HOME BANCSHARES INC
Form 10-Q
August 06, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended June 30, 2015

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) 328-4770

(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 x No ¨

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

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

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

Common Stock Issued and Outstanding: 67,774,533 shares as of July 31, 2015.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- the effects of future economic conditions, including inflation or a decrease in commercial real estate and residential housing values;
- governmental monetary and fiscal policies, as well as legislative and regulatory changes;
- the impact of the Dodd-Frank financial regulatory reform act and regulations issued thereunder;
- the risks of changes in interest rates or the level and composition of deposits, loan demand and the values of loan collateral, securities and interest sensitive assets and liabilities;
- the effects of terrorism and efforts to combat it;
- credit risks;
- the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in our market area and elsewhere, including institutions operating regionally, nationally and internationally, together with competitors offering banking products and services by mail, telephone and the Internet;
- the effect of any mergers, acquisitions or other transactions to which we or our subsidiaries may from time to time be a party, including our ability to successfully integrate any businesses that we acquire;

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

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

All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this Cautionary Note. Our actual results may differ significantly from those we discuss in these forward-looking statements. For other factors, risks and uncertainties that could cause our actual results to differ materially from estimates and projections contained in these forward-looking statements, see the Risk Factors section of our Form 10-K filed with the Securities and Exchange Commission on February 27, 2015.

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PART I: FINANCIAL INFORMATION

Item 1: Financial Statements

Home BancShares, Inc.

Consolidated Balance Sheets

(In thousands, except share data)	June 30, 2015 (Unaudited)	December 31, 2014
Assets		
Cash and due from banks	$ 116,682	$ 105,438
Interest-bearing deposits with other banks	87,729	7,090
Cash and cash equivalents	204,411	112,528
Federal funds sold		250
Investment securities available-for-sale	1,080,000	1,067,287
Investment securities held-to-maturity	336,993	356,790
Loans receivable not covered by loss share	5,499,028	4,817,314
Loans receivable covered by FDIC loss share	159,891	240,188
Allowance for loan losses	(60,258)	(55,011)
Loans receivable, net	5,598,661	5,002,491
Bank premises and equipment, net	209,425	206,912
Foreclosed assets held for sale not covered by loss share	16,539	16,951
Foreclosed assets held for sale covered by FDIC loss share	4,472	7,871
FDIC indemnification asset	15,874	28,409
Cash value of life insurance	75,015	74,444
Accrued interest receivable	24,447	24,075
Deferred tax asset, net	62,088	65,227
Goodwill	322,728	325,423
Core deposit and other intangibles	19,816	20,925
Other assets	103,913	93,689
Total assets	$ 8,074,382	$ 7,403,272
Liabilities and Stockholders Equity		
Deposits:		
Demand and non-interest-bearing	$ 1,406,051	$ 1,203,306
Savings and interest-bearing transaction accounts	3,099,522	2,974,850
Time deposits	1,372,463	1,245,815
Total deposits	5,878,036	5,423,971
Securities sold under agreements to repurchase	150,746	176,465
FHLB borrowed funds	866,907	697,957

Accrued interest payable and other liabilities	56,166	28,761
Subordinated debentures	60,826	60,826
Total liabilities	7,012,681	6,387,980
Stockholders equity:		
Common stock, par value $0.01; shares authorized 100,000,000 in 2015 and 2014; shares issued and outstanding 67,774,390 in 2015 and 67,570,610 in 2014	677	676
Capital surplus	780,731	781,328
Retained earnings	274,409	226,279
Accumulated other comprehensive income	5,884	7,009
Total stockholders equity	1,061,701	1,015,292
Total liabilities and stockholders equity	$ 8,074,382	$ 7,403,272

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.

Consolidated Statements of Income

(In thousands, except per share data)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	(Unaudited)			
Interest income:				
Loans	$ 82,360	$ 75,404	$ 157,847	$ 150,417
Investment securities				
Taxable	5,130	4,762	10,673	9,232
Tax-exempt	2,774	2,379	5,526	4,696
Deposits other banks	44	29	135	53
Federal funds sold	3	12	11	28
Total interest income	90,311	82,586	174,192	164,426
Interest expense:				
Interest on deposits	3,311	3,095	6,569	6,479
Federal funds purchased	1		2	
FHLB borrowed funds	1,053	952	2,103	1,898
Securities sold under agreements to repurchase	163	168	335	350
Subordinated debentures	334	328	663	656
Total interest expense	4,862	4,543	9,672	9,383
Net interest income	85,449	78,043	164,520	155,043
Provision for loan losses	5,381	6,115	9,168	13,053
Net interest income after provision for loan losses	80,068	71,928	155,352	141,990
Non-interest income:				
Service charges on deposit accounts	6,056	6,193	11,474	12,104
Other service charges and fees	6,499	5,978	12,715	11,664
Trust fees	1,186	323	1,618	759
Mortgage lending income	2,955	1,801	4,887	3,314
Insurance commissions	640	934	1,207	2,350
Income from title services	36	53	70	103
Increase in cash value of life insurance	295	281	603	569
Dividends from FHLB, FRB, Bankers bank & other	419	501	834	817
Gain on acquisitions			1,635	
Gain (loss) on sale of premises and equipment, net	21	445	29	454
Gain (loss) on OREO, net	(263)	859	230	1,398
Gain (loss) on securities, net			4	

FDIC indemnification accretion/(amortization), net	(2,202)	(6,622)	(6,158)	(11,366)
Other income	1,385	793	2,549	1,554
Total non-interest income	17,027	11,539	31,697	23,720
Non-interest expense:				
Salaries and employee benefits	22,056	18,813	41,446	37,746
Occupancy and equipment	6,678	6,251	12,727	12,477
Data processing expense	3,063	1,793	5,482	3,586
Other operating expenses	11,453	11,763	24,308	24,168
Total non-interest expense	43,250	38,620	83,963	77,977
Income before income taxes	53,845	44,847	103,086	87,733
Income tax expense	19,939	16,418	38,061	31,967
Net income	$ 33,906	$ 28,429	$ 65,025	$ 55,766
Basic earnings per share	$ 0.50	$ 0.44	$ 0.96	$ 0.86
Diluted earnings per share	$ 0.50	$ 0.43	$ 0.96	$ 0.85

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.

Consolidated Statements of Comprehensive Income

(In thousands)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	(Unaudited)			
Net income	$ 33,906	$ 28,429	$ 65,025	$ 55,766
Net unrealized (loss) gain on available-for-sale securities	(6,905)	6,870	(1,855)	14,523
Less: reclassification adjustment for realized (gains) losses included in income			4	
Other comprehensive (loss) income, before tax effect	(6,905)	6,870	(1,851)	14,523
Tax effect	2,709	(2,695)	726	(5,697)
Other comprehensive (loss) income	(4,196)	4,175	(1,125)	8,826
Comprehensive income	$ 29,710	$ 32,604	$ 63,900	$ 64,592

Home BancShares, Inc.

Consolidated Statements of Stockholders Equity

Six Months Ended June 30, 2015 and 2014

(In thousands, except share data)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2014	$ 651	$ 708,058	$ 136,386	$ (4,140)	$ 840,955
Comprehensive income:					
Net income			55,766		55,766
Other comprehensive income (loss)				8,826	8,826
Net issuance of 18,784 shares of common stock from exercise of stock options		97			97
Disgorgement of profits		25			25
Tax benefit from stock options exercised		196			196
Share-based compensation		1,140			1,140
Cash dividends Common Stock, $0.15 per share			(9,770)		(9,770)

Balances at June 30, 2014 (unaudited)	651	709,516	182,382	4,686	897,235
Comprehensive income:					
Net income			57,297		57,297
Other comprehensive income (loss)				2,323	2,323
Net issuance of 101,577 shares of common stock from exercise of stock options	1	476			477
Issuance of 1,316,072 shares of common stock from acquisition of Traditions, net of issuance costs of approximately $215	13	39,254			39,267
Issuance of 1,020,824 shares of common stock from acquisition of Broward, net of issuance costs of approximately $116	10	30,121			30,131
Tax benefit from stock options exercised		1,029			1,029
Share-based compensation	1	932			933
Cash dividends - Common Stock, $0.20 per share			(13,400)		(13,400)
Balances at December 31, 2014	676	781,328	226,279	7,009	1,015,292
Comprehensive income:					
Net income			65,025		65,025
Other comprehensive income (loss)				(1,125)	(1,125)
Net issuance of 162,528 shares of common stock from exercise of stock options	1	116			117
Repurchase of 67,332 shares of common stock	(1)	(2,014)			(2,015)
Tax benefit from stock options exercised		83			83
Share-based compensation	1	1,218			1,219
Cash dividends Common Stock, $0.25 per share			(16,895)		(16,895)
Balances at June 30, 2015 (unaudited)	$ 677	$ 780,731	$ 274,409	$ 5,884	$ 1,061,701

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.

Consolidated Statements of Cash Flows

(In thousands)	Six Months Ended June 30, 2015	2014
	(Unaudited)	
Operating Activities		
Net income	$ 65,025	$ 55,766
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	5,191	4,988
Amortization/(accretion)	11,967	16,170
Share-based compensation	1,219	1,140
Tax benefits from stock options exercised	(83)	(196)
(Gain) loss on assets	(255)	(1,852)
Gain on acquisitions	(1,635)	
Provision for loan losses	9,168	13,053
Deferred income tax effect	3,864	10,563
Increase in cash value of life insurance	(603)	(569)
Originations of mortgage loans held for sale	(129,259)	(107,389)
Proceeds from sales of mortgage loans held for sale	122,069	107,993
Changes in assets and liabilities:		
Accrued interest receivable	(372)	2,097
Indemnification and other assets	(3,842)	25,322
Accrued interest payable and other liabilities	27,488	17,165
Net cash provided by (used in) operating activities	109,942	144,251
Investing Activities		
Net (increase) decrease in federal funds sold	250	3,425
Net (increase) decrease in loans, excluding loans acquired	(283,216)	63,544
Purchases of investment securities available-for-sale	(126,016)	(73,910)
Proceeds from maturities of investment securities available-for-sale	108,079	138,930
Proceeds from sale of investment securities available-for-sale	931	
Purchases of investment securities held-to-maturity	(6,556)	(99,212)
Proceeds from maturities of investment securities held-to-maturity	25,212	7,962
Proceeds from foreclosed assets held for sale	16,135	24,954
Proceeds from sale of insurance book of business	2,938	
Purchases of premises and equipment, net	(7,675)	(3,504)
Return of investment on cash value of life insurance	27	
Net cash proceeds (paid) received market acquisitions	140,820	
Net cash provided by (used in) investing activities	(129,071)	62,189

Financing Activities		
Net increase (decrease) in deposits, excluding deposits acquired	(13,509)	(201,037)
Net increase (decrease) in securities sold under agreements to repurchase	(25,719)	(16,382)
Net increase (decrease) in FHLB borrowed funds	168,950	(1,551)
Proceeds from exercise of stock options	117	97
Repurchase of common stock	(2,015)	
Disgorgement of profits		25
Tax benefits from stock options exercised	83	196
Dividends paid on common stock	(16,895)	(9,770)
Net cash provided by (used in) financing activities	111,012	(228,422)
Net change in cash and cash equivalents	91,883	(21,982)
Cash and cash equivalents beginning of year	112,528	165,534
Cash and cash equivalents end of period	$ 204,411	$ 143,552

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 and South Alabama and a loan production office in New York City. The Company is subject to competition from other financial institutions. The Company also is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

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

Operating Segments

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

Use of Estimates

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

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

Principles of Consolidation

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

Reclassifications

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

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Interim financial information

The accompanying unaudited consolidated financial statements as of June 30, 2015 and 2014 have been prepared in condensed format, and therefore do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

The information furnished in these interim statements reflects all adjustments, which are, in the opinion of management, necessary for a fair statement of the results for each respective period presented. Such adjustments are of a normal recurring nature. The results of operations in the interim statements are not necessarily indicative of the results that may be expected for any other quarter or for the full year. The interim financial information should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s 2014 Form 10-K, filed with the Securities and Exchange Commission.

Earnings per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Net income	$ 33,906	$ 28,429	$ 65,025	$ 55,766
Average shares outstanding	67,632	65,140	67,611	65,131
Effect of common stock options	283	405	301	392
Average diluted shares outstanding	67,915	65,545	67,912	65,523
Basic earnings per share	$ 0.50	$ 0.44	$ 0.96	$ 0.86
Diluted earnings per share	$ 0.50	$ 0.43	$ 0.96	$ 0.85

2. Business Combinations

Acquisition of Pool of National Commercial Real Estate Loans

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

In connection with this acquisition of loans, the Company opened a loan production office on April 23, 2015 in New York City. Through the loan production office, Centennial CFG plans to build out a national lending platform focusing on commercial real estate plus commercial and industrial loans.

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Acquisition of Doral Bank s Florida Panhandle operations

On February 27, 2015, the Company s banking subsidiary, Centennial acquired all the deposits and substantially all the assets of Doral Bank s Florida Panhandle operations (Doral Florida) through an alliance agreement with Popular who was the successful lead bidder with the FDIC on the failed Doral Bank of San Juan, Puerto Rico. The acquisition provided the Company with loans of approximately $37.9 million net of loan discounts, deposits of approximately $466.3 million, plus a $428.2 million cash settlement to balance the transaction. There is no loss-share with the FDIC in the acquired assets.

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

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

	Doral Bank s Florida Panhandle operations		
	Acquired from FDIC	**Fair Value Adjustments**	**As Recorded by HBI**
		(Dollars in thousands)	
Assets			
Cash and due from banks	$ 1,688	$ 428,214	$ 429,902
Loans receivable not covered by loss share	42,244	(4,300)	37,944
Total loans receivable	42,244	(4,300)	37,944
Core deposit intangible		1,363	1,363
Total assets acquired	$ 43,932	$ 425,277	$ 469,209
Liabilities			
Deposits			
Demand and non-interest-bearing	$ 3,130	$	$ 3,130
Savings and interest-bearing transaction accounts	119,865		119,865
Time deposits	343,271	1,308	344,579
Total deposits	466,266	1,308	467,574
Total liabilities assumed	$ 466,266	$ 1,308	$ 467,574

Pre-tax gain on acquisition	$	1,635

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   The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets. The $428.2 million adjustment is the cash settlement received from Popular for the net equity received, assets discount bid and other customary closing adjustments.

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 $36.9 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*, and were recorded with a $3.4 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 approximately $5.3 million of loans evaluated were considered purchased credit impaired loans with in the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, and were recorded with a $950,000 discount. These purchased credit impaired loans will recognize interest income through accretion of the difference between the carrying amount of the loans and the expected cash flows.

Core deposit intangible   This intangible asset represents the value of the relationships that Doral Florida 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 $1.4 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 Bank was able to reset deposit rates. However, the Bank did not lower the deposit rates as low as the market rates currently offered. As a result, a $1.3 million fair value adjustment was applied for time deposits because the estimated weighted-average interest rate of Doral Florida s certificates of deposits were still estimated to be above the current market rates after the rate reset.

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, deposits and intangible assets, and to evaluate the assumed tax positions and contingencies.

The Company s operating results for the period ended June 30, 2015, 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 Doral Florida total assets acquired excluding the cash settlement received is less than 1% of total assets 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 Broward Financial Holdings, Inc.

On October 23, 2014, the Company completed its acquisition of Broward Financial Holdings, Inc. (Broward), parent company of Broward Bank of Commerce, pursuant to a previously announced definitive agreement and plan of merger whereby a wholly-owned acquisition subsidiary (Acquisition Sub II) of HBI merged with and into Broward, resulting in Broward becoming a wholly-owned subsidiary of HBI. Immediately thereafter, Broward Bank of Commerce was merged into Centennial. Under the terms of the Agreement and Plan of Merger dated July 30, 2014 by and among HBI, Centennial, Broward, Broward Bank of Commerce and Acquisition Sub II, HBI issued 1,020,824 shares of its common stock valued at approximately $30.2 million as of October 23, 2014, plus $3.3 million in cash in exchange for all outstanding shares of Broward common stock. HBI has also agreed to pay the Broward shareholders, at an undetermined date, up to approximately $751,000 in additional consideration. The amount and timing of the additional payment, if any, will depend on future payments received or losses incurred by Centennial from certain current Broward Bank of Commerce loans. At June 30, 2015 and December 31, 2014, the Company had recorded a fair value of zero for the potential additional consideration.

Prior to the acquisition, Broward Bank of Commerce operated two banking locations in Fort Lauderdale, Florida. Including the effects of the purchase accounting adjustments, Broward had approximately $184.4 million in total assets, $121.1 million in total loans after $3.0 million of loan discounts, and $134.2 million in deposits.

As of the acquisition date, Broward s common equity totaled $20.4 million and the Company paid a purchase price to the Broward shareholders of approximately $33.6 million for the Broward acquisition. As a result, the Company paid a multiple of 1.62 of Broward s book value per share and tangible book value per share.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2014 for an additional discussion regarding the acquisition of Broward.

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Acquisition of Florida Traditions Bank

On July 17, 2014, the Company completed the acquisition of all of the issued and outstanding shares of common stock of Florida Traditions Bank (Traditions) and merged Traditions into Centennial. Under the terms of the Agreement and Plan of Merger dated April 25, 2014, by and among the Company, Centennial, and Traditions, the shareholders of Traditions received approximately $39.5 million of the Company s common stock valued at the time of closing, in exchange for all outstanding shares of Traditions common stock.

Prior to the acquisition, Traditions operated eight banking locations in Central Florida, including its main office in Dade City, Florida. Including the effects of the purchase accounting adjustments, Traditions had $310.5 million in total assets, $241.6 million in loans after $8.5 million of loan discounts, and $267.3 million in deposits.

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

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2014 for an additional discussion regarding the acquisition of Traditions.

3. Investment Securities

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

	June 30, 2015			
	Available-for-Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 355,102	$ 2,917	$ (479)	$ 357,540
Mortgage-backed securities	489,467	4,259	(1,411)	492,315
State and political subdivisions	178,700	4,918	(596)	183,022
Other securities	47,049	381	(307)	47,123
Total	$ 1,070,318	$ 12,475	$ (2,793)	$ 1,080,000

	Held-to-Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 7,808	$ 11	$ (6)	$ 7,813
Mortgage-backed securities	148,546	595	(293)	148,848
State and political subdivisions	180,639	3,188	(471)	183,356

Total	$ 336,993	$ 3,794	$ (770)	$ 340,017

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	December 31, 2014			
	Available-for-Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 333,880	$ 2,467	$ (269)	$ 336,078
Mortgage-backed securities	500,292	4,235	(1,445)	503,082
State and political subdivisions	170,207	6,522	(88)	176,641
Other securities	51,375	437	(326)	51,486
Total	$ 1,055,754	$ 13,661	$ (2,128)	$ 1,067,287

	Held-to-Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 4,724	$ 2	$ (11)	$ 4,715
Mortgage-backed securities	161,051	580	(193)	161,438
State and political subdivisions	191,015	5,178	(74)	196,119
Total	$ 356,790	$ 5,760	$ (278)	$ 362,272

Assets, principally investment securities, having a carrying value of approximately $1.19 billion and $1.23 billion at June 30, 2015 and December 31, 2014, 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 $150.7 million and $176.5 million at June 30, 2015 and December 31, 2014, respectively.

The amortized cost and estimated fair value of securities classified as available-for-sale and held-to-maturity at June 30, 2015, 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	$ 342,698	$ 344,472	$ 69,681	$ 70,154
Due after one year through five years	534,388	540,979	158,593	160,914
Due after five years through ten years	156,522	157,639	64,364	64,789
Due after ten years	36,710	36,910	44,355	44,160
Total	$ 1,070,318	$ 1,080,000	$ 336,993	$ 340,017

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

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

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

During the six-month period ended June 30, 2015, no securities were deemed to have other-than-temporary impairment besides securities for which impairment was taken in prior periods.

As of June 30, 2015, the Company had investment securities with a fair value of approximately $729,000 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 78.6% of the Company s investment portfolio matures in five years or less. As a result, the Company has the ability and intent to hold such securities until maturity.

The following shows gross unrealized losses and estimated fair value of investment securities classified as available-for-sale and held-to-maturity with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position as of June 30, 2015 and December 31, 2014:

	June 30, 2015					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. government-sponsored enterprises	$ 34,989	$ (470)	$ 7,869	$ (15)	$ 42,858	$ (485)
Mortgage-backed securities	196,920	(1,231)	42,519	(473)	239,439	(1,704)
State and political subdivisions	62,403	(1,038)	2,716	(29)	65,119	(1,067)
Other securities	7,820	(95)	12,235	(212)	20,055	(307)
Total	$ 302,132	$ (2,834)	$ 65,339	$ (729)	$ 367,471	$ (3,563)

	December 31, 2014					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. government-sponsored enterprises	$ 22,004	$ (113)	$ 27,616	$ (167)	$ 49,620	$ (280)

Mortgage-backed securities	221,171	(812)	76,596	(826)	297,767	(1,638)
State and political subdivisions	15,171	(106)	10,038	(56)	25,209	(162)
Other securities	10,054	(51)	12,390	(275)	22,444	(326)
Total	$ 268,400	$ (1,082)	$ 126,640	$ (1,324)	$ 395,040	$ (2,406)

Income earned on securities for the three and six months ended June 30, 2015 and 2014, is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Taxable:				
Available-for-sale	$ 4,248	$ 4,499	$ 8,755	$ 8,919
Held-to-maturity	882	263	1,918	313
Non-taxable:				
Available-for-sale	1,375	1,449	2,721	2,939
Held-to-maturity	1,399	930	2,805	1,757
Total	$ 7,904	$ 7,141	$ 16,199	$ 13,928

4. Loans Receivable Not Covered by Loss Share

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

	June 30, 2015	December 31, 2014
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 2,477,688	$ 1,987,890
Construction/land development	796,589	700,139
Agricultural	81,633	72,211
Residential real estate loans		
Residential 1-4 family	997,952	963,990
Multifamily residential	321,593	250,222
Total real estate	4,675,455	3,974,452
Consumer	48,320	56,720
Commercial and industrial	658,501	670,124
Agricultural	72,766	48,833
Other	43,986	67,185
Loans receivable not covered by loss share	$ 5,499,028	$ 4,817,314

During the three and six-month periods ended June 30, 2015 and 2014, no SBA loans were sold.

Mortgage loans held for sale of approximately $37.3 million and $33.1 million at June 30, 2015 and December 31, 2014, respectively, are included in residential 1-4 family loans. Mortgage loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis. Gains and losses resulting from sales of mortgage loans are recognized when the respective loans are sold to investors. Gains and losses are determined by the difference between the selling price and the carrying amount of the loans sold, net of discounts collected or paid. The Company obtains forward commitments to sell mortgage loans to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. The forward commitments acquired by the Company for mortgage loans in process of origination are not mandatory forward commitments. These commitments are structured on a best efforts basis; therefore the Company is not required to substitute another loan or to buy back the commitment if the original loan does not fund. Typically, the Company delivers the mortgage loans within a few days after the loans are funded. These commitments are derivative instruments and their fair values at June 30, 2015 and December 31, 2014 were not material.

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5. Loans Receivable Covered by FDIC Loss Share

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

The following table reflects the carrying value of all purchased FDIC covered impaired loans as of June 30, 2015 and December 31, 2014 for the Company:

	June 30, 2015	December 31, 2014
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 54,777	$ 93,979
Construction/land development	24,003	39,946
Agricultural	848	943
Residential real estate loans		
Residential 1-4 family	72,002	87,309
Multifamily residential	1,394	8,617
Total real estate	153,024	230,794
Consumer	17	16
Commercial and industrial	6,118	8,651
Other	732	727
Loans receivable covered by FDIC loss share	$ 159,891	$ 240,188

The acquired loans were grouped into pools based on common risk characteristics and were recorded at their estimated fair values, which incorporated estimated credit losses at the acquisition dates. These loan pools are systematically reviewed by the Company to determine material changes in cash flow estimates from those identified at the time of the acquisition. Techniques used in determining risk of loss are similar to the Centennial non-covered loan portfolio, with most focus being placed on those loan pools which include the larger loan relationships and those loan pools which exhibit higher risk characteristics. As of June 30, 2015 and December 31, 2014, $9.6 million and $22.5 million, respectively, were accruing loans past due 90 days or more.

6. Allowance for Loan Losses, Credit Quality and Other

The following table presents a summary of changes in the allowance for loan losses for the non-covered and covered loan portfolios for the six months ended June 30, 2015:

	For Loans Not Covered by Loss Share	For Loans Covered by FDIC Loss Share	Total

		(In thousands)	
Allowance for loan losses:			
Beginning balance	$ 52,471	$ 2,540	$ 55,011
Loans charged off	(6,489)	(772)	(7,261)
Recoveries of loans previously charged off	1,725	451	2,176
Net loans recovered (charged off)	(4,764)	(321)	(5,085)
Provision for loan losses for non-covered loans	8,170		8,170
Provision for loan losses forecasted outside of loss share		(294)	(294)
Provision for loan losses before benefit attributable to FDIC loss share agreements		2,456	2,456
Change attributable to FDIC loss share agreements		(1,164)	(1,164)
Net provision for loan losses for covered loans		998	998
Increase in FDIC indemnification asset		1,164	1,164
Balance, June 30, 2015	$ 55,877	$ 4,381	$ 60,258

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

The following tables present the balance in the allowance for loan losses for the non-covered loan portfolio for the three and six-month periods ended June 30, 2015 and the allowance for loan losses and recorded investment in loans not covered by loss share based on portfolio segment by impairment method as of June 30, 2015. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories. Additionally, the Company s discount for credit losses on non-covered loans acquired was $131.7 million, $139.7 million and $157.7 million at June 30, 2015, December 31, 2014 and June 30, 2014, respectively.

	Three Months Ended June 30, 2015						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
Beginning balance	$ 8,722	$ 17,505	$ 11,284	$ 6,124	$ 5,310	$ 3,786	$ 52,731
Loans charged off	(394)	604	(1,087)	(641)	(1,821)		(3,339)
Recoveries of loans previously charged off	8	700	92	205	179		1,184
Net loans recovered (charged off)	(386)	1,304	(995)	(436)	(1,642)		(2,155)
Provision for loan losses	1,067	1,173	2,645	1,846	1,343	(2,773)	5,301
Balance, June 30	$ 9,403	$ 19,982	$ 12,934	$ 7,534	$ 5,011	$ 1,013	$ 55,877

	Six Months Ended June 30, 2015						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
Beginning balance	$ 8,116	$ 17,227	$ 13,446	$ 5,950	$ 5,798	$ 1,934	$ 52,471
Loans charged off	(477)	(198)	(1,951)	(1,470)	(2,393)		(6,489)
Recoveries of loans previously charged off	66	701	249	236	473		1,725
Net loans recovered (charged off)	(411)	503	(1,702)	(1,234)	(1,920)		(4,764)
Provision for loan losses	1,698	2,252	1,190	2,818	1,133	(921)	8,170

Balance, June 30	$ 9,403	$ 19,982	$ 12,934	$ 7,534	$ 5,011	$ 1,013	$ 55,877

	As of June 30, 2015						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 1,255	$ 2,083	$ 1,271	$ 877	$	$	$ 5,486
Loans collectively evaluated for impairment	8,148	17,899	11,663	6,657	5,011	1,013	50,391
Loans evaluated for impairment balance, June 30	9,403	19,982	12,934	7,534	5,011	1,013	55,877
Purchased credit impaired loans acquired							
Balance, June 30	$ 9,403	$ 19,982	$ 12,934	$ 7,534	$ 5,011	$ 1,013	$ 55,877
Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 18,714	$ 59,314	$ 18,240	$ 6,415	$ 6,572	$	$ 109,255
Loans collectively evaluated for impairment	763,551	2,398,835	1,247,442	639,858	157,195		5,206,881
Loans evaluated for impairment balance, June 30	782,265	2,458,149	1,265,682	646,273	163,767		5,316,136
Purchased credit impaired loans acquired	14,324	101,172	53,863	12,228	1,305		182,892
Balance, June 30	$ 796,589	$ 2,559,321	$ 1,319,545	$ 658,501	$ 165,072	$	$ 5,499,028

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The following tables present the balances in the allowance for loan losses for the non-covered loan portfolio for the six-month period ended June 30, 2014 and the year ended December 31, 2014, and the allowance for loan losses and recorded investment in loans not covered by loss share based on portfolio segment by impairment method as of December 31, 2014. 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, 2014						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Beginning balance	$ 6,282	$ 15,100	$ 8,889	$ 1,933	$ 2,563	$ 4,255	$ 39,022
Loans charged off	(167)	(668)	(1,483)	(1,184)	(1,448)		(4,950)
Recoveries of loans previously charged off	45	221	53	65	739		1,123
Net loans recovered (charged off)	(122)	(447)	(1,430)	(1,119)	(709)		(3,827)
Provision for loan losses	497	4,917	2,557	2,900	2,010	172	13,053
Balance, June 30	6,657	19,570	10,016	3,714	3,864	4,427	48,248
Loans charged off	(806)	(1,654)	(1,566)	(982)	(1,347)		(6,355)
Recoveries of loans previously charged off	297	21	896	241	416		1,871
Net loans recovered (charged off)	(509)	(1,633)	(670)	(741)	(931)		(4,484)
Provision for loan losses	1,968	(710)	4,100	2,977	2,865	(2,493)	8,707
Balance, December 31	$ 8,116	$ 17,227	$ 13,446	$ 5,950	$ 5,798	$ 1,934	$ 52,471

	As of December 31, 2014						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Period end amount allocated to:							
	$ 1,477	$ 3,080	$ 2,183	$ 6	$	$	$ 6,746

Loans individually evaluated for impairment							
Loans collectively evaluated for impairment	6,624	12,447	10,827	5,880	5,798	1,934	43,510
Loans evaluated for impairment balance, December 31	8,101	15,527	13,010	5,886	5,798	1,934	50,256
Purchased credit impaired loans acquired	15	1,700	436	64			2,215
Balance, December 31	$ 8,116	$ 17,227	$ 13,446	$ 5,950	$ 5,798	$ 1,934	$ 52,471
Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 19,037	$ 48,065	$ 21,734	$ 4,084	$ 484	$	$ 93,404
Loans collectively evaluated for impairment	659,465	1,900,472	1,131,021	650,163	169,815		4,510,936
Loans evaluated for impairment balance, December 31	678,502	1,948,537	1,152,755	654,247	170,299		4,604,340
Purchased credit impaired loans acquired	21,637	111,564	61,457	15,877	2,439		212,974
Balance, December 31	$ 700,139	$ 2,060,101	$ 1,214,212	$ 670,124	$ 172,738	$	$ 4,817,314

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The following is an aging analysis for the non-covered loan portfolio as of June 30, 2015 and December 31, 2014:

	June 30, 2015						
	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due	Current Loans	Total Loans Receivable	Accruing Loans Past Due 90 Days or More
				(In thousands)			
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$ 5,193	$ 1,062	$ 13,150	$ 19,405	$ 2,458,283	$ 2,477,688	$ 2,928
Construction/land development	1,969	66	3,155	5,190	791,399	796,589	1,392
Agricultural	314		31	345	81,288	81,633	31
Residential real estate loans							
Residential 1-4 family	4,036	2,575	18,450	25,061	972,891	997,952	4,794
Multifamily residential			1,331	1,331	320,262	321,593	1
Total real estate	11,512	3,703	36,117	51,332	4,624,123	4,675,455	9,146
Consumer	342	93	621	1,056	47,264	48,320	92
Commercial and industrial	2,061	1,262	2,760	6,083	652,418	658,501	1,609
Agricultural and other	528	285	382	1,195	115,557	116,752	
Total	$ 14,443	$ 5,343	$ 39,880	$ 59,666	$ 5,439,362	$ 5,499,028	$ 10,847

	December 31, 2014						
	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due	Current Loans	Total Loans Receivable	Accruing Loans Past Due 90 Days or More
				(In thousands)			
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$ 5,942	$ 1,311	$ 14,781	$ 22,034	$ 1,965,856	$ 1,987,890	$ 5,880
Construction/land development	2,696	847	1,660	5,203	694,936	700,139	734
Agricultural	307		34	341	71,870	72,211	34
Residential real estate loans							
Residential 1-4 family	4,680	1,494	16,077	22,251	941,739	963,990	4,128
Multifamily residential			2,035	2,035	248,187	250,222	691

Total real estate	13,625	3,652	34,587	51,864	3,922,588	3,974,452	11,467
Consumer	368	149	858	1,375	55,345	56,720	579
Commercial and industrial	1,669	549	3,933	6,151	663,973	670,124	2,825
Agricultural and other	463	16	184	663	115,355	116,018	
Total	$ 16,125	$ 4,366	$ 39,562	$ 60,053	$ 4,757,261	$ 4,817,314	$ 14,871

Non-accruing loans not covered by loss share at June 30, 2015 and December 31, 2014 were $29.0 million and $24.7 million, respectively.

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The following is a summary of the non-covered impaired loans as of June 30, 2015 and December 31, 2014:

	June 30, 2015						
				Three Months Ended		Six Months Ended	
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
	(In thousands)						
Loans without a specific valuation allowance							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$	$	$	$	$	$	$
Construction/land development							
Agricultural							
Residential real estate loans							
Residential 1-4 family	25	25		13		8	1
Multifamily residential							
Total real estate	25	25		13		8	1
Consumer							
Commercial and industrial							
Agricultural and other							
Total loans without a specific valuation allowance	25	25		13		8	1
Loans with a specific valuation allowance							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	44,185	42,276	2,083	42,568	283	42,269	559
Construction/land development	14,244	13,239	1,255	16,994	65	17,355	170
Agricultural	53	30		70		57	
Residential real estate loans							
Residential 1-4 family	21,108	18,580	71	16,604	149	16,420	202
Multifamily residential	3,663	3,663	1,200	3,637	4	3,867	26
Total real estate	83,253	77,788	4,609	79,873	501	79,968	957
Consumer	636	619		747	2	784	6
Commercial and industrial	6,547	5,248	877	4,612	15	4,490	48
Agricultural and other	382	382		280	4	249	4
	90,818	84,037	5,486	85,512	522	85,491	1,015

Total loans with a specific valuation allowance							
Total impaired loans							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	44,185	42,276	2,083	42,568	283	42,269	559
Construction/land development	14,244	13,239	1,255	16,994	65	17,355	170
Agricultural	53	30		70		57	
Residential real estate loans							
Residential 1-4 family	21,133	18,605	71	16,617	149	16,428	203
Multifamily residential	3,663	3,663	1,200	3,637	4	3,867	26
Total real estate	83,278	77,813	4,609	79,886	501	79,976	958
Consumer	636	619		747	2	784	6
Commercial and industrial	6,547	5,248	877	4,612	15	4,490	48
Agricultural and other	382	382		280	4	249	4
Total impaired loans	$ 90,843	$ 84,062	$ 5,486	$ 85,525	$ 522	$ 85,499	$ 1,016

Note: Purchased non-covered loans acquired with deteriorated credit quality are accounted for on a pooled basis under ASC 310-30. All of these pools are currently considered to be performing resulting in none of the purchased non-covered loans acquired with deteriorated credit quality being classified as non-covered impaired loans as of June 30, 2015.

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	December 31, 2014			Year Ended	
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses (In thousands)	Average Recorded Investment	Interest Recognized
Loans without a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	$	$	$	$ 676	$ 14
Construction/land development					
Agricultural					
Residential real estate loans					
Residential 1-4 family				25	2
Multifamily residential					
Total real estate				701	16
Consumer					
Commercial and industrial					
Agricultural and other					
Total loans without a specific valuation allowance				701	16
Loans with a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	44,242	41,670	3,080	43,556	1,379
Construction/land development	18,369	18,075	1,477	21,142	656
Agricultural	53	33		60	1
Residential real estate loans					
Residential 1-4 family	18,052	16,051	1,065	16,701	407
Multifamily residential	4,614	4,327	1,118	4,037	120
Total real estate	85,330	80,156	6,740	85,496	2,563
Consumer	890	857		407	14
Commercial and industrial	5,916	4,246	6	5,059	151
Agricultural and other	185	185		114	
Total loans with a specific valuation allowance	92,321	85,444	6,746	91,076	2,728
Total impaired loans					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	44,242	41,670	3,080	44,232	1,393
Construction/land development	18,369	18,075	1,477	21,142	656
Agricultural	53	33		60	1
Residential real estate loans					
Residential 1-4 family	18,052	16,051	1,065	16,726	409
Multifamily residential	4,614	4,327	1,118	4,037	120

Total real estate	85,330	80,156	6,740	86,197	2,579
Consumer	890	857		407	14
Commercial and industrial	5,916	4,246	6	5,059	151
Agricultural and other	185	185		114	
Total impaired loans	$ 92,321	$ 85,444	$ 6,746	$ 91,777	$ 2,744

Note: Purchased non-covered loans acquired with deteriorated credit quality are accounted for on a pooled basis under ASC 310-30. All of these pools are currently considered to be performing resulting in none of the purchased non-covered loans acquired with deteriorated credit quality being classified as non-covered impaired loans as of December 31, 2014.

Interest recognized on non-covered impaired loans during the three months ended June 30, 2015 and 2014 was approximately $522,000 and $825,000, respectively. Interest recognized on non-covered impaired loans during the six months ended June 30, 2015 and 2014 was approximately $1.0 million and $1.6 million, respectively. The amount of interest recognized on non-covered impaired loans on the cash basis is not materially different than the accrual basis.

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

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

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

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

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

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

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

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

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

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 non-covered loans (excluding loans accounted for under ASC Topic 310-30) by class as of June 30, 2015 and December 31, 2014:

	June 30, 2015			
	Risk Rated 6	Risk Rated 7	Risk Rated 8	Classified Total
	(In thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	$ 36,189	$	$	$ 36,189
Construction/land development	13,158			13,158
Agricultural				
Residential real estate loans				
Residential 1-4 family	16,183	33		16,216
Multifamily residential	3,698			3,698
Total real estate	69,228	33		69,261
Consumer	663	14		677
Commercial and industrial	3,266	24		3,290
Agricultural and other	378			378
Total	$ 73,535	$ 71	$	$ 73,606

	December 31, 2014			
	Risk Rated 6	Risk Rated 7	Risk Rated 8	Classified Total
	(In thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	$ 34,698	$ 24	$	$ 34,722
Construction/land development	16,112			16,112
Agricultural				
Residential real estate loans				
Residential 1-4 family	15,622	343		15,965
Multifamily residential	3,382			3,382
Total real estate	69,814	367		70,181
Consumer	903	19		922
Commercial and industrial	2,244	5		2,249
Agricultural and other	178			178
Total	$ 73,139	$ 391	$	$ 73,530

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 non-covered loans by class and risk rating as of June 30, 2015 and December 31, 2014:

	June 30, 2015						
	Risk Rated 1	Risk Rated 2	Risk Rated 3	Risk Rated 4 (In thousands)	Risk Rated 5	Classified Total	Total
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$ 5,217	$ 8,264	$ 1,728,958	$ 572,435	$ 26,143	$ 36,189	$ 2,377,206
Construction/land development	21	401	289,703	475,084	3,898	13,158	782,265
Agricultural		595	45,633	34,412	303		80,943
Residential real estate loans							
Residential 1-4 family	900	3,086	747,363	170,510	13,772	16,216	951,847
Multifamily residential		415	259,615	47,747	2,360	3,698	313,835
Total real estate	6,138	12,761	3,071,272	1,300,188	46,476	69,261	4,506,096
Consumer	13,993	273	22,336	10,099	133	677	47,511
Commercial and industrial	11,483	11,711	381,758	233,650	4,381	3,290	646,273
Agricultural and other	665	867	58,436	49,977	5,933	378	116,256
Total risk rated loans	$ 32,279	$ 25,612	$ 3,533,802	$ 1,593,914	$ 56,923	$ 73,606	5,316,136
Purchased credit impaired loans acquired							182,892
Total non-covered loans							$ 5,499,028

	December 31, 2014						
	Risk Rated 1	Risk Rated 2	Risk Rated 3	Risk Rated 4 (In thousands)	Risk Rated 5	Classified Total	Total
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$ 3,674	$ 15,914	$ 1,300,835	$ 501,931	$ 20,115	$ 34,722	$ 1,877,191
Construction/land development	15	355	241,659	415,380	4,981	16,112	678,502
Agricultural		610	35,539	34,469	728		71,346
Residential real estate loans							
Residential 1-4 family	494	3,505	714,278	165,464	11,730	15,965	911,436
Multifamily residential		400	192,687	42,578	2,272	3,382	241,319

Total real estate	4,183	20,784	2,484,998	1,159,822	39,826	70,181	3,779,794
Consumer	14,560	215	29,238	10,543	175	922	55,653
Commercial and industrial	13,081	16,957	430,026	189,318	2,616	2,249	654,247
Agricultural and other	573	790	87,347	25,237	521	178	114,646
Total risk rated loans	$ 32,397	$ 38,746	$ 3,031,609	$ 1,384,920	$ 43,138	$ 73,530	4,604,340
Purchased credit impaired loans acquired							212,974
Total non-covered loans							$ 4,817,314

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The following is a presentation of non-covered TDR s by class as of June 30, 2015 and December 31, 2014:

	June 30, 2015					
	Number of Loans	Pre-Modification Outstanding Balance	Rate Modification	Term Modification	Rate & Term Modification	Post-Modification Outstanding Balance
	(Dollars in thousands)					
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	13	$ 22,419	$ 7,334	$ 8,852	$ 5,602	$ 21,788
Construction/land development	3	3,481	1,460	1,636		3,096
Residential real estate loans						
Residential 1-4 family	3	2,055		1,824	165	1,989
Multifamily residential	2	3,183	2,040		291	2,331
Total real estate	21	31,138	10,834	12,312	6,058	29,204
Total	21	$ 31,138	$ 10,834	$ 12,312	$ 6,058	$ 29,204

	December 31, 2014					
	Number of Loans	Pre-Modification Outstanding Balance	Rate Modification	Term Modification	Rate & Term Modification	Post-Modification Outstanding Balance
	(Dollars in thousands)					
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	7	$ 17,340	$ 2,596	$ 8,647	$ 5,644	$ 16,887
Construction/land development	2	8,213	5,671	1,668		7,339
Residential real estate loans						
Residential 1-4 family	1	61		58		58
Multifamily residential	2	3,183	2,002		291	2,293
Total real estate	12	28,797	10,269	10,373	5,935	26,577
Commercial and industrial	1	380			315	315
Total	13	$ 29,177	$ 10,269	$ 10,373	$ 6,250	$ 26,892

The following is a presentation of non-covered TDR s on non-accrual status as of June 30, 2015 and December 31, 2014 because they are not in compliance with the modified terms:

	June 30, 2015		December 31, 2014	
	Number of Loans	Recorded Balance	Number of Loans	Recorded Balance
	(Dollars in thousands)			
Real estate:				
Residential real estate loans				
Residential 1-4 family	2	$ 1,824		$
Total real estate	2	1,824		
Total	2	$ 1,824		$

Allowance for Loan Losses and Credit Quality for Covered Loans

During the 2015 quarterly impairment testing on the estimated cash flows of the covered loans, the Company established that certain pools evaluated had experienced material projected credit deterioration. As a result, the Company recorded a $998,000 net provision for loan losses to the allowance for loan losses related to the purchased credit impaired loans during the six months ended June 30, 2015 on a net basis. The Company also recorded a negative provision for loan losses forecasted outside of loss share of $294,000 and a provision for loan loss of $2.5 million before benefit attributable to FDIC loss share agreements. Since these loans are covered by loss share with the FDIC, the Company was able to increase the related indemnification asset by $1.2 million.

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The following tables present the balance in the allowance for loan losses for the covered loan portfolio for the three and six-month periods ended June 30, 2015, and the allowance for loan losses and recorded investment in loans covered by FDIC loss share based on portfolio segment by impairment method as of June 30, 2015.

	Three Months Ended June 30, 2015						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Beginning balance	$ 675	$ 887	$ 1,753	$ 89	$ 391	$	$ 3,795
Loans charged off							
Recoveries of loans previously charged off	63	48	75				186
Net loans recovered (charged off)	63	48	75				186
Provision for loan losses forecasted outside of loss share	(1)	(16)	(1)	19			1
Provision for loan losses before benefit attributable to FDIC loss share agreements	216	348	55	150	(370)		399
Change attributable to FDIC loss share agreements	(194)	(311)	(46)	(140)	371		(320)
Net provision for loan losses	21	21	8	29	1		80
Increase in FDIC indemnification asset	194	311	46	140	(371)		320
Balance, June 30	$ 953	$ 1,267	$ 1,882	$ 258	$ 21	$	$ 4,381

	Six Months Ended June 30, 2015						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Beginning balance	$ 432	$ 930	$ 1,161	$ 16	$ 1	$	$ 2,540
Loans charged off		(691)	(81)				(772)
Recoveries of loans previously charged off	170	110	171				451
Net loans recovered (charged off)	170	(581)	90				(321)
	(230)	(318)	232	22			(294)

	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
Provision for loan losses forecasted outside of loss share							
Provision for loan losses before benefit attributable to FDIC loss share agreements	581	1,236	399	220	20		2,456
Change attributable to FDIC loss share agreements	(257)	(531)	(163)	(197)	(16)		(1,164)
Net provision for loan losses	94	387	468	45	4		998
Increase in FDIC indemnification asset	257	531	163	197	16		1,164
Balance, June 30	$ 953	$ 1,267	$ 1,882	$ 258	$ 21	$	$ 4,381

	As of June 30, 2015						
	Construction/ Land Development	**Other Commercial Real Estate**	**Residential Real Estate**	**Commercial & Industrial**	**Consumer & Other**	**Unallocated**	**Total**
			(In thousands)				
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$	$	$	$	$	$	$
Loans collectively evaluated for impairment							
Loans evaluated for impairment balance, June 30							
Purchased credit impaired loans acquired	953	1,267	1,882	258	21		4,381
Balance, June 30	$ 953	$ 1,267	$ 1,882	$ 258	$ 21	$	$ 4,381
Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$	$	$	$	$	$	$
Loans collectively evaluated for impairment							
Loans evaluated for impairment balance, June 30							
Purchased credit impaired loans acquired	24,003	55,625	73,396	6,118	749		159,891

Balance, June 30	$ 24,003	$ 55,625	$ 73,396	$ 6,118	$ 749	$	$ 159,891

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The following tables present the balance in the allowance for loan losses for the covered loan portfolio for the six-month period ended June 30, 2014 and the year ended December 31, 2014, and the allowance for loan losses and recorded investment in loans covered by FDIC loss share based on portfolio segment by impairment method as of December 31, 2014.

	Year Ended December 31, 2014						
	Construction Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Beginning balance	$ 1,707	$ 838	$ 2,113	$ 135	$	$	$ 4,793
Loans charged off	(97)	(797)		(157)			(1,051)
Recoveries of loans previously charged off	10		288		4		302
Net loans recovered (charged off)	(87)	(797)	288	(157)	4		(749)
Provision for loan losses forecasted outside of loss share	11	106	148	15			280
Provision for loan losses before benefit attributable to FDIC loss share agreements	(1,307)	1,547	(1,658)	22	(3)		(1,399)
Change attributable to FDIC loss share agreements	1,296	(1,653)	1,510	(37)	3		1,119
Net provision for loan losses							
Increase in FDIC indemnification asset	(1,296)	1,653	(1,510)	37	(3)		(1,119)
Balance, June 30	324	1,694	891	15	1		2,925
Loans charged off	(29)	(1,257)	(435)				(1,721)
Recoveries of loans previously charged off	122	37	273				432
Net loans recovered (charged off)	93	(1,220)	(162)				(1,289)
Provision for loan losses forecasted outside of loss share	361	483	58	1	1		904
Provision for loan losses before benefit attributable to FDIC loss share agreements	(346)	(27)	374		(1)		
Change attributable to FDIC loss share agreements	346	28	(374)				
Net provision for loan losses	361	484	58	1			904
	(346)	(28)	374				

Increase in FDIC indemnification asset							
Balance, December 31	$ 432	$ 930	$ 1,161	$ 16	$ 1	$	$ 2,540

	As of December 31, 2014						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$	$	$	$	$	$	$
Loans collectively evaluated for impairment							
Loans evaluated for impairment balance, December 31							
Purchased credit impaired loans acquired	432	930	1,161	16	1		2,540
Balance, December 31	$ 432	$ 930	$ 1,161	$ 16	$ 1	$	$ 2,540
Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$	$	$	$	$	$	$
Loans collectively evaluated for impairment							
Loans evaluated for impairment balance, December 31							
Purchased credit impaired loans acquired	39,946	94,922	95,926	8,651	743		240,188
Balance, December 31	$ 39,946	$ 94,922	$ 95,926	$ 8,651	$ 743	$	$ 240,188

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Changes in the carrying amount of the accretable yield for purchased credit impaired loans acquired were as follows for the six-month period ended June 30, 2015 for the Company s covered and non-covered acquisitions:

	Accretable Yield	Carrying Amount of Loans
	(In thousands)	
Balance at beginning of period	$ 114,707	$ 453,162
Reforecasted future interest payments for loan pools	7,701	
Accretion recorded to interest income	(20,810)	20,810
Reclassification out of purchased credit impaired loans (1)	(28,595)	(56,272)
Transfers to foreclosed assets held for sale		(11,991)
Payments received, net		(62,926)
Balance at end of period	$ 73,003	$ 342,783

(1) At acquisition, 100% of the loans acquired from Old Southern and Key West were recorded for as purchased credit impaired loans on a pool by pool basis during 2010. During the first quarter of 2015, the five-year loss-share for Old Southern and Key West ended. Since the five-year covered loan loss-share has ended, the pools have been reevaluated and are no longer deemed to have a material projected credit impairment. As such, the remaining loans in these pools are performing and have been reclassified out of purchased credit impaired loans.

The non-covered purchased credit impaired loans acquired during the 2015 Doral Florida acquisition were deemed immaterial and as a result were not included in the table above.

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 $7.7 million. This updated forecast does not change the expected weighted-average yields on the loan pools.

7. Goodwill and Core Deposits and Other Intangibles

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

Changes in the carrying amount and accumulated amortization of the Company s goodwill and core deposits and other intangibles at June 30, 2015 and December 31, 2014, were as follows:

	June 30, 2015	December 31, 2014
	(In thousands)	
Goodwill		

Balance, beginning of period	$ 325,423	$ 301,736
Acquisitions		23,687
Sale of insurance book of business	(2,695)	
Balance, end of period	$ 322,728	$ 325,423

	June 30, 2015	December 31, 2014
	(In thousands)	
Core Deposit and Other Intangibles		
Balance, beginning of period	$ 20,925	$ 22,298
Acquisition	1,363	
Sale of insurance book of business	(243)	
Amortization expense	(2,229)	(2,314)
Balance, June 30	$ 19,816	19,984
Acquisitions		3,257
Amortization expense		(2,316)
Balance, end of year		$ 20,925

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The carrying basis and accumulated amortization of core deposits and other intangibles at June 30, 2015 and December 31, 2014 were:

	June 30, 2015	December 31, 2014
	(In thousands)	
Gross carrying basis	$ 47,901	$ 46,781
Accumulated amortization	(28,085)	(25,856)
Net carrying amount	$ 19,816	$ 20,925

Core deposit and other intangible amortization expense was approximately $1.1 million for both the three-months ended June 30, 2015 and 2014. Core deposit and other intangible amortization expense was approximately $2.2 million and $2.3 million for the six-months ended June 30, 2015 and 2014, respectively. Including all of the mergers completed as of June 30, 2015, HBI s estimated amortization expense of core deposits and other intangibles for each of the years 2015 through 2019 is approximately: 2015 - $4.0 million; 2016 - $2.8 million; 2017 - $2.7 million; 2018 - $2.6 million; 2019 - $2.5 million.

The carrying amount of the Company s goodwill was $322.7 million and $325.4 million at June 30, 2015 and December 31, 2014, respectively. Goodwill is tested annually for impairment during the fourth quarter. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

8. Other Assets

Other assets consists primarily of FDIC claims receivable, equity securities without a readily determinable fair value and other miscellaneous assets. As of June 30, 2015 and December 31, 2014 other assets were $103.9 million and $93.7 million, respectively.

An indemnification asset was created when the Company acquired FDIC covered loans. The indemnification asset represents the carrying amount of the right to receive payments from the FDIC for losses incurred on specified assets acquired from failed insured depository institutions or otherwise purchased from the FDIC that are covered by loss sharing agreements with the FDIC. When the Company experiences a loss on the covered loans and subsequently requests reimbursement of the loss from the FDIC, the indemnification asset is reduced by the FDIC reimbursable amount. A corresponding claim receivable is consequently recorded in other assets until the cash is received from the FDIC. The FDIC claims receivable was $9.0 million and $14.0 million at June 30, 2015 and December 31, 2014, respectively.

The Company has equity securities without readily determinable fair values. These equity securities are outside the scope of ASC Topic 320, *Investments-Debt and Equity Securities*. They include items such as stock holdings in Federal Home Loan Bank, Federal Reserve Bank, Bankers Bank and other miscellaneous holdings. The equity securities without a readily determinable fair value were $79.9 million and $66.7 million at June 30, 2015 and December 31, 2014, respectively, and are accounted for at cost.

9. Deposits

The aggregate amount of time deposits with a minimum denomination of $250,000 was $357.2 million and $272.5 million at June 30, 2015 and December 31, 2014, respectively. The aggregate amount of time deposits with a minimum denomination of $100,000 was $776.7 million and $705.4 million at June 30, 2015 and December 31, 2014, respectively. Interest expense applicable to certificates in excess of $100,000 totaled $1.3 million and $1.1 million for the three months ended June 30, 2015 and 2014, respectively. Interest expense applicable to certificates in excess of $100,000 totaled $2.6 million and $2.3 million for the six months ended June 30, 2015 and 2014, respectively. As of June 30, 2015 and December 31, 2014, brokered deposits were $82.0 million and $33.6 million, respectively.

Deposits totaling approximately $848.9 million and $1.02 billion at June 30, 2015 and December 31, 2014, respectively, were public funds obtained primarily from state and political subdivisions in the United States.

10. Securities Sold Under Agreements to Repurchase

At June 30, 2015 and December 31, 2014, securities sold under agreements to repurchase totaled $150.7 million and $176.5 million, respectively. For the three-month periods ended June 30, 2015 and 2014, securities sold under agreements to repurchase daily weighted-average totaled $168.3 million and $136.4 million, respectively. For the six-month periods ended June 30, 2015 and 2014, securities sold under agreements to repurchase daily weighted-average totaled $173.9 million and $142.9 million, respectively.

11. FHLB Borrowed Funds

The Company s Federal Home Loan Bank (FHLB) borrowed funds were $866.9 million and $698.0 million at June 30, 2015 and December 31, 2014, respectively. At June 30, 2015, $25.0 million and $841.9 million of the outstanding balance were issued as short-term and long-term advances, respectively. At December 31, 2014, $515.0 million and $183.0 million of the outstanding balances were short-term and long-term advances, respectively. The FHLB advances mature from the current year to 2025 with fixed interest rates ranging from 0.13% to 5.96% and are secured by loans and investments securities. Expected maturities will differ from contractual maturities because FHLB may have the right to call or HBI may have the right to prepay certain obligations.

Additionally, the Company had $144.0 million at both June 30, 2015 and December 31, 2014 in letters of credit under a FHLB blanket borrowing line of credit, which are used to collateralize public deposits at June 30, 2015 and December 31, 2014, respectively.

12. Subordinated Debentures

Subordinated debentures at June 30, 2015 and December 31, 2014 consisted of guaranteed payments on trust preferred securities with the following components:

	As of June 30, 2015	As of December 31, 2014
	(In thousands)	
Subordinated debentures, issued in 2006, due 2036, fixed rate of 6.75% during the first five years and at a floating rate of 1.85% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	$ 3,093	$ 3,093
Subordinated debentures, issued in 2004, due 2034, fixed rate of 6.00% during the first five years and at a floating rate of 2.00% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable	15,464	15,464

without penalty		
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
Total	$ 60,826	$ 60,826

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

13. Income Taxes

The following is a summary of the components of the provision (benefit) for income taxes for the three and six-month periods ended June 30, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Current:				
Federal	$ 16,456	$ 7,825	$ 28,530	$ 17,857
State	3,269	1,554	5,667	3,547
Total current	19,725	9,379	34,197	21,404
Deferred:				
Federal	179	5,873	3,224	8,813
State	35	1,166	640	1,750
Total deferred	214	7,039	3,864	10,563
Income tax expense	$ 19,939	$ 16,418	$ 38,061	$ 31,967

The reconciliation between the statutory federal income tax rate and effective income tax rate is as follows for the three and six-month periods ended June 30, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014

Statutory federal income tax rate	35.00%	35.00%	35.00%	35.00%
Effect of nontaxable interest income	(1.89)	(1.96)	(1.96)	(1.99)
Cash value of life insurance	(0.19)	(0.22)	(0.20)	(0.23)
State income taxes, net of federal benefit	4.02	3.93	4.02	3.92
Other	0.09	(0.14)	0.06	(0.26)
Effective income tax rate	37.03%	36.61%	36.92%	36.44%

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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:

	June 30, 2015	December 31, 2014
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 23,636	$ 21,578
Deferred compensation	2,163	2,781
Stock options	1,655	1,428
Real estate owned	1,724	3,257
Loan discounts	22,410	25,807
Tax basis premium/discount on acquisitions	16,261	19,121
Investments	2,669	2,692
Other	7,906	7,721
Gross deferred tax assets	78,424	84,385
Deferred tax liabilities:		
Accelerated depreciation on premises and equipment	2,846	2,249
Unrealized gain on securities available-for-sale	3,799	4,524
Core deposit intangibles	5,167	5,382
Indemnification asset	1,549	3,823
FHLB dividends	1,659	1,602
Other	1,316	1,578
Gross deferred tax liabilities	16,336	19,158
Net deferred tax assets	$ 62,088	$ 65,227

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and the states of Arkansas, Alabama and Florida and will be filing one with the state of New York during 2016. With a few exceptions, the Company is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2010. During 2015, the State of Florida s examination of the Company s Florida State income tax returns for the 2010, 2011, 2012 and 2013 tax years was completed with no change to the financial position.

14. Common Stock and Compensation Plans

Stock Compensation Plans

The Company has a stock option and performance incentive plan known as the Amended and Restated 2006 Stock Option and Performance Incentive Plan (the Plan). The purpose of the Plan is to attract and retain highly qualified officers, directors, key employees, and other persons, and to motivate those persons to improve the Company s business results. The Plan provides for the granting of incentive nonqualified options to purchase stock or for the issuance of restricted shares up to 4,644,000 shares of common stock in the Company. At June 30, 2015, the Company has approximately 1,300,000 shares of common stock remaining available for grants or issuance under the plan and approximately 2,174,000 shares reserved for issuance of common stock.

The intrinsic value of the stock options outstanding and stock options vested at June 30, 2015 was $17.2 million and $13.9 million, respectively. Total unrecognized compensation cost, net of income tax benefit, related to non-vested awards, which are expected to be recognized over the vesting periods, was approximately $2.3 million as of June 30, 2015. For the first six months of 2015, the Company has expensed $233,000 for the non-vested awards.

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The table below summarizes the transactions under the Company s stock option plans at June 30, 2015 and December 31, 2014 and changes during the six-month period and year then ended:

	For the Six Months Ended June 30, 2015		For the Year Ended December 31, 2014	
	Shares (000)	Weighted-Average Exercisable Price	Shares (000)	Weighted-Average Exercisable Price
Outstanding, beginning of year	905	$ 11.80	966	$ 9.57
Granted	158	32.64	70	33.54
Forfeited/Expired	(1)	4.34	(11)	30.89
Exercised	(188)	5.65	(120)	4.77
Outstanding, end of period	874	16.91	905	11.80
Exercisable, end of period	515	$ 9.63	645	$ 7.52

Stock-based compensation expense for stock-based compensation awards granted is based on the grant-date fair value. For stock option awards, the fair value is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. Additionally, there may be other factors that would otherwise have a significant effect on the value of employee stock options granted but are not considered by the model. Accordingly, while management believes that the Black-Scholes option-pricing model provides a reasonable estimate of fair value, the model does not necessarily provide the best single measure of fair value for the Company s employee stock options. The weighted-average fair value of options granted during the six months ended June 30, 2015 was $8.53 per share. The weighted-average fair value of options granted during the year ended December 31, 2014 was $10.73 per share. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model based on the weighted-average assumptions for expected dividend yield, expected stock price volatility, risk-free interest rate, and expected life of options granted.

	For the Three Months Ended June 30, 2015	For the Year Ended December 31, 2014
Expected dividend yield	1.54%	0.89%
Expected stock price volatility	28.00%	30.94%
Risk-free interest rate	1.67%	2.31%
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 June 30, 2015:

	Options Outstanding			Options Exercisable	
Exercise Prices	Options Outstanding Shares (000)	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Options Exercisable Shares (000)	Weighted-Average Exercise Price
$3.50 to $4.21	17	1.32	$ 4.04	17	$ 4.04
$4.92 to $4.92	16	2.15	4.92	16	4.92
$5.33 to $5.33	20	2.76	5.33	20	5.33
$5.54 to $5.54	199	0.70	5.54	199	5.54
$8.54 to $8.60	77	2.54	8.57	77	8.57
$9.25 to $9.31	10	1.90	9.29	10	9.29
$10.16 to $13.12	133	4.59	11.96	97	11.53
$17.25 to $19.08	150	7.69	18.23	60	18.23
$29.42 to $33.72	135	9.25	32.05	12	33.54
$34.25 to $34.80	117	9.38	34.39	7	34.74
	874			515	

The table below summarized the activity for the Company s restricted stock issued and outstanding at June 30, 2015 and December 31, 2014 and changes during the period and year then ended:

	As of June 30, 2015	As of December 31, 2014
	(In thousands)	
Beginning of year	257	256
Issued	110	43
Vested	(23)	(30)
Forfeited	(1)	(12)
End of period	343	257
Amount of expense for three months and twelve months ended, respectively	$ 1,005	$ 1,524

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

On June 4, 2013, 12,666 shares of restricted common stock were issued to a regional president of the Company s bank subsidiary. Of these issued shares, 9,666 shares will vest equally each year over three years beginning on the first anniversary of the issuance. The remaining 3,000 shares are subject to performance based vesting (2012 Performance Shares). The 2012 Performance Shares are set up to cliff vest on the third annual anniversary of the date that the performance goal is met. As of September 30, 2013, the performance goal was met when the Company averaged $0.3125 diluted earnings per share for the past four consecutive quarters or total diluted earnings per share of $1.25 during the same period. In accordance with the vesting terms of the 2012 Performance Shares agreements, the issued shares are due to fully vest on September 30, 2016.

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

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

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On January 16, 2015, the Company granted 60,000 shares of the Company s restricted common stock to the Chairman, 9,000 shares of restricted common stock to nine non-employee members of the Board of Directors and 3,992 shares of restricted common stock to a group of employees of the Company s bank subsidiary for a total issuance of 72,992 shares of restricted common stock. The restricted stock issued will cliff vest on January 16, 2018.

On May 28, 2015, the Company granted a total of 37,000 shares of the Company s restricted common stock to a group of employees of the Company s bank subsidiary. Of these issued shares, 18,500 shares will vest equally each year over three years beginning on the third anniversary of the grant. The remaining 18,500 shares are subject to performance based vesting (2015 Performance Shares). The 2015 Performance Shares are set up to vest over three years beginning on the third anniversary of the date that the performance goal is met. The performance goal will be met when the Company averaged $0.625 diluted earnings per share for four consecutive quarters or total diluted earnings per share of $2.50 during the same period.

During the first six months of 2015, the Company utilized a portion of its previously approved stock repurchase program. This program authorized the repurchase of 2,376,000 shares of the Company s common stock. During first quarter of 2015, the Company repurchased a total of 67,332 shares with a weighted-average stock price of $29.89 per share. No shares were repurchased during the second quarter of 2015. The 2015 earnings were used to fund the repurchases. Shares repurchased to date under the program total 1,578,228 shares. The remaining balance available for repurchase is 797,772 shares at June 30, 2015.

15. Non-Interest Expense

The table below shows the components of non-interest expense for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2015	**2014**	**2015**	**2014**
	(In thousands)			
Salaries and employee benefits	$ 22,056	$ 18,813	$ 41,446	$ 37,746
Occupancy and equipment	6,678	6,251	12,727	12,477
Data processing expense	3,063	1,793	5,482	3,586
Other operating expenses:				
Advertising	657	581	1,436	1,103
Merger and acquisition expenses		106	1,417	955
Amortization of intangibles	1,100	1,147	2,229	2,314
Electronic banking expense	1,299	1,312	2,531	2,650
Directors fees	281	206	576	433
Due from bank service charges	286	205	501	404
FDIC and state assessment	1,172	1,058	2,568	2,172
Insurance	617	582	1,283	1,196
Legal and accounting	706	419	1,153	836
Other professional fees	560	583	1,048	1,090
Operating supplies	509	515	943	987

Postage	295	327	604	679
Telephone	470	463	974	917
Other expense	3,501	4,259	7,045	8,432
Total other operating expenses	11,453	11,763	24,308	24,168
Total non-interest expense	$ 43,250	$ 38,620	$ 83,963	$ 77,977

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16. Concentration of Credit Risks

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

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

17. Significant Estimates and Concentrations

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

Although the Company has a diversified loan portfolio, at June 30, 2015 and December 31, 2014, non-covered commercial real estate loans represented 61.0% and 57.3% of non-covered loans, respectively, and 316.1% and 271.9% of total stockholders equity, respectively. Non-covered residential real estate loans represented 24.0% and 25.2% of non-covered loans and 124.3% and 119.6% of total stockholders equity at June 30, 2015 and December 31, 2014, respectively.

Approximately 80.9% of the Company s loans as of June 30, 2015, are to borrowers in Alabama, Arkansas and Florida, the three states in which the Company has its branch locations. Additionally, the Company has 85.3% of its loans as real estate loans primarily in Arkansas, Florida and South Alabama.

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

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

18. Commitments and Contingencies

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

At June 30, 2015 and December 31, 2014, commitments to extend credit of $1.03 billion and $851.8 million, respectively, were outstanding. A percentage of these balances are participated out to other banks; therefore, the Company can call on the participating banks to fund future draws. Since some of these commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

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Outstanding standby letters of credit are contingent commitments issued by the Company, generally to guarantee the performance of a customer in third-party borrowing arrangements. The term of the guarantee is dependent upon the creditworthiness of the borrower, some of which are long-term. The amount of collateral obtained, if deemed necessary, is based on management s credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments. The maximum amount of future payments the Company could be required to make under these guarantees at June 30, 2015 and December 31, 2014, is $21.5 million and $23.2 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.

19. Regulatory Matters

The Bank is subject to a legal limitation on dividends that can be paid to the parent company without prior approval of the applicable regulatory agencies. Arkansas bank regulators have specified that the maximum dividend limit state banks may pay to the parent company without prior approval is 75% of the current year earnings plus 75% of the retained net earnings of the preceding year. Since the Bank is also under supervision of the Federal Reserve, it is further limited if the total of all dividends declared in any calendar year by the Bank exceeds the Bank s net profits to date for that year combined with its retained net profits for the preceding two years. During the first six months of 2015, the Company requested approximately $48.6 million in regular dividends from its banking subsidiary. This dividend is equal to approximately 72.6% of the Company s banking subsidiary s first six months earnings.

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. Among other things, the rule establishes a new minimum common equity Tier 1 capital requirement of 4.5% of risk-weighted assets, raises the minimum Tier 1 risk-based capital requirement to 6% of risk-weighted assets and assigns higher risk weightings (150%) to exposures that are more than 90 days past due or are on non-accrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property.

Basel III permanently grandfathers trust preferred securities and other non-qualifying capital instruments that were issued and outstanding as of May 19, 2010 in the Tier 1 capital of bank holding companies with total consolidated assets of less than $15 billion as of December 31, 2009. The rule phases out of Tier 1 capital these non-qualifying capital instruments issued before May 19, 2010 by all other bank holding companies. Basel III also limits a banking organization s capital distributions and certain discretionary bonus payments if the banking organization does not hold a capital conservation buffer of 2.5% of common equity tier 1 capital to risk-weighted assets, which is in addition to the amount necessary to meet its minimum risk-based capital requirements. Basel III became effective for the Company and its bank subsidiary on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016. The phase-in period ends on January 1, 2019 when 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.

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The Federal Reserve Board s risk-based capital guidelines include the definitions for (1) a well-capitalized institution, (2) an adequately-capitalized institution, and (3) an undercapitalized institution. Under Basel III, the criteria for a well-capitalized institution are now: a 6.5% common equity Tier 1 risk-based capital ratio, a 5% Tier 1 leverage capital ratio, an 8% Tier 1 risk-based capital ratio, and a 10% total risk-based capital ratio. As of June 30, 2015, 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 10.73%, 10.37%, 11.60%, and 12.49%, respectively, as of June 30, 2015.

20. Additional Cash Flow Information

In connection with the Doral Florida acquisition, accounted for using the purchase method, the Company acquired approximately $39.3 million in assets, assumed $467.6 million in liabilities, issued no equity and received net funds of $429.9 million during the first quarter of 2015. As a result, the Company recorded a bargain purchase gain of $1.6 million.

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

	June 30,	
	2015	2014
	(In thousands)	
Interest paid	$ 9,738	$ 9,511
Income taxes paid	31,210	9,850
Assets acquired by foreclosure	11,991	10,718

21. Financial Instruments

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

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Available-for-sale securities are the only material instruments valued on a recurring basis which are held by the Company at fair value. The Company does not have any Level 1 securities. Primarily all of the Company s securities are considered to be Level 2 securities. These Level 2 securities consist primarily of U.S. government-sponsored enterprises, mortgage-backed securities plus state and political subdivisions. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions, among other things. As of June 30, 2015 and December 31, 2014, Level 3 securities were immaterial. In addition, there were no material transfers between hierarchy levels during 2015 and 2014.

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

Impaired loans that are collateral dependent are the only material financial assets valued on a non-recurring basis which are held by the Company at fair value. Loan impairment is reported when full payment under the loan terms is not expected. Impaired loans are carried at the net realizable value of the collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require an increase, such increase is reported as a component of the provision for loan losses. The fair value of loans with specific allocated losses was $78.6 million and $78.7 million as of June 30, 2015 and December 31, 2014, respectively. This valuation is considered Level 3, consisting of appraisals of underlying collateral. The Company reversed approximately $255,000 and $459,000 of accrued interest receivable when non-covered impaired loans were put on non-accrual status during the three months ended June 30, 2015 and 2014, respectively. The Company reversed approximately $306,000 and $563,000 of accrued interest receivable when non-covered impaired loans were put on non-accrual status during the six months ended June 30, 2015 and 2014, respectively.

Foreclosed assets held for sale are the only material non-financial assets valued on a non-recurring basis which are held by the Company at fair value, less estimated costs to sell. At foreclosure, if the fair value, less estimated costs to sell, of the real estate acquired is less than the Company s recorded investment in the related loan, a write-down is recognized through a charge to the allowance for loan losses. Additionally, valuations are periodically performed by management and any subsequent reduction in value is recognized by a charge to income. The fair value of foreclosed assets held for sale is estimated using Level 3 inputs based on appraisals of underlying collateral. As of June 30, 2015 and December 31, 2014, the fair value of foreclosed assets held for sale not covered by loss share, less estimated costs to sell, was $16.5 million and $17.0 million, respectively.

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

Fair Values of Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

	June 30, 2015		
	Carrying Amount	Fair Value	Level
	(In thousands)		
Financial assets:			
Cash and cash equivalents	$ 204,411	$ 204,411	1
Federal funds sold			1
Investment securities held-to-maturity	336,993	340,017	2
Loans receivable not covered by loss share, net of non-covered impaired loans and allowance	5,364,575	5,361,353	3
Loans receivable covered by FDIC loss share, net of allowance	155,510	155,510	3
FDIC indemnification asset	15,874	15,874	3
Accrued interest receivable	24,447	24,447	1
Financial liabilities:			
Deposits:			
Demand and non-interest bearing	$ 1,406,051	$ 1,406,051	1
Savings and interest-bearing transaction accounts	3,099,522	3,099,522	1
Time deposits	1,372,463	1,366,208	3
Federal funds purchased			N/A
Securities sold under agreements to repurchase	150,746	150,746	1
FHLB borrowed funds	866,907	872,521	2
Accrued interest payable	1,054	1,054	1
Subordinated debentures	60,826	60,826	3

	December 31, 2014		
	Carrying Amount	Fair Value	Level
	(In thousands)		
Financial assets:			
Cash and cash equivalents	$ 112,528	$ 112,528	1
Federal funds sold	250	250	1
Investment securities held-to-maturity	356,790	362,272	2
Loans receivable not covered by loss share, net of non-covered impaired loans and allowance	4,686,145	4,671,941	3
	237,648	237,648	3

Loans receivable covered by FDIC loss share, net of allowance			
FDIC indemnification asset	28,409	28,409	3
Accrued interest receivable	24,075	24,075	1
Financial liabilities:			
Deposits:			
Demand and non-interest bearing	$ 1,203,306	$ 1,203,306	1
Savings and interest-bearing transaction accounts	2,974,850	2,974,850	1
Time deposits	1,245,815	1,240,802	3
Federal funds purchased			N/A
Securities sold under agreements to repurchase	176,465	176,465	1
FHLB borrowed funds	697,957	705,219	2
Accrued interest payable	1,120	1,120	1
Subordinated debentures	60,826	60,826	3

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22. Recent Accounting Pronouncements

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

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

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

23. Subsequent Events

On June 17, 2015, the Company and Centennial, entered into a definitive agreement and plan of merger with Florida Business BancGroup, Inc. (FBBI), parent company of Bay Cities Bank (Bay Cities) to merge FBBI into HBI and Bay Cities into Centennial. Under the terms of the agreement, shareholders of FBBI will receive proceeds from the transaction of approximately $101.6 million as a combination of both HBI common stock and cash split 80% and 20%, respectively.

FBBI currently operates six branch locations and a loan production office in the Tampa Bay area and in Sarasota, Florida. As of June 30, 2015, FBBI had approximately $573.2 million in total assets, $402.0 million in loans and $495.6 million in deposits.

The acquisition is expected to close in the fourth quarter of 2015 and is subject to FBBI shareholder approval, regulatory approvals and other customary conditions.

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Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders

Home BancShares, Inc.

Conway, Arkansas

We have reviewed the accompanying condensed consolidated balance sheet of Home BancShares, Inc. (the Company) as of June 30, 2015, the related condensed consolidated statements of income and comprehensive income for the three and six-month periods ended June 30, 2015 and 2014 and the related statements of stockholders equity and cash flows for the six-month periods ended June 30, 2015 and 2014. These interim financial statements are the responsibility of the Company s management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2014, 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, 2015, 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, 2014, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ **BKD, LLP**

Little Rock, Arkansas

August 6, 2015

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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, 2015, which includes the audited financial statements for the year ended December 31, 2014. *Unless the context requires otherwise, the terms Company , us , we , and our refer to Home BancShares, Inc. on a consolidated basis.*

General

We are a bank holding company headquartered in Conway, Arkansas, offering a broad array of financial services through our wholly-owned bank subsidiary, Centennial Bank (sometimes referred to as Centennial or the Bank). As of June 30, 2015, we had, on a consolidated basis, total assets of $8.07 billion, loans receivable, net of $5.60 billion, total deposits of $5.88 billion, and stockholders equity of $1.06 billion.

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

Table 1: Key Financial Measures

	As of or for the Three Months Ended June 30,		As of or for the Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands, except per share data)			
Total assets	$ 8,074,382	$ 6,666,140	$ 8,074,382	$ 6,666,140
Loans receivable not covered by loss share	5,499,028	4,133,109	5,499,028	4,133,109
Loans receivable covered by FDIC loss share	159,891	263,157	159,891	263,157
Allowance for loan losses	60,258	51,173	60,258	51,173
FDIC claims receivable	8,992	15,783	8,992	15,783
Total deposits	5,878,036	5,192,009	5,878,036	5,192,009
Total stockholders equity	1,061,701	897,235	1,061,701	897,235
Net income	33,906	28,429	65,025	55,766
Basic earnings per share	0.50	0.44	0.96	0.86
Diluted earnings per share	0.50 &nbs			