold                                    | 500                        | 500               | 1            |
| Investment securities held-to-maturity                | 199,266                    | 198,552           | 2            |
| Loans receivable, net of impaired loans and allowance | 10,645,129                 | 10,429,379        | 3            |
| Accrued interest receivable                           | 48,909                     | 48,909            | 1            |
| <b>Financial liabilities:</b>                         |                            |                   |              |
| <b>Deposits:</b>                                      |                            |                   |              |
| Demand and non-interest-bearing                       | \$ 2,482,857               | \$ 2,482,857      | 1            |
| Savings and interest-bearing transaction accounts     | 6,420,951                  | 6,420,951         | 1            |
| Time deposits   | 1,720,930                  | 1,696,005         | 3            |
| Securities sold under agreements to repurchase        | 142,146                    | 142,146           | 1            |
| FHLB and other borrowed funds                         | 1,363,851                  | 1,291,287         | 2            |
| Accrued interest payable                              | 12,383                     | 12,383            | 1            |
| Subordinated debentures                               | 368,596                    | 374,338           | 3            |

|   | <b>December 31, 2017</b>   |                   |              |
|---|----------------------------|-------------------|--------------|
|   | <b>Carrying<br/>Amount</b> | <b>Fair Value</b> | <b>Level</b> |
|   | <b>(In thousands)</b>      |                   |              |
| <b>Financial assets:</b>                              |                            |                   |              |
| Cash and cash equivalents                             | \$ 635,933                 | \$ 635,933        | 1            |
| Federal funds sold                                    | 24,109                     | 24,109            | 1            |
| Investment securities held-to-maturity                | 224,756                    | 227,539           | 2            |
| Loans receivable, net of impaired loans and allowance | 10,148,470                 | 10,055,901        | 3            |
| Accrued interest receivable                           | 45,708                     | 45,708            | 1            |
| <b>Financial liabilities:</b>                         |                            |                   |              |
| <b>Deposits:</b>                                      |                            |                   |              |
| Demand and non-interest-bearing                       | \$ 2,385,252               | \$ 2,385,252      | 1            |
| Savings and interest-bearing transaction accounts     | 6,476,819                  | 6,476,819         | 1            |
| Time deposits   | 1,526,431                  | 1,514,670         | 3            |
| Securities sold under agreements to repurchase        | 147,789                    | 147,789           | 1            |
| FHLB and other borrowed funds                         | 1,299,188                  | 1,299,961         | 2            |



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|                          |         |         |   |
|--------------------------|---------|---------|---|
| Accrued interest payable | 5,583   | 5,583   | 1 |
| Subordinated debentures  | 368,031 | 379,146 | 3 |

**Table of Contents****21. Recent Accounting Pronouncements**

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

The guidance issued in ASU 2014-09, ASU 2015-14, ASU 2016-10 and ASU 2016-12 permit two implementation approaches, one requiring retrospective application of the new standard with restatement of prior years and one requiring prospective application of the new standard with disclosure of results under old standards. The Company adopted the guidance effective January 1, 2018, and its adoption did not have a significant impact on our financial position or financial statement disclosures.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. Changes to the current GAAP model primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. ASU 2016-01 requires equity investments, other than equity method investments, to be measured at fair value with changes in fair value recognized in net income. The ASU requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption to reclassify the cumulative change in fair value of equity securities previously recognized in accumulated other comprehensive income (AOCI). In addition, ASU 2016-01 clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale securities. The new guidance is effective for annual reporting period and interim reporting periods within those annual periods, beginning after December 15, 2017. The Company adopted the guidance effective January 1, 2018 and recorded a cumulative-effect adjustment to retained earnings of \$990,000 to reclassify the cumulative change in fair value of equity securities previously recognized in AOCI. For additional information on fair value of assets and liabilities, see Note 20.

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

the year ended December 31, 2017.

In May 2016, the FASB issued ASU 2016-11, *Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting (SEC Update)*, which rescinds certain SEC guidance from the FASB Accounting Standards Codification in response to announcements made by the SEC staff at the Emerging Issues Task Force s ( EITF ) March 3, 2016, meeting. ASU 2016-11 is effective at the same time as ASU 2014-09 and ASU 2014-16. The Company adopted the guidance effective January 1, 2018, and its adoption did not have a significant impact on the Company s financial position or financial statement disclosures.

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

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, which amends the guidance in ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of ASU 2016-15 is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. ASU 2016-15's amendments add or clarify guidance on eight cash flow issues including debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies; including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted and the guidance must be applied retrospectively to all periods presented but may be applied prospectively from the earliest date practicable if retrospective application would be impracticable. The Company adopted the guidance effective January 1, 2018, and its adoption did not have a significant impact on the Company's statement of cash flows or financial statement disclosures.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*, which requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and should be applied on a modified retrospective basis

through a cumulative-effect adjustment directly to retained earnings at the beginning period of adoption. Early adoption is permitted in the first interim period of an annual reporting period for which financial statements have not been issued. The Company adopted the guidance effective January 1, 2018, and its adoption did not have a significant impact on the Company's financial position or financial statement disclosures.

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In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows, and, as a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. An entity with a material balance of restricted cash and restricted cash equivalents must disclose information about the nature of the restrictions. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted, and the new guidance must be applied retrospectively to all periods presented. The Company adopted the guidance effective January 1, 2018 and its adoption did not have a significant impact on the Company's financial position or financial statement disclosures.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which provides guidance to entities to assist with evaluating when a set of transferred assets and activities (collectively, the "set") is a business and provides a screen to determine when a set is not a business. Under the new guidance, when substantially all of the fair value of gross assets acquired (or disposed of) is concentrated in a single identifiable asset, or group of similar assets, the assets acquired would not represent a business. Also, to be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to produce outputs. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and should be applied on a prospective basis to any transactions occurring within the period of adoption. Early adoption is permitted for interim or annual periods in which the financial statements have not been issued. The Company adopted the guidance effective January 1, 2018, and its adoption did not have a significant impact on the Company's financial position or financial statement disclosures.

In January 2017, the FASB issued ASU 2017-03, *Accounting Changes and Error Corrections (Topic 250) and Investments - Equity Method and Joint Ventures (Topic 323)*. The amendments in the update relate to SEC paragraphs pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF meetings related to disclosure of the impact of recently issued accounting standards. The SEC staff's view that a registrant should evaluate ASC updates that have not yet been adopted to determine the appropriate financial disclosures about the potential material effects of the updates on the financial statements when adopted. If a registrant does not know or cannot reasonably estimate the impact of an update, then in addition to making a statement to that effect, the registrant should consider additional qualitative financial statement disclosures to assist the reader in assessing the significance of the impact. The staff expects the additional qualitative disclosures to include a description of the effect of the accounting policies expected to be applied compared to current accounting policies. Also, the registrant should describe the status of its process to implement the new standards and the significant implementation matters yet to be addressed. The amendments specifically addressed recent ASC amendments to ASU 2016-02, *Leases*, and ASU 2014-09, *Revenue from Contracts with Customers*, although, the amendments apply to any subsequent amendments to guidance in the ASC. The Company adopted the amendments in this update during the fourth quarter of 2016, and appropriate disclosures have been included in this Note for each recently issued accounting standard.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminates the requirement to determine the fair value of individual assets and liabilities of a reporting unit to measure goodwill impairment. Under the amendments in the new ASU, goodwill impairment testing will be performed by comparing the fair value of the reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss should not exceed the total amount of goodwill allocated to that reporting unit. The new standard is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019 and should be applied on a prospective basis. Early adoption is permitted for annual or interim goodwill impairment testing performed after January 1, 2017. The Company has goodwill from prior business combinations and performs

an annual impairment test or more frequently if changes or circumstances occur that would more-likely-than-not reduce the fair value of the reporting unit below its carrying value. During 2017, the Company performed its impairment assessment and determined the fair value of the aggregated reporting units exceed the carrying value, such that the Company's goodwill was not considered impaired. Although the Company cannot anticipate future goodwill impairment assessments, based on the most recent assessment it is unlikely that an impairment amount would need to be calculated, and, therefore, the Company does not anticipate a material impact from these amendments to the Company's financial position and results of operations. The current accounting policies and processes are not anticipated to change, except for the elimination of the Step 2 analysis.

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In February 2017, the FASB issued ASU 2017-05, *Other Income: Gains and Losses from the Derecognition of Nonfinancial Assets*, which clarifies the scope of the FASB's guidance on nonfinancial asset derecognition (ASC 610-20) as well as the accounting for partial sales of nonfinancial assets. The ASU conforms the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue standard (ASC 606, as amended). The ASU requires an entity to derecognize the nonfinancial asset or in-substance nonfinancial asset in a partial sale transaction when (1) the entity ceases to have a controlling financial interest in a subsidiary under ASC 810 and (2) control of the asset is transferred in accordance with ASC 606. The entity therefore has to consider repurchase agreements (e.g., a call option to repurchase the ownership interest in a subsidiary) in its assessment and may not be able to derecognize the nonfinancial assets, even though it no longer has a controlling financial interest in a subsidiary in accordance with ASC 810. The ASU illustrates the application of this guidance in ASC 610-20-55-15 and 55-16. The effective date of the new guidance is aligned with the requirements in the new revenue standard, which is effective for public entities for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017, and for nonpublic entities for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Company adopted the guidance effective January 1, 2018, and its adoption did not have a significant impact on the Company's financial position or financial statement disclosures.

In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Topic 310): Premium Amortization on Purchased Callable Debt Securities*, which amends the amortization period for certain purchased callable debt securities held at a premium. This ASU will shorten the amortization period for the premium to be amortized to the earliest call date. This ASU does not apply to securities held at a discount, which will continue to be amortized to maturity. This ASU is effective for interim and annual reporting periods beginning after December 15, 2018. The guidance should be applied using a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Early adoption is permitted, including adoption in an interim period. The Company early adopted the guidance effective January 1, 2018, and its adoption did not have a significant impact on the Company's financial position or financial statement disclosures.

In May 2017, the FASB issued ASU 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting*, which amends the scope of modification accounting for share-based payment arrangements. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The amendments in ASU 2017-09 should be applied prospectively to an award modified on or after the adoption date. This ASU is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. The Company adopted the guidance effective January 1, 2018. The Company does not anticipate any modifications to its existing awards, and therefore, the adoption of ASU 2017-09 is not expected to have a significant impact on the Company's financial position, results of operations, or its financial statement disclosures.



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In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Non-Controlling Interests with a Scope Exception*. Part I of this update addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of this update addresses the difficulty of navigating *Topic 480, Distinguishing Liabilities from Equity*, because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable non-controlling interests. The amendments in Part II of this update do not have an accounting effect. This ASU is effective for interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact, if any, ASU 2017-11 will have on its financial position, results of operations, and its financial statement disclosures. The Company's evaluation process includes, but is not limited to, identifying transactions and accounts within the scope of the guidance, reviewing its accounting and disclosures for these transactions and accounts, and identifying and implementing any necessary changes to its accounting and disclosures as a result of the guidance. The Company is also identifying and implementing changes to its business processes, systems and controls to support adoption of the new standard in 2019.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815) Targeted Improvements to Accounting for Hedging Activities*, which amends the hedge accounting model to provide better insight to risk management activities in the financial statements, reduces the complexity in cash flow hedges of interest rate risk, eliminates the requirement to separately measure and report hedge ineffectiveness, requires the entire change in the fair value of a hedging instrument included in the assessment of the hedge effectiveness to be recorded in other comprehensive income, with amounts reclassified to earnings to be presented in the same line item used to present the earnings effect of the hedged item when the hedged item affects earnings and allows the initial prospective quantitative assessment of hedge effectiveness to be performed at any time after hedge designation, but no later than the first quarterly effectiveness testing date. This ASU is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. The amendments in this standard must be applied using the modified retrospective approach for cash flow and net investment hedge relationships existing on the date of adoption. The Company is currently evaluating the impact, if any, ASU 2017-12 will have on its financial position, results of operations, and its financial statement disclosures. The Company's evaluation process includes, but is not limited to, identifying transactions and accounts within the scope of the guidance, reviewing its accounting and disclosures for these transactions and accounts, and identifying and implementing any necessary changes to its accounting and disclosures as a result of the guidance. The Company is also identifying and implementing changes to its business processes, systems and controls to support adoption of the new standard in 2019.

In February 2018, the FASB issued ASU 2018-02, *Income Statement Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which was issued to address the income tax accounting treatment of the stranded tax effects within other comprehensive income due to the prohibition of backward tracing due to an income tax rate change that was initially recorded in other comprehensive income. This issue came about from the enactment of the TCJA on December 22, 2017 that changed the Company's federal income tax rate from 35% to 21%. The ASU changed current accounting whereby an entity may elect to reclassify the stranded tax effect from accumulated other comprehensive income to retained earnings. The amendments in this ASU are effective for interim and annual reporting periods beginning after December 15, 2018.

Early adoption is permitted, including adoption in an interim period. Adoption of this ASU is to be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the tax laws or rates were recognized. The Company plans to adopt the guidance January 1, 2019. As of September 30, 2018, the balance of the stranded tax effects within other comprehensive income was \$534,000.

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In February 2018, the FASB issued ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in ASU 2018-03 make technical corrections to certain aspects of ASU 2016-01 (on recognition of financial assets and financial liabilities), including the following:

Equity securities without a readily determinable fair value    discontinuation.

Equity securities without a readily determinable fair value    adjustments.

Forward contracts and purchased options.

Presentation requirements for certain fair value option liabilities.

Fair value option liabilities denominated in a foreign currency.

Transition guidance for equity securities without a readily determinable fair value.

The amendments in ASU 2018-03 are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. Early adoption of ASU 2018-03 is permitted for all entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, if they have adopted ASU 2016-01. The Company adopted the guidance effective January 1, 2018, and its adoption did not have a significant impact on our financial position or financial statement disclosures.

In March 2018, the FASB issued ASU 2018-04, *Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273*. The ASU adds, amends, and supersedes various paragraphs that contain SEC guidance in ASC 320, *Investments – Debt Securities*, and ASC 980, *Regulated Operations*. The effective date for the amendments to ASC 320 is the same as the effective date of ASU 2016-01. Other amendments are effective upon issuance. The Company has adopted the amendments to ASC 320 effective January 1, 2018, and the adoption did not have a significant impact on our financial position or financial statement disclosures. The Company has adopted the other amendments effective March 9, 2018, and the adoption did not have a significant impact on our financial position or financial statement disclosures.

In March 2018, the FASB issued ASU 2018-05, *Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*. The ASU adds seven paragraphs to ASC 740, *Income Taxes*, that contain SEC guidance related to SAB 118 (codified as SEC SAB Topic 5.EE, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act*). This ASU was effective upon issuance. The Company adopted the guidance effective March 13, 2018, and its adoption did not have a significant impact on our financial position or financial statement disclosures.

In June 2018, the FASB issued ASU 2018-07, *Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. The ASU expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The guidance also specifies that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or

consumed in a grantor's own operations by issuing share-based payment awards. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. This guidance is applicable to the Company beginning January 1, 2019. The Company is currently evaluating the potential effects of this guidance on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. The new guidance modifies disclosure requirements related to fair value measurement. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Implementation on a prospective or retrospective basis varies by specific disclosure requirement. Early adoption is permitted. The standard also allows for early adoption of any removed or modified disclosures upon issuance of this ASU while delaying adoption of the additional disclosures until their effective date. This guidance is applicable to the Company beginning January 1, 2020. The Company is currently evaluating the potential effects of this guidance on its consolidated financial statements.

## **22. Subsequent Events**

Hurricane Michael made landfall in the Florida Panhandle as a Category 4 hurricane on October 10, 2018. The total impact of this hurricane may not be known for some time; however, the Company is currently evaluating the potential impact of this hurricane on the Company's financial condition and results of operation for the fourth quarter of 2018.

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**Report of Independent Registered Public Accounting Firm**

Audit Committee, Board of Directors and Stockholders

Home BancShares, Inc.

Conway, Arkansas

**Results of Review of Interim Consolidated Financial Statements**

We have reviewed the condensed consolidated balance sheet of Home BancShares, Inc. ( the Company ) as of September 30, 2018, and the related condensed consolidated statements of income and comprehensive income for the three-month and nine-month periods ended September 30, 2018 and 2017, and stockholders' equity and cash flows for the nine-month periods ended September 30, 2018 and 2017, and the related notes (collectively referred to as the interim financial statements ). Based on our reviews, we are not aware of any material modifications that should be made to the condensed 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) ( PCAOB ), the consolidated balance sheet of the Company and subsidiaries as of December 31, 2017, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the year then ended (not presented herein), and in our report dated February 27, 2018, 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, 2017, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

**Basis for Review Results**

These financial statements are the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our review in accordance with the standards of the PCAOB. A review of interim financial information consists principally of applying analytical procedures 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 PCAOB, 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.

/s/ **BKD, LLP**

Little Rock, Arkansas

November 5, 2018

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

The following discussion should be read in conjunction with our Form 10-K, filed with the Securities and Exchange Commission on February 27, 2018, which includes the audited financial statements for the year ended December 31, 2017. *Unless the context requires otherwise, the terms "Company", "us", "we", and "our" refer to Home BancShares, Inc. on a consolidated basis.*

**General**

We are a bank holding company headquartered in Conway, Arkansas, offering a broad array of financial services through our wholly-owned bank subsidiary, Centennial Bank (sometimes referred to as "Centennial" or the "Bank"). As of September 30, 2018, we had, on a consolidated basis, total assets of \$14.91 billion, loans receivable, net, of \$10.72 billion, total deposits of \$10.62 billion, and stockholders' equity of \$2.34 billion.

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

**Table 1: Key Financial Measures**

|  | As of or for the Three<br>Months<br>Ended September 30, |               | As of or for the Nine Months<br>Ended September 30, |               |
|--|---|---------------|---|---------------|
|  | 2018  | 2017          | 2018  | 2017          |
|  | (Dollars in thousands, except per share data)           |               |   |               |
| Total assets                             | \$ 14,912,738   | \$ 14,255,967 | \$ 14,912,738                                       | \$ 14,255,967 |
| Loans receivable                         | 10,832,815  | 10,286,193    | 10,832,815  | 10,286,193    |
| Allowance for loan losses                | 110,191   | 111,620       | 110,191   | 111,620       |
| Total deposits                           | 10,624,738  | 10,448,770    | 10,624,738  | 10,448,770    |
| Total stockholders' equity               | 2,341,026   | 2,206,716     | 2,341,026   | 2,206,716     |
| Net income                               | 80,284  | 14,821        | 229,373   | 111,774       |
| Basic earnings per share                 | 0.46  | 0.10          | 1.32  | 0.78          |
| Diluted earnings per share               | 0.46  | 0.10          | 1.32  | 0.78          |
| Book value per share                     | 13.44   | 12.71         | 13.44   | 12.71         |
| Tangible book value per share (non-GAAP) | 7.68  | 7.06          | 7.68  | 7.06          |
| Annualized net interest margin - FTE     | 4.46%   | 4.40%         | 4.46%   | 4.53%         |
| Efficiency ratio                         | 37.23   | 53.77         | 37.26   | 43.92         |
| Efficiency ratio, as adjusted (non-GAAP) | 37.40   | 39.12         | 37.46   | 37.79         |
| Annualized return on average assets      | 2.14  | 0.54          | 2.12  | 1.41          |
|  | 13.74   | 3.88          | 13.56   | 10.33         |

Annualized return on average common  
equity

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**Table of Contents****Overview*****Results of Operations for the Three Months Ended September 30, 2018 and 2017***

Our net income increased \$65.5 million, or 441.7%, to \$80.3 million for the three-month period ended September 30, 2018, from \$14.8 million for the same period in 2017. On a diluted earnings per share basis, our earnings were \$0.46 per share and \$0.10 per share for the three-month periods ended September 30, 2018 and 2017, respectively.

Excluding the \$18.2 million of merger expenses associated with the Stonegate Bank ( Stonegate ) acquisition and \$33.4 million of hurricane expenses, our net income increased \$33.8 million, or 72.8%, to \$80.3 million for the three-month period ended September 30, 2018, from \$46.4 million for the same period in 2017 (See Table 18 for the non-GAAP tabular reconciliation). The \$33.8 million increase in net income includes \$13.4 million from tax savings of the TCJA. The remaining \$20.4 million is primarily associated with additional net income from the acquisition of Stonegate, increased profitability of Centennial CFG and the acquisition of Shore Premier Finance.

Our net interest margin increased from 4.40% for the three-month period ended September 30, 2017 to 4.46% for the three-month period ended September 30, 2018. The yield on loans was 6.06% and 5.66% for the three months ended September 30, 2018 and 2017, respectively, as average loans increased from \$7.94 billion to \$10.91 billion. The increase in loan balances is primarily due to the acquisition of Stonegate. For the three months ended September 30, 2018 and 2017, we recognized \$10.7 million and \$7.2 million in total net accretion for acquired loans and deposits. The rate on interest-bearing deposits increased from 0.57% for the three months ended September 30, 2017 to 1.05% for the three months ended September 30, 2018 with average balances of \$5.96 billion and \$8.07 billion, respectively.

Our efficiency ratio was 37.23% for the three months ended September 30, 2018, compared to 53.77% for the same period in 2017. For the third quarter of 2018, our efficiency ratio, as adjusted (non-GAAP), was 37.40%, an improvement of 172 basis points from the 39.12% reported for third quarter of 2017 (See Table 23 for the non-GAAP tabular reconciliation). Even though acquisitions tend to increase our efficiency ratio in the short term, we had a slight improvement in the efficiency ratio, as adjusted, as a result of cost savings from our Stonegate acquisition being realized soon after conversion, which was completed on February 9, 2018.

Our annualized return on average assets was 2.14% for the three months ended September 30, 2018, compared to 0.54% for the same period in 2017. Excluding merger expenses and hurricane expenses, our annualized return on average assets was 2.14% for the three months ended September 30, 2018 compared to 1.70% for the same period in 2017 (See Table 20 for the non-GAAP tabular reconciliation). Our annualized return on average common equity was 13.74% for the three months ended September 30, 2018, compared to 3.88% for the same period in 2017. Excluding merger expenses and hurricane expenses, our annualized return on average common equity was 13.74% for the three months ended September 30, 2018 compared to 12.17% for the same period in 2017 (See Table 21 for the non-GAAP tabular reconciliation). Excluding the \$13.4 million tax effect of the TCJA, our annualized return on average assets was 1.78% for the three months ended September 30, 2018 (See Table 20 for the non-GAAP tabular reconciliation) and our annualized return on average common equity was 11.45% (See Table 21 for the non-GAAP tabular reconciliation).

***Results of Operations for Nine Months Ended September 30, 2018 and 2017***

Our net income increased \$117.6 million, or 105.2%, to \$229.4 million for the nine-month period ended September 30, 2018, from \$111.8 million for the same period in 2017. On a diluted earnings per share basis, our earnings were \$1.32 per share and \$0.78 per share for the nine-month periods ended September 30, 2018 and 2017, respectively. Excluding the \$3.8 million of non-taxable gain on acquisition, \$25.7 million of merger expenses



associated with the 2017 acquisitions and \$33.4 million of hurricane expenses, our net income increased \$84.8 million, or 58.7%, to \$229.4 million for the nine-month period ended September 30, 2018, from \$144.5 million for the same period in 2017 (See Table 18 for the non-GAAP tabular reconciliation). The \$84.8 million increase in net income includes \$38.0 million from tax savings of the TCJA. The remaining \$46.8 million increase in net income from the 2017 acquisitions, increased profitability of Centennial CFG and the acquisition of Shore Premier Finance.

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Our net interest margin decreased from 4.53% for the nine-month period ended September 30, 2017 to 4.46% for the nine-month period ended September 30, 2018. The yield on loans was 5.95% and 5.70% for the nine months ended September 30, 2018 and 2017, respectively, as average loans increased from \$7.79 billion to \$10.53 billion. The increase in loan balances is primarily due to the acquisitions we completed during 2017. For the nine months ended September 30, 2018 and 2017, we recognized \$32.0 million and \$23.3 million, respectively, in total net accretion for acquired loans and deposits. The rate on interest-bearing deposits increased from 0.49% for the nine months ended September 30, 2017, to 0.91% for the nine months ended September 30, 2018, with average balances of \$5.73 billion and \$8.02 billion, respectively.

Our efficiency ratio was 37.26% for the nine months ended September 30, 2018, compared to 43.92% for the same period in 2017. For the first nine months of 2018, our efficiency ratio, as adjusted (non-GAAP), was 37.46%, which decreased from the 37.79% reported for first nine months of 2017. (See Table 23 for the non-GAAP tabular reconciliation). Even though acquisitions tend to increase our efficiency ratio in the short term, we had a slight improvement in the efficiency ratio, as adjusted, as a result of cost savings from our Stonegate acquisition being realized soon after conversion, which was completed on February 9, 2018.

Our annualized return on average assets was 2.12% for the nine months ended September 30, 2018, compared to 1.41% for the same period in 2017. Excluding merger expenses and hurricane expenses, our annualized return on average assets was 2.12% for the nine months ended September 30, 2018 compared to 1.82% for the same period in 2017 (See Table 20 for the non-GAAP tabular reconciliation). Our annualized return on average common equity was 13.56% for the nine months ended September 30, 2018, compared to 10.33% for the same period in 2017. Excluding merger expenses and hurricane expenses, our annualized return on average common equity was 13.56% for the nine months ended September 30, 2018 compared to 13.36% for the same period in 2017 (See Table 21 for the non-GAAP tabular reconciliation). Excluding the \$38.0 million tax effect of the TCJA, our annualized return on average assets was 1.77% for the nine months ended September 30, 2018 (See Table 20 for the non-GAAP tabular reconciliation) and our annualized return on average common equity was 11.32% (See Table 21 for the non-GAAP tabular reconciliation).

***Financial Condition as of and for the Period Ended September 30, 2018 and December 31, 2017***

Our total assets as of September 30, 2018 increased \$463.0 million to \$14.91 billion from the \$14.45 billion reported as of December 31, 2017. Our loan portfolio increased \$501.6 million or 4.86% for the quarter ended September 30, 2018 from \$10.33 billion as of December 31, 2017 to \$10.83 billion as of September 30, 2018. The increase is primarily due to the acquisition of \$376.2 million of loans as part of the acquisition of Shore Premier Finance ( SPF ) as well as \$125.4 million of organic loan growth the nine months ended September 30, 2018. Total deposits increased \$236.2 million to \$10.62 billion as of September 30, 2018 from \$10.39 billion as of December 31, 2017. Stockholders equity increased \$136.7 million to \$2.34 billion as of September 30, 2018, compared to \$2.20 billion as of December 31, 2017. The increase in stockholders equity is primarily associated with the \$171.2 million increase in retained earnings, the issuance of 1,250,000 shares of stock with a value of \$28.2 million as part of the acquisition of SPF, and the issuance of \$6.5 million of share-based compensation, which were partially offset by \$27.3 million of comprehensive loss and the repurchase of \$43.2 million of our common stock during 2018.

As of September 30, 2018, our non-performing loans increased to \$56.5 million, or 0.52%, of total loans from \$44.7 million, or 0.43%, of total loans as of December 31, 2017. The allowance for loan losses as a percent of non-performing loans decreased to 195.15% as of September 30, 2018, from 246.70% as of December 31, 2017. Non-performing loans from our Arkansas franchise were \$14.5 million at September 30, 2018 compared to \$15.5 million as of December 31, 2017. Non-performing loans from our Florida franchise were \$40.0 million at September 30, 2018 compared to \$28.2 million as of December 31, 2017. Non-performing loans from our Alabama

franchise were \$133,000 at September 30, 2018 compared to \$929,000 as of December 31, 2017. Non-performing loans from our SPF franchise were \$1.8 million, and there were no non-performing loans from our Centennial CFG franchise as of September 30, 2018 or December 31, 2017.

As of September 30, 2018, our non-performing assets increased to \$70.4 million, or 0.47% of total assets from \$63.6 million, or 0.44%, of total assets as of December 31, 2017. Non-performing assets from our Arkansas franchise were \$21.1 million at September 30, 2018 compared to \$25.6 million as of December 31, 2017. Non-performing assets from our Florida franchise were \$46.7 million at September 30, 2018 compared to \$36.4 million as of December 31, 2017. Non-performing assets from our Alabama franchise were \$774,000 at September 30, 2018 compared to \$1.6 million as of December 31, 2017. Non-performing assets from our SPF franchise were \$1.8 million, and there were no non-performing assets from our Centennial CFG franchise as of September 30, 2018 or December 31, 2017.

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

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

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

*Revenue Recognition.* Accounting Standards Codification ( ASC ) Topic 606, *Revenue from Contracts with Customers* ( ASC Topic 606 ), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied. The majority of our revenue-generating transactions are not subject to ASC Topic 606, including revenue generated from financial instruments, such as our loans, letters of credit and investment securities, as these activities are subject to other GAAP discussed elsewhere within our disclosures. Descriptions of our revenue-generating activities that are within the scope of ASC Topic 606, which are presented in our income statements as components of non-interest income are as follows:

**Service charges on deposit accounts** These represent general service fees for monthly account maintenance and activity or transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when our performance obligation is completed, which is generally monthly for account maintenance services or when a transaction has been completed (such as a wire transfer). Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

**Other service charges and fees** These represent credit card interchange fees and Centennial CFG loan fees. The interchange fees are recorded in the period the performance obligation is satisfied which is generally the cash basis based on agreed upon contracts. Centennial CFG loan fees are based on loan or other negotiated agreements with customers and are accounted for under ASC Topic 310. Interchange fees were \$4.0 million, \$17.3 million, \$5.6 million and \$17.4 million for the three and nine-month periods ended September 30, 2018 and September 30, 2017, respectively. Centennial CFG loan fees were \$3.3 million, \$6.5 million, \$1.7 million and \$4.7 million for the three and nine-month periods ended September 30, 2018 and September 30, 2017, respectively.

**Mortgage lending income** This represents fee income on secondary market lending which is accounted for under ASC Topic 310 and transfer of loans based on a bid agreement with the investor which is accounted

for under ASC Topic 860, *Transfers and Servicing*.

*Financial Instruments*. ASU 2016-01 *Financial Instruments - Overall (Subtopic 825-10): Recognition of Financial Assets and Financial Liabilities*, ( ASU 2016-01 ) makes targeted amendments to the guidance for recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 requires equity investments, other than equity method investments, to be measured at fair value with changes in fair value recognized in net income. The ASU requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption to reclassify the cumulative change in fair value of equity securities previously recognized in accumulated other comprehensive income ( AOCI ). ASU 2016-01 became effective for us on January 1, 2018. The adoption of the guidance resulted in a \$990,000 cumulative-effect adjustment that increased retained earnings, with offsetting related adjustments to deferred taxes and AOCI. ASU 2016-01 also emphasizes the existing requirement to use exit prices to measure fair value for disclosure purposes and clarifies that entities should not make use of a practicability exception in determining the fair value of loans. Accordingly, we refined the calculation used to determine the disclosed fair value of our loans held for investment portfolio as part of adopting this standard. The refined calculation did not have a significant impact on our fair value disclosures.

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

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

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

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

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

Loans considered impaired, under FASB ASC 310-10-35, are loans for which, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. 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.

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*Acquisition Accounting and Acquired Loans.* We account for our acquisitions under FASB ASC Topic 805, *Business Combinations*, which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date as the fair value of the purchased loans incorporates assumptions regarding credit risk. All purchased loans are recorded at fair value in accordance with the fair value methodology prescribed in FASB ASC Topic 820, *Fair Value Measurements*. The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

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

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

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

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

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



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

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

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**Table of Contents****Acquisitions*****Acquisition of Shore Premier Finance***

On June 30, 2018, the Company, completed the acquisition of Shore Premier Finance ( SPF ), a division of Union Bank & Trust of Richmond, Virginia ( Union ), the bank subsidiary of Union Bankshares Corporation. The Company paid a purchase price of approximately \$377.4 million in cash, subject to certain post-closing adjustments, and 1,250,000 shares of HBI common stock. SPF provides direct consumer financing for United States Coast Guard ( USCG ) registered high-end sail and power boats. Additionally, SPF provides inventory floor plan lines of credit to marine dealers, primarily those selling USCG documented vessels.

Including the effects of known purchase accounting adjustments, as of acquisition date, SPF had approximately \$377.0 million in total assets, including \$376.2 million in total loans and \$1.9 million in assumed liabilities, which resulted in tentative goodwill of \$30.5 million being recorded. The purchase price allocation and certain fair value measurements remain preliminary due to the timing of the acquisition. The Company will continue to review the estimated fair values of loans and intangible assets and to evaluate the assumed tax positions and contingencies.

This portfolio of loans is now housed in a division of Centennial known as Shore Premier Finance. The SPF division of Centennial is responsible for servicing the acquired loan portfolio and originating new loan production. In connection with this acquisition and the creation of the SPF division of Centennial, Centennial has opened a new loan production office in Chesapeake, Virginia. Through this loan production office, the SPF division of Centennial will continue its vision to build out a lending platform focusing on commercial and consumer marine loans.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements for additional information regarding the acquisition of SPF.

***Acquisition of Stonegate Bank***

On September 26, 2017, the Company completed the acquisition of all of the issued and outstanding shares of common stock of Stonegate Bank ( Stonegate ), and merged Stonegate into Centennial. The Company paid a purchase price to the Stonegate shareholders of approximately \$792.4 million for the Stonegate acquisition. Under the terms of the merger agreement, shareholders of Stonegate received 30,863,658 shares of HBI common stock valued at approximately \$742.3 million plus approximately \$50.1 million in cash in exchange for all outstanding shares of Stonegate common stock. In addition, the holders of outstanding stock options of Stonegate received approximately \$27.6 million in cash in connection with the cancellation of their options immediately before the acquisition closed, for a total transaction value of approximately \$820.0 million.

Including the effects of the purchase accounting adjustments, as of acquisition date, Stonegate had approximately \$2.89 billion in total assets, \$2.37 billion in loans and \$2.53 billion in customer deposits. Stonegate formerly operated its banking business from 24 locations in key Florida markets with significant presence in Broward and Sarasota counties.

Through our acquisition and merger of Stonegate into Centennial, we maintain a customer relationship to handle the accounts for Cuba's diplomatic missions at the United Nations and for the Cuban Interests Section (now the Cuban Embassy) in Washington, D.C. This relationship was established in May 2015 pursuant to a special license granted to Stonegate by the U.S. Treasury Department's Office of Foreign Assets Control in connection with the reestablishment of diplomatic relations between the U.S. and Cuba. In July 2015, Stonegate established a correspondent banking relationship with Banco Internacional de Comercio, S.A. in Havana, Cuba.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2017, for additional information regarding the acquisition of Stonegate.

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### ***Acquisition of The Bank of Commerce***

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

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

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

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

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2017, for additional information regarding the acquisition of BOC.

### ***Acquisition of Giant Holdings, Inc.***

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

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

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2017, for additional information regarding the acquisition of GHI.

### ***Future Acquisitions***

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

We will continue evaluating all types of potential bank acquisitions and monitoring market conditions to determine what opportunities, if any, are feasible and in the best interest of our Company. Our goal in making these decisions is to maximize the return to our investors. We cannot assure that we will be able to identify suitable acquisition candidates or successfully complete any future acquisitions that we may consider.

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**Table of Contents****Branches**

As opportunities arise, we will continue to open new (commonly referred to as *de novo*) branches in our current markets and in other attractive market areas.

During the third quarter of 2018, we opened a loan production office in Dallas, Texas. As of September 30, 2018, we had 159 branch locations. There were 77 branches in Arkansas, 76 branches in Florida, five branches in Alabama and one branch in New York City.

**Results of Operations*****For the Three and Nine Months Ended September 30, 2018 and 2017***

Our net income increased \$65.5 million, or 441.7%, to \$80.3 million for the three-month period ended September 30, 2018, from \$14.8 million for the same period in 2017. On a diluted earnings per share basis, our earnings were \$0.46 per share and \$0.10 per share for the three-month periods ended September 30, 2018 and 2017, respectively.

Excluding the \$18.2 million of merger expenses associated with the Stonegate Bank ( Stonegate ) acquisition and \$33.4 million of hurricane expenses, our net income increased \$33.8 million, or 72.8%, to \$80.3 million for the three-month period ended September 30, 2018, from \$46.4 million for the same period in 2017 (See Table 18 for the non-GAAP tabular reconciliation). The \$33.8 million increase in net income includes \$13.4 million from tax savings of the TCJA. The remaining \$20.4 million is primarily associated with additional net income from the acquisition of Stonegate, increased profitability of Centennial CFG and the acquisition of Shore Premier Finance.

Our net income increased \$117.6 million, or 105.2%, to \$229.4 million for the nine-month period ended September 30, 2018, from \$111.8 million for the same period in 2017. On a diluted earnings per share basis, our earnings were \$1.32 per share and \$0.78 per share for the nine-month periods ended September 30, 2018 and 2017, respectively. Excluding the \$3.8 million of non-taxable gain on acquisition, \$25.7 million of merger expenses associated with the 2017 acquisitions and \$33.4 million of hurricane expenses, our net income increased \$84.8 million, or 58.7%, to \$229.4 million for the nine-month period ended September 30, 2018, from \$144.5 million for the same period in 2017 (See Table 18 for the non-GAAP tabular reconciliation). The \$84.8 million increase in net income includes \$38.0 million from tax savings of the TCJA. The remaining \$46.8 million increase in net income from the 2017 acquisitions, increased profitability of Centennial CFG and the acquisition of Shore Premier Finance.

***Net Interest Income***

Net interest income, our principal source of earnings, is the difference between the interest income generated by earning assets and the total interest cost of the deposits and borrowings obtained to fund those assets. Factors affecting the level of net interest income include the volume of earning assets and interest-bearing liabilities, yields earned on loans and investments, rates paid on deposits and other borrowings, the level of non-performing loans and the amount of non-interest-bearing liabilities supporting earning assets. Net interest income is analyzed in the discussion and tables below on a fully taxable equivalent basis. The adjustment to convert certain income to a fully taxable equivalent basis consists of dividing tax-exempt income by one minus the combined federal and state income tax rate (26.135% and 39.225% for the three and nine-month periods ended September 30, 2018 and 2017, respectively).

The Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. The Federal Funds target rate, which is the cost to banks of immediately available overnight funds, has increased 75 basis points since December 31, 2017, and is currently at 2.00% to 2.25%.

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For the three months ended September 30, 2018 and 2017, we recognized \$10.7 million and \$7.2 million in total net accretion for acquired loans and deposits. Purchase accounting accretion on acquired loans was \$10.6 million and \$7.1 million and average purchase accounting loan discounts were \$151.4 million and \$98.0 million for the three-month periods ended September 30, 2018 and September 30, 2017, respectively. Net accretion of time deposit premiums was \$66,000 and \$106,000 and net average unamortized CD premiums were \$448,000 and \$733,000 for the three-month periods ended September 30, 2018 and September 30, 2017, respectively.

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For the nine months ended September 30, 2018 and 2017, we recognized \$32.0 million and \$23.3 million, respectively, in total net accretion for acquired loans and deposits. Purchase accounting accretion on acquired loans was \$31.7 million and \$23.0 million and average purchase accounting loan discounts were \$156.9 million and \$97.2 million for the nine-month periods ended September 30, 2018 and September 30, 2017, respectively. Net accretion of time deposit premiums was \$270,000 and \$300,000 and net average unamortized CD premiums were \$542,000 and \$721,000 for the nine-month periods ended September 30, 2018 and September 30, 2017, respectively.

Our net interest margin increased from 4.40% for the three-month period ended September 30, 2017 to 4.46% for the three-month period ended September 30, 2018. The yield on loans was 6.06% and 5.66% for the three months ended September 30, 2018 and 2017, respectively as average loans increased from \$7.94 billion to \$10.91 billion. The increase in loan balances is primarily due to the acquisition of Stonegate. For the three months ended September 30, 2018 and 2017, we recognized \$10.7 million and \$7.2 million in total net accretion for acquired loans and deposits. The rate on interest-bearing deposits increased from 0.57% for the three months ended September 30, 2017 to 1.05% for the three months ended September 30, 2018 with average balances of \$5.96 billion and \$8.07 billion, respectively.

Our net interest margin decreased from 4.53% for the nine-month period ended September 30, 2017 to 4.46% for the nine-month period ended September 30, 2018. The yield on loans was 5.95% and 5.70% for the nine months ended September 30, 2018 and 2017, respectively as average loans increased from \$7.79 billion to \$10.53 billion. The increase in loan balances is primarily due to the acquisitions we completed during 2017. For the nine months ended September 30, 2018 and 2017, we recognized \$32.0 million and \$23.3 million, respectively, in total net accretion for acquired loans and deposits. The rate on interest-bearing deposits increased from 0.49% for the nine months ended September 30, 2017, to 0.91% for the nine months ended September 30, 2018, with average balances of \$5.73 billion and \$8.02 billion, respectively.

Net interest income on a fully taxable equivalent basis increased \$38.8 million, or 35.7%, to \$147.4 million for the three-month period ended September 30, 2018, from \$108.6 million for the same period in 2017. This increase in net interest income for the three-month period ended September 30, 2018 was the result of a \$55.8 million increase in interest income partially offset by a \$17.0 million increase in interest expense. The \$55.8 million increase in interest income was primarily the result of a higher level of earning assets accompanied by higher yields on our loans. The higher level of earning assets resulted in an increase in interest income of approximately \$47.1 million. The higher yield on our interest earning assets resulted in an approximately \$8.7 million increase in interest income. The repricing of our interest-bearing liabilities in a higher interest rate environment resulted in an approximately \$11.1 million increase in interest expense. The higher level of our interest-bearing liabilities resulted in an increase in interest expense of approximately \$5.9 million.

Net interest income on a fully taxable equivalent basis increased \$100.0 million, or 30.8%, to \$424.8 million for the nine-month period ended September 30, 2018, from \$324.8 million for the same period in 2017. This increase in net interest income for the nine-month period ended September 30, 2018 was the result of a \$144.5 million increase in interest income partially offset by a \$44.5 million increase in interest expense. The \$144.5 million increase in interest income was primarily the result of a higher level of earning assets accompanied by higher yields on our loans. The higher level of earning assets resulted in an increase in interest income of approximately \$128.4 million. The higher yield on our interest earning assets resulted in an approximately \$16.1 million increase in interest income. The repricing of our interest-bearing liabilities in a higher interest rate environment resulted in an approximately \$30.0 million increase in interest expense. The higher level of our interest-bearing liabilities resulted in an increase in interest expense of approximately \$14.5 million.





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Tables 2 and 3 reflect an analysis of net interest income on a fully taxable equivalent basis for the three and nine-month periods ended September 30, 2018 and 2017, as well as changes in fully taxable equivalent net interest margin for the three and nine-month periods ended September 30, 2018 compared to the same period in 2017.

**Table 2: Analysis of Net Interest Income**

|  | <b>Three Months Ended<br/>September 30,<br/>2018</b> |            | <b>Nine Months Ended<br/>September 30,<br/>2017</b> |            |
|--|--|------------|---|------------|
|  | <b>(Dollars in thousands)</b>                        |            |   |            |
| Interest income                                  | \$ 180,051   | \$ 123,913 | \$ 507,588  | \$ 361,270 |
| Fully taxable equivalent adjustment              | 1,489  | 1,846      | 4,101   | 5,873      |
| Interest income fully taxable equivalent         | 181,540  | 125,759    | 511,689   | 367,143    |
| Interest expense                                 | 34,141   | 17,144     | 86,857  | 42,334     |
| Net interest income fully taxable equivalent     | 147,399  | \$ 108,615 | 424,832   | \$ 324,809 |
| Yield on earning assets fully taxable equivalent | 5.49%  | 5.09%      | 5.38%   | 5.12%      |
| Cost of interest-bearing liabilities             | 1.36   | 0.92       | 1.20  | 0.78       |
| Net interest spread fully taxable equivalent     | 4.13   | 4.17       | 4.18  | 4.34       |
| Net interest margin fully taxable equivalent     | 4.46   | 4.40       | 4.46  | 4.53       |

**Table 3: Changes in Fully Taxable Equivalent Net Interest Margin**

|  | <b>Three<br/>Months<br/>Ended<br/>September 30,<br/>2018 vs.<br/>2017</b> | <b>Nine Months<br/>Ended<br/>September 30,<br/>2018 vs. 2017</b> |
|--|---|--|
|  | <b>(In thousands)</b>   |  |
| Increase (decrease) in interest income due to change in earning assets                                       | \$ 47,124   | \$ 128,435   |
| Increase (decrease) in interest income due to change in earning asset yields                                 | 8,657   | 16,111   |
| (Increase) decrease in interest expense due to change in interest-bearing liabilities                        | (5,890)   | (14,483)   |
| (Increase) decrease in interest expense due to change in interest rates paid on interest-bearing liabilities | (11,107)  | (30,040)   |
| Increase (decrease) in net interest income   | \$ 38,784   | \$ 100,023   |



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Table 4 shows, for each major category of earning assets and interest-bearing liabilities, the average amount outstanding, the interest income or expense on that amount and the average rate earned or expensed for the three and nine-month periods ended September 30, 2018 and 2017, respectively. The table also shows the average rate earned on all earning assets, the average rate expensed on all interest-bearing liabilities, the net interest spread and the net interest margin for the same periods. The analysis is presented on a fully taxable equivalent basis. Non-accrual loans were included in average loans for the purpose of calculating the rate earned on total loans.

**Table 4: Average Balance Sheets and Net Interest Income Analysis**

|   | Three Months Ended September 30, |                     |                 |                    |                     |                 |
|---|----------------------------------|---------------------|-----------------|--------------------|---------------------|-----------------|
|   | 2018                             |                     |                 | 2017               |                     |                 |
|   | Average<br>Balance               | Income /<br>Expense | Yield /<br>Rate | Average<br>Balance | Income /<br>Expense | Yield /<br>Rate |
| (Dollars in thousands)                            |                                  |                     |                 |                    |                     |                 |
| <b>ASSETS</b>                                     |                                  |                     |                 |                    |                     |                 |
| Earnings assets                                   |                                  |                     |                 |                    |                     |                 |
| Interest-bearing balances due from banks          |                                  |                     |                 |                    |                     |                 |
|   | \$ 281,115                       | \$ 1,273            | 1.80%           | \$ 180,368         | \$ 538              | 1.18%           |
| Federal funds sold                                | 524                              | 6                   | 4.54            | 878                | 3                   | 1.36            |
| Investment securities taxable                     | 1,526,455                        | 9,011               | 2.34            | 1,326,117          | 7,071               | 2.12            |
| Investment securities non-taxable                 | 402,355                          | 4,507               | 4.44            | 348,920            | 4,908               | 5.58            |
| Loans receivable                                  | 10,909,646                       | 166,743             | 6.06            | 7,938,716          | 113,239             | 5.66            |
| Total interest-earning assets                     | 13,120,095                       | \$ 181,540          | 5.49            | 9,794,999          | \$ 125,759          | 5.09            |
| Non-earning assets                                |                                  |                     |                 |                    |                     |                 |
|   | 1,760,836                        |                     |                 | 1,058,560          |                     |                 |
| Total assets                                      | \$ 14,880,931                    |                     |                 | \$ 10,853,559      |                     |                 |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>        |                                  |                     |                 |                    |                     |                 |
| Liabilities                                       |                                  |                     |                 |                    |                     |                 |
| Interest-bearing liabilities                      |                                  |                     |                 |                    |                     |                 |
| Savings and interest-bearing transaction accounts |                                  |                     |                 |                    |                     |                 |
|   | \$ 6,406,711                     | \$ 15,596           | 0.97%           | \$ 4,512,785       | \$ 5,755            | 0.51%           |
| Time deposits                                     | 1,661,129                        | 5,816               | 1.39            | 1,444,662          | 2,780               | 0.76            |
| Total interest-bearing deposits                   | 8,067,840                        | 21,412              | 1.05            | 5,957,447          | 8,535               | 0.57            |
| Federal funds purchased                           |                                  |                     |                 |                    |                     |                 |
| Securities sold under agreement to repurchase     |                                  |                     |                 |                    |                     |                 |
|   | 148,791                          | 472                 | 1.26            | 135,855            | 232                 | 0.68            |
| FHLB and other borrowed funds                     | 1,398,738                        | 7,055               | 2.00            | 920,754            | 3,408               | 1.47            |
| Subordinated debentures                           | 368,501                          | 5,202               | 5.60            | 358,347            | 4,969               | 5.50            |
| Total interest-bearing liabilities                | 9,983,870                        | 34,141              | 1.36            | 7,372,403          | 17,144              | 0.92            |

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|   |               |       |               |       |
|---|---------------|-------|---------------|-------|
| Non-interest-bearing liabilities          |               |       |               |       |
| Non-interest-bearing deposits             | 2,512,690     |       | 1,924,933     |       |
| Other liabilities                         | 66,441        |       | 42,394        |       |
| Total liabilities                         |               |       |               |       |
|   | 12,563,001    |       | 9,339,730     |       |
| Stockholders equity                       | 2,317,930     |       | 1,513,829     |       |
| Total liabilities and stockholders equity |               |       |               |       |
|   | \$ 14,880,931 |       | \$ 10,853,559 |       |
| Net interest spread                       |               |       |               |       |
|   |               | 4.13% |               | 4.17% |
| Net interest income and margin            | \$ 147,399    | 4.46% | \$ 108,615    | 4.40% |

**Table of Contents****Table 4: Average Balance Sheets and Net Interest Income Analysis**

|  | Nine Months Ended September 30, |                             |                 |                    |                             |                 |
|--|---------------------------------|-----------------------------|-----------------|--------------------|-----------------------------|-----------------|
|  | Average<br>Balance              | 2018<br>Income /<br>Expense | Yield /<br>Rate | Average<br>Balance | 2017<br>Income /<br>Expense | Yield /<br>Rate |
| <b>(Dollars in thousands)</b>              |                                 |                             |                 |                    |                             |                 |
| <b>ASSETS</b>                              |                                 |                             |                 |                    |                             |                 |
| Earnings assets                            |                                 |                             |                 |                    |                             |                 |
| Interest-bearing balances due from         |                                 |                             |                 |                    |                             |                 |
| banks                                      | \$ 271,987                      | \$ 3,408                    | 1.68%           | \$ 218,324         | \$ 1,573                    | 0.96%           |
| Federal funds sold                         | 3,595                           | 24                          | 0.89            | 1,161              | 9                           | 1.04            |
| Investment securities taxable              | 1,538,387                       | 26,960                      | 2.34            | 1,231,619          | 18,983                      | 2.06            |
| Investment securities non-taxable          | 382,088                         | 12,981                      | 4.54            | 347,578            | 14,506                      | 5.58            |
| Loans receivable                           | 10,529,117                      | 468,316                     | 5.95            | 7,785,925          | 332,072                     | 5.70            |
| Total interest-earning assets              | 12,725,174                      | \$ 511,689                  | 5.38            | 9,584,607          | \$ 367,143                  | 5.12            |
| Non-earning assets                         | 1,750,456                       |                             |                 | 1,033,310          |                             |                 |
| Total assets                               | \$ 14,475,630                   |                             |                 | \$ 10,617,917      |                             |                 |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b> |                                 |                             |                 |                    |                             |                 |
| Liabilities                                |                                 |                             |                 |                    |                             |                 |
| Interest-bearing liabilities               |                                 |                             |                 |                    |                             |                 |
| Savings and interest-bearing transaction   |                                 |                             |                 |                    |                             |                 |
| accounts                                   | \$ 6,422,489                    | \$ 40,327                   | 0.84%           | \$ 4,316,032       | \$ 13,445                   | 0.42%           |
| Time deposits                              | 1,595,985                       | 14,055                      | 1.18            | 1,415,383          | 7,386                       | 0.70            |
| Total interest-bearing deposits            | 8,018,474                       | 54,382                      | 0.91            | 5,731,415          | 20,831                      | 0.49            |
| Federal funds purchased                    | 41                              | 1                           | 3.26            |                    |                             |                 |
| Securities sold under agreement to         |                                 |                             |                 |                    |                             |                 |
| repurchase                                 | 148,472                         | 1,220                       | 1.10            | 129,580            | 593                         | 0.61            |
| FHLB and other borrowed funds              | 1,159,973                       | 15,880                      | 1.83            | 1,155,503          | 10,707                      | 1.24            |
| Subordinated debentures                    | 368,313                         | 15,374                      | 5.58            | 258,032            | 10,203                      | 5.29            |
| Total interest-bearing liabilities         | 9,695,273                       | 86,857                      | 1.20            | 7,274,530          | 42,334                      | 0.78            |
| Non-interest-bearing liabilities           |                                 |                             |                 |                    |                             |                 |
| Non-interest-bearing deposits              | 2,464,032                       |                             |                 | 1,847,843          |                             |                 |
| Other liabilities                          | 54,731                          |                             |                 | 48,804             |                             |                 |
| Total liabilities                          | 12,214,036                      |                             |                 | 9,171,177          |                             |                 |
| Stockholders equity                        | 2,261,594                       |                             |                 | 1,446,740          |                             |                 |

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|   |               |       |               |       |
|---|---------------|-------|---------------|-------|
| Total liabilities and stockholders equity | \$ 14,475,630 |       | \$ 10,617,917 |       |
| Net interest spread                       |               | 4.18% |               | 4.34% |
| Net interest income and margin            | \$ 424,832    | 4.46% | \$ 324,809    | 4.53% |

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Table 5 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, 2018 compared to the same period in 2017, on a fully taxable basis. The changes in interest rate and volume have been allocated to changes in average volume and changes in average rates, in proportion to the relationship of absolute dollar amounts of the changes in rates and volume.

**Table 5: Volume/Rate Analysis**

|   | Three Months Ended<br>September 30, 2018 over 2017 |            |           | Nine Months Ended<br>September 30,<br>2018 over 2017 |             |            |
|---|--|------------|-----------|--|-------------|------------|
|   | Volume   | Yield/Rate | Total     | Volume   | Yield/Rate  | Total      |
| (In thousands)                                    |  |            |           |  |             |            |
| Increase (decrease) in:                           |  |            |           |  |             |            |
| Interest income:                                  |  |            |           |  |             |            |
| Interest-bearing balances due from banks          | \$ 382   | \$ 353     | \$ 735    | \$ 458   | \$ 1,377    | \$ 1,835   |
| Federal funds sold                                | (1)  | 4          | 3         | 16   | (1)         | 15         |
| Investment securities taxable                     | 1,135  | 805        | 1,940     | 5,146  | 2,831       | 7,977      |
| Investment securities non-taxable                 | 686  | (1,087)    | (401)     | 1,347  | (2,872)     | (1,525)    |
| Loans receivable                                  | 44,922   | 8,582      | 53,504    | 121,468  | 14,776      | 136,244    |
| Total interest income                             | 47,124   | 8,657      | 55,781    | 128,435  | 16,111      | 144,546    |
| Interest expense:                                 |  |            |           |  |             |            |
| Interest-bearing transaction and savings deposits | 3,108  | 6,733      | 9,841     | 8,725  | 18,157      | 26,882     |
| Time deposits                                     | 470  | 2,566      | 3,036     | 1,044  | 5,625       | 6,669      |
| Federal funds purchased                           |  |            |           | 1  |             | 1          |
| Securities sold under agreement to repurchase     | 23   | 217        | 240       | 97   | 530         | 627        |
| FHLB borrowed funds                               | 2,147  | 1,500      | 3,647     | 41   | 5,132       | 5,173      |
| Subordinated debentures                           | 142  | 91         | 233       | 4,575  | 596         | 5,171      |
| Total interest expense                            | 5,890  | 11,107     | 16,997    | 14,483   | 30,040      | 44,523     |
| Increase (decrease) in net interest income        | \$ 41,234  | \$ (2,450) | \$ 38,784 | \$ 113,952   | \$ (13,929) | \$ 100,023 |

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

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

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

Our Company is primarily a real estate lender in the markets we serve. As such, we are subject to declines in asset quality when real estate prices fall. The recession in the latter years of the last decade harshly impacted the real estate market in Florida. The economic conditions in virtually every asset class, particularly in our Florida markets, have improved in recent years. Our Arkansas markets' economies remained relatively stable during and after the recession with no significant boom or bust.

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.

We had zero and \$35.0 million of provision for loan losses for the three months ended September 30, 2018 and 2017, respectively, reflecting a \$35.0 million decrease in the provision for loan losses during the third quarter of 2018 versus the third quarter of 2017. This \$35.0 million decrease is primarily a result of the \$33.4 hurricane reserve recorded in the third quarter of 2017, decreased net charge-offs and negative organic loan growth.

We had \$4.3 million and \$39.3 million of provision for loan losses for the nine months ended September 30, 2018 and 2017, respectively, reflecting a \$35.0 million decrease in the provision for loan losses for the nine months ended September 30, 2018 versus the nine months ended September 30, 2017. This \$35.0 million decrease is primarily a result of the \$33.4 hurricane reserve recorded in the third quarter of 2017, decreased net charge-offs and lower organic loan growth.

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

***Non-Interest Income***

Total non-interest income was \$25.8 million and \$79.3 million for the three and nine-month periods ended September 30, 2018, compared to \$21.5 million and \$72.3 million for the same periods in 2017, respectively. Our recurring non-interest income includes service charges on deposit accounts, other service charges and fees, trust fees, mortgage lending, insurance, increase in cash value of life insurance and dividends.

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Table 6 measures the various components of our non-interest income for the three and nine-month periods ended September 30, 2018 and 2017, respectively, as well as changes for the three and nine-month periods ended September 30, 2018 compared to the same period in 2017.

**Table 6: Non-Interest Income**

|  | Three Months Ended |                    | 2018 Change     |              | Nine Months Ended  |                    | 2018 Change     |             |
|--|--------------------|--------------------|-----------------|--------------|--------------------|--------------------|-----------------|-------------|
|  | September 30, 2018 | September 30, 2017 | from 2017       |              | September 30, 2018 | September 30, 2017 | from 2017       |             |
| (Dollars in thousands)   |                    |                    |                 |              |                    |                    |                 |             |
| Service charges on deposit accounts                              | \$ 6,992           | \$ 6,408           | \$ 584          | 9.1%         | \$ 19,847          | \$ 18,356          | \$ 1,491        | 8.1%        |
| Other service charges and fees                                   | 9,041              | 8,490              | 551             | 6.5          | 28,993             | 25,983             | 3,010           | 11.6        |
| Trust fees   | 437                | 365                | 72              | 19.7         | 1,262              | 1,130              | 132             | 11.7        |
| Mortgage lending income  | 3,691              | 3,172              | 519             | 16.4         | 9,825              | 9,713              | 112             | 1.2         |
| Insurance commissions  | 463                | 472                | (9)             | (1.9)        | 1,668              | 1,482              | 186             | 12.6        |
| Increase in cash value of life insurance                         | 735                | 478                | 257             | 53.8         | 2,119              | 1,251              | 868             | 69.4        |
| Dividends from FHLB, FRB, FNBB & other                           | 1,288              | 834                | 454             | 54.4         | 3,765              | 2,455              | 1,310           | 53.4        |
| Gain on acquisitions   |                    |                    |                 |              |                    | 3,807              | (3,807)         | (100.0)     |
| Gain on sale of SBA loans  | 47                 | 163                | (116)           | (71.2)       | 491                | 738                | (247)           | (33.5)      |
| Gain (loss) on sale of branches, equipment and other assets, net | (102)              | (1,337)            | 1,235           | 92.4         | (95)               | (962)              | 867             | 90.1        |
| Gain (loss) on OREO, net   | 836                | 335                | 501             | 149.6        | 2,287              | 849                | 1,438           | 169.4       |
| Gain (loss) on securities, net                                   |                    | 136                | (136)           | (100.0)      |                    | 939                | (939)           | (100.0)     |
| Other income   | 2,419              | 1,941              | 478             | 24.6         | 9,163              | 6,603              | 2,560           | 38.8        |
| <b>Total non-interest income</b>                                 | <b>\$ 25,847</b>   | <b>\$ 21,457</b>   | <b>\$ 4,390</b> | <b>20.5%</b> | <b>\$ 79,325</b>   | <b>\$ 72,344</b>   | <b>\$ 6,981</b> | <b>9.6%</b> |

Non-interest income increased \$4.4 million, or 20.5%, to \$25.8 million for the three-month period ended September 30, 2018 from \$21.5 million for the same period in 2017. Non-interest income increased \$7.0 million, or 9.6%, to \$79.3 million for the nine-month period ended September 30, 2018 from \$72.3 million for the same period in 2017. Non-interest income excluding gain on acquisitions increased \$10.8 million, or 15.7%, to \$79.3 million for the nine months ended September 30, 2018 from \$68.5 million for the same period in 2017.

Excluding gain on acquisitions, the primary factors that resulted in this increase were changes related to other service charges and fees, increase in cash value of life insurance, dividends, net gain on securities, net gain on OREO and other income.

Additional details for the three months ended September 30, 2018 on some of the more significant changes are as follows:

The \$584,000 increase in service charges on deposit accounts is primarily related to an increase in overdraft fees due to additional volume, the acquisition of Stonegate during the third quarter of 2017 and improved pricing.

The \$551,000 increase in other service charges and fees is primarily from the acquisition of Stonegate during the third quarter of 2017 and additional exit fees from Centennial CFG loan payoffs during the third quarter of 2018 which were partially offset by lower fee income as a result of the Company being subject to interchange fee restrictions from the Durbin Amendment, which began during the third quarter of 2018.

The \$519,000 increase in mortgage lending income is primarily related to the acquisition of Stonegate during the third quarter of 2017 which resulted in an increase in secondary market lending fees and fair market value adjustments for loan hedging which was partially offset by a decrease in the gain on sale of mortgage loans and fair market value adjustments for mortgage loans held for sale.

The \$454,000 increase in dividends from FHLB, FRB, First National Bankers Bank & other is primarily associated with higher dividend income from Federal Reserve and FHLB stock, which is related to an increased investment balance and improved dividend rate.

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The \$1.2 million increase in gain (loss) on branches, equipment and other assets, net is primarily due to lower levels of sales during the third quarter of 2018. The \$1.3 million loss from the third quarter of 2017 was due to losses on three vacant properties sold during the third quarter of 2017.

The \$501,000 increase in gain on OREO is primarily related to realizing additional gains on sale from OREO properties during the third quarter of 2018 compared to the third quarter of 2017.

Other income includes \$1.0 million of additional income for items previously charged off, \$877,000 of brokerage fee income, \$435,000 of rental income and \$110,000 of miscellaneous income.

We exceeded \$10 billion in assets during the first quarter of 2017 and became subject to the Durbin Amendment to the Dodd-Frank Act interchange fee restrictions beginning in the third quarter of 2018. The Durbin Amendment negatively impacts debit card and ATM fees beginning in the second half of 2018. During the third quarter of 2018, we collected \$3.7 million in debit card interchange fees, which was approximately \$2.8 million lower from debit interchange fees of \$6.6 million collected during the second quarter of 2018.

Additional details for the nine months ended September 30, 2018 on some of the more significant changes are as follows:

The \$1.5 million increase in service charges on deposit accounts is primarily related to an increase in overdraft fees due to additional volume, the acquisition of Stonegate during the third quarter of 2017 and improved pricing.

The \$3.0 million increase in other service charges and fees is primarily from the acquisition of Stonegate during the third quarter of 2017 and additional exit fees from Centennial CFG loan payoffs which were partially offset by lower fee income as a result of the Company being subject to interchange fee restrictions from the Durbin Amendment, which began during the third quarter of 2018.

The \$112,000 increase in mortgage lending income is primarily primarily related to the acquisition of Stonegate during the third quarter of 2017 which resulted in an increase in fee income which was offset by a decrease in the gain on sale of mortgage loans and fair market value adjustment for mortgage loans held for sale.

The \$1.3 million increase in dividends from FHLB, FRB, First National Bankers Bank & other is primarily associated with higher dividend income from Federal Reserve and FHLB stock, which is related to an increased investment balance and improved dividend rate.

The \$3.8 million decrease in gain on acquisitions is a result of no bargain purchase gain being recorded for the first nine months of 2018. During the first quarter of 2017, we acquired BOC and recorded a \$3.8 million bargain purchase gain on this acquisition.

The \$867,000 increase in gain (loss) on branches, equipment and other assets, net is primarily due to lower levels of sales during the first nine months of 2018. The \$962,000 loss from the first nine months of 2017 was primarily related to net losses on eleven vacant properties from closed branches.

The \$1.4 million increase in gain (loss) on OREO is primarily related to realizing additional gains on sale from OREO properties during the first nine months of 2018 and no revaluation expense for the first nine months of 2018 compared to \$306,000 incurred during the first nine months of 2017.

Other income includes \$3.4 million of additional income for items previously charged off, \$2.2 million of brokerage fee income, \$1.2 million of rental income, \$535,000 of income related to the fair value adjustment of equity securities and \$1.0 million of miscellaneous income.

**Table of Contents****Non-Interest Expense**

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

Table 7 below sets forth a summary of non-interest expense for the three and nine-month periods ended September 30, 2018 and 2017, as well as changes for the three and nine-month periods ended September 30, 2018 compared to the same period in 2017.

**Table 7: Non-Interest Expense**

|                                 | Three Months Ended |           | 2018 Change |         | Nine Months Ended  |           | 2018 Change |         |
|---------------------------------|--------------------|-----------|-------------|---------|--------------------|-----------|-------------|---------|
|                                 | September 30, 2018 | 2017      | from 2017   |         | September 30, 2018 | 2017      | from 2017   |         |
| (Dollars in thousands)          |                    |           |             |         |                    |           |             |         |
| Salaries and employee benefits  | \$ 37,825          | \$ 28,510 | \$ 9,315    | 32.7%   | \$ 107,315         | \$ 83,965 | \$ 23,350   | 27.8%   |
| Occupancy and equipment         | 8,148              | 7,887     | 261         | 3.3     | 25,650             | 21,602    | 4,048       | 18.7    |
| Data processing expense         | 3,461              | 2,853     | 608         | 21.3    | 10,786             | 8,439     | 2,347       | 27.8    |
| Other operating expenses:       |                    |           |             |         |                    |           |             |         |
| Advertising                     | 1,154              | 795       | 359         | 45.2    | 3,258              | 2,305     | 953         | 41.3    |
| Merger and acquisition expenses |                    | 18,227    | (18,227)    | (100.0) |                    | 25,743    | (25,743)    | (100.0) |
| Amortization of intangibles     | 1,617              | 906       | 711         | 78.5    | 4,867              | 2,576     | 2,291       | 88.9    |
| Electronic banking expense      | 1,947              | 1,712     | 235         | 13.7    | 5,653              | 4,885     | 768         | 15.7    |
| Directors fees                  | 314                | 309       | 5           | 1.6     | 962                | 946       | 16          | 1.7     |
| Due from bank service charges   | 253                | 472       | (219)       | (46.4)  | 714                | 1,348     | (634)       | (47.0)  |
| FDIC and state assessment       | 2,293              | 1,293     | 1,000       | 77.3    | 6,689              | 3,763     | 2,926       | 77.8    |
| Insurance                       | 762                | 577       | 185         | 32.1    | 2,363              | 1,698     | 665         | 39.2    |
| Legal and accounting            | 761                | 698       | 63          | 9.0     | 2,397              | 1,799     | 598         | 33.2    |
| Other professional fees         | 1,748              | 1,436     | 312         | 21.7    | 4,988              | 3,822     | 1,166       | 30.5    |
| Operating supplies              | 510                | 432       | 78          | 18.1    | 1,712              | 1,376     | 336         | 24.4    |
| Postage                         | 311                | 280       | 31          | 11.1    | 978                | 861       | 117         | 13.6    |
| Telephone                       | 337                | 305       | 32          | 10.5    | 1,081              | 1,027     | 54          | 5.3     |
| Other expense                   | 4,682              | 4,154     | 528         | 12.7    | 13,318             | 10,835    | 2,483       | 22.9    |

|                            |           |           |            |        |            |            |           |      |
|----------------------------|-----------|-----------|------------|--------|------------|------------|-----------|------|
| Total non-interest expense | \$ 66,123 | \$ 70,846 | \$ (4,723) | (6.7)% | \$ 192,731 | \$ 176,990 | \$ 15,741 | 8.9% |
|----------------------------|-----------|-----------|------------|--------|------------|------------|-----------|------|

Non-interest expense decreased \$4.7 million, or 6.7%, to \$66.1 million for the three months ended September 30, 2018 from \$70.8 million for the same period in 2017. Non-interest expense increased \$15.7 million, or 8.9%, to \$192.7 million for the nine months ended September 30, 2018 from \$177.0 million for the same period in 2017. Non-interest expense, excluding merger expenses, was \$66.1 million and \$192.7 million for the three and nine months ended September 30, 2018 compared to \$52.6 million and \$151.2 million for the same periods in 2017, respectively.

Included within salary and employee benefits expense is approximately \$781,000 of additional expense related to performance based restricted stock and stock options granted during the third quarter of 2018 under the HOMB \$2.00 program. During the third quarter of 2018, the Company granted 1,452,000 stock options and 843,500 shares of restricted stock to certain employees under HOMB \$2.00. In addition, Centennial CFG incurred \$1.8 million in incentive compensation paid as a result of fees collected from several large payoffs during the 3rd quarter of 2018.

The change in non-interest expense for 2018 when compared to 2017 is primarily related to the completion of the acquisition of Stonegate in the third quarter of 2017, the normal increased cost of doing business and additional costs associated with Centennial CFG.

Centennial CFG's branch and loan production offices incurred \$7.9 million and \$19.0 million of non-interest expense during the three and nine months ended September 30, 2018, compared to \$4.8 million and \$13.8 million of non-interest expense during the three and nine months ended September 30, 2017, respectively. While the cost of doing business in New York City is significantly higher than our Arkansas, Florida and Alabama markets, we are still committed to cost-saving measures while achieving our goals of growing the Company.



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

In December 2017, President Trump signed into law the TCJA which lowered the Company's corporate tax rate of 35.0% to 21.0%. Income tax expense increased \$17.8 million, or 236.4%, to \$25.4 million for the three-month period ended September 30, 2018, from \$7.5 million for the same period in 2017. The income tax expense increased \$10.4 million, or 16.5%, to \$73.6 million for the nine-month period ended September 30, 2018, from \$63.2 million for the same period in 2017. The effective income tax rate was 24.00% and 24.30% for the three and nine-month periods ended September 30, 2018, compared to 33.71% and 36.12% for the same periods in 2017, respectively. Since January 1, 2018, the Company has benefited from a lower marginal tax rate of 26.135% from 39.225% in previous years.

**Financial Condition as of and for the Period Ended September 30, 2018 and December 31, 2017**

Our total assets as of September 30, 2018 increased \$463.0 million to \$14.91 billion from the \$14.45 billion reported as of December 31, 2017. Our loan portfolio increased \$501.6 million or 4.86% for the quarter ended September 30, 2018 from \$10.33 billion as of December 31, 2017 to \$10.83 billion as of September 30, 2018. The increase is primarily due to the acquisition of \$376.2 million of loans as part of the acquisition of Shore Premier Finance (SPF) as well as \$125.4 million of organic loan growth for the first nine months of 2018. Total deposits increased \$236.2 million to \$10.62 billion as of September 30, 2018 from \$10.39 billion as of December 31, 2017. Stockholders equity increased \$136.7 million to \$2.34 billion as of September 30, 2018, compared to \$2.20 billion as of December 31, 2017. The increase in stockholders' equity is primarily associated with the \$171.2 million increase in retained earnings, the issuance of 1,250,000 shares of stock with a value of \$28.2 million as part of the acquisition of SPF, and the issuance of \$6.5 million of share-based compensation, which were partially offset by \$27.3 million of comprehensive loss and the repurchase of \$43.2 million of our common stock during 2018. The annualized improvement in stockholders' equity for the first nine months of 2018, excluding the \$28.2 million of common stock issued for the acquisition of SPF, was 6.6%

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

Our loan portfolio averaged \$10.91 billion and \$7.94 billion during the three-month periods ended September 30, 2018 and 2017, respectively. Our loan portfolio averaged \$10.53 billion and \$7.79 billion during the nine-month periods ended September 30, 2018 and 2017, respectively. Loans receivable were \$10.83 billion and \$10.33 billion as of September 30, 2018 and December 31, 2017, respectively.

During the second quarter of 2018, the Company acquired \$376.2 million of loans, net of known purchase accounting discounts. From December 31, 2017 to September 30, 2018, the Company produced organic loan growth of approximately \$125.4 million in addition to the acquired loans. Centennial CFG produced \$29.1 million of organic loan growth during the first nine months of 2018, while the legacy footprint produced \$96.4 million of organic loan growth during the first nine months of 2018.

The most significant components of the loan portfolio were commercial real estate, residential real estate, consumer and commercial and industrial loans. These loans are generally secured by residential or commercial real estate or business or personal property. Although these loans are primarily originated within our Arkansas, Florida, South Alabama, SPF and Centennial CFG franchises, the property securing these loans may not physically be located within our primary market areas of Arkansas, Florida, Alabama and New York. Loans receivable were approximately \$3.59 billion, \$5.17 billion, \$224.7 million, \$382.5 million and \$1.47 billion as of September 30, 2018 in our

Arkansas, Florida, Alabama, SPF and Centennial CFG franchises, respectively.

As of September 30, 2018, we had approximately \$508.4 million of construction land development loans which were collateralized by land. This consisted of approximately \$230.8 million for raw land and approximately \$277.6 million for land with commercial or residential lots.

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Table 8 presents our loans receivable balances by category as of September 30, 2018 and December 31, 2017.

**Table 8: Loans Receivable**

|                                       | As of<br>September 30, 2018 | As of<br>December 31, 2017 |
|---------------------------------------|-----------------------------|----------------------------|
| (In thousands)                        |                             |                            |
| <b>Real estate:</b>                   |                             |                            |
| <b>Commercial real estate loans:</b>  |                             |                            |
| Non-farm/non-residential              | \$ 4,685,827                | \$ 4,600,117               |
| Construction/land development         | 1,550,910                   | 1,700,491                  |
| Agricultural                          | 72,930                      | 82,229                     |
| <b>Residential real estate loans:</b> |                             |                            |
| Residential 1-4 family                | 1,982,666                   | 1,970,311                  |
| Multifamily residential               | 608,608                     | 441,303                    |
| <b>Total real estate</b>              | <b>8,900,941</b>            | <b>8,794,451</b>           |
| Consumer                              | 428,192                     | 46,148                     |
| Commercial and industrial             | 1,303,841                   | 1,297,397                  |
| Agricultural                          | 58,644                      | 49,815                     |
| Other                                 | 141,197                     | 143,377                    |
| <b>Total loans receivable</b>         | <b>\$ 10,832,815</b>        | <b>\$ 10,331,188</b>       |

*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, 2018, commercial real estate loans totaled \$6.31 billion, or 58.3% of loans receivable, as compared to \$6.38 billion, or 61.8% of loans receivable, as of December 31, 2017. Commercial real estate loans originated in our Arkansas, Florida, Alabama and Centennial CFG markets were \$2.02 billion, \$3.21 billion, \$120.2 million and \$961.2 million at September 30, 2018, respectively.

*Residential Real Estate Loans.* We originate one to four family, residential mortgage loans generally secured by property located in our primary market areas. Approximately 29.3% and 59.6% of our residential mortgage loans consist of owner occupied 1-4 family properties and non-owner occupied 1-4 family properties (rental), respectively, as of September 30, 2018. 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, 2018, residential real estate loans totaled \$2.59 billion, or 23.9%, of loans receivable, compared to \$2.41 billion, or 23.3% of loans receivable, as of December 31, 2017. Residential real estate loans originated in our Arkansas, Florida, Alabama and Centennial CFG markets were \$951.0 million, \$1.37 billion, \$67.8 million and \$198.1 million at September 30, 2018, respectively.

*Consumer Loans.* Our consumer loans are composed of secured and unsecured loans originated by our bank, the primary portion of which consists of loans to finance USCG registered high-end sail and power boats as a result of our acquisition of SPF on June 30, 2018. 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.

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As of September 30, 2018, consumer loans totaled \$428.2 million, or 4.0% of loans receivable, compared to \$46.2 million, or 0.4% of loans receivable, as of December 31, 2017. The significant increase is due to our acquisition of SPF on June 30, 2018. Consumer loans originated in our Arkansas, Florida, Alabama, SPF and Centennial CFG markets were \$26.8 million, \$24.8 million, \$943,000, \$375.7 million and zero at September 30, 2018, respectively.

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

As of September 30, 2018, commercial and industrial loans totaled \$1.30 billion, or 12.0% of loans receivable, which is comparable to \$1.30 billion, or 12.6% of loans receivable, as of December 31, 2017. Commercial and industrial loans originated in our Arkansas, Florida, Alabama, SPF and Centennial CFG markets were \$495.9 million, \$456.0 million, \$34.1 million, \$6.8 million and \$311.0 million at September 30, 2018, respectively.

***Non-Performing Assets***

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

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

We have purchased loans with deteriorated credit quality in our September 30, 2018 financial statements as a result of our historical acquisitions. The credit metrics most heavily impacted by our acquisitions of acquired loans with deteriorated credit quality were the following credit quality indicators listed in Table 9 below:

Allowance for loan losses to non-performing loans;

Non-performing loans to total loans; and

Non-performing assets to total assets.

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

periods prior to the acquisition of the credit-impaired loans and non-performing assets, or comparable with other institutions.

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Table 9 sets forth information with respect to our non-performing assets as of September 30, 2018 and December 31, 2017. As of these dates, all non-performing restructured loans are included in non-accrual loans.

**Table 9: Non-performing Assets**

|   | <b>As of<br/>September 30,<br/>2018</b> | <b>As of<br/>December 31,<br/>2017</b> |
|---|---|--|
|   | <b>(Dollars in thousands)</b>           |  |
| Non-accrual loans   | \$ 36,198                               | \$ 34,032                              |
| Loans past due 90 days or more (principal or interest payments) | 20,267                                  | 10,665                                 |
| <b>Total non-performing loans</b>                               | <b>56,465</b>                           | <b>44,697</b>                          |
| Other non-performing assets                                     |   |  |
| Foreclosed assets held for sale, net                            | 13,507                                  | 18,867                                 |
| Other non-performing assets                                     | 405                                     | 3                                      |
| <b>Total other non-performing assets</b>                        | <b>13,912</b>                           | <b>18,870</b>                          |
| <b>Total non-performing assets</b>                              | <b>70,377</b>                           | <b>\$ 63,567</b>                       |
| Allowance for loan losses to non-performing loans               | 195.15%                                 | 246.70%                                |
| Non-performing loans to total loans                             | 0.52                                    | 0.43                                   |
| Non-performing assets to total assets                           | 0.47                                    | 0.44                                   |

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

Total non-performing loans were \$56.5 million as of September 30, 2018, compared to \$44.7 million as of December 31, 2017, an increase of \$11.8 million. The \$11.8 million increase in non-performing loans is the result of a \$11.8 million increase in non-performing loans in our Florida market and a \$1.8 increase in non-performing loans in our SPF market, which was partially offset by a \$1.0 million decrease in non-performing loans in our Arkansas market and an \$796,000 decrease in non-performing loans in our Alabama market. The majority of the increase in non-performing loans in our Florida market was the result of seven loans with the largest loan having a balance of \$5.6 million as of September 30, 2018. Non-performing loans at September 30, 2018 are \$14.5 million, \$40.0 million, \$133,000, \$1.8 million and zero in the Arkansas, Florida, Alabama, SPF and Centennial CFG markets, respectively.

Although the current state of the real estate market has improved, uncertainties still present in the economy may continue to increase our level of non-performing loans. While we believe our allowance for loan losses is adequate and our purchased loans are adequately discounted at September 30, 2018, 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 2018. Our current or historical provision levels should not be relied upon as a predictor or indicator of future levels going forward.

Troubled debt restructurings ( TDRs ) generally occur when a borrower is experiencing, or is expected to experience, financial difficulties in the near term. As a result, we will work with the borrower to prevent further difficulties, and ultimately to improve the likelihood of recovery on the loan. In those circumstances it may be beneficial to restructure the terms of a loan and work with the borrower for the benefit of both parties, versus forcing the property into foreclosure and having to dispose of it in an unfavorable and depressed real estate market. When we have modified the terms of a loan, we usually either reduce the monthly payment and/or interest rate for generally about three to twelve months. For our TDRs that accrue interest at the time the loan is restructured, it would be a rare exception to have charged-off any portion of the loan. Only non-performing restructured loans are included in our non-performing loans. As of September 30, 2018, we had \$17.1 million of restructured loans that are in compliance with the modified terms and are not reported as past due or non-accrual in Table 9. Our Florida market contains \$11.8 million and our Arkansas market contains \$5.3 million of these restructured loans. Our Alabama, SPF and Centennial CFG markets do not contain any restructured loans as of September 30, 2018.



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

The majority of the Bank's loan modifications relates to commercial lending and involves 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, 2018, the amount of TDRs was \$18.9 million, a decrease of 10.8% from \$21.2 million at December 31, 2017. As of September 30, 2018 and December 31, 2017, 90.3% and 89.7%, respectively, of all restructured loans were performing to the terms of the restructure.

Total foreclosed assets held for sale were \$13.5 million as of September 30, 2018, compared to \$18.9 million as of December 31, 2017, a decrease of \$5.4 million. The foreclosed assets held for sale as of September 30, 2018 are comprised of \$6.6 million of assets located in Arkansas, \$6.3 million of assets located in Florida, \$641,000 located in Alabama and zero from SPF and Centennial CFG.

During the first nine months of 2018, we had two foreclosed properties with a carrying value greater than \$1.0 million. The first property was a development property in Florida acquired from BOC with a carrying value of \$2.1 million at September 30, 2018. The second property was a nonfarm non-residential property in Florida acquired from SGB with a carrying value of \$1.9 million at September 30, 2018. The Company does not currently anticipate any additional losses on these properties. As of September 30, 2018, no other foreclosed assets held for sale have a carrying value greater than \$1.0 million.

Table 10 shows the summary of foreclosed assets held for sale as of September 30, 2018 and December 31, 2017.

**Table 10: Foreclosed Assets Held For Sale**

|  | As of<br>September 30, 2018 | As of<br>December 31, 2017 |
|--|-----------------------------|----------------------------|
|  | (In thousands)              |                            |
| Real estate:                                 |                             |                            |
| Commercial real estate loans                 |                             |                            |
| Non-farm/non-residential                     | \$ 5,858                    | \$ 9,766                   |
| Construction/land development                | 3,539                       | 5,920                      |
| Agricultural                                 | 155                         |                            |
| Residential real estate loans                |                             |                            |
| Residential 1-4 family                       | 3,885                       | 2,654                      |
| Multifamily residential                      | 70                          | 527                        |
| <b>Total foreclosed assets held for sale</b> | <b>\$ 13,507</b>            | <b>\$ 18,867</b>           |

A loan is considered impaired when it is probable that we will not receive all amounts due according to the contracted terms of the loans. Impaired loans include non-performing loans (loans past due 90 days or more and non-accrual loans), criticized and/or classified loans with a specific allocation, loans categorized as TDRs and certain other loans identified by management that are still performing (loans included in multiple categories are only included once). As of September 30, 2018, impaired loans were \$79.0 million compared to \$75.6 million as of December 31, 2017, for an increase of \$3.4 million. As of September 30, 2018, our Arkansas, Florida, Alabama, SPF and Centennial CFG markets accounted for approximately \$25.3 million, \$51.8 million, \$133,000, \$1.8 million and zero of the impaired loans, respectively.

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

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

As of September 30, 2018 and December 31, 2017, there was not a material amount of purchased loans with deteriorated credit quality on non-accrual status as a result of most of the loans being accounted for on the pool basis and the pools are considered to be performing for the accruing of interest income. Also, acquired loans contractually past due 90 days or more are accruing interest because the pools are considered to be performing for the purpose of accruing interest income.

***Past Due and Non-Accrual Loans***

Table 11 shows the summary of non-accrual loans as of September 30, 2018 and December 31, 2017:

**Table 11: Total Non-Accrual Loans**

|                               | As of<br>September 30, 2018 | As of<br>December 31, 2017 |
|-------------------------------|-----------------------------|----------------------------|
|                               | (In thousands)              |                            |
| Real estate:                  |                             |                            |
| Commercial real estate loans  |                             |                            |
| Non-farm/non-residential      | \$ 11,223                   | \$ 9,600                   |
| Construction/land development | 4,966                       | 5,011                      |
| Agricultural                  | 30                          | 19                         |
| Residential real estate loans |                             |                            |
| Residential 1-4 family        | 14,312                      | 14,437                     |
| Multifamily residential       | 983                         | 153                        |
| Total real estate             | 31,514                      | 29,220                     |
| Consumer                      | 208                         | 145                        |
| Commercial and industrial     | 4,443                       | 4,584                      |
| Agricultural                  | 32                          | 54                         |
| Other                         | 1                           | 29                         |

|                         |           |    |        |
|-------------------------|-----------|----|--------|
| Total non-accrual loans | \$ 36,198 | \$ | 34,032 |
|-------------------------|-----------|----|--------|

If non-accrual loans had been accruing interest in accordance with the original terms of their respective agreements, interest income of approximately \$560,000 and \$479,000, respectively, would have been recorded for the three-month periods ended September 30, 2018 and 2017. If non-accrual loans had been accruing interest in accordance with the original terms of their respective agreements, interest income of approximately \$1.6 million and \$1.7 million would have been recorded for each of the nine-month periods ended September 30, 2018 and 2017, respectively. The interest income recognized on non-accrual loans for the three and nine-month periods ended September 30, 2018 and 2017 was considered immaterial.

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Table 12 shows the summary of accruing past due loans 90 days or more as of September 30, 2018 and December 31, 2017:

**Table 12: Loans Accruing Past Due 90 Days or More**

|  | As of<br>September 30, 2018 | As of<br>December 31, 2017 |
|--|-----------------------------|----------------------------|
|  | (In thousands)              |                            |
| Real estate:   |                             |                            |
| Commercial real estate loans                         |                             |                            |
| Non-farm/non-residential                             | \$ 11,405                   | \$ 3,119                   |
| Construction/land development                        | 3,551                       | 3,247                      |
| Agricultural   |                             |                            |
| Residential real estate loans                        |                             |                            |
| Residential 1-4 family                               | 1,509                       | 2,175                      |
| Multifamily residential                              |                             | 100                        |
| <b>Total real estate</b>                             | <b>16,465</b>               | <b>8,641</b>               |
| Consumer   | 1,796                       | 26                         |
| Commercial and industrial                            | 2,006                       | 1,944                      |
| Agricultural and other                               |                             | 54                         |
| <b>Total loans accruing past due 90 days or more</b> | <b>\$ 20,267</b>            | <b>\$ 10,665</b>           |

Our total loans accruing past due 90 days or more and non-accrual loans to total loans was 0.52% and 0.43% as of September 30, 2018 and December 31, 2017, respectively.

***Allowance for Loan Losses***

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

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

*Specific Allocations.* As a general rule, if a specific allocation is warranted, it is the result of an analysis of a previously classified credit or relationship. Typically, when it becomes evident through the payment history or a financial statement review that a loan or relationship is no longer supported by the cash flows of the asset and/or borrower and has become collateral dependent, we will use appraisals or other collateral analysis to determine if

collateral impairment has occurred. The amount or likelihood of loss on this credit may not yet be evident, so a charge-off would not be prudent. However, if the analysis indicates that an impairment has occurred, then a specific allocation will be determined for this loan. If our existing appraisal is outdated or the collateral has been subject to significant market changes, we will obtain a new appraisal for this impairment analysis. The majority of our impaired loans are collateral dependent at the present time, so third-party appraisals were used to determine the necessary impairment for these loans. Cash flow available to service debt was used for the other impaired loans. This analysis is performed each quarter in connection with the preparation of the analysis of the adequacy of the allowance for loan losses, and if necessary, adjustments are made to the specific allocation provided for a particular loan.

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

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

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

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

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

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

*General Allocations.* We establish general allocations for each major loan category. This section also includes allocations to loans, which are collectively evaluated for loss such as residential real estate, commercial real estate, consumer loans and commercial and industrial loans that fall below \$2.0 million. The allocations in this section are based on a historical review of loan loss experience and past due accounts. We give consideration to trends, changes in loan mix, delinquencies, prior losses, and other related information.

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

*Loans Collectively Evaluated for Impairment.* Loans receivable collectively evaluated for impairment increased by approximately \$615.9 million from \$9.94 billion at December 31, 2017 to \$10.56 billion at September 30, 2018. The percentage of the allowance for loan losses allocated to loans receivable collectively evaluated for impairment to the total loans collectively evaluated for impairment was 1.02% and 1.06% at September 30, 2018 and December 31,

2017, respectively. This decrease is primarily the result of acquiring the SPF loans, which were not individually evaluated for impairment as a result of purchase accounting rules requiring the acquired loans to be marked to fair value at acquisition.



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*Hurricane Irma.* The Company's allowance for loan losses as of September 30, 2018 and December 31, 2017 was significantly impacted by Hurricane Irma which made initial landfall in the Florida Keys and a second landfall just south of Naples, Florida, as a Category 4 hurricane on September 10, 2017. Based on initial assessments of the potential credit impact and damage to the approximately \$2.41 billion in legacy loans receivable we have in the disaster area, the Company established a \$32.9 million storm-related provision for loan losses as of December 31, 2017. As of September 30, 2018, charge-offs of \$2.5 million have been taken against the storm-related provision for loan losses. Due to the uncertainty that still exists as to the timing of the full recovery of the disaster area, we believe that the storm-related provision recorded as of September 30, 2018 is appropriate.

*Charge-offs and Recoveries.* Total charge-offs decreased to \$2.5 million for the three months ended September 30, 2018, compared to \$4.4 million for the same period in 2017. Total charge-offs decreased to \$7.2 million for the nine months ended September 30, 2018, compared to \$10.5 million for the same period in 2017. Total recoveries increased to \$1.2 million for the three months ended September 30, 2018, compared to \$883,000 for the same period in 2017. Total recoveries remained flat at \$2.8 million for the nine months ended September 30, 2018 and 2017. For the three months ended September 30, 2018, net charge-offs were \$849,000 for Arkansas, \$470,000 for Florida, \$6,000 for Alabama and zero for SPF and Centennial CFG, equaling a net charge-off position of \$1.3 million. For the nine months ended September 30, 2018, net charge-offs were \$2.8 million for Arkansas, \$1.5 million for Florida, \$123,000 for Alabama and zero for SPF and Centennial CFG, equaling a net charge-off position of \$4.4 million. While the 2018 charge-offs and recoveries consisted of many relationships, there were no individual relationships consisting of charge-offs greater than \$1.0 million.

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

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Table 13 shows the allowance for loan losses, charge-offs and recoveries as of and for the three and nine-month periods ended September 30, 2018 and 2017.

**Table 13: Analysis of Allowance for Loan Losses**

|  | Three Months Ended     |                       | Nine Months Ended     |                       |
|--|------------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2018  | September 30,<br>2017 | September 30,<br>2018 | September 30,<br>2017 |
|  | (Dollars in thousands) |                       |                       |                       |
| Balance, beginning of period               | \$ 111,516             | \$ 80,138             | \$ 110,266            | \$ 80,002             |
| Loans charged off                          |                        |                       |                       |                       |
| Real estate:                               |                        |                       |                       |                       |
| Commercial real estate loans:              |                        |                       |                       |                       |
| Non-farm/non-residential                   | 144                    | 796                   | 981                   | 2,324                 |
| Construction/land development              | 337                    | 182                   | 399                   | 508                   |
| Agricultural                               |                        |                       |                       | 127                   |
| Residential real estate loans:             |                        |                       |                       |                       |
| Residential 1-4 family                     | 608                    | 309                   | 2,339                 | 2,512                 |
| Multifamily residential                    |                        |                       |                       | 85                    |
| Total real estate                          | 1,089                  | 1,287                 | 3,719                 | 5,556                 |
| Consumer                                   | 15                     | 14                    | 73                    | 158                   |
| Commercial and industrial                  | 744                    | 2,280                 | 1,816                 | 3,059                 |
| Agricultural                               |                        |                       |                       |                       |
| Other                                      | 653                    | 843                   | 1,565                 | 1,762                 |
| Total loans charged off                    | 2,501                  | 4,424                 | 7,173                 | 10,535                |
| Recoveries of loans previously charged off |                        |                       |                       |                       |
| Real estate:                               |                        |                       |                       |                       |
| Commercial real estate loans:              |                        |                       |                       |                       |
| Non-farm/non-residential                   | 195                    | 278                   | 383                   | 988                   |
| Construction/land development              | 90                     | 85                    | 209                   | 312                   |
| Agricultural                               |                        |                       |                       |                       |
| Residential real estate loans:             |                        |                       |                       |                       |
| Residential 1-4 family                     | 307                    | 188                   | 801                   | 430                   |
| Multifamily residential                    | 2                      | 38                    | 43                    | 50                    |
| Total real estate                          | 594                    | 589                   | 1,436                 | 1,780                 |
| Consumer                                   | 108                    | 25                    | 168                   | 91                    |
| Commercial and industrial                  | 251                    | 140                   | 568                   | 392                   |
| Agricultural                               |                        |                       |                       |                       |
| Other                                      | 223                    | 129                   | 604                   | 566                   |
| Total recoveries                           | 1,176                  | 883                   | 2,776                 | 2,829                 |

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|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Net loans charged off (recovered)                            | 1,325      | 3,541      | 4,397      | 7,706      |
| Provision for loan losses                                    |            | 35,023     | 4,322      | 39,324     |
| Balance, September 30  | \$ 110,191 | \$ 111,620 | \$ 110,191 | \$ 111,620 |
| Net charge-offs (recoveries) to average loans<br>receivable  | 0.05%      | 0.18%      | 0.06%      | 0.13%      |
| Allowance for loan losses to total loans                     | 1.02       | 1.09       | 1.02       | 1.09       |
| Allowance for loan losses to net charge-offs<br>(recoveries) | 2,096      | 795        | 1,874      | 1,083      |

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

The changes for the period ended September 30, 2018 and the year ended December 31, 2017 in the allocation of the allowance for loan losses for the individual types of loans are primarily associated with changes in the ASC 310 calculations, both individual and aggregate, and changes in the ASC 450 calculations. These calculations are affected by changes in individual loan impairments, changes in asset quality, net charge-offs during the period and normal changes in the outstanding loan portfolio, as well any changes to the general allocation factors due to changes within the actual characteristics of the loan portfolio.

Table 14 presents the allocation of allowance for loan losses as of September 30, 2018 and December 31, 2017.

**Table 14: Allocation of Allowance for Loan Losses**

|  | As of September 30,<br>2018 |                              | As of December 31,<br>2017 |                              |
|--|-----------------------------|------------------------------|----------------------------|------------------------------|
|  | Allowance<br>Amount         | % of<br>loans <sup>(1)</sup> | Allowance<br>Amount        | % of<br>loans <sup>(1)</sup> |
| <b>(Dollars in thousands)</b>          |                             |                              |                            |                              |
| Real estate:                           |                             |                              |                            |                              |
| Commercial real estate loans:          |                             |                              |                            |                              |
| Non-farm/non-residential               | \$ 44,350                   | 43.3%                        | \$ 42,893                  | 44.5%                        |
| Construction/land development          | 19,014                      | 14.3                         | 20,343                     | 16.4                         |
| Agricultural                           | 1,003                       | 0.7                          | 1,046                      | 0.8                          |
| Residential real estate loans:         |                             |                              |                            |                              |
| Residential 1-4 family                 | 19,606                      | 18.3                         | 21,370                     | 19.1                         |
| Multifamily residential                | 4,493                       | 5.6                          | 3,136                      | 4.3                          |
| <b>Total real estate</b>               | <b>88,466</b>               | <b>82.2</b>                  | <b>88,788</b>              | <b>85.1</b>                  |
| Consumer                               | 632                         | 4.0                          | 462                        | 0.4                          |
| Commercial and industrial              | 13,777                      | 12.0                         | 15,292                     | 12.6                         |
| Agricultural                           | 2,854                       | 0.5                          | 2,692                      | 0.5                          |
| Other                                  | 174                         | 1.3                          | 180                        | 1.4                          |
| Unallocated                            | 4,288                       |                              | 2,852                      |                              |
| <b>Total allowance for loan losses</b> | <b>\$ 110,191</b>           | <b>100.0%</b>                | <b>\$ 110,266</b>          | <b>100.0%</b>                |

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

**Investment Securities**

Our securities portfolio is the second largest component of earning assets and provides a significant source of revenue. Securities within the portfolio are classified as held-to-maturity, available-for-sale, or trading based on the intent and objective of the investment and the ability to hold to maturity. Fair values of securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities. The estimated effective duration of our securities portfolio was 3.3 years as of September 30, 2018.

As of September 30, 2018 and December 31, 2017, we had \$199.3 million and \$224.8 million of held-to-maturity securities, respectively. Of the \$199.3 million of held-to-maturity securities as of September 30, 2018, \$3.6 million were invested in U.S. Government-sponsored enterprises, \$60.4 million were invested in mortgage-backed securities and \$135.3 million were invested in state and political subdivisions. Of the \$224.8 million of held-to-maturity securities as of December 31, 2017, \$5.8 million were invested in U.S. Government-sponsored enterprises, \$73.6 million were invested in mortgage-backed securities and \$145.4 million were invested in state and political subdivisions.

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Securities available-for-sale are reported at fair value with unrealized holding gains and losses reported as a separate component of stockholders' equity as other comprehensive income. Securities that are held as available-for-sale are used as a part of our asset/liability management strategy. Securities that may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital, and other similar factors are classified as available-for-sale. Available-for-sale securities were \$1.74 billion and \$1.66 billion as of September 30, 2018 and December 31, 2017, respectively.

As of September 30, 2018, \$981.9 million, or 56.3%, of our available-for-sale securities were invested in mortgage-backed securities, compared to \$971.4 million, or 58.4%, of our available-for-sale securities as of December 31, 2017. To reduce our income tax burden, \$306.2 million, or 17.6%, of our available-for-sale securities portfolio as of September 30, 2018, was primarily invested in tax-exempt obligations of state and political subdivisions, compared to \$250.3 million, or 15.0%, of our available-for-sale securities as of December 31, 2017. Also, we had approximately \$419.9 million, or 24.1%, invested in obligations of U.S. Government-sponsored enterprises as of September 30, 2018, compared to \$406.3 million, or 24.4%, of our available-for-sale securities as of December 31, 2017.

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

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

***Deposits***

Our deposits averaged \$10.58 billion and \$10.48 billion for the three and nine-month periods ended September 30, 2018. Total deposits were \$10.62 billion as of September 30, 2018, and \$10.39 billion as of December 31, 2017. Deposits are our primary source of funds. We offer a variety of products designed to attract and retain deposit customers. Those products consist of checking accounts, regular savings deposits, NOW accounts, money market accounts and certificates of deposit. Deposits are gathered from individuals, partnerships and corporations in our market areas. In addition, we obtain deposits from state and local entities and, to a lesser extent, U.S. Government and other depository institutions.

Our policy also permits the acceptance of brokered deposits. From time to time, when appropriate in order to fund strong loan demand, we accept brokered time deposits, generally in denominations of less than \$250,000, from a regional brokerage firm, and other national brokerage networks. We also participate in the One-Way Buy Insured Cash Sweep ( ICS ) service and similar services, which provide for one-way buy transactions among banks for the purpose of purchasing cost-effective floating-rate funding without collateralization or stock purchase requirements. Management believes these sources represent a reliable and cost efficient alternative funding source for the Company. However, to the extent that our condition or reputation deteriorates, or to the extent that there are significant changes in market interest rates which we do not elect to match, we may experience an outflow of brokered deposits. In that event we would be required to obtain alternate sources for funding.



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Table 15 reflects the classification of the brokered deposits as of September 30, 2018 and December 31, 2017.

**Table 15: Brokered Deposits**

|   | September 30,<br>2018 | December 31,<br>2017 |
|---|-----------------------|----------------------|
|   | (In thousands)        |                      |
| Time Deposits                                     | \$ 84,943             | \$ 60,022            |
| CDARS   | 109                   | 53,588               |
| Insured Cash Sweep and Other Transaction Accounts | 506,540               | 915,060              |
| Total Brokered Deposits                           | \$ 591,592            | \$ 1,028,670         |

The Economic Growth, Regulatory Relief and Consumer Protection Act enacted in May 2018, provides that most reciprocal deposits are no longer treated as brokered deposits. As a result of this new law, our brokered deposits as of September 30, 2018 were approximately \$421.3 million lower than they would otherwise have been.

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

The Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. The Federal Funds target rate, which is the cost to banks of immediately available overnight funds, has increased 75 basis points since December 31, 2017, and is currently at 2.00% to 2.25%.

Table 16 reflects the classification of the average deposits and the average rate paid on each deposit category, which are in excess of 10 percent of average total deposits, for the three and nine-month periods ended September 30, 2018 and 2017.

**Table 16: Average Deposit Balances and Rates**

|   | Three Months Ended September 30,<br>2018 |                      | 2017              |                      |
|---|--|----------------------|-------------------|----------------------|
|   | Average<br>Amount                        | Average<br>Rate Paid | Average<br>Amount | Average<br>Rate Paid |
|   | (Dollars in thousands)                   |                      |                   |                      |
| Non-interest-bearing transaction accounts | \$ 2,512,690                             | %                    | \$ 1,924,933      | %                    |
| Interest-bearing transaction accounts     | 5,758,161                                | 1.05                 | 3,973,270         | 0.56                 |
| Savings deposits                          | 648,550                                  | 0.19                 | 539,515           | 0.10                 |
| Time deposits:                            |  |                      |                   |                      |
| \$100,000 or more                         | 1,183,503                                | 1.63                 | 989,697           | 0.89                 |





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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 \$5.6 million, or 3.8%, from \$147.8 million as of December 31, 2017 to \$142.1 million as of September 30, 2018.

***FHLB Borrowed Funds***

The Company's FHLB borrowed funds, which are secured by our loan portfolio, were \$1.36 billion and \$1.30 billion at September 30, 2018 and December 31, 2017, respectively. At September 30, 2018, \$750.0 million and \$609.9 million of the outstanding balance were issued as short-term and long-term advances, respectively. At December 31, 2017, \$525.0 million and \$774.2 million of the outstanding balance were issued as short-term and long-term advances, respectively. The FHLB advances mature from the current year to 2033 with fixed interest rates ranging from 1.00% to 4.80% and are secured by loans and investments securities. Maturities of borrowings as of September 30, 2018 include: 2018 \$770.0 million; 2019 \$143.0 million; 2020 \$146.4 million; 2021 zero; 2022 zero; 2023 zero; after 2023 \$300.4 million. Expected maturities will differ from contractual maturities because FHLB may have the right to call or HBI the right to prepay certain obligations. \$300 million of the borrowings maturing after 2023 are callable by the FHLB within one year.

***Subordinated Debentures***

Subordinated debentures, which consist of subordinated debt securities and guaranteed payments on trust preferred securities, were \$368.6 million as of September 30, 2018, and \$367.8 million as of September 30, 2017.

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 the aggregate, constitute a full and unconditional guarantee by us of each respective trust's obligations under the trust securities issued by each respective trust.

During 2017, we acquired \$12.5 million in trust preferred securities with a fair value of \$9.8 million from the Stonegate acquisition. The difference between the fair value purchased of \$9.8 million and the \$12.5 million face amount will be amortized into interest expense over the remaining life of the debentures. The associated subordinated debentures are redeemable, in whole or in part, prior to maturity at our option on a quarterly basis when interest is due and payable and in whole at any time within 90 days following the occurrence and continuation of certain changes in the tax treatment or capital treatment of the debentures.

On April 3, 2017, the Company completed an underwritten public offering of \$300.0 million in aggregate principal amount of its 5.625% Fixed-to-Floating Rate Subordinated Notes due 2027 (the Notes). The Notes were issued at 99.997% of par, resulting in net proceeds, after underwriting discounts and issuance costs, of approximately

\$297.0 million. The Notes are unsecured, subordinated debt obligations of the Company and will mature on April 15, 2027. The Notes qualify as Tier 2 capital for regulatory purposes.

**Table of Contents*****Stockholders Equity***

Stockholders equity was \$2.34 billion at September 30, 2018 compared to \$2.20 billion at December 31, 2017. The increase in stockholders equity is primarily associated with the \$171.2 million increase in retained earnings for the first nine months of 2018 combined with the issuance of 1,250,000 shares of common stock with a value of \$28.2 million as part of the acquisition of SPF, as well as 843,500 shares of restricted stock granted under HOMB \$2.00. This was partially offset by \$27.3 million of other comprehensive losses and the repurchase of \$43.2 million of our common stock. The annualized improvement in stockholders equity for the first nine months of 2018, excluding the \$28.2 million of common stock issued for the acquisition of SPF, was 6.6%. As of September 30, 2018 and December 31, 2017, our equity to asset ratio was 15.70% and 15.25%, respectively. Book value per share was \$13.44 as of September 30, 2018, compared to \$12.70 as of December 31, 2017, an 7.79% annualized increase.

*Common Stock Cash Dividends.* We declared cash dividends on our common stock of \$0.12 per share and \$0.11 per share for the three-month periods ended September 30, 2018 and 2017, respectively. The common stock dividend payout ratio for the three months ended September 30, 2018 and 2017 was 26.1% and 106.03%, respectively. The common stock dividend payout ratio for the nine months ended September 30, 2018 and 2017 was 25.8% and 36.93%, respectively. For the fourth quarter of 2018, the Board of Directors declared a regular \$0.12 per share quarterly cash dividend payable December 5, 2018, to shareholders of record November 14, 2018.

*Stock Repurchase Program.* On February 21, 2018, the Company's Board of Directors authorized the repurchase of up to an additional 5,000,000 shares of its common stock under the previously approved stock repurchase program, which brought the total amount of authorized shares to repurchase to approximately 14,752,000 shares. During the first nine months of 2018, the Company utilized a portion of this stock repurchase program. We repurchased a total of 1,214,080 shares with a weighted-average stock price of \$23.18 per share during the third quarter of 2018. Shares repurchased under the program as of September 30, 2018 total 6,388,264 shares. The remaining balance available for repurchase was 8,363,736 shares at September 30, 2018.

**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, 2018 and December 31, 2017, we met all regulatory capital adequacy requirements to which we were subject.

On April 3, 2017 the Company completed an underwritten public offering of \$300 million in aggregate principal amount of its 5.625% Fixed-to-Floating Rate Subordinated Notes due 2027 (the Notes). The Notes were issued at 99.997% of par, resulting in net proceeds, after underwriting discounts, of approximately \$297.2 million. The Notes are unsecured, subordinated debt obligations of the Company and will mature on April 15, 2027. The Notes qualify as Tier 2 capital for regulatory purposes.



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Table 17 presents our risk-based capital ratios on a consolidated basis as of September 30, 2018 and December 31, 2017.

**Table 17: Risk-Based Capital**

|   | <b>As of<br/>September 30,<br/>2018</b> | <b>As of<br/>December 31,<br/>2017</b> |
|---|---|--|
|   | <b>(Dollars in thousands)</b>           |  |
| <b>Tier 1 capital</b>                                   |   |  |
| Stockholders equity                                     | \$ 2,341,026                            | \$ 2,204,291                           |
| Goodwill and core deposit intangibles, net              | (1,002,434)                             | (966,890)                              |
| Unrealized (gain) loss on available-for-sale securities | 30,721                                  | 3,421                                  |
| Deferred tax assets                                     |   |  |
| <b>Total common equity Tier 1 capital</b>               | <b>1,369,313</b>                        | <b>1,240,822</b>                       |
| Qualifying trust preferred securities                   | 70,805                                  | 70,698                                 |
| <b>Total Tier 1 capital</b>                             | <b>1,440,118</b>                        | <b>1,311,520</b>                       |
| <b>Tier 2 capital</b>                                   |   |  |
| Qualifying subordinated notes                           | 297,791                                 | 297,332                                |
| Qualifying allowance for loan losses                    | 110,191                                 | 110,266                                |
| <b>Total Tier 2 capital</b>                             | <b>407,982</b>                          | <b>407,598</b>                         |
| <b>Total risk-based capital</b>                         | <b>\$ 1,848,100</b>                     | <b>\$ 1,719,118</b>                    |
| Average total assets for leverage ratio                 | \$ 13,878,497                           | \$ 13,147,046                          |
| <b>Risk weighted assets</b>                             | <b>\$ 11,752,120</b>                    | <b>\$ 11,424,963</b>                   |
| <b>Ratios at end of period</b>                          |   |  |
| Common equity Tier 1 capital                            | 11.65%                                  | 10.86%                                 |
| Leverage ratio  | 10.38                                   | 9.98                                   |
| Tier 1 risk-based capital                               | 12.25                                   | 11.48                                  |
| Total risk-based capital                                | 15.73                                   | 15.05                                  |
| <b>Minimum guidelines Basel III phase-in schedule</b>   |   |  |
| Common equity Tier 1 capital                            | 6.38%                                   | 5.75%                                  |
| Leverage ratio  | 4.00                                    | 4.00                                   |
| Tier 1 risk-based capital                               | 7.88                                    | 7.25                                   |
| Total risk-based capital                                | 9.88                                    | 9.25                                   |
| <b>Minimum guidelines Basel III fully phased-in</b>     |   |  |
| Common equity Tier 1 capital                            | 7.00%                                   | 7.00%                                  |
| Leverage ratio  | 4.00                                    | 4.00                                   |

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|                              |       |       |
|------------------------------|-------|-------|
| Tier 1 risk-based capital    | 8.50  | 8.50  |
| Total risk-based capital     | 10.50 | 10.50 |
| Well-capitalized guidelines  |       |       |
| Common equity Tier 1 capital | 6.50% | 6.50% |
| Leverage ratio               | 5.00  | 5.00  |
| Tier 1 risk-based capital    | 8.00  | 8.00  |
| Total risk-based capital     | 10.00 | 10.00 |

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

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

Our accounting and reporting policies conform to generally accepted accounting principles in the United States ( GAAP ) and the prevailing practices in the banking industry. However, this report contains financial information determined by methods other than in accordance with generally accepted accounting principles (GAAP), including earnings, as adjusted; diluted earnings per common share, as adjusted; tangible book value per share; return on average assets excluding intangible amortization; return on average tangible equity excluding intangible amortization; tangible equity to tangible assets; and efficiency ratio, as adjusted.

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.

The tables below present non-GAAP reconciliations of earnings, as adjusted, and diluted earnings per share, as adjusted as well as the non-GAAP computations of tangible book value per share, return on average assets, return on average tangible equity excluding intangible amortization, tangible equity to tangible assets and the efficiency ratio, as adjusted. The items used in these calculations are included in financial results presented in accordance with generally accepted accounting principles ( GAAP ).

Earnings, as adjusted, and diluted earnings per common share, as adjusted, are meaningful non-GAAP financial measures for management, as they exclude certain items such as merger expenses and/or certain gains and losses. Management believes the exclusion of these items in expressing earnings provides a meaningful foundation for period-to-period and company-to-company comparisons, which management believes will aid both investors and analysts in analyzing our financial measures and predicting future performance. These non-GAAP financial measures are also used by management to assess the performance of our business, because management does not consider these items to be relevant to ongoing financial performance.

In Table 18 below, we have provided a reconciliation of the non-GAAP calculation of the financial measure for the periods indicated.

**Table 18: Earnings, As Adjusted**

|  | Three Months Ended     |                       | Nine Months Ended     |                       |
|--|------------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2018  | September 30,<br>2017 | September 30,<br>2018 | September 30,<br>2017 |
|  | (Dollars in thousands) |                       |                       |                       |
| GAAP net income available to common shareholders (A) | \$ 80,284              | \$ 14,821             | \$ 229,373            | \$ 111,774            |
| Adjustments:   |                        |                       |                       |                       |
| Gain on acquisitions                                 |                        |                       |                       | (3,807)               |
| Merger expenses                                      |                        | 18,227                |                       | 25,743                |
| Hurricane expenses <sup>(2)</sup>                    |                        | 33,445                |                       | 33,445                |
| Total adjustments                                    |                        | 51,672                |                       | 55,381                |



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|   |           |           |            |            |
|---|-----------|-----------|------------|------------|
| Tax-effect of adjustments <sup>(1)</sup>            |           | 20,045    |            | 22,626     |
| Adjustments after-tax (B)                           |           | 31,627    |            | 32,755     |
| Earnings, as adjusted (C)                           | \$ 80,284 | \$ 46,448 | \$ 229,373 | \$ 144,529 |
| Average diluted shares outstanding (D)              | 174,867   | 144,987   | 174,394    | 143,839    |
| GAAP diluted earnings per share: A/D                | \$ 0.46   | \$ 0.10   | \$ 1.32    | \$ 0.78    |
| Adjustments after-tax B/D                           |           | 0.22      |            | 0.22       |
| Diluted earnings per common share, as adjusted: C/D | \$ 0.46   | \$ 0.32   | \$ 1.32    | \$ 1.00    |

- (1) Effective tax rate of 39.225%, adjusted for non-taxable gain on acquisition and non-deductible merger-related costs for the quarter ended September 30, 2017.
- (2) Hurricane expenses includes \$32,889 of provision for loan losses and \$556 of damage expense related to Hurricane Irma.

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We had \$1.00 billion, \$977.3 million, and \$980.1 million total goodwill, core deposit intangibles and other intangible assets as of September 30, 2018, December 31, 2017 and September 30, 2017, respectively. Because of our level of intangible assets and related amortization expenses, management believes tangible book value per share, return on average assets, return on average tangible equity excluding intangible amortization and tangible equity to tangible assets are useful in evaluating our company. These calculations, which are similar to the GAAP calculation of diluted earnings per share, tangible book value, return on average assets, return on average equity, and equity to assets, are presented in Tables 19 through 22, respectively.

**Table 19: Tangible Book Value Per Share**

|  | As of<br>September 30, 2018           | As of<br>December 31, 2017 |
|--|---------------------------------------|----------------------------|
|  | (In thousands, except per share data) |                            |
| Book value per share: A/B                | \$ 13.44                              | \$ 12.70                   |
| Tangible book value per share: (A-C-D)/B | 7.68                                  | 7.07                       |
| (A) Total equity                         | \$ 2,341,026                          | \$ 2,204,291               |
| (B) Shares outstanding                   | 174,135                               | 173,633                    |
| (C) Goodwill                             | \$ 958,408                            | \$ 927,949                 |
| (D) Core deposit and other intangibles   | 44,484                                | 49,351                     |

**Table 20: Return on Average Assets**

|  | Three Months Ended<br>September 30, |       | Nine Months Ended<br>September 30, |       |
|--|-------------------------------------|-------|------------------------------------|-------|
|  | 2018                                | 2017  | 2018                               | 2017  |
|  | (Dollars in thousands)              |       |                                    |       |
| Return on average assets: A/I  | 2.14%                               | 0.54% | 2.12%                              | 1.41% |
| Return on average assets<br>excluding tax effect of TCJA<br>(A-H)/I  | 1.78                                | 0.54  | 1.77                               | 1.41  |
| Return on average assets<br>excluding intangible<br>amortization: (A+C)/(I-J)  | 2.33                                | 0.59  | 2.31                               | 1.49  |
| Return on average assets<br>excluding gain on acquisitions,<br>merger expenses and hurricane<br>expenses: (A+F)/I  | 2.14                                | 1.70  | 2.12                               | 1.82  |
| Return on average assets<br>excluding intangible<br>amortization, provision for loan<br>losses, gain on acquisitions,<br>merger expenses, hurricane<br>expenses and income taxes | 3.07                                | 2.94  | 3.09                               | 3.14  |

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|   |    |            |    |            |    |            |    |            |
|---|----|------------|----|------------|----|------------|----|------------|
| (ROA, as adjusted):   |    |            |    |            |    |            |    |            |
| (A+B+D+E+G)/(I-J)   |    |            |    |            |    |            |    |            |
| (A) Net income  | \$ | 80,284     | \$ | 14,821     | \$ | 229,373    | \$ | 111,774    |
| (B) Intangible amortization                                   |    | 1,617      |    | 906        |    | 4,867      |    | 2,576      |
| (C) Intangible amortization after-tax                         |    | 1,194      |    | 551        |    | 3,595      |    | 1,566      |
| (D) Provision for loan losses excluding hurricane provision   | \$ |            | \$ | 2,134      | \$ | 4,322      | \$ | 6,435      |
| (E) Total adjustments   |    |            |    | 51,672     |    |            |    | 55,381     |
| (F) Adjustments after-tax                                     |    |            |    | 31,627     |    |            |    | 32,755     |
| (G) Income tax expense excluding effect of tax rate change    |    | 25,350     |    | 7,536      |    | 73,630     |    | 63,192     |
| (H) Tax effect of TCJA  |    | 13,395     |    |            |    | 37,952     |    |            |
| (I) Average assets  |    | 14,880,931 |    | 10,853,559 |    | 14,475,630 |    | 10,617,917 |
| (J) Average goodwill, core deposits & other intangible assets |    | 1,001,843  |    | 462,799    |    | 984,639    |    | 440,465    |

**Table of Contents****Table 21: Return on Average Tangible Equity Excluding Intangible Amortization**

|  | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|-----------|------------------------------------|------------|
|  | 2018                                | 2017      | 2018                               | 2017       |
|  | (Dollars in thousands)              |           |                                    |            |
| Return on average equity: A/E  | 13.74%                              | 3.88%     | 13.56%                             | 10.33%     |
| Return on average equity excluding<br>tax effect of TCJA (A-C)/E   | 11.45                               |           | 11.32                              |            |
| Return on average tangible equity<br>excluding intangible amortization:<br>B/(E-F)                             | 24.56                               | 5.80      | 24.39                              | 15.06      |
| Return on average equity excluding<br>gain on acquisitions, merger expenses<br>and hurricane expenses: (A+D)/E | 13.74                               | 12.17     | 13.56                              | 13.36      |
| (A) Net income   | \$ 80,284                           | \$ 14,821 | \$ 229,373                         | \$ 111,774 |
| (B) Earnings excluding intangible<br>amortization  | 81,478                              | 15,372    | 232,968                            | 113,340    |
| (C) Tax effect of TCJA   | 13,395                              |           | 37,952                             |            |
| (D) Adjustments after tax  |                                     | 31,627    |                                    | 32,755     |
| (E) Average equity   | 2,317,930                           | 1,513,829 | 2,261,594                          | 1,446,740  |
| (F) Average goodwill, core deposits<br>and other intangible assets   | 1,001,843                           | 462,799   | 984,639                            | 440,465    |

**Table 22: Tangible Equity to Tangible Assets**

|  | As of<br>September 30,<br>2018 | As of<br>December 31,<br>2017 |
|--|--------------------------------|-------------------------------|
|  | (Dollars in thousands)         |                               |
| Equity to assets: B/A                                  | 15.70%                         | 15.25%                        |
| Tangible equity to tangible assets:<br>(B-C-D)/(A-C-D) | 9.62                           | 9.11                          |
| (A) Total assets                                       | \$ 14,912,738                  | \$ 14,449,760                 |
| (B) Total equity                                       | 2,341,026                      | 2,204,291                     |
| (C) Goodwill   | 958,408                        | 927,949                       |
| (D) Core deposit and other intangibles                 | 44,484                         | 49,351                        |

The efficiency ratio is a standard measure used in the banking industry and is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income. The efficiency ratio, as adjusted, is a meaningful non-GAAP measure for management, as it excludes certain items and is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income excluding items such as merger expenses and/or certain other gains and losses. In Table 23 below, we have provided a reconciliation of the

non-GAAP calculation of the financial measure for the periods indicated.

**Table of Contents****Table 23: Efficiency Ratio, As Adjusted**

|   | Three Months Ended     |            | Nine Months Ended |            |
|---|------------------------|------------|-------------------|------------|
|   | September 30,          |            | September 30,     |            |
|   | 2018                   | 2017       | 2018              | 2017       |
|   | (Dollars in thousands) |            |                   |            |
| Net interest income (A)   | \$ 145,910             | \$ 106,769 | \$ 420,731        | \$ 318,936 |
| Non-interest income (B)   | 25,847                 | 21,457     | 79,325            | 72,344     |
| Non-interest expense (C)  | 66,123                 | 70,846     | 192,731           | 176,990    |
| FTE Adjustment (D)  | 1,489                  | 1,846      | 4,101             | 5,873      |
| Amortization of intangibles (E)                                     | 1,617                  | 906        | 4,867             | 2,576      |
| Non-fundamental items:  |                        |            |                   |            |
| Non-interest income:  |                        |            |                   |            |
| Gain on acquisitions  | \$                     | \$         | \$                | \$ 3,807   |
| Gain (loss) on OREO, net  | 836                    | 335        | 2,287             | 849        |
| Gain on sale of SBA loans   | 47                     | 163        | 491               | 738        |
| Gain (loss) on sale of branches,<br>equipment and other assets, net | (102)                  | (1,337)    | (95)              | (962)      |
| Gain (loss) on securities, net                                      |                        | 136        |                   | 939        |
| Total non-fundamental non-interest<br>income (F)                    | \$ 781                 | \$ (703)   | \$ 2,683          | \$ 5,371   |
| Non-interest expense:   |                        |            |                   |            |
| Merger expenses   | \$                     | \$ 18,227  | \$                | \$ 25,743  |
| Hurricane damage expense  |                        | 556        |                   | 556        |
| Other expense <sup>(1)</sup>  |                        |            |                   | 47         |
| Total non-fundamental non-interest<br>expense (G)                   |                        | \$ 18,783  |                   | \$ 26,346  |
| Efficiency ratio (reported):<br>((C-E)/(A+B+D))                     | 37.23%                 | 53.77%     | 37.26%            | 43.92%     |
| Efficiency ratio, as adjusted (non-GAAP):<br>((C-E-G)/(A+B+D-F))    | 37.40                  | 39.12      | 37.46             | 37.79      |

(1) Amount includes vacant properties write-downs.

**Recently Issued Accounting Pronouncements**

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

**Item 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

***Liquidity and Market Risk Management***

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

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

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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, 2018, our cash and cash equivalents were \$532.1 million, or 3.6% of total assets, compared to \$635.9 million, or 4.4% of total assets, as of December 31, 2017. Our available-for-sale investment securities and federal funds sold were \$1.74 billion and \$1.69 billion as of September 30, 2018 and December 31, 2017, respectively.

As of September 30, 2018, our investment portfolio was comprised of approximately 67.7% or \$1.32 billion of securities which mature in less than five years. As of September 30, 2018 and December 31, 2017, \$1.17 billion and \$1.18 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, 2018, our total deposits were \$10.62 billion, or 71.2% of total assets, compared to \$10.39 billion, or 71.9% of total assets, as of December 31, 2017. We attract our deposits primarily from individuals, business, and municipalities located in our market areas.

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

As of September 30, 2018 and December 31, 2017, we could have borrowed up to \$301.0 million and \$106.4 million, respectively, on a secured basis from the Federal Reserve, up to \$50.0 million from First National Bankers Bank on an unsecured basis, and up to \$45.0 million in the aggregate from other financial institutions on an unsecured basis. The unsecured lines may be terminated by the respective institutions at any time.

The lines of credit we maintain with the FHLB can provide us with both short-term and long-term forms of liquidity on a secured basis. FHLB borrowed funds were \$1.36 billion and \$1.30 billion at September 30, 2018 and December 31, 2017, respectively. At September 30, 2018, \$750.0 million and \$609.9 million of the outstanding balance were issued as short-term and long-term advances, respectively. At December 31, 2017, \$525.0 million and \$774.2 million of the outstanding balance were issued as short-term and long-term advances, respectively. Our unused FHLB borrowing availability was \$2.55 billion and \$1.96 billion as of September 30, 2018 and December 31, 2017, 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.

*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 proportionally 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.

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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.

For the rising and falling interest rate scenarios, the base market interest rate forecast was increased and decreased over twelve months by 200 and 100 basis points, respectively. At September 30, 2018, our net interest margin exposure related to these hypothetical changes in market interest rates was within the current guidelines established by us.

Table 24 presents our sensitivity to net interest income as of September 30, 2018.

**Table 24: Sensitivity of Net Interest Income**

| <b>Interest Rate Scenario</b> | <b>Percentage Change from Base</b> |
|-------------------------------|------------------------------------|
| Up 200 basis points           | 6.21%                              |
| Up 100 basis points           | 3.14                               |
| Down 100 basis points         | (5.20)                             |
| Down 200 basis points         | (10.36)                            |

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

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

Gap analysis attempts to capture the amounts and timing of balances exposed to changes in interest rates at a given point in time. As of September 30, 2018, our gap position was asset sensitive with a one-year cumulative repricing gap as a percentage of total earning assets of 3.7%.

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

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



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Table 25 presents a summary of the repricing schedule of our interest-earning assets and interest-bearing liabilities (gap) as of September 30, 2018.

**Table 25: Interest Rate Sensitivity**

|   | Interest Rate Sensitivity Period |                     |                     |   |                   |                     |                   | Total               |
|---|----------------------------------|---------------------|---------------------|---|-------------------|---------------------|-------------------|---------------------|
|   | 0-30<br>Days                     | 31-90<br>Days       | 91-180<br>Days      | 181-365<br>Days<br>(Dollars in thousands) | 1-2<br>Years      | 2-5<br>Years        | Over 5<br>Years   |                     |
| <b>Interest-earning assets</b>            |                                  |                     |                     |   |                   |                     |                   |                     |
| <b>Interest-bearing</b>                   |                                  |                     |                     |   |                   |                     |                   |                     |
| Deposits due from banks                   | \$ 323,376                       | \$                  | \$                  | \$  | \$                | \$                  | \$                | \$ 323,376          |
| Federal funds sold                        | 500                              |                     |                     |   |                   |                     |                   | 500                 |
| Investment securities                     | 298,914                          | 78,759              | 69,288              | 112,483                                   | 176,612           | 482,712             | 724,928           | 1,943,696           |
| Loans receivable                          | 3,262,719                        | 634,382             | 784,590             | 1,284,728                                 | 1,698,675         | 2,467,054           | 700,667           | 10,832,815          |
| <b>Total earning assets</b>               | <b>3,885,509</b>                 | <b>713,141</b>      | <b>853,878</b>      | <b>1,397,211</b>                          | <b>1,875,287</b>  | <b>2,949,766</b>    | <b>1,425,595</b>  | <b>13,100,384</b>   |
| <b>Interest-bearing liabilities</b>       |                                  |                     |                     |   |                   |                     |                   |                     |
| <b>Interest-bearing</b>                   |                                  |                     |                     |   |                   |                     |                   |                     |
| Transaction and savings deposits          | 1,115,690                        | 503,425             | 755,138             | 1,510,275                                 | 870,066           | 633,124             | 1,033,233         | 6,420,951           |
| Time deposits                             | 179,639                          | 153,019             | 264,598             | 450,935                                   | 557,087           | 112,564             | 3,088             | 1,720,933           |
| Securities sold under purchase agreements | 142,146                          |                     |                     |   |                   |                     |                   | 142,146             |
| FHLB and other borrowed funds             | 401,178                          | 371,099             | 24                  | 444,329                                   | 143,752           | 3,469               |                   | 1,363,859           |
| Subordinated debentures                   | 70,805                           |                     |                     |   |                   | 297,791             |                   | 368,596             |
| <b>Total interest-bearing liabilities</b> | <b>1,909,458</b>                 | <b>1,027,543</b>    | <b>1,019,760</b>    | <b>2,405,539</b>                          | <b>1,570,905</b>  | <b>1,046,948</b>    | <b>1,036,321</b>  | <b>10,016,475</b>   |
| <b>Interest rate sensitivity gap</b>      | <b>\$ 1,976,051</b>              | <b>\$ (314,402)</b> | <b>\$ (165,882)</b> | <b>\$ (1,008,321)</b>                     | <b>\$ 304,382</b> | <b>\$ 1,902,818</b> | <b>\$ 389,274</b> | <b>\$ 3,083,913</b> |
|   | \$ 1,976,051                     | \$ 1,661,649        | \$ 1,495,767        | \$ 487,439                                | \$ 791,821        | \$ 2,694,639        | \$ 3,083,913      |                     |

|   |        |        |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|--------|--------|
| cumulative interest rate sensitivity gap      |        |        |        |        |        |        |        |
| cumulative rate sensitive liabilities         | 203.5% | 156.6% | 137.8% | 107.7% | 110.0% | 130.0% | 130.8% |
| cumulative gap as a % of total earning assets | 15.1%  | 12.7%  | 11.4%  | 3.7%   | 6.0%   | 20.6%  | 23.5%  |

#### **Item 4: CONTROLS AND PROCEDURES**

##### **Evaluation of Disclosure Controls**

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

##### **Changes in Internal Control Over Financial Reporting**

There have not been any changes in the Company's internal controls over financial reporting during the quarter ended September 30, 2018, which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### **PART II: OTHER INFORMATION**

##### **Item 1: Legal Proceedings**

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

**Table of Contents****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, 2017. 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**

In connection with the Company's acquisition of SPF, on June 30, 2018, the Company issued 1,250,000 shares of HBI common stock to Union in partial consideration for the acquisition. The shares were issued to Union pursuant to Section 4(a)(2) of the Securities Act of 1933.

During the three months ended September 30, 2018, the Company utilized a portion of its stock repurchase program last amended and approved by the Board of Directors on February 21, 2018. This program authorized the repurchase of 14,752,000 shares of the Company's common stock. The following table sets forth information with respect to purchases made by or on behalf of the Company of shares of the Company's common stock during the periods indicated:

| <b>Period</b>                          | <b>Number of Shares Purchased</b> | <b>Average Price Paid Per Share Purchased</b> | <b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b> | <b>Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup></b> |
|--|-----------------------------------|---|---|--|
| July 1 through July 31, 2018           | 541,700                           | \$ 23.02                                      | 541,700   | 9,036,116  |
| August 1 through August 31, 2018       | 565,544                           | 23.39   | 565,544   | 8,470,572  |
| September 1 through September 30, 2018 | 106,836                           | 22.82   | 106,836   | 8,363,736  |
| Total                                  | 1,214,080                         | 23.18   | 1,214,080   |  |

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

**Item 3: Defaults Upon Senior Securities**

Not applicable.

**Item 4: Mine Safety Disclosures**

Not applicable.

**Item 5: Other Information**

Not applicable.

**Item 6: Exhibits**

| Exhibit No. | Description   |
|-------------|---|
| 3.1         | <u>Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.1 of Home BancShares' s registration statement on Form S-1 (File No. 333-132427), as amended)</u>                  |
| 3.2         | <u>Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.2 of Home BancShares' s registration statement on Form S-1 (File No. 333-132427), as amended)</u> |

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## Exhibit No.

- 3.3 Second Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.3 of Home BancShares' s registration statement on Form S-1 (File No. 333-132427), as amended)
- 3.4 Third Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.4 of Home BancShares' s registration statement on Form S-1 (File No. 333-132427), as amended)
- 3.5 Fourth Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.1 of Home BancShares' s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, filed on August 8, 2007)
- 3.6 Fifth Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 4.6 of Home BancShares' s registration statement on Form S-3 (File No. 333-157165))
- 3.7 Certificate of Designations of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, filed with the Secretary of State of the State of Arkansas on January 14, 2009 (incorporated by reference to Exhibit 3.1 of Home BancShares' s Current Report on Form 8-K, filed on January 21, 2009)
- 3.8 Seventh Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.1 of Home BancShares' s Current Report on Form 8-K, filed on April 19, 2013)
- 3.9 Eighth Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.1 of Home BancShares Current Report on Form 8-K filed on April 22, 2016)
- 3.10 Restated Bylaws of Home BancShares, Inc. (incorporated by reference to Exhibit 3.5 of Home BancShares' s registration statement on Form S-1 (File No. 333-132427), as amended)
- 4.1 Specimen Stock Certificate representing Home BancShares, Inc. Common Stock (incorporated by reference to Exhibit 4.6 of Home BancShares' s registration statement on Form S-1 (File No. 333-132427), as amended)
- 4.2 Instruments defining the rights of security holders including indentures. Home BancShares hereby agrees to furnish to the SEC upon request copies of instruments defining the rights of holders of long-term debt of Home BancShares and its consolidated subsidiaries. No issuance of debt exceeds ten percent of the assets of Home BancShares and its subsidiaries on a consolidated basis.
- 10.1 Amended and Restated 2006 Stock Option and Performance Incentive Plan of Home BancShares, Inc. (incorporated by reference to Exhibit 10.1 of Home BancShares' s Current Report on Form 8-K filed on March 30, 2012)
- 10.2 Amendment to Amended and Restated 2006 Stock Option and Performance Incentive Plan of Home BancShares, Inc. (incorporated by reference to Exhibit 10.1 of Home BancShares' s Quarterly Report on Form 10-Q for the period ended June 30, 2015, filed on August 6, 2015)
- 10.3 Amendment to Amended and Restated 2006 Stock Option and Performance Incentive Plan of Home BancShares, Inc. (incorporated by reference to Exhibit 10.1 of Home BancShares' s Current Report on Form 8-K filed on April 22, 2016)
- 10.4



|      |   |
|------|---|
|      | <u>Amendment to Amended and Restated 2006 Stock Option and Performance Incentive Plan of Home BancShares, Inc. (incorporated by reference to Exhibit 10.1 of Home BancShares' s Current Report on Form 8-K filed on April 20, 2018)</u>                                       |
| 10.5 | <u>Amendment to Amended and Restated 2006 Stock Option and Performance Incentive Plan of Home BancShares, Inc. (incorporated by reference to Exhibit 10.5 of Home BancShares' s Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, filed on May 7, 2018)</u> |
| 12.1 | <u>Computation of Ratios of Earnings to Fixed Charges*</u>  |
| 15   | <u>Awareness of Independent Registered Public Accounting Firm*</u>  |
| 31.1 | <u>CEO Certification Pursuant Rule 13a-14(a)/15d-14(a)*</u>   |
| 31.2 | <u>CFO Certification Pursuant Rule 13a-14(a)/15d-14(a)*</u>   |

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Exhibit No.

|         |  |
|---------|--|
| 32.1    | <u>CEO Certification Pursuant 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes Oxley Act of 2002*</u>  |
| 32.2    | <u>CFO Certification Pursuant 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes Oxley Act of 2002*</u>  |
| 99.1    | <u>Asset Purchase Agreement by and among Home BancShares, Inc., Centennial Bank, and Union Bank &amp; Trust, dated June 29, 2018 (incorporated by reference to Exhibit 99.3 of Home BancShares's Current Report on Form 8-K filed on July 6, 2018)</u> |
| 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 5, 2018

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

Date: November 5, 2018

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

Date: November 5, 2018

*/s/ Jennifer C. Floyd*  
Jennifer C. Floyd, Chief Accounting Officer