HOME BANCSHARES INC
Form 10-K
February 26, 2019
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2018

or

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

Commission File Number: 000-51904

HOME BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

(501) 339-2929

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

None	**N/A**
Title of each class	**Name of each exchange on which registered**

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $0.01 per share

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

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

The aggregate market value of the registrant s common stock, par value $0.01 per share, held by non-affiliates on June 30, 2018, was $3.94 billion based upon the last trade price as reported on the NASDAQ Global Select Market of $22.56.

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: 168,696,572 shares as of February 21, 2019.

Documents incorporated by reference: Part III is incorporated by reference from the registrant s Proxy Statement relating to its 2019 Annual Meeting to be held on April 18, 2019.

HOME BANCSHARES, INC.

FORM 10-K

December 31, 2018

INDEX

PART IV:

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

legislation and regulation affecting the financial services industry as a whole, and the Company and its subsidiaries in particular, including the effects resulting from the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), recent reforms to the Dodd-Frank Act and other future legislative and regulatory changes;

governmental monetary and fiscal policies;

the effects of terrorism and efforts to combat it;

political instability;

Table of Contents

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

- adverse weather events, including hurricanes, and other natural disasters;

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

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

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

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

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

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

All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this Cautionary Note. Our actual results may differ significantly from those we discuss in these forward-looking statements. For other factors, risks and uncertainties that could cause our actual results to differ materially from estimates and projections contained in these forward-looking statements, see Risk Factors .

Table of Contents

PART I

Item 1. BUSINESS

Company Overview

Home BancShares, Inc. (Home BancShares , which may also be referred to in this document as we , us , HBI or the Company) is a Conway, Arkansas headquartered bank holding company registered under the federal Bank Holding Company Act of 1956. The Company s common stock is traded through the NASDAQ Global Select Market under the symbol HOMB . We are primarily engaged in providing a broad range of commercial and retail banking and related financial services to businesses, real estate developers and investors, individuals and municipalities through our wholly owned community bank subsidiary Centennial Bank. Centennial Bank has branch locations in Arkansas, Florida, South Alabama and New York City. Although the Company has a diversified loan portfolio, at December 31, 2018 and 2017, commercial real estate loans represented 58.1% and 61.8% of gross loans and 273.6% and 289.6% of total stockholders equity, respectively. The Company s total assets, total deposits, total revenue and net income for each of the past three years are as follows:

	As of or for the Years Ended December 31,		
	2018	2017	2016
		(In thousands)	
Total assets	$ 15,302,438	$ 14,449,760	$ 9,808,465
Total deposits	10,899,778	10,388,502	6,942,427
Total revenue (interest income plus non-interest income)	788,200	619,887	523,588
Net income	300,403	135,083	177,146

Home BancShares acquires, organizes and invests in community banks that serve attractive markets. Our community banking team is built around experienced bankers with strong local relationships. The Company was formed in 1998 by an investor group led by John W. Allison, our Chairman, and Robert H. Bunny Adcock, Jr., our Vice Chairman. Since opening our first subsidiary bank in 1999, we have acquired and integrated a total of 22 banks with locations in Arkansas, Florida and Alabama, including 17 banks since 2010, seven of which we acquired through Federal Deposit Insurance Corporation (FDIC) assisted transactions. Our subsidiary bank has operated under a single charter and the Centennial Bank name since 2009. In 2015, after acquiring a pool of national commercial real estate loans, we created Centennial Commercial Finance Group (Centennial CFG) to build out a national lending platform focused on commercial real estate as well as commercial and industrial loans. Centennial CFG operates out of our New York City branch office and loan production offices in Los Angeles, California and Dallas, Texas. On June 30, 2018, we acquired Shore Premier Finance (SPF), a marine-lending division of Union Bank & Trust of Richmond, Virginia, and established the SPF division of Centennial Bank to build out a lending platform focusing on commercial and consumer marine loans. In connection with the creation of the SPF division, Centennial Bank opened a loan production office in Chesapeake, Virginia.

Table of Contents

Acquisitions

We believe many individuals and businesses prefer banking with a locally managed community bank capable of providing flexibility and quick decisions. The execution of our community banking strategy has allowed us to rapidly build our network of banking operations through acquisitions. The following summary provides additional details concerning our acquisitions during the previous five fiscal years.

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 Bank. Under the terms of the Agreement and Plan of Merger dated April 25, 2014, by and among Home BancShares, Centennial Bank, 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.

Broward Financial Holdings, Inc. On October 23, 2014, the Company completed its acquisition of all of the issued and outstanding shares of common stock of Broward Financial Holdings, Inc. (Broward), parent company of Broward Bank of Commerce (Broward Bank), and merged Broward Bank into Centennial Bank. Under the terms of the Agreement and Plan of Merger dated July 30, 2014 by and among Home BancShares, Centennial Bank, Broward, Broward Bank and an acquisition subsidiary of Home BancShares, the shareholders of Broward received approximately $30.2 million of the Company s common stock valued as of the closing date, plus $3.3 million in cash, in exchange for all outstanding shares of Broward common stock. The Company also agreed to pay the Broward shareholders at an undetermined date up to approximately $751,000 in additional consideration, the amount and timing of which, if any, was dependent on future payments received or losses incurred by Centennial Bank from certain current Broward Bank loans. During the first quarter of 2016, we determined and reached an agreement with the Broward shareholders that no additional consideration was owed or would be paid to the Broward shareholders.

Prior to the acquisition, Broward Bank 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.

Doral Bank s Florida Panhandle Operations On February 27, 2015, Centennial Bank acquired in an FDIC-assisted transaction all the deposits and substantially all the assets of the Florida Panhandle operations of Doral Bank of San Juan, Puerto Rico (Doral Florida) through an alliance agreement with Banco Popular of Puerto Rico (Popular), who was the successful lead bidder to acquire the assets and liabilities of the failed Doral Bank from the FDIC, as receiver for Doral Bank. Including the effects of the purchase accounting adjustments, the acquisition provided the Company with loans of approximately $37.9 million net of loan discounts, deposits of approximately $467.6 million, plus a $428.2 million cash settlement to balance the transaction. The FDIC did not provide any loss-sharing with respect to these 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.

Pool of National Commercial Real Estate Loans On April 1, 2015, Centennial Bank purchased a pool of national commercial real estate loans totaling approximately $289.1 million from AM PR LLC, an affiliate of J.C. Flowers & Co. (collectively, the Seller) for a purchase price of 99% of the total principal value of the acquired loans. The acquired loans were originated by the former Doral Bank within its Doral Property Finance portfolio and were transferred to the Seller by Popular upon its acquisition of the assets and liabilities of Doral Bank from the FDIC. This pool of loans is now managed by Centennial CFG, which is responsible for servicing the acquired loan pool and originating new loan production.

Table of Contents

In connection with this acquisition of loans, the Company opened a loan production office on April 23, 2015 in New York City, which became a full branch on September 1, 2016.

Florida Business BancGroup, Inc. On October 1, 2015, the Company completed its acquisition of Florida Business BancGroup, Inc. (FBBI), parent company of Bay Cities Bank (Bay Cities). The Company paid a purchase price to the FBBI shareholders of $104.1 million for the FBBI acquisition. Under the terms of the agreement, shareholders of FBBI received shares of the Company s common stock valued at approximately $83.8 million as of October 1, 2015, plus approximately $20.3 million in cash in exchange for all outstanding shares of FBBI common stock. A portion of the cash consideration, $2.0 million, was placed into escrow with the FBBI shareholders having a contingent right to receive their pro-rata portions of such amount. The amount, if any, of such escrowed funds to be released to FBBI shareholders would depend upon the amount of losses that the Company incurred in the two years following the completion of the merger related to two class action lawsuits that were pending against Bay Cities. In August 2017, the Company distributed the contingent cash consideration to the former FBBI shareholders, less $10,000 for compensation paid to a representative designated by FBBI who acted on behalf of the FBBI shareholders in connection with the escrow arrangements.

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

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

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

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

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

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

Table of Contents

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

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

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

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

Including the purchase accounting adjustments, as of acquisition date, SPF had approximately $377.0 million in total assets, including $376.2 million in total loans, which resulted in goodwill of $30.5 million being recorded.

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

For an additional discussion regarding the acquisition of SPF, see Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 2 Business Combinations in the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K. For an additional discussion regarding the acquisitions of BOC, GHI and Stonegate, see Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 2 Business Combinations in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2017. For an additional discussion regarding the acquisitions of Doral Florida, the pool of national commercial real estate loans and FBBI, see Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 2 Business Combinations in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2016. For an additional discussion regarding the acquisitions of Traditions and Broward, see Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 2 Business Combinations in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2015.

8

Table of Contents

Our Management Team

The following table sets forth, as of December 31, 2018, information concerning the individuals who are our executive officers.

Name	Age	Positions Held with Home BancShares, Inc.	Positions Held with Centennial Bank
John W. Allison	72	Chairman of the Board	Chairman of the Board
C. Randall Sims	64	Chief Executive Officer, President and Director	Director
Brian S. Davis	53	Chief Financial Officer, Treasurer and Director	Chief Financial Officer, Treasurer and Director
Jennifer C. Floyd	44	Chief Accounting Officer	Chief Accounting Officer
Kevin D. Hester	55	Chief Lending Officer	Chief Lending Officer and Director
J. Stephen Tipton	37	Chief Operating Officer	Chief Operating Officer
Tracy M. French	57	Executive Officer, Director	Chief Executive Officer, President and Director
Donna J. Townsell	48	Senior Executive Vice President, Director of Investor Relations and Director	Senior Executive Vice President and Director
Russell D. Carter, III	43	Executive Officer	Regional President

Table of Contents

Our Growth Strategy

Our goals are to achieve growth in earnings per share and to create and build stockholder value. Our growth strategy entails the following:

- *Strategic acquisitions* Strategic acquisitions (both FDIC-assisted and non-FDIC-assisted) have been a significant component of our historical growth strategy, and we believe properly priced bank acquisitions can continue to be a large part of our growth strategy. We anticipate that our principal acquisition focus will continue to be to expand our presence in Arkansas, Florida and Alabama and into other contiguous markets, although we may seek to expand into other areas if attractive financial opportunities in other market areas arise. We will continue to evaluate potential bank acquisition opportunities to determine whether they are in the best interests of our Company. Our goals in making these decisions are to maximize the return to our shareholders and to enhance our franchise.

- *Organic growth* We believe our current branch network provides us with the capacity to grow within our existing market areas. We also believe we are well positioned to attract new business and additional experienced personnel as a result of ongoing changes in our competitive markets. We believe the markets we entered into as a result of historical acquisitions provide us opportunities for organic growth as we now have a presence in several large markets where our market share has not previously been significant. Additionally, through our Centennial CFG franchise, we are continuing to build out a national lending platform that focuses on commercial real estate plus commercial and industrial loans. As opportunities arise, we will evaluate new (commonly referred to as *de novo*) branches in our current markets and in other attractive market areas. During 2018, two *de novo* branch locations were opened in Jonesboro and Russellville, Arkansas. During 2018, we also opened a loan production office in Dallas, Texas under the management of Centennial CFG. We will continue to evaluate *de novo* opportunities during 2019 and make decisions on a case-by-case basis in the best interest of the shareholders. Overall, we expect the organic loan growth we experienced during the last two years to continue in all of our markets as the economic environment has improved.

Community Banking Philosophy

Our community banking philosophy consists of four basic principles:

- manage our community banking franchise with experienced bankers and community bank boards who are empowered to make customer-related decisions quickly;

- provide exceptional service and develop strong customer relationships;

- pursue the business relationships of our local boards of directors, executive officers, stockholders, and customers to actively promote our community bank; and maintain our commitment to the communities we serve by supporting civic and nonprofit organizations. These principles, which make up our community banking philosophy, are the driving force for our business. As we streamlined our legacy business into an efficient banking network and have integrated new acquisitions, we have preserved lending authority with local management in most cases by using local loan committees that maintain an integral connection to the communities we serve. These committees are empowered with lending authority of up to $6.0 million in their respective geographic areas. This allows us to capitalize on the strong relationships that these individuals and our local bank officers have in their respective communities to maintain and grow our business. Through experienced and empowered local bankers and board members, we are committed to maintaining a community banking experience for our customers.

Table of Contents

Operating Goals

Our operating goals focus on maintaining strong credit quality, increasing profitability, finding experienced bankers, and maintaining a fortress balance sheet:

Maintain strong credit quality Credit quality is our first priority. We employ a set of credit standards designed to ensure the proper management of credit risk. Our management team plays an active role in monitoring compliance with these credit standards in the different communities served by Centennial Bank. We have a centralized loan review process, which we believe enables us to take prompt action on potential problem loans. During the past few years we have taken an aggressive approach to resolving problem loans, including those problem loans acquired in our FDIC-assisted and non-FDIC-assisted acquisitions. We are committed to maintaining high credit quality standards.

Continue to improve profitability We will continue to strive to improve our profitability and achieve high performance ratios as we continue to utilize the available capacity of branches and employees. As we work out problem loans in our special assets department, we plan to emphasize business development and relationship enhancement in lending and retail areas in our newly acquired markets. Our efficiency ratio has improved from 62.68% for the year ended 2008 to 38.48% for the year ended 2018. The efficiency ratio 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. Our efficiency ratio, as adjusted, has improved from 59.4% for the year ended 2008 to 37.7% for the year ended 2018. The efficiency ratio, as adjusted, is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income excluding certain adjustments such as merger expenses and/or gain and losses. These improvements in operating efficiency are being driven by, among other factors, increasing revenue from organic loan growth, improving our cost savings from the acquisitions, implementing our efficiency study initiatives, streamlining the processes in our lending and retail operations and improving our purchasing power.

Attract and motivate experienced bankers We believe a major factor in our success has been our ability to attract and motivate bankers who have experience in and knowledge of their local communities. Historically, our hiring and retaining experienced relationship bankers has been integral to our ability to grow quickly when entering new markets.

Maintain a fortress balance sheet We intend to maintain a strong balance sheet through a focus on four key governing principles: (1) maintain solid asset quality; (2) remain well-capitalized; (3) pursue high performance metrics including return on tangible equity (ROTE), return on assets (ROA), efficiency ratio and net interest margin; and (4) retain liquidity at the bank holding company level that can be utilized should attractive acquisition opportunities be identified or for internal capital needs. We strive to maintain capital levels above the regulatory capital requirements through our focus on these governing principles, which historically has allowed us to take advantage of acquisition opportunities as they become available without the need for additional capital.

Our Market Areas

As of December 31, 2018, we conducted business principally through 77 branches in Arkansas, 76 branches in Florida, five branches in Alabama and one branch in New York City. Our branch footprint includes markets in which we are the deposit market share leader as well as markets where we believe we have opportunities for deposit market share growth. As of December 31, 2018, we also operate loan production offices in Los Angeles, California and Dallas, Texas through our Centennial CFG division and in Chesapeake, Virginia through our SPF division.

Table of Contents

Lending Activities

We originate loans primarily secured by single and multi-family real estate, residential construction and commercial buildings. In addition, we make loans to small and medium-sized commercial businesses as well as to consumers for a variety of purposes.

Our loan portfolio as of December 31, 2018, was comprised as follows:

	Total Loans Receivable	Percentage of portfolio
	(Dollars in thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 4,806,684	43.4%
Construction/land development	1,546,035	14.0
Agricultural	76,433	0.7
Residential real estate loans		
Residential 1-4 family	1,975,586	17.8
Multifamily residential	560,475	5.1
Total real estate	8,965,213	81.0
Consumer	443,105	4.0
Commercial and industrial	1,476,331	13.3
Agricultural	48,562	0.4
Other	138,668	1.3
Total	$ 11,071,879	100.0%

Real Estate Non-farm/Non-residential. Non-farm/non-residential real estate loans consist primarily of loans secured by income-producing properties, such as shopping/retail centers, hotel/motel properties, office buildings, and industrial/warehouse properties. Commercial lending on income-producing properties typically involves higher loan principal amounts, and the repayment of these loans is dependent, in large part, on sufficient income from the properties collateralizing the loans to cover operating expenses and debt service. This category of loans also includes specialized properties such as churches, marinas, and nursing homes. Additionally, we make commercial mortgage loans to entities to operate in these types of properties, and the repayment of these loans is dependent, in large part, on the cash flow generated by these entities in the operations of the business. Often, a secondary source of repayment will include the sale of the subject collateral. When this is the case, it is generally our practice to obtain an independent appraisal of this collateral within the Interagency Appraisal and Evaluation Guidelines.

Real Estate Construction/Land Development. This category of loans includes loans to residential and commercial developers to purchase raw land and to develop this land into residential and commercial land developments. In addition, this category includes construction loans for all of the types of real estate loans, including both commercial and residential. These loans are generally secured by a first lien on the real estate being purchased or developed. Often, the primary source of repayment will be the sale of the subject collateral. When this is the case, it is generally our practice to obtain an independent appraisal of this collateral within the Interagency Appraisal and Evaluation

Guidelines.

Real Estate Residential. Our residential mortgage loan program primarily originates loans to individuals for the purchase of residential property. We generally do not retain long-term, fixed-rate residential real estate loans in our portfolio due to interest rate and collateral risks. Residential mortgage loans to individuals retained in our loan portfolio primarily consisted of approximately 30.2% owner occupied 1-4 family properties and approximately 58.7% non-owner occupied 1-4 family properties (rental) as of December 31, 2018 with the remaining 11.1% relating to condos and mobile homes. The primary source of repayment for these loans is generally the income and/or assets of the individual to whom the loan is made. Often, a secondary source of repayment will include the sale of the subject collateral. When this is the case, it is generally our practice to obtain an independent appraisal of this collateral within the Interagency Appraisal and Evaluation Guidelines.

Consumer. While our focus is on service to small and medium-sized businesses, we also make a variety of loans to individuals for personal, family and household purposes, including secured and unsecured installment and term loans originated by our bank, the primary portion of which consists of loans to finance USCG registered high-end sail and power boats as a result of our acquisition of SPF on June 30, 2018. The primary source of repayment for these loans is generally the income and/or assets of the individual to whom the loan is made. The performance of consumer loans will be affected by the local and regional economies as well as the rates of personal bankruptcies, job loss, divorce and other individual-specific characteristics. When secured, we may independently assess the value of the collateral using a third-party valuation source.

Commercial and Industrial. Our commercial and industrial loan portfolio primarily consisted of 52.1% inventory/accounts receivable financing, 12.0% equipment/vehicle financing and 35.9% other, including letters of credit at less than 1%, as of December 31, 2018. This category includes loans to smaller business ventures, credit lines for working capital and short-term inventory financing, for example. These loans are typically secured by the assets of the business and are supplemented by personal guaranties of the principals and often mortgages on the principals primary residences. The primary source of repayment may be conversion of the assets into cash flow, as in inventory and accounts receivable, or may be cash flow generated by operations, as in equipment/vehicle financing. Assessing the value of inventory can involve many factors including, but not limited to, type, age, condition, level of conversion and marketability, and can involve applying a discount factor or obtaining an independent valuation, based on the assessment of the above factors. Assessing the value of accounts receivable can involve many factors including, but not limited to, concentration, aging, and industry, and can involve applying a discount factor or obtaining an independent valuation, based on the assessment of the above factors. Assessing the value of equipment/vehicles may involve a third-party valuation source, where applicable.

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

Credit Risks. The principal economic risk associated with each category of the loans that we make is the creditworthiness of the borrower and the ability of the borrower to repay the loan. General economic conditions and the strength of the services and retail market segments affect borrower creditworthiness. General factors affecting a commercial borrower s ability to repay include interest rates, inflation and the demand for the commercial borrower s products and services as well as other factors affecting a borrower s customers, suppliers and employees.

Risks associated with real estate loans also include fluctuations in the value of real estate, new job creation trends, tenant vacancy rates, and in the case of commercial borrowers, the quality of the borrower s management. Consumer loan repayments depend upon the borrower s financial stability and are more likely to be adversely affected by divorce, job loss, illness and other personal hardships.

Lending Policies. We have established common loan documentation procedures and policies, based on the type of loan, for our bank subsidiary. The board of directors periodically reviews these policies for validity. In addition, it has been and will continue to be our practice to attempt to independently verify information provided by our borrowers, including assets and income. We have not made loans similar to those commonly referred to as no doc or stated income loans. We focus on the primary and secondary methods of repayment, and prepare global cash flows where appropriate. There are legal restrictions on the dollar amount of loans available for each lending relationship. The Arkansas Banking Code provides that no loan relationship may exceed 20% of a bank s risk-based capital, and we are in compliance with this restriction. In addition, we are not dependent upon any single lending relationship for an amount exceeding 10% of our revenues. As of December 31, 2018, the maximum amount outstanding to a single borrower was $172.7 million. As a community lender, we believe from time to time it is in our best interest to agree to modifications or restructurings. These modifications/restructurings can take the form of a reduction in interest rate, a move to interest-only from principal and interest payments, or a lengthening in the amortization period or any combination thereof. Occasionally, we will modify/restructure a single loan by splitting it into two loans following the interagency guidance involving the workout of commercial real estate loans. The loan representing the portion that is supported by the current cash flow of the borrower or project will remain on our books, while the new loan representing the portion that cannot be serviced by the current cash flow is charged-off. Furthermore, we may make an additional loan or loans to a borrower or related interest of a borrower who is past due more than 90 days. These circumstances will be very limited in nature, and when approved by the appropriate lending authority, will likely involve obtaining additional collateral that will improve the collectability of the overall relationship. It is our belief that judicious usage of these tools can improve the quality of our loan portfolio by providing our borrowers an improved probability of survival during difficult economic times.

Loan Approval Procedures. Our bank subsidiary has supplemented our common loan policies to establish its loan approval procedures as follows:

Individual Authorities. The board of directors of Centennial Bank establishes the authorization levels for individual loan officers on a case-by-case basis. Generally, the more experienced a loan officer, the higher the authorization level. The approval authority for individual loan officers ranges from $10,000 to $2.5 million for secured loans and from $1,000 to $100,000 for unsecured loans.

Officers Loan Committees. Our bank subsidiary also gives its Officers Loan Committees loan approval authority. Credits in excess of individual loan limits are submitted to the region s Officers Loan Committee. The Officers Loan Committee consists of members of the senior management team of that region and is chaired by that region s chief lending officer. The regional Officers Loan Committees have approval authority of up to $2.0 million secured on all loans and $100,000 unsecured on loan renewals.

Directors Loan Committee. Our bank subsidiary has Directors Loan Committees (DLCs) throughout our market areas consisting of outside directors and senior lenders of the respective market areas. Generally, each DLC requires a majority of outside directors be present to establish a quorum. Generally, this committee is chaired either by the Division Chief Lending Officer or the Regional President. The regional DLCs have approval authority up to $6.0 million secured and $3.0 million unsecured.

Executive Loan Committee The board of directors of Centennial Bank established the Executive Loan Committee consisting of three outside board members and members of executive management. This committee requires five voting members to establish a quorum, including at least two of the outside board members, and is chaired by the Chief Lending Officer of the bank. The Executive Loan Committee has approval authority up to the in-house consolidated lending limit of $20.0 million.

Currently, our board of directors has established an in-house consolidated lending limit of $20.0 million to any one borrowing relationship without obtaining the approval of both our Chairman and our director Richard H. Ashley. We have 106 separate relationships that exceed this in-house limit.

Deposits and Other Sources of Funds

Our principal source of funds for loans and investing in securities is core deposits. We offer a wide range of deposit services, including checking, savings, money market accounts and certificates of deposit. We obtain most of our deposits from individuals and small businesses, and municipalities in our market areas. We believe that the rates we offer for core deposits are competitive with those offered by other financial institutions in our market areas. Additionally, our policy also permits the acceptance of brokered deposits. Secondary sources of funding include advances from the Federal Home Loan Bank of Dallas, the Federal Reserve Bank Discount Window and other borrowings. These secondary sources enable us to borrow funds at rates and terms which, at times, are more beneficial to us.

Other Banking Services

Given customer demand for increased convenience and account access, we offer a range of products and services, including 24-hour internet banking, mobile banking and voice response information, cash management, overdraft protection, direct deposit, safe deposit boxes, United States savings bonds and automatic account transfers. We earn fees for most of these services. We also receive ATM transaction fees from transactions performed by our customers participating in a shared network of automated teller machines and a debit card system that our customers can use throughout the United States, as well as in other countries.

As a result of our acquisition of Stonegate in September 2017, we also offer credit cards to both consumers and businesses. Credit cards typically involve a higher degree of credit risk since outstanding balances are unsecured and repayment of such balances is often negatively impacted by a decline in economic conditions. Our credit cards offer a variety of benefits and features designed to meet the needs of our customer. In addition, our consumer credit cards can be used in Cuba.

Insurance

Centennial Insurance Agency, Inc. is an independent insurance agency, originally founded in 1959 and purchased by Centennial Bank in 2000. Centennial Insurance Agency writes policies for commercial and personal lines of business including insurance for property, casualty, life, health and employee benefits. It is subject to regulation by the Arkansas Insurance Department. The offices of Centennial Insurance Agency are currently located in Jacksonville, Cabot and Conway, Arkansas.

Cook Insurance Agency, Inc. is an independent insurance agency, originally founded in 1913 and acquired by Centennial Bank in 2010 during our FDIC-assisted acquisition of Gulf State Community Bank. Cook Insurance Agency writes policies for commercial and personal lines of business including life insurance. It is subject to regulation by the Florida Insurance Department. The offices of Cook Insurance Agency are located in Apalachicola and Crawfordville, Florida.

Table of Contents

Competition

As of December 31, 2018, we conducted business through 159 branches in our primary market areas of Pulaski, Faulkner, Craighead, Lonoke, Pope, Washington, White, Benton, Greene, Sebastian, Cleburne, Independence, Stone, Baxter, Clay, Conway, Crawford, Johnson, Saline, Sharp and Yell counties in Arkansas; Broward, Monroe, Hillsborough, Leon, Sarasota, Bay, Franklin, Palm Beach, Gulf, Charlotte, Collier, Escambia, Orange, Osceola, Pasco, Pinellas, Polk, Walton, Miami-Dade, Lee, Calhoun, Gadsden, Hernando, Liberty, Okaloosa, Santa Rosa, Seminole, Wakulla and Manatee counties in Florida; Baldwin County in Alabama; and New York County in New York. Many other commercial banks, savings institutions and credit unions have offices in our primary market areas. These institutions include many of the largest banks operating in these respective states, including some of the largest banks in the country. Many of our competitors serve the same counties we do. Our competitors often have greater resources, have broader geographic markets, have higher lending limits, offer various services that we may not currently offer and may better afford and make broader use of media advertising, support services and electronic technology than we do. To offset these competitive disadvantages, we depend on our reputation as having greater personal service, consistency, and flexibility and the ability to make credit and other business decisions quickly.

Employees

On December 31, 2018, we had 1,815 full-time equivalent employees. Except for any additional employees acquired in future acquisitions, we expect that our 2019 staffing levels will be slightly higher than those at year end 2018 to meet increased regulatory requirements resulting from exceeding $10 billion in assets. We consider our employee relations to be good, and we have no collective bargaining agreements with any employees.

SUPERVISION AND REGULATION

General

We and our bank subsidiary are subject to extensive state and federal banking regulations that impose restrictions on and provide for general regulatory oversight of our company and its operations. These laws generally are intended to protect depositors, the deposit insurance fund of the Federal Deposit Insurance Corporation (FDIC) and the banking system as a whole, and not shareholders.

The following discussion describes the material elements of the regulatory framework that applies to us. This description is qualified in its entirety by reference to the full text of the statutes, regulations and policies that are described. Also, such statutes, regulations and policies are continually under review by Congress and state legislatures and federal and state regulatory agencies. A change in statutes, regulations or regulatory policies applicable to us and our subsidiaries could have a material effect on our business, financial condition and results of operations. Because our bank subsidiary s total assets exceed $10 billion, it is subject to additional supervision and regulation, including by the Consumer Financial Protection Bureau (CFPB), with such additional supervision and regulation discussed throughout this section.

Financial Regulatory Reform

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) made extensive changes in the regulation of financial institutions and their holding companies. The Dodd-Frank Act contains a comprehensive set of provisions designed to govern the practices and oversight of financial institutions and other participants in the financial markets. Some of these provisions are described in more detail below. Many provisions of the Dodd-Frank Act have delayed effective dates, and the legislation requires various federal agencies to adopt a broad range of new rules and regulations, some of which have not yet been issued in final form. In addition, we and our bank subsidiary became subject to certain Dodd-Frank Act provisions for the first time in 2018 as our bank subsidiary s total assets exceeded $10 billion. We expect our operating and compliance costs to continue to increase as a result of the Dodd-Frank Act and implementing its regulations.

Table of Contents

Home BancShares

We are a bank holding company registered under the federal Bank Holding Company Act of 1956 (the Bank Holding Company Act) and are subject to supervision, regulation and examination by the Federal Reserve Board. The Bank Holding Company Act and other federal laws subject bank holding companies to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations.

Acquisitions of Banks. The Bank Holding Company Act requires every bank holding company to obtain the Federal Reserve Board s prior approval before:

- acquiring direct or indirect ownership or control of any voting shares of any bank if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the bank s voting shares;
- acquiring all or substantially all of the assets of any bank; or
- merging or consolidating with any other bank holding company.

Under the Bank Holding Company Act, if well-capitalized and well managed, we, as well as other bank holding companies located within the states in which we operate, may purchase a bank located outside of those states. Conversely, a well-capitalized and well managed bank holding company located outside of the states in which we operate may purchase a bank located inside those states. In each case, however, restrictions may be placed on the acquisition of a bank that has only been in existence for a limited amount of time or will result in specified concentrations of deposits. In approving bank acquisitions by bank holding companies, the Federal Reserve Board is required to consider, among other things, the financial and managerial resources and future prospects of the bank holding company and the banks concerned, the convenience and needs of the communities to be served and various competitive factors.

Permitted Activities. A bank holding company is generally permitted under the Bank Holding Company Act to engage in or acquire direct or indirect control of more than 5% of the voting shares of any company engaged in the following activities:

- banking or managing or controlling banks; and
- any activity that the Federal Reserve Board determines to be so closely related to banking as to be a proper incident to the business of banking.

Activities that the Federal Reserve Board has found to be so closely related to banking as to be a proper incident to the business of banking include but are not limited to: factoring accounts receivable; making, acquiring, brokering or servicing loans and usual related activities; leasing personal or real property; operating a non-bank depository institution, such as a savings association; trust company functions; financial and investment advisory activities; conducting securities brokerage activities; underwriting and dealing in government obligations and money market instruments; providing specified management consulting and counseling activities; performing selected data processing services and support services; acting as agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions; and performing selected insurance underwriting activities.

Support of Subsidiary Institutions. Under the Dodd-Frank Act, we are required to act as a source of financial strength for our bank subsidiary and to commit resources to support the bank. Under current federal law, the Federal Reserve may require us to make capital injections into our bank subsidiary and may charge us with engaging in unsafe and unsound practices if we fail to commit resources to our bank subsidiary or if we undertake actions that the Federal Reserve believes might jeopardize our ability to commit resources to the bank. As a result, an obligation to support our bank subsidiary may be required at times when, without this requirement, we might not be inclined to provide it.

Safe and Sound Banking Practices. Bank holding companies are not permitted to engage in unsafe and unsound banking practices. The Federal Reserve Board s Regulation Y, for example, generally requires a holding company to give the Federal Reserve Board prior notice of any redemption or repurchase of its own equity securities, if the consideration to be paid, together with the consideration paid for any repurchases or redemptions in the preceding year, is equal to 10% or more of the company s consolidated net worth. The Federal Reserve Board may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. Depending upon the circumstances, the Federal Reserve Board could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

Table of Contents

The Federal Reserve Board has broad authority to prohibit activities of bank holding companies and their non-banking subsidiaries which represent unsafe and unsound banking practices or which constitute violations of laws or regulations, and can assess civil money penalties for certain activities conducted on a knowing and reckless basis, if those activities caused a substantial loss to a depository institution. The penalties can be as high as approximately $2 million for each day the activity continues.

Annual Reporting; Examinations. We are required to file annual reports with the Federal Reserve Board, and such additional information as the Federal Reserve Board may require pursuant to the Bank Holding Company Act. The Federal Reserve Board may examine a bank holding company or any of its subsidiaries and charge the company for the cost of such examination.

Capital Adequacy Requirements. The Federal Reserve Board has adopted a system using risk-based capital guidelines to evaluate the capital adequacy of bank holding companies having $500 million or more in assets on a consolidated basis. Under the guidelines, specific categories of assets are assigned different risk weights, based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a risk-weighted asset base. The guidelines in effect as of December 31, 2018 require a minimum total risk-based capital ratio of 8.0% (of which at least 6.0% is required to consist of Tier 1 capital elements) and a total risk-based capital ratio of at least 10% (of which at least 8.0% is required to consist of Tier 1 capital elements) to be well-capitalized. Total capital is the sum of Tier 1 and Tier 2 capital. As of December 31, 2018, our Tier 1 risk-based capital ratio was 11.93% and our total risk-based capital ratio was 15.31%. Thus, as of December 31, 2018, we are considered well-capitalized for regulatory purposes.

In addition to the risk-based capital guidelines, the Federal Reserve Board uses a leverage ratio as an additional tool to evaluate the capital adequacy of bank holding companies. The leverage ratio is a company s Tier 1 capital divided by its average total consolidated assets. Certain highly-rated bank holding companies may maintain a minimum leverage ratio of 3.0%, but other bank holding companies are required to maintain a leverage ratio of at least 4.0%. Well-capitalized is a leverage ratio in excess of 5%. As of December 31, 2018, our leverage ratio was 10.36%.

The federal banking agencies risk-based and leverage ratios are minimum supervisory ratios generally applicable to banking organizations that meet certain specified criteria. The federal bank regulatory agencies may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. Federal Reserve Board guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions, substantially above the minimum supervisory levels, without significant reliance on intangible assets.

The Dodd-Frank Act includes certain provisions concerning the capital regulations of the federal banking agencies. These provisions, often referred to as the Collins Amendment, are intended to subject bank holding companies to the same capital requirements as their bank subsidiaries and to eliminate or significantly reduce the use of hybrid capital instruments, especially trust preferred securities, as regulatory capital. Under the Collins Amendment, trust preferred securities issued before May 19, 2010 by a company, such as our Company, with total consolidated assets of less than $15 billion as of December 31, 2009, and treated as regulatory capital are grandfathered, but any such securities issued later are not eligible as regulatory capital. The Collins Amendment requires banking regulators to develop regulations setting minimum risk-based and leverage capital requirements for holding companies and banks on a consolidated basis that are no less stringent than the generally applicable requirements in effect for depository institutions under the prompt corrective action regulations discussed below. The banking regulators also must seek to make capital standards countercyclical so that the required levels of capital increase in times of economic expansion and decrease in times of economic contraction.

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 (Basel III) and certain provisions of the Dodd-Frank Act. The final rule applies to all depository institutions, bank holding companies with total

Table of Contents

consolidated assets of $500 million or more and savings and loan holding companies (collectively, banking organizations). Among other things, the rule established a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets) and a higher minimum Tier 1 risk-based capital requirement (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. As of December 31, 2018, the Company s common equity Tier 1 capital ratio was 11.34%.

The final rule 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. Because our total consolidated assets were less than $15 billion as of December 31, 2009, our outstanding trust preferred securities continue to be treated as Tier 1 capital. However, now that we have exceeded $15 billion in assets, if we acquire another financial institution in the future, then the Tier 1 treatment of our outstanding trust preferred securities will be phased out, but those securities will still be treated as Tier 2 capital.

The final rule 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. The final rule became effective for the Company and our bank subsidiary on January 1, 2015. The capital conservation buffer requirement began being phased in on January 1, 2016, and the full capital conservation buffer requirement became effective January 1, 2019. As of January 1, 2016, the required capital conservation buffer was 0.625% of common equity Tier 1 capital to risk-weighted assets. The required capital conservation buffer increased to 1.25% as of January 1, 2017, 1.875% effective January 1, 2018 and 2.5% effective January 1, 2019. As of December 31, 2018, our capital conservation buffer was 5.93%.

Liquidity Requirements. Historically, the regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, without minimum required formulaic measures. The Basel III liquidity framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward would be required by regulation. One test, referred to as the liquidity coverage ratio, is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity s expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other test, referred to as the net stable funding ratio, is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements are expected to incent banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source. The federal banking agencies have not determined to what extent they will apply to U.S. banks that are not large, internationally active banks.

Stress Testing. Pursuant to the Dodd-Frank Act, in October 2012, the Federal Reserve Board published its final rules regarding company-run stress testing. The rules require institutions with average total consolidated assets greater than $10 billion, such as the Company and our bank subsidiary, to conduct an annual company-run stress test of capital and consolidated earnings and losses under one base and at least two stress scenarios provided by bank regulatory agencies.

On May 24, 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (the EGRRCPA) was signed into law, making certain limited amendments to the Dodd-Frank Act, as well as certain targeted modifications to other post-financial crisis regulations. Among other things, the law raises the asset thresholds for Dodd-Frank Act company-run stress testing, liquidity coverage and living will requirements for bank holding companies to $250 billion, subject to the ability of the Fed to apply such requirements to institutions with assets of $100 billion or more to address financial stability risks or safety and soundness concerns. On July 6, 2018, the Federal Reserve, the FDIC and the Office of the Comptroller of the Currency (the OCC) issued a joint interagency statement regarding the impact of the EGRRCPA. As a result of this statement and the EGRRCPA, we and our bank subsidiary are no longer subject to Dodd-Frank Act stress testing requirements and were not required to undergo stress testing in 2018. Notwithstanding these amendments to the stress testing requirements, the federal banking agencies indicated through interagency guidance that the capital planning and risk management practices of institutions with total assets less than $100 billion would continue to be reviewed through the regular supervisory process. We will continue to monitor our capital consistent with the safety and soundness expectations of the federal regulators.

Risk Management. Regulation YY requires publicly-traded bank holding companies with $10 billion or more in total assets to establish a risk committee responsible for oversight of enterprise-wide risk management practices. The committee must be chaired by an independent director and include at least one risk management expert with experience in managing risk exposures of large, complex firms. As a result of our total assets exceeding $10 billion, we established a risk committee meeting these requirements. However, effective May 2018, the recently enacted EGRRCPA increased the asset threshold for mandatory risk committees from $10 billion to $50 billion in total assets. While we are no longer required to maintain a risk committee, we currently continue to utilize our risk committee to oversee our enterprise-wide risk management practices.

Regulation YY also requires us, as a publicly-traded bank holding company with $10 billion or more in total consolidated assets, to have a global risk management framework commensurate with their structure, risk profile, complexity, activities, and size. The risk management framework must include risk management policies and procedures, as well as processes and controls to implement them. Accordingly, we have adopted a compliant risk management framework.

Payment of Dividends. We are a legal entity separate and distinct from our bank subsidiary and other affiliated entities. The principal sources of our cash flow, including cash flow to pay dividends to our shareholders, are dividends that our bank subsidiary pays to us as its sole shareholder. Statutory and regulatory limitations apply to the dividends that our bank subsidiary can pay to us, as well as to the dividends we can pay to our shareholders.

The policy of the Federal Reserve Board that a bank holding company should serve as a source of strength to its subsidiary bank also results in the position of the Federal Reserve Board that a bank holding company should not maintain a level of cash dividends to its shareholders that places undue pressure on the capital of its bank subsidiary or that can be funded only through additional borrowings or other arrangements that may undermine the bank holding company s ability to serve as such a source of strength. Our ability to pay dividends is also subject to the provisions of Arkansas law.

There are certain state-law limitations on the payment of dividends by our bank subsidiary. Centennial Bank, which is subject to Arkansas banking laws, may not declare or pay a dividend of 75% or more of the net profits of such bank after all taxes for the current year plus 75% of the retained net profits for the immediately preceding year without the prior approval of the Arkansas State Bank Commissioner. Members of the Federal Reserve System must also comply with the dividend restrictions with which a national bank would be required to comply. Among other things, these restrictions require that if losses have at any time been sustained by a bank equal to or exceeding its undivided profits then on hand, no dividend may be paid. Although we have historically paid quarterly dividends on our common stock, there can be no assurances that we will be able to pay dividends in the future under the applicable regulatory limitations.

The payment of dividends by us, or by our bank subsidiary, may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. The federal banking agencies have indicated that paying dividends that deplete a depository institution s capital base to an inadequate level would be an unsafe and unsound banking practice. Under FDICIA, a depository institution may not pay any dividend if payment would result in the depository institution being undercapitalized.

Subsidiary Bank

General. Our bank subsidiary, Centennial Bank, is chartered as an Arkansas state bank and is a member of the Federal Reserve System, making it primarily subject to regulation and supervision by both the Federal Reserve Board and the Arkansas State Bank Department. In addition, our bank subsidiary is subject to various requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be granted and the interest that they may charge, and limitations on the types of investments they may make and on the types of services they may offer. Various consumer laws and regulations also affect the operations of our bank subsidiary. Further, because our bank subsidiary had total assets of over $10 billion as of December 31, 2018, it is subject to supervision and regulation by the CFPB, which is responsible for implementing, examining and enforcing compliance with federal consumer protection laws.

Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act of 1991 establishes a system of prompt corrective action to resolve the problems of undercapitalized financial institutions. Under this system, the federal banking regulators have established five capital categories (well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) in which all institutions are placed. Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. The federal banking agencies have specified by regulation the relevant capital level for each category.

An institution that is categorized as undercapitalized, significantly undercapitalized or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except under an accepted capital restoration plan or with FDIC approval. The regulations also establish procedures for downgrading an institution to a lower capital category based on supervisory factors other than capital.

The Basel III final rule issued by the federal bank regulatory agencies in July 2013 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. These rules became effective as of January 1, 2015. In order to be adequately capitalized for purposes of the prompt corrective action rules, a banking organization will be required to have at least an 8% total risk-based capital ratio, a 6% Tier 1 risk-based capital ratio, a 4.5% common equity Tier 1 risk-based capital ratio and a 4% Tier 1 leverage ratio. To be well-capitalized, a banking organization will be required to have at least a 10% total risk-based capital ratio, an 8% Tier 1 risk-based capital ratio, a 6.5% common equity Tier 1 risk-based capital ratio and a 5% Tier 1 leverage ratio.

Deposit Insurance and Assessments. Centennial Bank s deposit accounts are insured up to applicable limits by the FDIC s Deposit Insurance Fund (DIF). The Dodd-Frank Act permanently increased the deposit coverage limit to $250,000 per depositor retroactive to January 1, 2008.

The FDIC imposes an assessment against institutions for deposit insurance. This assessment is based primarily on the risk category of the institution and certain risk adjustments specified by the FDIC, with riskier institutions paying higher assessments. Under the FDIC s risk-based assessment system, insured institutions with at least $10 billion in assets are assessed on the basis of a scoring system that combines the institution s regulatory ratings and certain financial measures. The scoring system assesses risk measures to produce two scores, a performance score and a loss severity score, that will be combined and converted to an initial assessment rate. The performance score measures an institution s financial performance and its ability to withstand stress. The loss severity score quantifies the relative magnitude of potential losses to the FDIC in the event of an institution s failure. Once the performance and loss severity scores are calculated, these scores will be converted to a total score. The FDIC has the authority to raise or lower assessment rates, subject to limits, and to impose special additional assessments.

The FDIC s restoration program for the DIF adopted in 2010 is designed to bolster the DIF reserve ratio to 1.35% by September 30, 2020, as required by the Dodd-Frank Act. The plan provides that, at least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required. Under the Dodd-Frank Act, insured institutions with assets of $10 billion or more are required to fund the increase in the designated reserve ratio (DRR) to 1.35%.

In 2011, the FDIC approved a final rule implementing changes to the deposit insurance assessment system, as authorized by the Dodd-Frank Act, which, among other things, changed the assessment base for insured depository institutions from adjusted domestic deposits to the institution s average consolidated total assets during an assessment period less average tangible equity capital (Tier 1 capital) during that period. The rule revised the assessment rate schedule so that it ranges from 2.5 basis points for the least risky institutions to 45 basis points for the riskiest institutions. The rule also suspended indefinitely the requirement of the FDIC to pay dividends from the DIF when it reaches 1.5% of insured deposits. In lieu of the dividends, the FDIC adopted progressively lower assessment rate schedules when the reserve ratio exceeds 1.15%, 2.0% and 2.5%, respectively. In addition, a final rule issued by the FDIC in March 2016 required insured institutions with an assessment base (total assets less tangible capital) of over $10 billion to pay surcharge insurance assessments at an annual rate of 4.5 basis points of their assessment base, starting the quarter after the DRR surpassed 1.15% and ending when the DRR reached 1.35%. The 4.5 basis point surcharge will be assessed against each covered institution s assessment base, less $10 billion.

The DRR exceeded 1.15% as of June 30, 2016. As a result, the base deposit insurance rates now range from (i) 1.5 to 30 basis points of an institution s assessment base for small banks and (ii) 1.5 to 40 basis points for institutions with an assessment base of over $10 billion, which are also now subject to the 4.5 basis point surcharge. The surcharge continued through October 1, 2018, when the reserve ratio exceeded 1.35%.

In addition, all institutions with deposits insured by the FDIC must pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established as a financing vehicle for the Federal Savings & Loan Insurance Corporation. The assessment rate for the first quarter of fiscal 2018 is 0.46% of assets and is adjusted quarterly. These assessments will continue until the bonds mature in 2019.

Under the Federal Deposit Insurance Act, as amended, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Community Reinvestment Act. The Community Reinvestment Act requires, in connection with examinations of financial institutions, that federal banking regulators evaluate the record of each financial institution in meeting the credit needs of its local community, including low and moderate-income neighborhoods. These facts are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on our bank subsidiary. Additionally, we must publicly disclose the terms of various Community Reinvestment Act-related agreements. Our bank subsidiary received a satisfactory CRA rating from the Federal Reserve Bank during its last exam as published in our bank s CRA Public Evaluation.

Capital Requirements. Our bank subsidiary is also subject to certain restrictions on the payment of dividends as a result of the requirement that it maintain adequate levels of capital in accordance with guidelines promulgated from time to time by applicable regulators. The regulating agencies consider a bank s capital levels when taking action on various types of applications and when conducting supervisory activities related to the safety and soundness of individual banks and the banking system. The Federal Reserve Bank monitors the capital adequacy of our bank subsidiary by using a combination of risk-based guidelines and leverage ratios.

The FDIC Improvement Act. The Federal Deposit Insurance Corporation Improvement Act of 1991, or FDICIA, made a number of reforms addressing the safety and soundness of the deposit insurance system, supervision of domestic and foreign depository institutions, and improvement of accounting standards. This statute also limited deposit insurance coverage, implemented changes in consumer protection laws and provided for least-cost resolution and prompt regulatory action with regard to troubled institutions.

FDICIA requires every bank with total assets in excess of $500 million to have an annual independent audit made of the bank s financial statements by an independent public accountant to verify that the financial statements of the bank are presented fairly and in accordance with generally accepted accounting principles and comply with such other disclosure requirements as prescribed by the FDIC. FDICIA also places certain restrictions on activities of banks depending on their level of capital.

The capital classification of a bank affects the frequency of examinations of the bank and impacts the ability of the bank to engage in certain activities and affects the deposit insurance premiums paid by such bank. Under FDICIA, the federal banking regulators are required to conduct a full-scope, on-site examination of every bank at least once every 12 months.

Brokered Deposits. Under FDICIA, banks may be restricted in their ability to accept brokered deposits, depending on their capital classification. Well-capitalized banks are permitted to accept brokered deposits, but banks that are not well-capitalized are not permitted to accept such deposits. The FDIC may, on a case-by-case basis, permit banks that are adequately capitalized to accept brokered deposits if the FDIC determines that acceptance of such deposits would not constitute an unsafe or unsound banking practice with respect to the bank. The EGRRCPA enacted in May 2018 provides that most reciprocal deposits are no longer treated as brokered deposits.

Federal Home Loan Bank (FHLB) System. The Federal Home Loan Bank system, of which our bank subsidiary is a member, consists of regional FHLBs governed and regulated by the Federal Housing Finance Agency, or FHFA. The FHLBs serve as reserve or credit facilities for member institutions within their assigned regions. They are funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB system. They make loans (i.e., advances) to members in accordance with policies and procedures established by the FHLB and the boards of directors of each regional FHLB.

As a system member, our bank subsidiary is entitled to borrow from the FHLB of its region and is required to own a certain amount of capital stock in the FHLB. Our bank subsidiary is in compliance with the stock ownership rules with respect to such advances, commitments and letters of credit and home mortgage loans and similar obligations. All loans, advances and other extensions of credit made by the FHLB to our bank subsidiary are secured by a portion of its respective loan portfolio, certain other investments and the capital stock of the FHLB held by such bank.

Federal Reserve System. Federal Reserve regulations require depository institutions to maintain cash reserves against their transaction accounts (primarily NOW and demand deposit accounts). A reserve of 3% is to be maintained against aggregate transaction accounts between $16.0 million and $122.3 million (subject to adjustment by the Federal Reserve) plus a reserve of 10% (subject to adjustment by the Federal Reserve between 8% and 14%) against that portion of total transaction accounts in excess of $122.3 million. The first $16.0 million of otherwise reservable balances (subject to adjustment by the Federal Reserve) is exempt from the reserve requirements. Our bank subsidiary is in compliance with the foregoing requirements.

Concentrated Commercial Real Estate Lending Regulations. The federal banking agencies, including the FDIC, have promulgated guidance governing financial institutions with concentrations in commercial real estate lending, which was re-emphasized in December 2015. The guidance provides that a bank has a concentration in commercial real estate lending if (1) total reported loans for construction, land development and other land represent 100% or more of total capital or (2) total reported loans secured by multifamily and non-farm residential properties and loans for construction, land development and other land represent 300% or more of total capital and the bank s commercial real estate loan portfolio has increased 50% or more during the prior 36 months. Owner occupied loans are excluded from this second category. If a concentration is present, management must employ heightened risk management practices that address the following key elements: including board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of commercial real estate lending.

Mortgage Banking Operations. Our bank subsidiary is subject to the rules and regulations of FHA, VA, FNMA, FHLMC and GNMA with respect to originating, processing, selling and servicing mortgage loans and the issuance and sale of mortgage-backed securities. Those rules and regulations, among other things, prohibit discrimination and establish underwriting guidelines which include provisions for inspections and appraisals, require credit reports on prospective borrowers and fix maximum loan amounts, and, with respect to VA loans, fix maximum interest rates.

Table of Contents

Consumer Financial Protection. Our bank subsidiary is subject to a number of federal and state consumer protection laws that extensively govern its relationship with its customers. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Service Members Civil Relief Act and these laws respective state-law counterparts, as well as state usury laws and laws regarding unfair and deceptive acts and practices. These and other federal laws, among other things, require disclosures of the cost of credit and terms of deposit accounts, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, prohibit unfair, deceptive and abusive practices, restrict the bank s ability to raise interest rates and subject the bank to substantial regulatory oversight. Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by customers, including actual damages, restitution and attorneys fees. Federal bank regulators, state attorneys general and state and local consumer protection agencies may also seek to enforce consumer protection requirements and obtain these and other remedies, including regulatory sanctions, customer rescission rights, action by the state and local attorneys general in each jurisdiction in which our bank subsidiary operates and civil money penalties. Failure to comply with consumer protection requirements may also result in our bank subsidiary s failure to obtain any required bank regulatory approval for merger or acquisition transactions the bank may wish to pursue or its prohibition from engaging in such transactions even if approval is not required.

The Dodd-Frank Act established the CFPB, which has supervisory authority over depository institutions with total assets of $10 billion or greater. The CFPB focuses its supervision and regulatory efforts on (1) risks to consumers and compliance with the federal consumer financial laws when it evaluates the policies and practices of a financial institution; (2) the markets in which firms operate and risks to consumers posed by activities in those markets; (3) depository institutions that offer a wide variety of consumer financial products and services; (4) certain depository institutions with a more specialized focus; and (5) non-depository companies that offer one or more consumer financial products or services.

The CFPB has broad rulemaking authority for a wide range of consumer financial laws that apply to all banks, including, among other things, the authority to prohibit unfair, deceptive or abusive acts and practices. Abusive acts or practices are defined as those that materially interfere with a consumer s ability to understand a term or condition of a consumer financial product or service or take unreasonable advantage of a consumer s (1) lack of financial savvy, (2) inability to protect himself in the selection or use of consumer financial products or services or (3) reasonable reliance on a covered entity to act in the consumer s interests. The CFPB can issue cease-and-desist orders against banks and other entities that violate consumer financial laws. The CFPB may also institute a civil action against an entity in violation of federal consumer financial law in order to impose a civil penalty or injunction. The CFPB has examination and enforcement authority over all banks with more than $10 billion in assets, as well as their affiliates.

Loans to One Borrower. Our bank subsidiary generally may not make loans or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, up to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of December 31, 2018, our bank subsidiary was in compliance with the loans-to-one-borrower limitations.

Prohibitions Against Tying Arrangements. Under Regulation Y, our bank subsidiary is prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

Restrictions on Transactions with Affiliates. We and our bank subsidiary are subject to Section 23A of the Federal Reserve Act. In general, Section 23A imposes limits on the amount of transactions between the bank and its affiliates, and also requires certain levels of collateral for loans to affiliated parties. It also limits the amount of advances to affiliates which are collateralized by the securities or obligations of the bank or its nonbanking affiliates. An affiliate of a bank is generally any company or entity that controls, is controlled by, or is under common control with the bank.

Affiliate transactions are also subject to Section 23B of the Federal Reserve Act which generally requires that certain other transactions between the bank and its affiliates be on terms substantially the same, or at least as favorable to the bank, as those prevailing at that time for comparable transactions with or involving other non-affiliated persons.

Table of Contents

Sections 22(g) and (h) of the Federal Reserve Act and its implementing regulation, Regulation O, also place restrictions on loans by a bank to executive officers, directors, and principal shareholders. Under Section 22(h), loans to a director, an executive officer and to a greater than 10% shareholder of a bank and certain of their related interests, or insiders, and insiders of affiliates, may not exceed, together with all other outstanding loans to such person and related interests, the bank s loans-to-one-borrower limit. Section 22(h) also requires that loans to insiders and to insiders of affiliates be made on terms substantially the same as offered in comparable transactions to other persons, unless the loans are made pursuant to a benefit or compensation program that (i) is widely available to employees of the bank and (ii) does not give preference to insiders over other employees of the bank. In addition, Section 22(h) requires prior board of director s approval for certain loans, and the aggregate amount of extensions of credit by a bank to all insiders cannot exceed the institution s unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers.

Interchange Fees. Under the Durbin Amendment to the Dodd-Frank Act, the Federal Reserve Board adopted rules establishing standards for assessing whether the interchange fees that may be charged with respect to certain electronic debit transactions are reasonable and proportional to the costs incurred by issuers for processing such transactions. Interchange fees, or swipe fees, are charges that merchants pay to our bank subsidiary and other card-issuing banks for processing electronic payment transactions. Federal Reserve Board rules applicable to financial institutions that have assets of $10 billion or more provide that the maximum permissible interchange fee is equal to no more than 21 cents plus 5 basis points of the transaction value for many types of debit interchange transactions. A debit card issuer may also recover 1 cent per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements required by the Federal Reserve. In addition, the Federal Reserve has rules governing routing and exclusivity that require issuers to offer two unaffiliated networks for routing transactions on each debit or prepaid product. We exceeded $10 billion in assets during the first quarter of 2017 and became subject to the Durbin Amendment to the Dodd-Frank Act interchange fee restrictions beginning in the third quarter of 2018. The Durbin Amendment negatively impacted debit card and ATM fees beginning in the second half of 2018. During the third and fourth quarters of 2018, we collected $6.6 million in debit card interchange fees, which was approximately $5.3 million lower from debit interchange fees of $11.9 million collected during the third and fourth quarter of 2017.

The Volcker Rule. The Dodd-Frank Act prohibits banks and their affiliates from engaging in proprietary trading and investing in and sponsoring hedge funds and private equity funds. The statutory provision is commonly called the Volcker Rule. In December 2013, federal regulators adopted final rules to implement the Volcker Rule that generally became effective in July 2015. The Volcker Rule also requires covered banking entities, including us and our bank subsidiary, to implement certain compliance programs, and the complexity and rigor of such programs is determined based on the asset size and complexity of the business of the covered company. Since neither we nor our bank subsidiary engages in the types of trading or investing covered by the Volcker Rule, the Volcker Rule does not currently have any effect on our or our bank subsidiary s operations.

Privacy. Under the Gramm-Leach-Bliley Act, financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third parties except under narrow circumstances, such as the processing of transactions requested by the consumer or when the financial institution is jointly sponsoring a product or service with a nonaffiliated third party. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers. We and our subsidiary have established policies and procedures to assure our compliance with all privacy provisions of the Gramm-Leach-Bliley Act.

We are also subject to various regulatory guidance as updated from time to time and implemented by the Federal Financial Institutions Examinations Council (the FFIEC), an interagency body of the FDIC, the OCC, the Federal

Reserve, the National Credit Union Administration and various state regulatory authorities. The FFIEC has provided guidance in areas such as data privacy, disaster recovery, information security, and third-party vendor management to identify potential risks related to our services that could adversely affect our customers. In addition, lawmakers, regulators and the public are increasingly focused on the use of personal information and efforts to strengthen data protection, information security and consumer and personal privacy. The law in these areas continues to develop, and we expect regulation in these areas to continue to increase.

Table of Contents

Anti-Terrorism and Anti-Money Laundering Legislation. Our bank subsidiary is subject to the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA PATRIOT Act), the Bank Secrecy Act (BSA) and rules and regulations of the Office of Foreign Assets Control (the OFAC). These statutes and related rules and regulations impose requirements and limitations on specific financial transactions and account relationships intended to guard against money laundering, terrorism financing and transactions with designated foreign countries, nationals and others on whom the United States has imposed economic sanctions. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required.

As part of our bank subsidiary s anti-money laundering (AML) program, we are required to designate a BSA officer, maintain a BSA/AML training program, maintain internal controls to effectuate the BSA/AML program, implement independent testing of the BSA/AML program, and as of February 1, 2019, comply with the Financial Crimes Enforcement Network s new Customer Due Diligence for Financial Institutions Rule (the CDD Rule). The CDD Rule adds a new requirement for our bank subsidiary to identify and verify the identity of natural persons (beneficial owners) of legal entity customers who own, control and profit from companies when those companies open accounts. The CDD Rule requires covered financial institutions to establish and maintain written policies and procedures that are reasonably designed to (1) identify and verify the identity of customers; (2) identify and verify the identity of the beneficial owners of companies opening accounts; (3) understand the nature and purpose of customer relationships to develop customer risk profiles; and (4) conduct ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information. With respect to the new requirement to obtain beneficial ownership information, financial institutions will have to identify and verify the identity of any individuals who own 25 percent or more of a legal entity, and an individual who controls the legal entity.

Incentive Compensation. The Dodd-Frank Act requires the federal bank regulators and the Securities and Exchange Commission (the SEC) to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities having at least $1 billion in total assets that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements.

In June 2010, the Federal Reserve and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization s incentive compensation arrangements should (1) provide incentives that appropriately balance risk and financial results in a manner that does not encourage employees to expose their organizations to imprudent risk, (2) be compatible with effective internal controls and risk management and (3) be supported by strong corporate governance, including active and effective oversight by the organization s board of directors.

In May 2016, the Federal Reserve, other federal banking agencies and the SEC jointly published a revised version of proposed rulemaking initially issued in April 2011 designed to implement the provisions of the Dodd-Frank Act prohibiting incentive compensation arrangements that encourage inappropriate risk taking at a covered institution, which includes a bank or bank holding company with $1 billion or more of assets, such as the Company and our bank subsidiary. The proposed joint compensation regulations would require compensation practices consistent with the three principles discussed above. As of February 1, 2019, these regulations have not been finalized. Unless and until a final rule is adopted, we cannot fully determine whether compliance with such a rule will adversely affect the Company s or our bank subsidiary s ability to hire, retain and motivate our key employees.

The Federal Reserve Board reviews, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not large, complex banking organizations. These reviews are tailored to each organization based on the scope and complexity of the organization s activities and the prevalence of incentive compensation arrangements. The findings of this supervisory initiative will be included in reports of examination. Deficiencies will be incorporated into the organization s

Table of Contents

supervisory ratings, which can affect the organization s ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

Proposed Legislation and Regulatory Action

From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and the operating environment for us and our bank subsidiary in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

Effect of Governmental Monetary Polices

Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve Board s monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve Board affect the levels of bank loans, investments and deposits through its control over the issuance of United States government securities, its regulation of the discount rate applicable to banks and its influence over reserve requirements to which banks are subject. We cannot predict the nature or impact of future changes in monetary and fiscal policies.

AVAILABLE INFORMATION

We are subject to the information requirements of the Securities Exchange Act of 1934. Accordingly, we file annual, quarterly and current reports, proxy statements and other information with the SEC. In addition, we maintain a website at http://www.homebancshares.com. We make available on our website copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to such documents as soon as practicable after we electronically file such materials with or furnish such documents to the SEC.

Item 1A. RISK FACTORS

Our business exposes us to certain risks. Risks and uncertainties that management is not aware of or focused on may also adversely affect our business and operation. The following is a discussion of the most significant risks and uncertainties that may affect our business, financial condition and future results.

Risks Related to Our Industry

We are subject to extensive regulation that could limit or restrict our activities and impose financial requirements or limitations on the conduct of our business, and changes in the laws and regulations to which we are subject could adversely affect our profitability.

We and our bank subsidiary are subject to extensive federal and state regulation and supervision. As a registered bank holding company, we are primarily regulated by the Federal Reserve Board. Our bank subsidiary is also primarily regulated by the Federal Reserve Board and the Arkansas State Bank Department.

Table of Contents

Banking industry regulations are primarily intended to protect depositors funds, federal deposit insurance funds and the banking system as a whole, not security holders. Complying with such regulations is costly and may limit our growth and restrict certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits and locations of offices. We are also subject to capital requirements by our regulators. Violations of various laws, even if unintentional, may result in significant fines or other penalties, including restrictions on branching or bank acquisitions.

Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. The Dodd-Frank Act instituted major changes to the banking and financial institutions regulatory regimes in light of the performance of and government intervention in the financial services sector during the recession of the last decade. The act requires the issuance of a substantial number of new regulations by federal regulatory agencies which will affect financial institutions, some of which have yet to be issued or implemented.

While Congress and President Trump have recently enacted legislation designed to reduce certain regulatory burdens on community and regional financial institutions resulting from the Dodd-Frank Act, we cannot assure that future legislation will not significantly increase our compliance or operating costs or otherwise have a significant impact on our business. Certain provisions of the Dodd-Frank Act and regulations promulgated under the act may continue to be implemented, and there could be additional new federal or state laws, regulations and policies regarding lending and funding practices and liquidity standards. Additionally, financial institution regulatory agencies have intensified their response to concerns and trends identified in examinations, including through the issuance of formal enforcement actions. Negative developments in the financial services industry or other new legislation or regulations could adversely impact our operations and our financial performance by subjecting us to additional costs, restricting our business operations, including our ability to originate or sell loans, and/or increasing the ability of non-banks to offer competing financial services.

As regulation of the banking industry continues to evolve, we expect the costs of compliance to continue to increase and, thus, to affect our ability to operate profitably. In addition, industry, legislative or regulatory developments may cause us to materially change our existing strategic direction, capital strategies, compensation or operating plans. If these developments negatively impact our ability to implement our business strategies, it may have a material adverse effect on our results of operations and future prospects.

We are subject to heightened regulatory requirements as our total assets exceed $10 billion.

Because our total assets exceeded $10 billion for the first time during 2017, we and our bank subsidiary became subject to increased regulatory requirements in 2018. The Dodd-Frank Act and its implementing regulations impose various additional requirements on bank holding companies with $10 billion or more in total assets. In addition, banks with $10 billion or more in total assets are primarily examined by the CFPB with respect to various federal consumer financial protection laws and regulations. Previously, our bank subsidiary has been subject to regulations adopted by the CFPB, but the Federal Reserve was primarily responsible for examining our bank subsidiary s compliance with consumer protection laws and those CFPB regulations. As a relatively new agency with evolving regulations and practices, there is some uncertainty as to how the CFPB s examination and regulatory authority might impact our business. Further, the possibility of future changes in the authority of the CFPB by Congress or the Trump Administration is uncertain, and we cannot ascertain the impact, if any, changes to the CFPB may have on our business.

With respect to deposit-taking activities, banks with assets in excess of $10 billion are subject to two changes. First, these institutions are subject to a deposit assessment based on a new scorecard issued by the FDIC. This scorecard considers, among other things, the bank s CAMELS rating, results of asset-related stress testing and funding-related stress, as well as our use of core deposits, among other things. Depending on the results of the bank s performance under that scorecard, the total base assessment rate is between 1.5 to 40 basis points. Any increase in our bank subsidiary s deposit insurance assessments may result in an increased expense related to our use of deposits as a funding source. Additionally, banks with over $10 billion in total assets are no longer exempt from the requirements of the Federal Reserve s rules on interchange transaction fees for debit cards. This means that, as of July 1, 2018, our bank subsidiary is now limited to receiving only a reasonable interchange transaction fee for any debit card transactions processed using debit cards issued by our bank subsidiary to our customers. The Federal Reserve has determined that it is unreasonable for a bank with more than $10 billion in total assets to receive more than $0.21 plus 5 basis points of the transaction plus a $0.01 fraud adjustment for an interchange transaction fee for debit card transactions. This reduction in the amount of interchange fees we receive for electronic debit interchange will reduce our revenues. During the third and fourth quarters of 2018, we collected $6.6 million in debit card interchange fees, which was approximately $5.3 million lower from debit interchange fees of $11.9 million collected during the third and fourth quarter of 2017.

In anticipation of becoming subject to the heightened regulatory requirements, we hired additional compliance personnel and implemented structural initiatives to address these requirements. While some of these requirements, such as annual stress testing, were eliminated by the reforms enacted in May 2018, compliance with the remaining requirements may necessitate that we hire additional compliance or other personnel, design and implement additional internal controls, or incur other significant expenses, any of which could have a material adverse effect on our business, financial condition or results of operations. Our regulators may also consider our compliance with these regulatory requirements when examining our operations generally or considering any request for regulatory approval we may make, even requests for approvals on unrelated matters.

Difficult market and economic conditions may adversely affect our industry and our business.

The financial crisis and the resulting economic downturn in the latter years of the last decade had a significant adverse impact on the banking industry, and particularly community banks. Dramatic declines in the housing market, with falling home prices and increased delinquencies and foreclosures, negatively impacted the credit performance of mortgage and construction loans and resulted in significant write-downs of assets by many financial institutions. Reduced availability of commercial credit and sustained higher unemployment negatively impacted the credit performance of commercial and consumer credit, resulting in additional write-downs. As a result of these market conditions and the raising of credit standards, our industry experienced commercial and consumer deficiencies, low customer confidence, market volatility and generally sluggish business activity.

Although economic conditions nationally and locally in our market areas have improved in recent years and were generally strong during 2018, we cannot be certain that the recent favorable economic conditions will continue. Certain economic indicators, such as real estate asset values, rents and unemployment, may vary between geographic markets and may lag behind the overall economy. These economic indicators typically affect certain industries, such as real estate and financial services, more significantly than other economic sectors. If the positive movement in these economic indicators in our market areas subsides or conditions once again worsen, the adverse effects of an economic downturn on us, our customers and the other financial institutions in our market may result in increased foreclosures, delinquencies and customer bankruptcies as well as more restricted access to funds. Any such negative events may have an adverse effect on our business, financial condition, results of operations and stock price.

Table of Contents

Our FDIC insurance premiums and assessments could increase and result in higher noninterest expense.

Our bank subsidiary s deposits are insured by the FDIC up to legal limits, and accordingly, we are subject to FDIC deposit insurance assessments. As our bank subsidiary has exceeded $10 billion in assets, the method for calculating its FDIC assessments has changed and our FDIC assessments have increased as a result. See Item 1. Business Supervision and Regulation Deposit Insurance and Assessments. In addition, the FDIC increased the deposit insurance fund s target reserve ratio to 2.0% of insured deposits following the Dodd-Frank Act s elimination of the 1.5% cap on the insurance fund s reserve ratio and put in place a restoration plan to restore the deposit insurance fund to its 1.35% minimum reserve ratio mandated by the Dodd-Frank Act by September 30, 2020. In March 2016, the FDIC approved a final rule to meet this requirement by 2018. To meet the minimum reserve ratio by 2018, during the third calendar quarter of 2016 the FDIC began assessing banks with consolidated assets of more than $10.0 billion a surcharge assessment of 0.045%. The surcharge continued through October 1, 2018, when the reserve ratio first reached 1.35%.

We are generally unable to control the amount and timetable for payment of premiums that we are required to pay for FDIC insurance. There is no guarantee that our assessment rate will not increase in the future. Additionally, if there is another increase in bank or financial institution failures or there is a future need to further strengthen the DIF reserve ratio, the FDIC may further revise the assessment rates or the risk-based assessment system. Such changes may require us to pay higher FDIC premiums than our current levels, or the FDIC may charge additional special assessments, either of which would increase our noninterest expense.

Our profitability is vulnerable to interest rate fluctuations and monetary policy.

Most of our assets and liabilities are monetary in nature, and thus subject us to significant risks from changes in interest rates. Consequently, our results of operations can be significantly affected by changes in interest rates and our ability to manage interest rate risk. Changes in market interest rates, or changes in the relationships between short-term and long-term market interest rates, or changes in the relationship between different interest rate indices can affect the interest rates charged on interest-earning assets differently than the interest paid on interest-bearing liabilities. This difference could result in an increase in interest expense relative to interest income or a decrease in interest rate spread. In addition to affecting our profitability, changes in interest rates can impact the valuation of our assets and liabilities. Changes in interest rates can also affect our business and profitability in numerous other ways. For example, increases in interest rates can have a negative impact on our results of operations by reducing loan demand and the ability of borrowers to repay their current obligations, while decreases in interest rates may affect loan prepayments.

As of December 31, 2018, our one-year ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities was 102.4% and our cumulative repricing gap position was 1.2% of total earning assets, resulting in a limited impact on earnings for various interest rate change scenarios. Floating rate loans made up 48.3% of our $11.07 billion total loan portfolio. A loan is considered fixed rate if the loan is currently at its adjustable floor or ceiling. In addition, 56.0% of our loans receivable and 81.2% of our time deposits at December 31, 2018, were scheduled to reprice within 12 months and our other rate sensitive asset and rate sensitive liabilities composition is subject to change. As a result, our interest rate sensitivity profile was asset sensitive as of December 31, 2018, meaning that we estimate our net interest income would increase more from rising interest rates than from falling interest rates. Significant composition changes in our rate sensitive assets or liabilities could result in a more unbalanced position and interest rate changes would have more of an impact on our earnings.

30

Our results of operations are also affected by the monetary policies of the Federal Reserve Board. Actions by the Federal Reserve Board involving monetary policies could have an adverse effect on our deposit levels, loan demand or business and earnings.

Uncertainty relating to the LIBOR calculation process and potential phasing out of LIBOR may adversely affect our results of operations.

On July 27, 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit rates for the calibration of LIBOR to the administrator of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. It is impossible to predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere. At this time, no consensus exists as to what rate or rates may become acceptable alternatives to LIBOR and it is impossible to predict the effect of any such alternatives on the value of LIBOR-based securities and variable rate loans, subordinated debentures, or other securities or financial arrangements, given LIBOR s role in determining market interest rates globally. Uncertainty as to the nature of alternative reference rates and as to potential changes or other reforms to LIBOR may adversely affect LIBOR rates and the value of LIBOR-based loans and securities in our portfolio and may impact the availability and cost of hedging instruments and borrowings. If LIBOR rates are no longer available, and we are required to implement substitute indices for the calculation of interest rates under our loan agreements with our borrowers, we may incur significant expenses in effecting the transition, and may be subject to disputes or litigation with customers over the appropriateness or comparability to LIBOR of the substitute indices, which could have an adverse effect on our results of operations.

Risks Related to Our Business

Our decisions regarding credit risk could be inaccurate and our allowance for loan losses may be inadequate, which would materially and adversely affect us.

Management makes various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of our secured loans. We endeavor to maintain an allowance for loan losses that we consider adequate to absorb future losses that may occur in our loan portfolio. As of December 31, 2018, our allowance for loan losses was approximately $108.8 million, or 0.98% of our total loans. In determining the size of the allowance, we analyze our loan portfolio based on our historical loss experience, volume and classification of loans, volume and trends in delinquencies and non-accruals, national and local economic conditions, and other pertinent information.

If our assumptions are incorrect, our current allowance may be insufficient to absorb future loan losses, and increased loan loss reserves may be needed to respond to different economic conditions or adverse developments in our loan portfolio. When there is an economic downturn, it is more difficult for us to estimate the losses that we will experience in our loan portfolio. In addition, federal and state regulators periodically review our allowance for loan losses and may require us to increase our allowance for loan losses or recognize further loan charge-offs based on judgments different than those of our management. Any increase in our allowance for loan losses or loan charge-offs could have a negative effect on our operating results.

Our high concentration of real estate loans and especially commercial real estate loans exposes us to increased lending risk.

As of December 31, 2018, 81.0% of our total loan portfolio was comprised of loans with real estate as a primary or secondary component of collateral. This includes commercial real estate loans (excluding construction/land development) of $4.88 billion, or 44.1% of total loans, construction/land development loans of $1.55 billion, or 14.0% of total loans, and residential real estate loans of $2.54 billion, or 22.9% of total loans. This high concentration of real estate loans could subject us to increased credit risk in the event of a decrease in real estate values in our markets, a real estate recession or a natural disaster. Also, in any such event, our ability to recover on defaulted loans by foreclosing and selling real estate collateral would be diminished, and we would be more likely to suffer losses on defaulted loans.

In addition to the risks associated with the high concentration of real estate-secured loans, the commercial real estate and construction/land development loans, which comprised 58.1% of our total loan portfolio as of December 31, 2018, expose us to a greater risk of loss than our residential real estate loans, which comprised 22.9% of our total loan portfolio as of December 31, 2018. Commercial real estate and land development loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential loans. Consequently, an adverse development with respect to one commercial loan or one credit relationship exposes us to a significantly greater risk of loss compared to an adverse development with respect to one residential mortgage loan.

The repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the related real estate or commercial project. If the cash flows from the project are reduced, a borrower s ability to repay the loan may be impaired. This cash flow shortage may result in the failure to make loan payments. In such cases, we may be compelled to modify the terms of the loan, or in the most extreme cases, we may have to foreclose.

If a decline in economic conditions or other issues cause difficulties for our borrowers of these types of loans, if we fail to evaluate the credit of these loans accurately when we underwrite them or if we do not continue to adequately monitor the performance of these loans, our lending portfolio could experience delinquencies, defaults and credit losses that could have a material adverse effect on our business, financial condition or results of operations.

Table of Contents

Our geographic concentration of banking activities and loan portfolio makes us more vulnerable to adverse conditions in our local markets.

Our bank subsidiary operates through branch locations in Arkansas, Florida, Alabama and New York City and loan production offices in Los Angeles, California, Chesapeake, Virginia and Dallas, Texas. However, approximately 88.9% of our total loans and 91.2% of our real estate loans as of December 31, 2018, are to borrowers whose collateral is located in Arkansas, Florida, Alabama and New York, the states in which the Company has its branch locations. An adverse development with respect to the market conditions of any of these specific market areas or a decrease in real estate values in those market areas could expose us to a greater risk of loss than a portfolio that is spread among a larger geographic base.

Depressed local economic and housing markets have led to loan losses and reduced earnings in the past and could lead to additional loan losses and reduced earnings.

During the latter years of the last decade, our Florida markets experienced a dramatic reduction in housing and real estate values, coupled with significantly higher unemployment. These conditions contributed to increased non-performing loans and reduced asset quality during this time period. While market conditions in our Florida markets have improved in recent years leading to resulting improvements in our non-performing loans and asset quality, any similar future economic downturn or deterioration in real estate values could cause us to incur additional losses relating to increased non-performing loans. We do not record interest income on non-accrual loans or other real estate owned, thereby adversely affecting our income and our loan administration costs. When we take collateral in foreclosures and similar proceedings, we are required to mark the related loan to the then-fair market value of the collateral, which may result in a loss. These loans and other real estate owned also increase our risk profile and the capital our regulators believe is appropriate in light of such risks. In addition, the resolution of non-performing assets requires significant commitments of time from management and our directors, which can be detrimental to the performance of their other responsibilities. These factors, individually or in the aggregate, could have an adverse effect on our financial condition and results of operations.

Additionally, our success significantly depends upon the growth in population, income levels, deposits and housing starts in our markets. If the communities in which we operate do not grow or if prevailing economic conditions deteriorate locally or nationally, our business may be adversely affected. We are less able than a larger institution to spread the risks of unfavorable local economic conditions across a large number of diversified economies. Moreover, we cannot give any assurance we will benefit from any market growth or favorable economic conditions in our primary market areas if they do occur.

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

As of December 31, 2018, loans in the Florida market totaled $5.15 billion, or 46.5% of our loans receivable. Of the Florida loans, approximately 88.6% were secured by real estate. In prior years, the difficult local economic conditions have adversely affected the values of our real estate collateral in Florida, and they could do so again if the markets were to once again deteriorate in the future. The real estate collateral in each case provides an alternate source of repayment on our loans in the event of default by the borrower but may deteriorate in value during the time credit is extended. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected.

Because we have a concentration of exposure to a number of individual borrowers, a significant loss on any of those loans could materially and adversely affect us.

We have a concentration of exposure to a number of individual borrowers. Under applicable law, our bank subsidiary is generally permitted to make loans to one borrowing relationship up to 20% of its Tier 1 capital plus the allowance for loan losses. As of December 31, 2018, the legal lending limit of our bank subsidiary for secured loans was approximately $352.7 million. Our board of directors has established an in-house lending limit of $20.0 million to any one borrowing relationship without obtaining the approval of both our Chairman, John W. Allison, and our director Richard H. Ashley. As of December 31, 2018, we had a total of $4.35 billion, or 39.3% of our total loans, committed to the aggregate group of borrowers whose total debt exceeds the established in-house lending limit of $20.0 million.

Our cost of funds may increase as a result of general economic conditions, interest rates and competitive pressures.

Our cost of funds may increase as a result of general economic conditions, interest rates and competitive pressures. We have traditionally obtained funds principally through local deposits, and we have a base of lower cost transaction deposits. Generally, we believe local deposits are a more stable source of funds than other borrowings because interest rates paid for local deposits are typically lower than interest rates charged for borrowings from other institutional lenders. In addition, local deposits reflect a mix of transaction and time deposits, whereas brokered deposits typically are less stable time deposits, which may need to be replaced with higher cost funds. Our costs of funds and our profitability and liquidity are likely to be adversely affected if and to the extent we must rely upon higher cost borrowings from other institutional lenders or brokers to fund loan demand or liquidity needs, and changes in our deposit mix and growth could adversely affect our profitability and the ability to expand our loan portfolio.

The loss of key officers may materially and adversely affect us.

Our success depends significantly on our Chairman, John W. Allison, and our executive officers, especially C. Randall Sims, Brian S. Davis, J. Stephen Tipton and Kevin D. Hester plus Centennial Bank Chief Executive Officer and President, Tracy M. French, and our regional Centennial Bank presidents. Centennial Bank, in particular, relies heavily on its management team s relationships in its local communities to generate business. The loss of services from a member of our current management team may materially and adversely affect our business, financial condition, results of operations and future prospects.

The value of securities in our investment portfolio may decline in the future.

As of December 31, 2018, we owned $1.98 billion of investment securities. The fair value of our investment securities may be adversely affected by market conditions, including changes in interest rates, and the occurrence of any events adversely affecting the issuer of particular securities in our investments portfolio. We analyze our securities on a quarterly basis to determine if an other-than-temporary impairment has occurred. The process for determining whether impairment is other-than-temporary usually requires complex, subjective judgments about the future financial performance of the issuer in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting issuers, we may be required to recognize other-than-temporary impairment in future periods, which could have a material adverse effect on our business, financial condition or results of operations.

Our recent results do not indicate our future results and may not provide guidance to assess the risk of an investment in our common stock.

We are unlikely to sustain our historical rate of growth and may not even be able to expand our business at all. Further, our recent growth may distort some of our historical financial ratios and statistics. Various factors, such as economic conditions, regulatory and legislative considerations and competition, may also impede or prohibit our ability to expand our market presence. If we are not able to successfully grow our business, our financial condition and results of operations could be adversely affected.

We may not be able to raise the additional capital we need to grow and, as a result, our ability to expand our operations could be materially impaired.

Federal and state regulatory authorities require us and our bank subsidiary to maintain adequate levels of capital to support our operations. While we believe that our existing capital (which well exceeds the federal and state capital requirements) will be sufficient to support our current operations, anticipated expansion and potential acquisitions, factors such as faster than anticipated growth, reduced earnings levels, operating losses, changes in economic conditions, revisions in regulatory requirements, or additional acquisition opportunities may lead us to seek additional capital.

Our ability to raise additional capital, if needed, will depend on our financial performance and on conditions in the capital markets at that time, which are outside our control. If we need additional capital but cannot raise it on terms acceptable to us, our ability to expand our operations could be materially impaired, our business, financial condition, results of operations and prospects may be adversely affected, and our stock price may decline.

Table of Contents

Our growth and expansion strategy may not be successful, and our market value and profitability may suffer.

Growth through the acquisition of banks, including FDIC-assisted transactions, and *de novo* branching represent important components of our business strategy. Acquisitions are subject to regulatory approval, and we cannot assure that we will be able to obtain approval for a proposed acquisition in a timely manner or at all. Any future acquisitions we might make will also be accompanied by other risks commonly encountered in acquisitions. These risks include, among other things:

- credit risk associated with the acquired bank s loans and investments;
- the use of inaccurate estimates and judgments to evaluate credit, operations, management and market risks with respect to the target institution or assets;
- the potential exposure to unknown or contingent liabilities related to the acquisition;
- the time and expense required to integrate an acquisition;
- the effectiveness of integrating operations, personnel and customers;
- risks of impairment to goodwill or other than temporary impairment; and
- potential disruption of our ongoing business.

We expect that competition for suitable acquisition candidates may be significant. We may compete with other banks or financial service companies with similar acquisition strategies, many of which are larger and have greater financial and other resources. We cannot assure you that we will be able to successfully identify and acquire suitable acquisition targets on acceptable terms and conditions.

We may continue to have opportunities from time to time to acquire the assets and liabilities of failed banks in FDIC-assisted transactions. These acquisitions involve risks similar to acquiring existing banks even though the FDIC might provide assistance to mitigate certain risks such as sharing in exposure to loan losses and providing indemnification against certain liabilities of the failed institution. However, because these acquisitions are structured in a manner that would not allow us the time normally associated with preparing for integration of an acquired institution, we may face additional risks in FDIC-assisted transactions. These risks include, among other things, the loss of customers, strain on management resources related to collection and management of problem loans and problems related to integration of personnel and operating systems.

In addition to the acquisition of existing financial institutions, as opportunities arise, we may grow through *de novo* branching. *De novo* branching, and any acquisition carry with them numerous risks, including the following:

the inability to obtain all required regulatory approvals;

the significant upfront costs and anticipated operating losses associated with establishing a *de novo* branch or a new bank;

the inability to secure the services of qualified senior management;

the local market receptivity for branches established or banks acquired outside of those markets in which we currently maintain a material presence;

the local economic conditions within the market to be served by the *de novo* branch or new bank;

the inability to obtain attractive locations within a new market at a reasonable cost; and

the additional strain on management resources and internal systems and controls.

Table of Contents

We cannot assure that we will be successful in overcoming these risks or any other problems encountered in connection with acquisitions (including FDIC-assisted transactions) and *de novo* branching. Our inability to overcome these risks could have an adverse effect on our ability to achieve our business strategy and maintain our market value and profitability.

If we acquire additional banks in the future, there may be undiscovered risks or losses associated with such acquisitions which would have a negative impact upon our future income.

Our growth strategy includes strategic acquisitions of banks. We have acquired 22 banks since we started our first subsidiary bank in 1999, including a total of 17 banks since 2010. We will continue to consider future strategic acquisitions, with a primary focus on Arkansas, Florida, South Alabama and other nearby markets. In most cases, our acquisition of a bank includes the acquisition of all or a substantial portion of the target bank s assets and liabilities, including all or a substantial portion of its loan portfolio. There may be instances when we, under our normal operating procedures, may find after the acquisition that there may be additional losses or undisclosed liabilities with respect to the assets and liabilities of the target bank, and, with respect to its loan portfolio, that the ability of a borrower to repay a loan may have become impaired, the quality of the value of the collateral securing a loan may fall below our standards, or our determination of the fair value of any such loan may be inadequate. One or more of these factors might cause us to have additional losses or liabilities, additional loan charge-offs, or increases in allowances for loan losses, which would have a negative impact upon our financial condition and results of operations.

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

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

If the goodwill that we record in connection with a business acquisition becomes impaired, it could require charges to earnings.

When we acquire a business, a portion of the purchase price of the acquisition is generally allocated to goodwill and other identifiable intangible assets. The amount of the purchase price that is allocated to goodwill and other intangible assets is determined by the excess of the purchase price over the net identifiable assets acquired. At December 31, 2018, our goodwill and other identifiable intangible assets were $1.00 billion. Under current accounting standards, if we determine goodwill or intangible assets are impaired because, for example, the acquired business does not meet projected revenue targets or certain key employees leave, we are required to write down the carrying value of these assets. We conduct a review at least annually to determine whether goodwill is impaired. Our annual goodwill impairment evaluation performed during the fourth quarter of 2018 indicated no impairment of goodwill for our reporting segments. We cannot provide assurance, however, that we will not be required to take an impairment charge in the future. Any impairment charge would have an adverse effect on our shareholders equity and financial results and could cause a decline in our stock price.

Any future acquisitions may cause us to modify our disclosure controls and procedures, which may not result in the material information that we are required to disclose in our SEC reports being recorded, processed, summarized, and reported timely.

Our management is responsible for establishing and maintaining effective disclosure controls and procedures that are designed to cause the material information that we are required to disclose in reports that we file or submit under the Exchange Act to be recorded, processed, summarized, and reported to the extent applicable within the time periods required by the SEC s rules and forms. As a result of an acquisition, we may implement changes to processes,

36

information technology systems and other components of internal control over financial reporting as part of our integration activities. Notwithstanding any changes to our disclosure controls and procedures resulting from our evaluation of the same after the acquisition, our control systems, no matter how well designed and operated, may not result in the material information that we are required to disclose in our SEC reports being recorded, processed, summarized, and reported within required time periods. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. If, as a result of an acquisition or otherwise, we are unable to achieve and maintain effective disclosure controls and procedures and internal control over financial reporting, investors and customers may lose confidence in the accuracy and completeness of our financial reports, we may suffer adverse regulatory consequences or violate listing standards, and the market price of our common stock could decline.

Competition from other financial institutions and financial service providers may adversely affect our profitability.

We face substantial competition in all phases of our operations from a variety of different competitors. We experience strong competition, not only from commercial banks, savings and loan associations and credit unions, but also from mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds and other financial services providers operating in or near our market areas. We compete with these institutions both in attracting deposits and in making loans.

Many of our competitors are much larger national and regional financial institutions. We may face a competitive disadvantage against them as a result of our smaller size and resources and our lack of geographic diversification. Due to their size, larger competitors can achieve economies of scale and may offer a broader range of products and services or more attractive pricing than us. If we are unable to offer competitive products and services, our business may be negatively affected. Many of our competitors are not subject to the same degree of regulation that we are as an FDIC-insured institution, which gives them greater operating flexibility and reduces their expenses relative to ours. As a result, these non-bank competitors have certain advantages over us in accessing funding and in providing various services.

We also compete against community banks that have strong local ties. These smaller institutions are likely to cater to the same small and mid-sized businesses that we target and to use a relationship-based approach similar to ours. In addition, our competitors may seek to gain market share by pricing below the current market rates for loans and paying higher rates for deposits. The banking business in our primary market areas is very competitive, and the level of competition facing us may increase further, which may limit our asset growth and financial results.

We continually encounter technological change, and we may have fewer resources than many of our competitors to continue to invest in technological improvements and innovations.

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services, including innovative ways that customers can make payments or manage their accounts, such as through the use of digital wallets or digital currencies. In addition to better serving customers, effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our clients, which may adversely affect our results of operations and future prospects.

A failure in or breach of our operational or security systems, or those of our third-party service providers, including as a result of cyber-attacks, could disrupt our business, result in unintentional disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.

As a financial institution, our operations rely heavily on the secure processing, storage and transmission of confidential and other information on our computer systems and networks. Any failure, interruption or breach in security or operational integrity of these systems could result in failures or disruptions in our online banking system, customer relationship management, general ledger, deposit and loan servicing and other systems. The security and integrity of our systems could be threatened by a variety of interruptions or information security breaches, including those caused by computer hacking, cyber-attacks, electronic fraudulent activity or attempted theft of financial assets. We cannot assure you that any such failures, interruption or security breaches will not occur, or if they do occur that they will be adequately addressed. While we have certain protective policies and procedures in place, the nature and sophistication of the threats continue to evolve. We may be required to expend significant additional resources in the future to modify and enhance our protective measures.

Additionally, we face the risk of operational disruption, failure, termination or capacity constraints of any of the third parties that facilitate our business activities, including exchanges, clearing agents, clearing houses or other financial intermediaries. Such parties could also be the source of an attack on, or breach of, our operational systems. Any failures, interruptions or security breaches in our information systems could damage our reputation, result in a loss of customer business, result in a violation of privacy or other laws, or expose us to civil litigation, regulatory fines or losses not covered by insurance.

The total impact of Hurricane Michael on our financial condition and results of operations may not be known for some time and may negatively impact our future earnings.

Hurricane Michael caused significant property damage in our Florida Panhandle market areas, and resulted in widespread disruptions in power, transportation and the local economies of these areas, as well as less extensive damage in other parts of the state of Florida. A substantial amount of our loans are secured by real estate located in the market areas affected by this powerful storm. On most collateral dependent loans, our exposure is limited due to the existence of flood and property insurance. We monitor our borrower s insurance coverage on a regular basis and force place insurance, as necessary.

We are continuing to evaluate Hurricane Michael s impact on our customers and our business, including our properties, assets and loan portfolios. However, we expect to continue to experience increased loan delinquencies and loan restructurings as a result of the storm as customers continue recovery and clean-up efforts. Based on our initial assessments of the potential credit impact and damage, management performed an analysis on the loans with collateral in the impacted counties in the Florida Panhandle and determined a $20.4 million storm-related provision was necessary. This was charged against a portion of the remaining balance of $33.4 million accrual we recorded in 2017 for anticipated losses due to Hurricane Irma. In addition, in order to assist our customers during this crisis, we offered customers located in the disaster area a 90-day deferment on outstanding loans. During the fourth quarter of 2018, customers with loan balances totaling approximately $63.3 million accepted the 90-day deferment. As of December 31, 2018, loan balances totaling approximately $63.3 million remained on the 90-day deferment.

Because the total impact of the storm may not be known for some time, it is impossible to know at this time whether our current accrual for hurricane-related expenses will be sufficient to cover our actual losses. We may experience more extensive loan delinquencies and restructurings than we currently expect, which could negatively impact our cash flow and, if not timely cured, increase our non-performing assets and reduce our net interest income. Such increases could require us to further increase our provision for loan losses and result in higher loan charge-offs, either of which could have a material adverse impact on our results of operations and financial condition in future periods.

Future hurricanes or other adverse weather events could negatively affect our local economies or disrupt our operations, which would have an adverse effect on us.

As illustrated by the impact of Hurricanes Irma and Michael, our markets in Alabama and Florida, like other coastal areas, are susceptible to hurricanes and tropical storms. Such weather events can disrupt our operations, result in damage to our properties and negatively affect the local economies in which we operate. We cannot predict whether or to what extent damage that may be caused by future hurricanes or other weather events will affect our operations or the economies in our market areas, but such weather events could result in a decline in loan originations, a decline in the value or destruction of properties or other collateral securing our loans and an increase in the delinquencies, foreclosures and loan losses. Our business or results of operations may be adversely affected by these and other negative effects of hurricanes or other significant weather events.

We may incur environmental liabilities with respect to properties to which we take title.

A significant portion of our loan portfolio is secured by real property. In the course of our business, we may own or foreclose and take title to real estate and could become subject to environmental liabilities with respect to these properties. In addition, we acquire branches and real estate in connection with our acquisitions of banks. We may become responsible to a governmental agency or third parties for property damage, personal injury, investigation and clean-up costs incurred by those parties in connection with environmental contamination or may be required to investigate or clean-up hazardous or toxic substances, or chemical releases at a property. The costs associated with environmental investigation or remediation activities could be substantial. If we were to become subject to significant environmental liabilities, it could have a material adverse effect on our results of operations and financial condition.

Table of Contents

Our operations could be interrupted if certain external vendors on which we rely experience difficulty, terminate their services or fail to comply with banking laws and regulations.

We depend to a significant extent on relationships with third party service providers. Specifically, we utilize third-party core banking services and receive credit card and debit card services, branch capture services, Internet banking services and services complementary to our banking products from various third-party service providers. If these third-party service providers experience difficulties or terminate their services and we are unable to replace them with other service providers, our operations could be interrupted. It may be difficult for us to replace some of our third-party vendors, particularly vendors providing our core banking, credit card and debit card services, in a timely manner if they were unwilling or unable to provide us with these services in the future for any reason. If an interruption were to continue for a significant period of time, it could have a material adverse effect on our business, financial condition or results of operations. Even if we are able to replace them, it may be at higher cost to us, which could have a material adverse effect on our business, financial condition or results of operations. In addition, if a third-party provider fails to provide the services we require, fails to meet contractual requirements, such as compliance with applicable laws and regulations, or suffers a cyber-attack or other security breach, our business could suffer economic and reputational harm that could have a material adverse effect on our business, financial condition or results of operations.

Our earnings could be adversely impacted by incidences of fraud and compliance failure.

Financial institutions are inherently exposed to fraud risk. A fraud can be perpetrated by a customer of our bank subsidiary, an employee, a vendor, or members of the general public. We are most subject to fraud and compliance risk in connection with the origination of loans, ACH transactions, wire transactions, ATM transactions, and checking transactions. Our largest fraud risk, associated with the origination of loans, includes the intentional misstatement of information in property appraisals or other underwriting documentation provided to us by third parties. Compliance risk is the risk that loans are not originated in compliance with applicable laws and regulations and our standards. There can be no assurance that we can prevent or detect acts of fraud or violation of law or our compliance standards by the third parties that we deal with. Repeated incidences of fraud or compliance failures would adversely impact the performance of our loan portfolio.

Our banking relationships with the Cuban government and Banco Internacional de Comercia, S.A. (BICSA) may increase our compliance risk and compliance costs.

U.S. persons, including U.S. banks, are restricted in their ability to establish relationships and engage in transactions with Cuba and Cuban persons pursuant to the existing U.S. embargo and the Cuban Assets Control Regulations. However, as a result of our acquisition of Stonegate Bank in 2017, we maintain a customer relationship to handle the accounts for Cuba s diplomatic missions at the United Nations and for the Cuban Interests Section (now the Cuban Embassy) in Washington, D.C. This relationship was established in May 2015 pursuant to a special license granted to Stonegate Bank by the U.S. Treasury Department s Office of Foreign Assets Control (OFAC) in connection with the reestablishment of diplomatic relations between the U.S. and Cuba. In July 2015, Stonegate Bank established a correspondent banking relationship with Banco Internacional de Comercio, S.A. (BICSA) in Havana, Cuba.

Cross-border correspondent banking relationships pose unique risks because they create situations in which a U.S. financial institution will be handling funds from a foreign financial institution whose customers may not be transparent to the U.S. financial institution. Moreover, Cuban financial institutions are not subject to the same or similar regulatory guidelines as U.S. banks; therefore, these foreign institutions may pose a higher money laundering risk to their respective U.S. bank correspondent(s). Investigations have determined that, in the past, foreign correspondent accounts have been used by drug traffickers and other criminal elements to launder funds. Shell companies are sometimes used in the layering process to hide the true ownership of accounts at foreign correspondent financial institutions. Because of the large amount of funds, multiple transactions, and the U.S. bank s potential lack of familiarity with a foreign correspondent financial institution s customer, criminals and terrorists can more easily conceal the source and use of illicit funds. Consequently, we may have a higher risk of noncompliance with the Bank Secrecy Act and Anti-Money Laundering (BSA/AML) rules due to our correspondent banking relationship with BICSA and will likely need to more closely monitor transactions related to correspondent accounts in Cuba, potentially resulting in increased compliance costs. Our failure to strictly adhere to the terms and requirements of our OFAC license or our failure to adequately manage our BSA/AML compliance risk in light of our correspondent banking relationship with BICSA could result in regulatory or other actions being taken against us, which could significantly increase our compliance costs and materially and adversely affect our results of operations.

Risks Related to Owning Our Stock

The rights of our common shareholders are subordinate to the holders of any debt securities that we may issue from time to time and may be subordinate to the holders of any series of preferred stock that may issue in the future.

On April 3, 2017, we issued $300.0 million of 5.625% fixed-to-floating rate subordinated notes, which mature in 2027. Because these subordinated notes are senior to our shares of common stock, in the event of our bankruptcy, dissolution or liquidation, the holders of the subordinated notes must be satisfied before any distributions can be made to the holders of our common stock.

As of December 31, 2018, we also have $73.3 million of outstanding subordinated debentures issued in connection with trust preferred securities. Payments of the principal and interest on the trust preferred securities are unconditionally guaranteed by us. The subordinated debentures are senior to our shares of common stock. As a result, we must make payments on the subordinated debentures (and the related trust preferred securities) before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the debentures must be satisfied before any distributions can be made to the holders of our common stock. We have the right to defer distributions on the subordinated debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid to holders of our capital stock. If we elect to defer or if we default with respect to our obligations to make payments on these subordinated debentures, this would likely have a material adverse effect on the market value of our common stock.

Our board of directors has the authority to issue in the aggregate up to 5,500,000 shares of preferred stock, and to incur senior or subordinated indebtedness, generally without shareholder approval. Our preferred stock could be issued with voting, liquidation, dividend and other rights that may be superior to the rights of our common stock. In addition, like our outstanding subordinated debentures, any future indebtedness that we incur would be expected to be senior to our common stock with respect to payment upon liquidation, dissolution or winding up. Accordingly, common shareholders bear the risk that our future issuances of debt or equity securities or our incurrence of other borrowings will negatively affect the market price of our common stock.

We may be unable to, or choose not to, pay dividends on our common stock.

Although we have paid a quarterly dividend on our common stock since 2003 and expect to continue this practice, we cannot assure you of our ability to continue. Our ability to pay dividends depends on the following factors, among others:

- We may not have sufficient earnings since our primary source of income, the payment of dividends to us by our bank subsidiary, is subject to federal and state laws that limit the ability of that bank to pay dividends.

- Federal Reserve Board policy requires bank holding companies to pay cash dividends on common stock only out of net income available over the past year and only if prospective earnings retention is consistent with the organization s expected future needs and financial condition.

- Before dividends may be paid on our common stock in any year, payments must be made on our subordinated debentures.

- Our board of directors may determine that, even though funds are available for dividend payments, retaining the funds for internal uses, such as expansion of our operations, is a better strategy.

If we fail to pay dividends, capital appreciation, if any, of our common stock may be the sole opportunity for gains on an investment in our common stock. In addition, in the event our bank subsidiary becomes unable, due to regulatory restrictions, capital planning needs or otherwise, to pay dividends to us, we may not be able to service our debt, pay our other obligations or pay dividends on our common stock. Accordingly, our inability to receive dividends from our bank subsidiary could also have a material adverse effect on our business, financial condition and results of operations and the value of your investment in our common stock.

Our stock trading volume may not provide adequate liquidity for investors.

Although shares of our common stock are listed for trading on the NASDAQ Global Select Market, the average daily trading volume in the common stock is less than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of a sufficient number of willing buyers and sellers of the common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the daily average trading volume of our common stock, significant sales of the common stock in a brief period of time, or the expectation of these sales, could cause a decline in the price of our common stock.

Item 1B. UNRESOLVED STAFF COMMENTS

There are currently no unresolved Commission staff comments received by the Company more than 180 days prior to the end of the fiscal year covered by this annual report.

Item 2. PROPERTIES

The Company s main office is located in a Company-owned 33,000 square foot building located at 719 Harkrider Street in downtown Conway, Arkansas. As of December 31, 2018, our bank subsidiary owned or leased a total of 78 branches located in Arkansas, 76 branches in Florida, five branches in South Alabama and one branch in New York City. The Company also owns or leases other buildings that provide space for operations, mortgage lending and other general purposes. We believe that our banking and other offices are in good condition and are suitable to our needs.

Table of Contents

Item 3. LEGAL PROCEEDINGS

While we and our bank subsidiary and other affiliates are from time to time parties to various legal proceedings arising in the ordinary course of their business, management believes, after consultation with legal counsel, that there are no proceedings threatened or pending against us or our bank subsidiary or other affiliates that will, individually or in the aggregate, have a material adverse effect on our business or consolidated financial condition.

Item 4. MINE SAFETY DISCLOSURE

Not applicable.

Table of Contents

PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the NASDAQ Global Select Market under the symbol HOMB. As of February 21, 2019, there were approximately 1,456 stockholders of record of the Company s common stock.

Our policy is to declare regular quarterly dividends based upon our earnings, financial position, capital improvements and such other factors deemed relevant by the Board of Directors. The dividend policy is subject to change, however, and the payment of dividends is not necessarily dependent upon the availability of earnings and future financial condition. Information regarding regulatory restrictions on our ability to pay dividends is discussed in Supervision and Regulation Payment of Dividends.

In connection with the Company s acquisition of SPF, on June 30, 2018, the Company issued 1,250,000 shares of the Company s common stock to Union Bank & Trust (Union) in partial consideration for the acquisition. The shares were issued to Union pursuant to Section 4(a)(2) of the Securities Act of 1933. There were no other unregistered sales of our securities during the period covered by this report.

Table of Contents

During the three months ended December 31, 2018, the Company utilized a portion of its stock repurchase program most recently amended and approved by the Board of Directors on February 21, 2018. Additionally, on January 18, 2019, the Board of Directors of the Company authorized the repurchase of up to an additional 5,000,000 shares of the Company s common stock under this repurchase program. The Company has received approval from the Federal Reserve Bank to repurchase up to $188.0 million of stock during the year ending December 31, 2019. The following table sets forth information with respect to purchases made by or on behalf of the Company of shares of the Company s common stock during the periods indicated:

Issuer Purchases of Equity Securities

Period	Number of Shares Purchased	Average Price Paid Per Share Purchased	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
October 1 through October 31, 2018	1,175,731	$ 19.59	1,175,731	7,188,005
November 1 through November 31, 2018	50,000	18.84	50,000	7,138,005
December 1 through December 31, 2018	2,218,558[(1)]	20.53	2,218,558[(1)]	4,919,447
Total	3,444,289		3,444,289	

(1) Includes the repurchase from Union of the 1,250,000 shares issued in connection with the SPF acquisition for $23.13 per share, the value at which the shares were issued on June 30, 2018.

Table of Contents

Performance Graph

Below is a graph which summarizes the cumulative return earned by the Company s stockholders since December 31, 2013, compared with the cumulative total return on the Russell 2000 Index and SNL Bank and Thrift Index. This presentation assumes that the value of the investment in the Company s common stock and each index was $100.00 on December 31, 2013 and that subsequent cash dividends were reinvested.

	Period Ending					
Index	**12/31/13**	**12/31/14**	**12/31/15**	**12/31/16**	**12/31/17**	**12/31/18**
Home BancShares, Inc.	100.00	87.08	111.33	155.03	131.96	94.66
Russell 2000 Index	100.00	104.89	100.26	121.63	139.44	124.09
SNL Bank and Thrift Index	100.00	111.63	113.89	143.78	169.07	140.45

Table of Contents

Item 6. SELECTED FINANCIAL DATA.

Summary Consolidated Financial Data

	As of or for the Years Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars and shares in thousands, except per share data)				
Income statement data:					
Total interest income	$ 685,368	$ 520,251	$ 436,537	$ 377,436	$ 335,888
Total interest expense	124,355	64,346	30,579	21,724	18,870
Net interest income	561,013	455,905	405,958	355,712	317,018
Provision for loan losses	4,322	44,250	18,608	25,164	22,664
Net interest income after provision for loan losses	556,691	411,655	387,350	330,548	294,354
Non-interest income	102,832	99,636	87,051	65,498	44,762
Non-interest expense	264,003	240,208	191,755	177,555	161,943
Income before income taxes	395,520	271,083	282,646	218,491	177,173
Income tax expense	95,117	136,000	105,500	80,292	64,110
Net income	$ 300,403	$ 135,083	$ 177,146	$ 138,199	$ 113,063
Per share data:					
Basic earnings per common share	$ 1.73	$ 0.90	$ 1.26	$ 1.01	$ 0.86
Diluted earnings per common share	1.73	0.89	1.26	1.01	0.85
Book value per common share	13.76	12.70	9.45	8.55	7.51
Tangible book value per common share (non-GAAP)[(1)(2)]	7.90	7.07	6.63	5.71	4.95
Dividends common	0.4600	0.4000	0.3425	0.275	0.175
Average common shares outstanding	173,657	150,806	140,418	136,615	131,902
Average diluted shares outstanding	174,124	151,528	140,713	137,130	132,662
Performance ratios:					
Return on average assets	2.06%	1.17%	1.85%	1.68%	1.63%
Return on average assets excluding intangible amortization (non-GAAP)[(3)]	2.25	1.26	1.95	1.79	1.75
Return on average common equity	13.17	8.23	14.08	12.77	12.34
Return on average tangible common equity excluding intangible amortization (non-GAAP)[(1)(4)]	23.62	12.92	20.82	19.37	19.80
Net interest margin[(5)]	4.42	4.51	4.81	4.98	5.37
Efficiency ratio	38.48	41.89	37.65	40.44	42.67
Efficiency ratio, as adjusted (non-GAAP)[(6)]	37.67	37.66	36.55	39.48	41.23
Asset quality:					

Non-performing assets to total assets	0.51%	0.44%	0.81%	0.89%	1.18%
Non-performing loans to total loans	0.58	0.43	0.85	0.96	1.23
Allowance for loan losses to non-performing loans	169.35	246.70	126.74	109.00	88.65
Allowance for loans losses to total loans	0.98	1.07	1.08	1.04	1.09
Net charge-offs to average total loans	0.05	0.17	0.11	0.22	0.22

Table of Contents

Summary Consolidated Financial Data Continued

	As of or for the Years Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars and shares in thousands, except per share data)				
Balance sheet data (period end):					
Total assets	$ 15,302,438	$ 14,449,760	$ 9,808,465	$ 9,289,122	$ 7,403,272
Investment securities available-for-sale	1,785,862	1,663,517	1,072,920	1,206,580	1,067,287
Investment securities held-to-maturity	192,776	224,756	284,176	309,042	356,790
Loans receivable	11,071,879	10,331,188	7,387,699	6,641,571	5,057,502
Allowance for loan losses	108,791	110,266	80,002	69,224	55,011
Intangible assets	1,001,304	977,300	396,294	399,426	346,348
Non-interest-bearing deposits	2,401,232	2,385,252	1,695,184	1,456,624	1,203,306
Total deposits	10,899,778	10,388,502	6,942,427	6,438,509	5,423,971
Subordinated debentures (trust preferred securities)	368,790	368,031	60,826	60,826	60,826
Stockholders equity	2,349,886	2,204,291	1,327,490	1,199,757	1,015,292
Capital ratios:					
Common equity to assets	15.36%	15.25%	13.53%	12.92%	13.71%
Tangible common equity to tangible assets (non-GAAP)[(1)(7)]	9.43	9.11	9.89	9.00	9.48
Common equity Tier 1 capital	11.34	10.86	11.30	10.50	
Tier 1 leverage ratio[(8)]	10.36	9.98	10.63	9.91	10.31
Tier 1 risk-based capital ratio	11.93	11.48	12.01	11.26	12.55
Total risk-based capital ratio	15.31	15.05	12.97	12.16	13.51
Dividend payout common	26.59	44.69	27.15	27.19	20.49

(1) Tangible calculations eliminate the effect of goodwill and acquisition-related intangible assets and the corresponding amortization expense on a tax-effected basis.
(2) See Management s Discussion and Analysis of Financial Condition and Results of Operations Table 25, for the non-GAAP tabular reconciliation.
(3) See Management s Discussion and Analysis of Financial Condition and Results of Operations Table 26, for the non-GAAP tabular reconciliation.
(4) See Management s Discussion and Analysis of Financial Condition and Results of Operations Table 27, for the non-GAAP tabular reconciliation.
(5) Fully taxable equivalent (assuming an income tax rate of 39.225% for 2014-2017 and 26.135% for 2018).
(6) See Management s Discussion and Analysis of Financial Condition and Results of Operations Table 29, for the non-GAAP tabular reconciliation.
(7) See Management s Discussion and Analysis of Financial Condition and Results of Operations Table 28, for the non-GAAP tabular reconciliation.
(8) Leverage ratio is Tier 1 capital to quarterly average total assets less intangible assets and gross unrealized gains/losses on available-for-sale investment securities.

46

Table of Contents

Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis presents our consolidated financial condition and results of operations for the years ended December 31, 2018, 2017 and 2016. This discussion should be read together with the Summary Consolidated Financial Data, our consolidated financial statements and the notes thereto, and other financial data included in this document. In addition to the historical information provided below, we have made certain estimates and forward-looking statements that involve risks and uncertainties. Our actual results could differ significantly from those anticipated in these estimates and in the forward-looking statements as a result of certain factors, including those discussed in the section of this document captioned Risk Factors, and elsewhere in this document. Unless the context requires otherwise, the terms Company , HBI , us , we and our refer to Home BancShares, Inc. on a consolidated b

General

We are a bank holding company headquartered in Conway, Arkansas, offering a broad array of financial services through our wholly owned bank subsidiary, Centennial Bank (Centennial). As of December 31, 2018, we had, on a consolidated basis, total assets of $15.30 billion, loans receivable, net of $10.96 billion, total deposits of $10.90 billion, and stockholders equity of $2.35 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 net interest margin, return on average assets and return on average common equity. We also measure our performance by our efficiency ratio and efficiency ratio, as adjusted (non-GAAP). The efficiency ratio is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income. The efficiency ratio, as adjusted, is a meaningful non-GAAP measure for management, as it excludes certain items and is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income excluding certain items such as merger expenses, hurricane expenses and/or gains and losses.

Table 1: Key Financial Measures

	As of or for the Years Ended December 31,		
	2018	2017	2016
	(Dollars in thousands, except per share data)		
Total assets	$ 15,302,438	$ 14,449,760	$ 9,808,465
Loans receivable	11,071,879	10,331,188	7,387,699
Allowance for loan losses	108,791	110,266	80,002
Total deposits	10,899,778	10,388,502	6,942,427
Total stockholders equity	2,349,886	2,204,291	1,327,490
Net income	300,403	135,083	177,146
Basic earnings per share	1.73	0.90	1.26
Diluted earnings per share	1.73	0.89	1.26
Book value per share	13.76	12.70	9.45
Tangible book value per share (non-GAAP)(1)	7.90	7.07	6.63

Net interest margin	4.42%	4.51%	4.81%
Efficiency ratio	38.48	41.89	37.65
Efficiency ratio, as adjusted (non-GAAP)(2)	37.67	37.66	36.55
Return on average assets	2.06	1.17	1.85
Return on average common equity	13.17	8.23	14.08

(1) See table 25 for the non-GAAP tabular reconciliation.
(2) See table 29 for the non-GAAP tabular reconciliation.

Table of Contents

2018 Overview

Our net income increased $165.3 million, or 122.4%, to $300.4 million for the year ended December 31, 2018, from $135.1 million for the same period in 2017. On a diluted earnings per share basis, our earnings were $1.73 per share and $0.89 per share for the years ended December 31, 2018 and 2017, respectively, representing an increase of $0.84 per share or 94.4% for the year ended 2018 when compared to the previous year. Excluding the $470,000 of hurricane expense and the $6.0 million of merger expenses, 2018 annual after-tax earnings, as adjusted (non-GAAP), were $305.2 million, an increase of $100.4 million, or 49.0%, from 2017 annual after-tax earnings, as adjusted (non-GAAP), of $204.8 million (See Table 24 for the non-GAAP tabular reconciliation). The $100.4 million increase in earnings, as adjusted, includes $49.5 million from tax savings of the Tax Cuts and Jobs Act (TCJA). The remaining $50.9 million increase in net income is primarily associated with additional net income from the 2017 acquisitions, increased profitability of Centennial CFG and the acquisition of Shore Premier Finance.

Our net interest margin decreased from 4.51% for the year ended December 31, 2017 to 4.42% for the year ended December 31, 2018. The yield on loans was 5.95% and 5.71% for the years ended December 31, 2018 and 2017, respectively, as average loans increased from $8.40 billion to $10.62 billion. The increase in average loan balances is primarily due to the acquisitions we completed during 2017. For the year ended December 31, 2018 and 2017, we recognized $41.5 million and $35.7 million, respectively, in total net accretion for acquired loans and deposits. The rate on interest-bearing deposits increased from 0.54% for the year ended December 31, 2017, to 0.99% for the year ended December 31, 2018, with average balances of $6.27 billion and $8.06 billion, respectively.

Our efficiency ratio was 38.48% for the year ended December 31, 2018, compared to 41.89% for the same period in 2017. For year ended 2018, our efficiency ratio, as adjusted (non-GAAP), was 37.67%, which was comparable to the 37.66% reported for the year ended 2017 (See Table 29 for the non-GAAP tabular reconciliation). Even though acquisitions tend to increase our efficiency ratio in the short term, we experienced cost savings from our Stonegate acquisition that were realized soon after conversion, which was completed on February 9, 2018.

Our return on average assets was 2.06% for the year ended December 31, 2018, compared to 1.17% for the same period in 2017. Our return on average assets, as adjusted (non-GAAP), was 2.10% for the year ended December 31, 2018, compared to 1.78% for the same period in 2017 (See Table 26 for the non-GAAP tabular reconciliation). Our return on average common equity was 13.17% for the year ended December 31, 2018, compared to 8.23% for the same period in 2017. Our return on average common equity, as adjusted (non-GAAP), was 13.38% for the year ended December 31, 2018, compared to 12.48% for the same period in 2017 (See Table 27 for the non-GAAP tabular reconciliation).

Our total assets as of December 31, 2018 increased $852.7 million to $15.30 billion from the $14.45 billion reported as of December 31, 2017. Our loan portfolio increased $740.7 million to $11.07 billion as of December 31, 2018, from $10.33 billion as of December 31, 2017. This increase is a result of $376.2 million in loans acquired in the Shore Premier Finance acquisition and $364.5 million in organic loan growth. Stockholders equity increased $145.6 million to $2.35 billion as of December 31, 2018, compared to $2.20 billion as of December 31, 2017. The increase in stockholders equity is primarily associated with the $221.5 million increase in retained earnings and the issuance of $28.2 million in stock as a part of the acquisition of Shore Premier Finance, offset by a $10.4 million change in accumulated other comprehensive income and the repurchase of $104.3 million of our common stock during 2018, which includes the repurchase of the shares issued as part of the acquisition of the Shore Premier Finance. The improvement in stockholders equity for 2018 was 6.6%.

As of December 31, 2018, our non-performing loans increased to $64.2 million, or 0.58%, of total loans from $44.7 million, or 0.43%, of total loans as of December 31, 2017. The allowance for loan losses as a percentage of non-performing loans decreased to 169.35% as of December 31, 2018, compared to 246.70% as of December 31, 2017. Non-performing loans from our Arkansas franchise were $17.4 million at December 31, 2018 compared to $15.5 million as of December 31, 2017. Non-performing loans from our Florida franchise were $43.3 million at December 31, 2018 compared to $28.2 million as of December 31, 2017. Non-performing loans from our Alabama franchise were $179,000 at December 31, 2018 compared to $929,000 as of December 31, 2017. Non-performing loans from our SPF franchise, which we acquired in 2018, were $3.4 million at December 31, 2018. There were no non-performing loans from our Centennial CFG franchise.

Table of Contents

As of December 31, 2018, our non-performing assets increased to $78.0 million, or 0.51%, of total assets from $63.6 million, or 0.44%, of total assets as of December 31, 2017. Non-performing assets from our Arkansas franchise were $24.0 million at December 31, 2018 compared to $25.6 million as of December 31, 2017. Non-performing assets from our Florida franchise were $50.2 million at December 31, 2018 compared to $36.4 million as of December 31, 2017. Non-performing assets from our Alabama franchise were $306,000 at December 31, 2018 compared to $1.6 million as of December 31, 2017. Non-performing assets from our SPF franchise were $3.4 million at December 31, 2018. There were no non-performing assets from our Centennial CFG franchise.

2017 Overview

Our net income decreased $42.0 million, or 23.7%, to $135.1 million for the year ended December 31, 2017, from $177.1 million for the same period in 2016. On a diluted earnings per share basis, our earnings were $0.89 per share and $1.26 per share for the years ended December 31, 2017 and 2016, respectively, representing a decrease of $0.37 per share or 29.37% for the year ended 2017 when compared to the previous year. Excluding the $36.9 million one-time TCJA charge, $33.4 million of hurricane expense, and $25.7 million of merger expenses associated with the 2017 acquisitions offset by $3.8 million of one-time non-taxable gain on acquisition, 2017 annual after-tax earnings excluding certain items were $204.8 million, an increase of $27.8 million, or 15.7%, from 2016 annual after-tax earnings excluding certain items of $177.0 million (See Table 24 for the non-GAAP tabular reconciliation). The $27.8 million increase in earnings excluding certain items is primarily associated with additional net interest income largely resulting from our acquisitions combined with $125.2 million of organic loan growth plus a decrease in the non-hurricane related provision for loan losses during 2017, growth in non-interest income and the reduced amortization of the indemnification asset when compared to the same period in 2016. These improvements were partially offset by an increase in the costs associated with the asset growth plus an increase in interest expense on deposits and an increase in interest expense related to the issuance of $300 million of subordinated notes during the second quarter of 2017 when compared to the same period in 2016.

Our net interest margin decreased from 4.81% for the year ended December 31, 2016 to 4.51% for the year ended December 31, 2017. For the year ended December 31, 2017 and 2016, we recognized $35.7 million and $42.3 million, respectively, in total net accretion for acquired loans and deposits. Other than the previously mentioned reduction in net accretion income for acquired loans and deposits, the net interest margin was negatively impacted by our April 2017 issuance of $300 million of 5.625% fixed-to-floating rate subordinated notes, which added approximately $13.1 million of interest expense when compared to the same period in 2016, and by our strategic decision to keep excess cash liquidity on the books during 2017.

Our efficiency ratio was 41.89% for the year ended December 31, 2017, compared to 37.65% for the same period in 2016. For year ended 2017, our efficiency ratio, as adjusted (non-GAAP), was 37.66% which increased from the 36.55% reported for the year ended 2016 (See Table 29 for the non-GAAP tabular reconciliation). The efficiency ratio, as adjusted (non-GAAP), is a non-GAAP measure and is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income excluding certain items such as merger expenses and/or gains and losses.

Our return on average assets was 1.17% for the year ended December 31, 2017, compared to 1.85% for the same period in 2016. Our return on average assets, as adjusted (non-GAAP), was 1.78% for the year ended December 31, 2017, compared to 1.85% for the same period in 2016 (See Table 26 for the non-GAAP tabular reconciliation). Our return on average common equity was 8.23% for the year ended December 31, 2017, compared to 14.08% for the same period in 2016. Our return on average common equity, as adjusted (non-GAAP), was 12.48% for the year ended December 31, 2017, compared to 14.07% for the same period in 2016 (See Table 27 for the non-GAAP tabular reconciliation).

49

Table of Contents

Our total assets as of December 31, 2017 increased $4.64 billion to $14.45 billion from the $9.81 billion reported as of December 31, 2016. Our loan portfolio increased $2.94 billion to $10.33 billion as of December 31, 2017, from $7.39 billion as of December 31, 2016. This increase is primarily a result of our acquisitions since December 31, 2016. Stockholders equity increased $876.8 million to $2.20 billion as of December 31, 2017, compared to $1.33 billion as of December 31, 2016. The increase in stockholders equity is primarily associated with the $77.5 million and $742.3 million of common stock issued to the GHI and Stonegate shareholders, respectively, plus the $74.7 million increase in retained earnings offset by $3.8 million of comprehensive loss and the repurchase of $20.8 million of our common stock during 2017. The improvement in stockholders equity for 2017, excluding the $77.5 million and $742.3 million of common stock issued to the GHI and Stonegate shareholders, respectively, was 4.3%.

As of December 31, 2017, our non-performing loans decreased to $44.7 million, or 0.43%, of total loans from $63.1 million, or 0.85%, of total loans as of December 31, 2016. The allowance for loan losses as a percentage of non-performing loans increased to 246.70% as of December 31, 2017, compared to 126.74% as of December 31, 2016. Non-performing loans from our Arkansas franchise were $15.5 million at December 31, 2017 compared to $28.5 million as of December 31, 2016. Non-performing loans from our Florida franchise were $28.2 million at December 31, 2017 compared to $34.0 million as of December 31, 2016. Non-performing loans from our Alabama franchise were $929,000 at December 31, 2017 compared to $656,000 as of December 31, 2016. There were no non-performing loans from our Centennial CFG franchise.

As of December 31, 2017, our non-performing assets decreased to $63.6 million, or 0.44%, of total assets from $79.1 million, or 0.81%, of total assets as of December 31, 2016. Non-performing assets from our Arkansas franchise were $25.6 million at December 31, 2017 compared to $41.0 million as of December 31, 2016. Non-performing assets from our Florida franchise were $36.4 million at December 31, 2017 compared to $36.8 million as of December 31, 2016. Non-performing assets from our Alabama franchise were $1.6 million at December 31, 2017 compared to $1.2 million as of December 31, 2016. There were no non-performing assets from our Centennial CFG franchise.

Critical Accounting Policies

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

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

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

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

Other service charges and fees   These represent credit card interchange fees and Centennial CFG loan fees. The interchange fees are recorded in the period the performance obligation is satisfied which is generally the cash basis based on agreed upon contracts. Centennial CFG loan fees are based on loan or other negotiated agreements with customers and are accounted for under ASC Topic 310. Interchange fees were $20.4 million and $24.1 million for the years ended December 31, 2018 and December 31, 2017, respectively. Centennial CFG loan fees were $4.8 million and $4.0 million for the years ended December 31, 2018 and December 31, 2017, respectively.

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

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

Investments   Held-to-Maturity. Securities held-to-maturity, which include any security for which we have the positive intent and ability to hold until maturity, are reported at historical cost adjusted for amortization of premiums and accretion of discounts. Starting January 1, 2018, premiums are now amortized to call date under ASU 2017-08 and discounts are accreted to interest income using the constant yield method over the period to maturity.

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

Acquisitions

Shore Premier Finance

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

Including the purchase accounting adjustments, as of acquisition date, SPF had approximately $377.0 million in total assets, including $376.2 million in total loans, which resulted in goodwill of $30.5 million being recorded.

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

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

Stonegate Bank

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

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

Through our acquisition and merger of Stonegate into Centennial, we maintain a customer relationship to handle the accounts for Cuba s diplomatic missions at the United Nations and for the Cuban Interests Section (now the Cuban Embassy) in Washington, D.C. This relationship was established in May 2015 pursuant to a special license granted to Stonegate by the U.S. Treasury Department s Office of Foreign Assets Control in connection with the reestablishment of diplomatic relations between the U.S. and Cuba. In July 2015, Stonegate Bank established a correspondent banking relationship with Banco Internacional de Comercio, S.A. in Havana, Cuba. As of December 31, 2017, this correspondent banking relationship does not have a material impact to the Company s financial position and results of operations.

See Note 2   Business Combinations   in the Notes to Consolidated Financial Statements for an additional discussion regarding the acquisition of Stonegate.

Table of Contents

The Bank of Commerce

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

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

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

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

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements for an additional discussion regarding the acquisition of BOC.

Giant Holdings, Inc.

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

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

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements for an additional discussion regarding the acquisition of GHI.

Table of Contents

Termination of Remaining Loss-Share Agreements

Effective July 27, 2016, we reached an agreement terminating our remaining loss-share agreements with the FDIC. As a result, $57.4 million of these loans including their associated discounts previously classified as covered loans (loans previously covered by FDIC loss-share agreements) migrated to non-covered loans status during 2016. Under the terms of the agreement, Centennial made a net payment of $6.6 million to the FDIC as consideration for the early termination of the loss-share agreements, and all rights and obligations of Centennial and the FDIC under the loss-share agreements, including the clawback provisions and the settlement of loss-share and expense reimbursement claims, have been resolved and terminated. This transaction with the FDIC created a one-time acceleration of the indemnification asset plus the negotiated settlement for the true-up liability and resulted in a negative $3.8 million pre-tax financial impact to the third quarter of 2016. It will, however, create a positive financial impact to earnings of approximately $1.5 million annually on a pre-tax basis through the year 2020 as a result of the one-time acceleration of the indemnification asset amortization.

Future Acquisitions

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

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

Branches

As opportunities arise, we will continue to open new (commonly referred to as *de novo*) branches in our current markets and in other attractive market areas. During 2018, the Company opened branch locations in Russellville and Jonesboro, Arkansas and a loan production office in Dallas, Texas which is under the management of Centennial CFG. The Company also opened a loan production office in Chesapeake, Virginia in connection with the SPF acquisition.

During 2017, the Company acquired a total of 33 branches through the acquisitions of GHI, BOC and Stonegate. In an effort to achieve efficiencies, primarily from the Stonegate acquisition, the Company closed 12 Florida locations during the first quarter of 2018.

As of December 31, 2018, we had 159 branch locations. There were 77 branches in Arkansas, 76 branches in Florida, five branches in Alabama and one branch in New York City.

Results of Operations for the Years Ended December 31, 2018, 2017 and 2016

Our net income increased $165.3 million, or 122.4%, to $300.4 million for the year ended December 31, 2018, from $135.1 million for the same period in 2017. On a diluted earnings per share basis, our earnings were $1.73 per share and $0.89 per share for the years ended December 31, 2018 and 2017, respectively, representing an increase of $0.84 per share or 94.4% for the year ended 2018 when compared to the previous year. Excluding the $470,000 of hurricane expense and the $6.0 million of merger expenses, 2018 annual after-tax earnings, as adjusted (non-GAAP), were $305.2 million, an increase of $100.4 million, or 49.0%, from 2017 annual after-tax earnings, as adjusted (non-GAAP), of $204.8 million (See Table 24 for the non-GAAP tabular reconciliation). The $100.4 million increase in earnings, as adjusted, includes $49.5 million from tax savings of the TCJA. The remaining $50.9 million increase in net income is primarily associated with additional net income from the 2017 acquisitions, increased profitability of Centennial CFG and the acquisition of Shore Premier Finance.

Our net income decreased $42.0 million, or 23.7%, to $135.1 million for the year ended December 31, 2017, from $177.1 million for the same period in 2016. On a diluted earnings per share basis, our earnings were $0.89 per share and $1.26 per share for the years ended December 31, 2017 and 2016, respectively, representing a decrease of $0.37

per share or 29.37% for the year ended 2017 when compared to the previous year. Excluding the $36.9 million one-time TCJA charge, $33.4 million of hurricane expense, and $25.7 million of merger expenses associated with the 2017 acquisitions offset by $3.8 million of one-time non-taxable gain on acquisition, 2017 annual after-tax earnings excluding certain items were $204.8 million, an increase of $27.8 million, or 15.7%, from 2016 annual after-tax earnings excluding certain items of $177.0 million (See Table 27 for the non-GAAP tabular reconciliation). The $27.8 million increase in earnings excluding certain items is primarily associated with additional net interest income largely resulting from our acquisitions combined with $125.2 million of organic loan growth plus a decrease in the non-hurricane related provision for loan losses during 2017, growth in non-interest income and the reduced amortization of the indemnification asset when compared to the same period in 2016. These improvements were partially offset by an increase in the costs associated with the asset growth plus an increase in interest expense on deposits and an increase in interest expense related to the issuance of $300 million of subordinated notes during the second quarter of 2017 when compared to the same period in 2016.

Net Interest Income

Net interest income, our principal source of earnings, is the difference between the interest income generated by earning assets and the total interest cost of the deposits and borrowings obtained to fund those assets. Factors affecting the level of net interest income include the volume of earning assets and interest-bearing liabilities, yields earned on loans and investments and rates paid on deposits and other borrowings, the level of non-performing loans and the amount of non-interest-bearing liabilities supporting earning assets. Net interest income is analyzed in the discussion and tables below on a fully taxable equivalent basis. The adjustment to convert certain income to a fully taxable equivalent basis consists of dividing tax-exempt income by one minus the combined federal and state income tax rate (26.135% for the year ended December 31, 2018 and 39.225% for years ended December 31, 2017 and 2016).

The Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. The Federal Funds target rate, which is the cost to banks of immediately available overnight funds, has increased 100 basis points since December 31, 2017, and is currently at 2.25% to 2.50%.

Our net interest margin decreased from 4.51% for the year ended December 31, 2017 to 4.42% for the year ended December 31, 2018. The yield on loans was 5.95% and 5.71% for the years ended December 31, 2018 and 2017, respectively, as average loans increased from $8.40 billion to $10.62 billion. The increase in loan balances is primarily due to the acquisitions we completed during 2017. For the year ended December 31, 2018 and 2017, we recognized $41.5 million and $35.7 million, respectively, in total net accretion for acquired loans and deposits. The rate on interest-bearing deposits increased from 0.54% for the year ended December 31, 2017, to 0.99% for the year ended December 31, 2018, with average balances of $6.27 billion and $8.06 billion, respectively.

Net interest income on a fully taxable equivalent basis increased $102.8 million, or 22.2%, to $566.5 million for the year ended December 31, 2018, from $463.8 million for the same period in 2017. This increase in net interest income was the result of a $162.8 million increase in interest income combined with a $60.0 million increase in interest expense. The $162.8 million increase in interest income was primarily the result of a higher level of earning assets and higher yields on our loans. The higher level of earning assets resulted in an increase in interest income of $139.0 million. The higher yield was primarily driven by the increased loan production in the higher rate environment as well as the repricing of floating rate loans, which resulted in a $23.8 million increase in interest income as well as increased loan accretion income on our historical acquisitions. The $60.0 million increase in interest expense for the year ended December 31, 2018, is primarily the result of interest-bearing liabilities repricing in a rising interest rate environment combined with a higher level of our interest-bearing liabilities. The repricing of our interest-bearing liabilities in a rising interest rate environment resulted in an approximately $43.3 million increase in interest expense.

The higher level of our interest-bearing liabilities resulted in an increase in interest expense of approximately $16.7 million.

Our net interest margin decreased from 4.81% for the year ended December 31, 2016 to 4.51% for the year ended December 31, 2017. For the year ended December 31, 2017 and 2016, we recognized $35.7 million and $42.3 million, respectively, in total net accretion for acquired loans and deposits. Other than the previously mentioned reduction in net accretion income for acquired loans and deposits, the net interest margin was negatively impacted by our April 2017 issuance of $300 million of 5.625% fixed-to-floating rate subordinated notes, which added approximately $13.1 million of interest expense when compared to the same period in 2016, and by our strategic decision to keep excess cash liquidity on the books during 2017.

Table of Contents

Net interest income on a fully taxable equivalent basis increased $49.9 million, or 12.1%, to $463.8 million for the year ended December 31, 2017, from $413.9 million for the same period in 2016. This increase in net interest income was the result of an $83.6 million increase in interest income combined with a $33.8 million increase in interest expense. The $83.6 million increase in interest income was primarily the result of a higher level of earning assets offset by lower yields on our loans. The higher level of earning assets resulted in an increase in interest income of $84.9 million. The lower yield was primarily driven by the decline of loan accretion income on our historical acquisitions offset by increased loan production in the higher rate environment, which resulted in a $1.3 million decrease in interest income. The $33.8 million increase in interest expense for the year ended December 31, 2017, is primarily the result of an increase in interest-bearing liabilities repricing in a rising interest rate environment combined with a higher level of our interest-bearing liabilities. The repricing of our interest-bearing liabilities in a rising interest rate environment resulted in an approximately $22.0 million increase in interest expense. The higher level of our interest-bearing liabilities, primarily subordinated debentures, resulted in an increase in interest expense of approximately $11.8 million.

Net interest margin, on a fully taxable equivalent basis, was 4.42% for the year ended December 31, 2018, compared to 4.51% and 4.81% for the same periods in 2017 and 2016, respectively. The non-GAAP margin excluding accretion income was 4.05%, 4.12% and 4.26% for the years ended December 31, 2018, 2017 and 2016, respectively.

Additional information and analysis for our net interest margin can be found in Tables 24 through 26 of our Non-GAAP Financial Measurements section of this Management s Discussion and Analysis of Financial Condition and Results of Operations.

Table of Contents

Tables 2 and 3 reflect an analysis of net interest income on a fully taxable equivalent basis for the years ended December 31, 2018, 2017 and 2016, as well as changes in fully taxable equivalent net interest margin for the years 2018 compared to 2017 and 2017 compared to 2016.

Table 2: Analysis of Net Interest Income

	Years Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Interest income	$ 685,368	$ 520,251	$ 436,537
Fully taxable equivalent adjustment	5,513	7,856	7,924
Interest income fully taxable equivalent	690,881	528,107	444,461
Interest expense	124,355	64,346	30,579
Net interest income fully taxable equivalent	$ 566,526	$ 463,761	$ 413,882
Yield on earning assets fully taxable equivalent	5.39%	5.14%	5.17%
Cost of interest-bearing liabilities	1.27	0.82	0.46
Net interest spread fully taxable equivalent	4.12	4.32	4.71
Net interest margin fully taxable equivalent	4.42	4.51	4.81

Table 3: Changes in Fully Taxable Equivalent Net Interest Margin

	December 31,	
	2018 vs. 2017	2017 vs. 2016
	(In thousands)	
Increase (decrease) in interest income due to change in earning assets	$ 139,008	$ 84,906
Increase (decrease) in interest income due to change in earning asset yields	23,766	(1,260)
(Increase) decrease in interest expense due to change in interest-bearing liabilities	(16,700)	(11,752)
(Increase) decrease in interest expense due to change in interest rates paid on interest-bearing liabilities	(43,309)	(22,015)
Increase (decrease) in net interest income	$ 102,765	$ 49,879

Table 4 shows, for each major category of earning assets and interest-bearing liabilities, the average amount outstanding, the interest income or expense on that amount and the average rate earned or expensed for the years ended December 31, 2018, 2017 and 2016. The table also shows the average rate earned on all earning assets, the average rate expensed on all interest-bearing liabilities, the net interest spread and the net interest margin for the same periods. The analysis is presented on a fully taxable equivalent basis. Non-accrual loans were included in average loans for the purpose of calculating the rate earned on total loans.

Table of Contents

Table 4: Average Balance Sheets and Net Interest Income Analysis

	Years Ended December 31,								
	2018			2017			2016		
	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
	(Dollars in thousands)								
ASSETS									
Earnings assets									
Interest-bearing balances due from banks	$ 265,071	$ 4,649	1.75%	$ 220,231	$ 2,309	1.05%	$ 117,022	$ 471	0.40%
Federal funds sold	2,876	33	1.15	6,308	10	0.16	1,764	9	0.51
Investment securities taxable	1,542,188	36,833	2.39	1,300,384	26,776	2.06	1,161,428	21,246	1.83
Investment securities non-taxable	386,790	17,434	4.51	348,865	19,411	5.56	337,318	18,598	5.51
Loans receivable	10,618,796	631,932	5.95	8,403,154	479,601	5.71	6,986,759	404,137	5.78
Total interest-earning assets	12,815,721	$ 690,881	5.39	10,278,942	$ 528,107	5.14	8,604,291	$ 444,461	5.17
Non-earning assets	1,751,492			1,220,163			964,562		
Total assets	$ 14,567,213			$ 11,499,105			$ 9,568,853		
LIABILITIES AND SHAREHOLDERS EQUITY									
Liabilities									
Interest-bearing liabilities									
Savings and interest-bearing transaction accounts	$ 6,418,186	$ 58,199	0.91%	$ 4,823,626	$ 23,176	0.48%	$ 3,717,880	$ 8,978	0.24%
Time deposits	1,645,986	21,390	1.30	1,444,828	10,601	0.73	1,362,680	6,948	0.51
Total interest-bearing deposits	8,064,172	79,589	0.99	6,268,454	33,777	0.54	5,080,560	15,926	0.31
Federal funds purchased	31	1	3.23	77	1	1.30	255	2	0.78
Securities sold under agreement to repurchase	148,327	1,822	1.23	134,689	918	0.68	120,576	574	0.48

FHLB borrowed funds	1,180,897	22,354	1.89	1,117,817	14,513	1.30	1,376,364	12,484	0.91
Subordinated debentures	368,409	20,589	5.59	285,733	15,137	5.30	60,826	1,593	2.62
Total interest-bearing liabilities	9,761,836	124,355	1.27	7,806,770	64,346	0.82	6,638,581	30,579	0.46
Non-interest-bearing liabilities									
Non-interest-bearing deposits	2,464,024			2,005,632			1,619,128		
Other liabilities	60,298			45,425			53,218		
Total liabilities	12,286,158			9,857,827			8,310,927		
Stockholders equity	2,281,055			1,641,278			1,257,926		
Total liabilities and stockholders equity	$ 14,567,213			$ 11,499,105			$ 9,568,853		
Net interest spread			4.12%			4.32%			4.71%
Net interest income and margin		$ 566,526	4.42		$ 463,761	4.51		$ 413,882	4.81

Table of Contents

Table 5 shows changes in interest income and interest expense resulting from changes in volume and changes in interest rates for the year ended December 31, 2018 compared to 2017 and 2017 compared to 2016 on a fully taxable basis. The changes in interest rate and volume have been allocated to changes in average volume and changes in average rates, in proportion to the relationship of absolute dollar amounts of the changes in rates and volume.

Table 5: Volume/Rate Analysis

	Years Ended December 31,					
	2018 over 2017			2017 over 2016		
	Volume	Yield /Rate	Total	Volume	Yield /Rate	Total
	(In thousands)					
Increase (decrease) in:						
Interest income:						
Interest-bearing balances due from banks	$ 543	$ 1,797	$ 2,340	$ 651	$ 1,187	$ 1,838
Federal funds sold	(8)	31	23	10	(9)	1
Investment securities taxable	5,407	4,650	10,057	2,698	2,832	5,530
Investment securities non-taxable	1,964	(3,941)	(1,977)	641	172	813
Loans receivable	131,102	21,229	152,331	80,906	(5,442)	75,464
Total interest income	139,008	23,766	162,774	84,906	(1,260)	83,646
Interest expense:						
Interest-bearing transaction and savings deposits	9,506	25,517	35,023	3,281	10,917	14,198
Time deposits	1,650	9,139	10,789	441	3,212	3,653
Federal funds purchased					(1)	(1)
Securities sold under agreement to repurchase	101	803	904	73	271	344
FHLB borrowed funds	860	6,981	7,841	(2,652)	4,681	2,029
Subordinated debentures	4,583	869	5,452	10,609	2,935	13,544
Total interest expense	16,700	43,309	60,009	11,752	22,015	33,767
Increase (decrease) in net interest income	$ 122,308	$ (19,543)	$ 102,765	$ 73,154	$ (23,275)	$ 49,879

Provision for Loan Losses

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

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

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

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

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

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

In 2017, the Company established a $32.9 million storm-related provision for loans affected by Hurricane Irma. The $32.9 million of storm-related provision for loan losses was calculated by taking a 5.0% allocation on the loans in the Florida Key loans receivable balances, a 5.0% allocation on specific large loans located in the path of the hurricane on the mainland of Florida, and a 0.75% allocation on balances in the remaining counties within the FEMA-designated disaster areas. As of December 31, 2018, $2.5 million in charge-offs had been taken against the storm-related allowance for loan losses. As a result, management reevaluated the storm-related allowance for Hurricane Irma. Based on this analysis, management determined a $2.9 million storm-related allowance was still necessary. This amount was calculated by assigning a 0.10% to 0.35% allocation on the loans in the impacted counties, with the counties most heavily impacted receiving the 0.35% allocation. During the fourth quarter of 2018, Hurricane Michael made landfall in the Florida Panhandle as a Category 4 hurricane. Due to this event, the Company s management performed an analysis on the loans with collateral in the impacted counties in the Florida Panhandle. Based on this analysis, management determined a $20.4 million storm-related provision was necessary. This amount was calculated by taking a 1.0% to 6.0% allocation on the loans in the impacted counties. The counties that experienced the most damage were assigned a 6.0% allocation. After establishing the storm-related provision for Hurricane Michael and adjusting the allowance for Hurricane Irma, the storm-related allowance was $23.3 million for the year ended December 31, 2018.

There was $4.3 million, $44.3 million and $18.6 million provision loan losses for years ended December 31, 2018, 2017 and 2016, respectively. Excluding $32.9 million of additional provision for loan losses related to Hurricane Irma during 2017, we experienced a $7.0 million decrease in the provision for loan losses during 2018 versus 2017. This $7.0 million decrease is primarily a result of lower net charge-offs and continued strong asset quality.

Excluding $32.9 million of additional provision for loan losses related to Hurricane Irma during 2017 and the reduced provision for loan losses as a result of a significant loan recovery during 2016, we experienced a $12.3 million decrease in the provision for loan losses during 2017 versus the 2016. This $12.3 million decrease is primarily a result of lower organic loan growth versus 2016.

Based upon current accounting guidance, the allowance for loan losses is not carried over in an acquisition. As a result, none of the acquired loans had any allocation of the allowance for loan losses at merger date. This is the result of all purchased loans being recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820. However, as the acquired loans pay off or renew and the acquired footprint originates new loan production, it is necessary to establish an allowance which represents an amount that, in management s judgment, will be adequate to absorb credit losses. The allowance for loan loss methodology for all originated loans as disclosed in Note 1 to the

Notes to Consolidated Financial Statements was used for these loans. Our current or historical provision levels should not be relied upon as a predictor or indicator of future levels going forward.

Table of Contents

Non-Interest Income

Total non-interest income was $102.8 million in 2018, compared to $99.6 million in 2017 and $87.1 million in 2016. Our recurring non-interest income includes service charges on deposit accounts, other service charges and fees, trust fees, mortgage lending, insurance, increase in cash value of life insurance and dividends.

Table 6 measures the various components of our non-interest income for the years ended December 31, 2018, 2017, and 2016, respectively, as well as changes for the years 2018 compared to 2017 and 2017 compared to 2016.

Table 6: Non-Interest Income

	Years Ended December 31, 2018	2017	2016	2018 Change from 2017		2017 Change from 2016	
			(Dollars in thousands)				
Service charges on deposit accounts	$ 26,851	$ 24,922	$ 25,049	$ 1,929	7.7%	$ (127)	(0.5)%
Other service charges and fees	36,591	36,127	30,200	464	1.3	5,927	19.6
Trust fees	1,552	1,678	1,457	(126)	(7.5)	221	15.2
Mortgage lending income	12,379	13,286	14,399	(907)	(6.8)	(1,113)	(7.7)
Insurance commissions	2,110	1,948	2,296	162	8.3	(348)	(15.2)
Increase in cash value of life insurance	2,856	1,989	1,412	867	43.6	577	40.9
Dividends from FHLB, FRB, First National Bankers Bank & other	5,757	3,485	3,091	2,272	65.2	394	12.7
Gain on acquisitions		3,807		(3,807)	(100.0)	3,807	100.0
Gain on sale of SBA loans	566	738	1,088	(172)	(23.3)	(350)	(32.2)
Gain (loss) on sale of branches, equipment and other assets, net	(120)	(960)	700	840	87.5	(1,660)	(237.1)
Gain (loss) on OREO, net	2,401	1,025	(554)	1,376	134.2	1,579	285.0
Gain (loss) on securities, net		2,132	669	(2,132)	(100.0)	1,463	218.7
FDIC indemnification accretion/(amortization), net			(772)			772	(100.0)
Other income	11,889	9,459	8,016	2,430	25.7	1,443	18.0
Total non-interest income	$ 102,832	$ 99,636	$ 87,051	$ 3,196	3.2%	$ 12,585	14.5%

Non-interest income increased $3.2 million, or 3.2%, to $102.8 million for the year ended December 31, 2018 from $99.6 million for the same period in 2017. Non-interest income excluding gain on acquisitions increased $7.0 million, or 7.3%, to $102.8 million for the year ended December 31, 2018 from $95.8 million for the same period in 2017.

Excluding gain on acquisitions, the primary factors that resulted in the increase from December 31, 2017 to December 31, 2018 were changes related to service charges on deposit accounts, dividends from FHLB, FRB, First National Bankers Bank & other, net gain on OREO, net gain on securities, and other income.

Additional details for the year ended December 31, 2018 on some of the more significant changes are as follows:

The $1.9 million increase in service charges on deposit accounts is primarily related to an increase in overdraft fees due to additional volume, the acquisition of Stonegate during the third quarter of 2017 and improved pricing.

The $464,000 increase in other service charges and fees is primarily from the acquisition of Stonegate during the third quarter of 2017 and additional exit fees from Centennial CFG loan payoffs during the third and fourth quarter of 2018 which were partially offset by a reduction in fee income as a result of the Company being subject to interchange fee restrictions from the Durbin Amendment, which began during the third quarter of 2018.

The $2.3 million increase in dividends from FHLB, FRB, First National Bankers Bank & other is primarily associated with higher dividend income from Federal Reserve and FHLB stock as well as increased dividend income from other equity investments, which is related to an increased investment balance and improved dividend rate.

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

The $1.4 million increase in gain (loss) on OREO is primarily related to realizing additional gains on sale from OREO properties during 2018 and no revaluation expense for 2018 compared to $636,000 incurred during 2017.

The $2.1 million decrease in gain (loss) on securities, net, is a result of no AFS or HTM Securities being sold during 2018 compared to 2017.

Other income includes loan recoveries of $4.1 million on purchased loans, $2.6 million of brokerage fee income, $1.6 million of rental income, $499,000 of income related to the fair value adjustment of equity securities and $3.1 million of miscellaneous income.

We exceeded $10 billion in assets during the first quarter of 2017 and became subject to the Durbin Amendment to the Dodd-Frank Act interchange fee restrictions beginning in the third quarter of 2018. The Durbin Amendment negatively impacts debit card and ATM fees beginning in the second half of 2018. During the third and fourth quarters of 2018, we collected $6.6 million in debit card interchange fees, which was approximately $5.3 million lower from debit interchange fees of $11.9 million collected during the third and fourth quarter of 2017.

Excluding gain on acquisitions, the primary factors that resulted in the increase from December 31, 2016 to December 31, 2017 were changes related to other service charges and fees, mortgage lending, net loss on branches, equipment and other assets, net gain on OREO, net gain on securities, and amortization on our former FDIC indemnification asset and other income.

Additional details for the year ended December 31, 2017 on some of the more significant changes are as follows:

The $5.9 million increase in other service charges and fees is primarily from our 2017 acquisitions plus additional loan payoff fees generated by Centennial CFG and approximately $1.3 million of MasterCard incentive income received during 2017.

The $1.7 million decrease in gain (loss) on branches, equipment and other assets, net, is primarily related to net losses on eleven vacant properties from closed branches during 2017 combined with net gains on four vacant properties during 2016 plus a gain on the sale of a piece of software during the second quarter of 2016.

The $1.6 million increase in gain (loss) on OREO is primarily related to realizing gains on sale from OREO properties during 2017 versus the revaluation of seven OREO properties during 2016.

The $1.5 million increase in gain (loss) on securities, net, is a result of a strategic decision to recognize the gains on sales of investment securities when compared to the same period in 2016.

The $1.1 million decrease in mortgage lending income is primarily the result of lower organic loan growth versus 2016 combined with the effects of Hurricane Irma during September 2017 when compared to the same period in 2016. The disruption from the hurricane resulted in very little mortgage processing for nearly a two-week period during the third quarter of 2017.

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

Other income includes loan recoveries of $2.1 million on purchased loans and $3.0 million of investment brokerage fees.

Table of Contents

Non-Interest Expense

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

Table 7 below sets forth a summary of non-interest expense for the years ended December 31, 2018, 2017, and 2016, as well as changes for the years ended 2018 compared to 2017 and 2017 compared to 2016.

Table 7: Non-Interest Expense

	Years Ended December 31, 2018	2017	2016	2018 Change from 2017		2017 Change from 2016	
	(Dollars in thousands)						
Salaries and employee benefits	$ 143,545	$ 119,369	$ 101,962	$ 24,176	20.3%	$ 17,407	17.1%
Occupancy and equipment	33,960	30,055	26,129	3,905	13.0	3,926	15.0
Data processing expense	14,428	11,998	10,499	2,430	20.3	1,499	14.3
Other operating expenses:							
Advertising	4,472	3,203	3,332	1,269	39.6	(129)	(3.9)
Merger and acquisition expenses	6,013	25,743	433	(19,730)	(76.6)	25,310	100.0
FDIC loss share buy-out expense			3,849			(3,849)	(100.0)
Amortization of intangibles	6,455	4,207	3,132	2,248	53.4	1,075	34.3
Electronic banking expense	7,622	6,662	5,742	960	14.4	920	16.0
Directors fees	1,281	1,259	1,150	22	1.7	109	9.5
Due from bank service charges	1,003	1,602	1,354	(599)	(37.4)	248	18.3
FDIC and state assessment	8,558	5,239	5,491	3,319	63.4	(252)	(4.6)
Hurricane expense	470	556		(86)	(15.5)	556	100.0
Insurance	3,100	2,512	2,193	588	23.4	319	14.5
Legal and accounting	3,548	2,993	2,206	555	18.5	787	35.7
Other professional fees	6,453	5,359	4,049	1,094	20.4	1,310	32.4
Operating supplies	2,222	1,978	1,758	244	12.3	220	12.5
Postage	1,303	1,184	1,084	119	10.1	100	9.2
Telephone	1,405	1,374	1,751	31	2.3	(377)	(21.5)
Other expense	18,165	14,915	15,641	3,250	21.8	(726)	(4.6)
Total non-interest expense	$ 264,003	$ 240,208	$ 191,755	$ 23,795	9.9%	$ 48,453	25.3%

Non-interest expense, excluding merger expenses, increased $43.5 million, or 20.3%, to $258.0 million for the year ended December 31, 2018, from $214.5 million for the same period in 2017. Non-interest expense, excluding merger expenses and FDIC loss share buy-out expense, was $214.5 million for the year ended December 31, 2017 compared to $187.5 million for the same period in 2016.

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

Included within salary and employee benefits expense is approximately $1.5 million of additional expense related to performance based restricted stock and stock options granted during the third quarter of 2018 under the Company s HOMB $2.00 performance incentive program (HOMB $2.00). During the third quarter of 2018, the Company granted 1,452,000 stock options and 843,500 shares of restricted stock to certain employees under HOMB $2.00.

Table of Contents

Centennial CFG incurred $24.4 million of non-interest expense during the year ended December 31, 2018, respectively, compared to $18.6 million of non-interest expense during the year ended December 31, 2017, respectively. While the cost of doing business in New York City, Los Angeles and Dallas is significantly higher than our Arkansas, Florida and Alabama markets, we are still committed to cost-saving measures while achieving our goals of growing the Company.

The change in non-interest expense for 2017 excluding merger expenses and FDIC loss share buy-out expense when compared to 2016 is primarily related to the completion of our acquisitions, the normal increased cost of doing business and Centennial CFG.

Income Taxes

Income tax expense decreased $40.9 million, or 30.1%, to $95.1 million for the year ended December 31, 2018, from $136.0 million for 2017. The income tax expense increased $30.5 million, or 28.9%, to $136.0 million for the year ended December 31, 2017, from $105.5 million for 2016. The effective tax rate for the years ended December 31, 2018, 2017 and 2016 were 24.05%, 50.17% and 37.33%, respectively. Since January 1, 2018, the Company has benefited from a lower marginal tax rate of 26.135% from 39.225% in previous years.

In December 2017, President Trump signed into law the TCJA which lowered the Company s federal corporate tax rate of 35.0% to 21.0%. As a result, the Company was required to revalue its deferred tax assets and deferred tax liabilities to account for the future impact of lower corporate tax rates on these deferred amounts, which resulted in a one-time write-down of $36.9 million. This resulted in a dilution to tangible book value of $0.21 per share as of December 31, 2017. The one-time write-down resulted in an approximately nine month earn back for the dilution to tangible book value.

Financial Condition as of and for the Years Ended December 31, 2018 and 2017

Our total assets as of December 31, 2018 increased $852.7 million to $15.30 billion from the $14.45 billion reported as of December 31, 2017. Our loan portfolio increased $740.7 million to $11.07 billion as of December 31, 2018, from $10.33 billion as of December 31, 2017. This increase is a result of $376.2 million in loans acquired in the SPF acquisition and $364.5 million in organic loan growth. Stockholders equity increased $145.6 million to $2.35 billion as of December 31, 2018, compared to $2.20 billion as of December 31, 2017. The increase in stockholders equity is primarily associated with the $221.5 million increase in retained earnings and the issuance of $28.2 million in stock as a part of the acquisition of Shore Premier Finance offset by a $10.4 million change in accumulated other comprehensive income and the repurchase of $104.3 million of our common stock during 2018, which includes the repurchase of the shares issued as part of the acquisition of the Shore Premier Finance. The improvement in stockholders equity for 2018 was 6.6%.

Our total assets as of December 31, 2017 increased $4.64 billion to $14.45 billion from the $9.81 billion reported as of December 31, 2016. Our loan portfolio increased $2.94 billion to $10.33 billion as of December 31, 2017, from $7.39 billion as of December 31, 2016. This increase is primarily a result of our acquisitions since December 31, 2016. Stockholders equity increased $876.8 million to $2.20 billion as of December 31, 2017, compared to $1.33 billion as of December 31, 2016. The increase in stockholders equity is primarily associated with the $77.5 million and $742.3 million of common stock issued to the GHI and Stonegate shareholders, respectively, plus the $74.7 million increase in retained earnings offset by $3.8 million of comprehensive loss and the repurchase of $20.8 million of our common stock during 2017. The improvement in stockholders equity for 2017, excluding the $77.5 million and $742.3 million of common stock issued to the GHI and Stonegate shareholders, respectively, was 4.3%.

Table of Contents

Loan Portfolio

Our loan portfolio averaged $10.6 billion and $8.40 billion during the years ended December 31, 2018 and 2017, respectively. Loans receivable were $11.07 billion as of December 31, 2018 compared to $10.33 billion as of December 31, 2017, which is an increase of $740.7 million, or 7.17%.

During 2018, the Company acquired $376.2 million of loans receivable, net of purchase accounting discounts. Excluding the $376.2 million of acquired loans during 2018, loans receivable were $10.70 billion as of December 31, 2018 compared to $10.33 billion as of December 31, 2017, which is $364.5 million of organic loan growth, or a 3.53% increase. Centennial CFG produced $115.6 million of net organic loan growth during 2018 while the legacy footprint produced $248.9 million of organic loan growth. Centennial CFG had total loans of $1.55 billion at December 31, 2018.

During 2017, the Company acquired $2.82 billion of loans, net of purchase accounting discounts. Excluding the $2.82 billion of acquired loans during 2017, loans receivable were $7.51 billion as of December 31, 2017 compared to $7.39 billion as of December 31, 2016, which is $125.2 million of organic loan growth, or a 1.69% increase. Centennial CFG produced $295.5 million of net organic loan growth during 2017 while the legacy and Stonegate footprints experienced significant net payoffs during 2017, resulting in a net decline of $153.9 million and $16.5 million, respectively. Centennial CFG had total loans of $1.44 billion at December 31, 2017.

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

The most significant components of the loan portfolio were commercial real estate, residential real estate, consumer and commercial and industrial loans. These loans are generally secured by residential or commercial real estate or business or personal property. Although these loans are primarily originated within our franchises in Arkansas, Florida, South Alabama and Centennial CFG, the property securing these loans may not physically be located within our market areas of Arkansas, Florida, Alabama and New York. Loans receivable were approximately $3.72 billion, $5.15 billion, $228.1 million, $427.7 million and $1.55 billion as of December 31, 2018 in Arkansas, Florida, Alabama, SPF and Centennial CFG, respectively.

As of December 31, 2018, we had $544.6 million of construction/land development loans which were collateralized by land. This consisted of $282.1 million for raw land and $262.5 million for land with commercial and/or residential lots.

Table of Contents

Table 8 presents our loans receivable balances by category as of December 31, 2018, 2017, 2016, 2015, and 2014.

Table 8: Loans Receivable

	As of December 31,				
	2018	2017	2016	2015	2014
	(In thousands)				
Real estate:					
Commercial real estate loans:					
Non-farm/non-residential	$ 4,806,684	$ 4,600,117	$ 3,153,121	$ 2,968,335	$ 2,081,869
Construction/land development	1,546,035	1,700,491	1,135,843	944,787	740,085
Agricultural	76,433	82,229	77,736	75,027	73,154
Residential real estate loans:					
Residential 1-4 family	1,975,586	1,970,311	1,356,136	1,190,279	1,051,299
Multifamily residential	560,475	441,303	340,926	430,256	258,839
Total real estate	8,965,213	8,794,451	6,063,762	5,608,684	4,205,246
Consumer	443,105	46,148	41,745	52,258	56,736
Commercial and industrial	1,476,331	1,297,397	1,123,213	850,587	678,775
Agricultural	48,562	49,815	74,673	67,109	48,833
Other	138,668	143,377	84,306	62,933	67,912
Total loans receivable	$ 11,071,879	$ 10,331,188	$ 7,387,699	$ 6,641,571	$ 5,057,502

As of December 31, 2018, 2017 and 2016 we had no covered loan balances. As of December 31, 2015 and 2014, we had covered loan balances of $62.2 million and $240.2 million, respectively.

Commercial Real Estate Loans. We originate non-farm and non-residential loans (primarily secured by commercial real estate), construction/land development loans, and agricultural loans, which are generally secured by real estate located in our market areas. Our commercial mortgage loans are generally collateralized by first liens on real estate and amortized (where defined) over a 15 to 30 year-period with balloon payments due at the end of one to five years. These loans are generally underwritten by assessing cash flow (debt service coverage), primary and secondary source of repayment, the financial strength of any guarantor, the strength of the tenant (if any), the borrower s liquidity and leverage, management experience, ownership structure, economic conditions and industry specific trends and collateral. Generally, we will loan up to 85% of the value of improved property, 65% of the value of raw land and 75% of the value of land to be acquired and developed. A first lien on the property and assignment of lease is required if the collateral is rental property, with second lien positions considered on a case-by-case basis.

As of December 31, 2018, commercial real estate loans totaled $6.43 billion, or 58.1% of loans receivable, as compared to $6.38 billion, or 61.8% of loans receivable, as of December 31, 2017. Commercial real estate loans originated in our Arkansas, Florida, Alabama, SPF and Centennial CFG markets were $2.11 billion, $3.21 billion, $119.4 million, zero and $993.4 million at December 31, 2018, respectively.

Residential Real Estate Loans. We originate one to four family, residential mortgage loans generally secured by property located in our primary market areas. Approximately 30.2% and 58.7% of our residential mortgage loans consist of owner occupied 1-4 family properties and non-owner occupied 1-4 family properties (rental), respectively, as of December 31, 2018, with the remaining 11.1% relating to condos and mobile homes. Residential real estate loans generally have a loan-to-value ratio of up to 90%. These loans are underwritten by giving consideration to many factors including the borrower s ability to pay, stability of employment or source of income, debt-to-income ratio, credit history and loan-to-value ratio.

As of December 31, 2018, residential real estate loans totaled $2.54 billion, or 22.9%, of loans receivable, compared to $2.41 billion, or 23.3% of loans receivable, as of December 31, 2017. Residential real estate loans originated in our franchises in our Arkansas, Florida, Alabama, SPF and Centennial CFG markets were $931.4 million, $1.36 billion, $71.5 million, zero and $171.0 million at December 31, 2018, respectively.

Consumer Loans. Our consumer loans are composed of secured and unsecured loans originated by our bank, the primary portion of which consists of loans to finance USCG registered high-end sail and power boats as a result of our acquisition of SPF on June 30, 2018. The performance of consumer loans will be affected by the local and regional economies as well as the rates of personal bankruptcies, job loss, divorce and other individual-specific characteristics.

As of December 31, 2018, consumer loans totaled $443.1 million, or 4.0% of loans receivable, compared to $46.2 million, or 0.4% of loans receivable, as of December 31, 2017. Consumer loans originated in our Arkansas, Florida, Alabama, SPF and Centennial CFG markets were $31.0 million, $18.8 million, $1.0 million, $392.4 million and zero at December 31, 2018, respectively. Including the effects of the purchase accounting adjustments, we acquired approximately $366.0 million of consumer loans, as of acquisition date from our 2018 acquisition.

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

As of December 31, 2018, commercial and industrial loans totaled $1.48 billion, or 13.3% of loans receivable, which compares to $1.30 billion, or 12.6% of loans receivable, as of December 31, 2017. Commercial and industrial loans originated in our Arkansas, Florida, Alabama, SPF and Centennial CFG markets were $553.6 million, $470.9 million, $34.8 million, $35.3 million and $381.8 million at December 31, 2018, respectively. Including the effects of the purchase accounting adjustments, we acquired approximately $10.2 million of commercial and industrial loans, as of acquisition date, from our 2018 acquisition.

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

As of December 31, 2018, agricultural loans totaled $48.6 million, or 0.4% of loans receivable, compared to the $49.8 million, or 0.5% of loans receivable as of December 31, 2017. Agricultural loans originated in our Arkansas, Florida, Alabama, SPF and Centennial CFG markets were $37.4 million, $11.0 million, $100,000, zero and zero at December 31, 2018, respectively.

Table 9 presents the distribution of the maturity of our total loans as of December 31, 2018. The table also presents the portion of our loans that have fixed interest rates and interest rates that fluctuate over the life of the loans based on changes in the interest rate environment.

Table of Contents

The loans acquired during our acquisitions accrete interest income through accretion of the difference between the carrying amount of the loans and the expected cash flows. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the weighted-average life of the loans).

Table 9: Maturity of Loans

	One Year or Less	Over One Year Through Five Years	Over Five Years	Total
		(In thousands)		
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	$ 841,647	$ 2,246,292	$ 1,718,745	$ 4,806,684
Construction/land development	814,097	602,575	129,363	1,546,035
Agricultural	14,091	43,108	19,234	76,433
Residential real estate loans				
Residential 1-4 family	303,014	643,190	1,029,382	1,975,586
Multifamily residential	38,892	298,285	223,298	560,475
Total real estate	2,011,741	3,833,450	3,120,022	8,965,213
Consumer	11,267	37,040	394,798	443,105
Commercial and industrial	462,530	694,150	319,651	1,476,331
Agricultural	14,603	23,694	10,265	48,562
Other	3,715	40,333	94,620	138,668
Total loans receivable	$ 2,503,856	$ 4,628,667	$ 3,939,356	$ 11,071,879
Fixed interest rates	$ 1,276,303	$ 3,044,282	$ 1,258,701	$ 5,579,286
Floating interest rates	1,188,391	1,515,959	2,646,703	5,351,053
Purchased credit impaired loans	39,162	68,426	33,952	141,540
Total loans receivable	$ 2,503,856	$ 4,628,667	$ 3,939,356	$ 11,071,879

Non-Performing Assets

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

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

We have purchased loans with deteriorated credit quality in our December 31, 2018 financial statements as a result of our historical acquisitions. The credit metrics most heavily impacted by our acquisitions of acquired loans with deteriorated credit quality were the following credit quality indicators listed in Table 10 below:

- Allowance for loan losses to non-performing loans;
- Non-performing loans to total loans; and
- Non-performing assets to total assets.

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

Table 10 sets forth information with respect to our non-performing assets as of December 31, 2018, 2017, 2016, 2015, and 2014. As of these dates, all non-performing restructured loans are included in non-accrual loans.

Table 10: Non-performing Assets

	As of December 31,				
	2018	**2017**	**2016**	**2015**	**2014**
	(Dollars in thousands)				
Non-accrual loans	$ 47,083	$ 34,032	$ 47,182	$ 36,374	$ 24,691
Loans past due 90 days or more (principal or interest payments)	17,159	10,665	15,942	27,137	37,364
Total non-performing loans	64,242	44,697	63,124	63,511	62,055
Other non-performing assets					
Foreclosed assets held for sale, net	13,236	18,867	15,951	19,140	24,822
Other non-performing assets	497	3	3	38	189
Total other non-performing assets	13,733	18,870	15,954	19,178	25,011
Total non-performing assets	$ 77,975	$ 63,567	$ 79,078	$ 82,689	$ 87,066
Allowance for loan losses to non-performing loans	169.35%	246.70%	126.74%	109.00%	88.65%
Non-performing loans to total loans	0.58	0.43	0.85	0.96	1.23
Non-performing assets to total assets	0.51	0.44	0.81	0.89	1.18

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

Total non-performing loans were $64.2 million as of December 31, 2018, compared to $44.7 million as of December 31, 2017, for an increase of $19.5 million. The $19.5 million increase in non-performing loans is the result of a $1.8 million increase in non-performing loans in our Arkansas market, a $15.0 million increase in non-performing loans in our Florida market, a $750,000 decrease in non-performing loans in our Alabama market and $3.4 million in non-performing loans attributable to our SPF market. Non-performing loans at December 31, 2018 are $17.4 million, $43.3 million, $179,000, $3.4 million and zero in the Arkansas, Florida, Alabama, SPF and Centennial CFG markets, respectively. Our acquisition of SPF during 2018 increased our non-performing loans accruing past due 90 days or more by $720,000 as of December 31, 2018.

Although the current state of the real estate market has improved, future fluctuations in the economy have the potential to increase our level of non-performing loans. While we believe our allowance for loan losses is adequate and our purchased loans are adequately discounted at December 31, 2018, as additional facts become known about relevant internal and external factors that affect loan collectability and our assumptions, it may result in us making additions to the provision for loan losses during 2019. Our current or historical provision levels should not be relied upon as a predictor or indicator of future levels going forward.

Troubled debt restructurings (TDRs) generally occur when a borrower is experiencing, or is expected to experience, financial difficulties in the near term. As a result, we will work with the borrower to prevent further difficulties, and ultimately to improve the likelihood of recovery on the loan. In those circumstances it may be beneficial to restructure the terms of a loan and work with the borrower for the benefit of both parties, versus forcing the property into foreclosure and having to dispose of it in an unfavorable and depressed real estate market. When we have modified the terms of a loan, we usually either reduce the monthly payment and/or interest rate for generally about three to twelve months. For our TDRs that accrue interest at the time the loan is restructured, it would be a rare exception to have charged-off any portion of the loan. Only non-performing restructured loans are included in our non-performing loans. As of December 31, 2018, we had $15.1 million of restructured loans that are in compliance with the modified terms and are not reported as past due or non-accrual in Table 10. Our Florida market contains $9.9 million, our Arkansas market contains $4.8 million and our Alabama market contains $381,000 of these restructured loans.

Table of Contents

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

The majority of the Bank s loan modifications relates to commercial lending and involves reducing the interest rate, changing from a principal and interest payment to interest-only, a lengthening of the amortization period, or a combination of some or all of the three. In addition, it is common for the Bank to seek additional collateral or guarantor support when modifying a loan. At December 31, 2018, the amount of TDRs was $19.7 million, a decrease of 6.9% from $21.2 million at December 31, 2017. As of December 31, 2018 and 2017, 76.6% and 89.7%, respectively, of all restructured loans were performing to the terms of the restructure.

Total foreclosed assets held for sale were $13.2 million as of December 31, 2018, compared to $18.9 million as of December 31, 2017 for a decrease of $5.7 million. The foreclosed assets held for sale as of December 31, 2018 are comprised of $6.7 million of assets located in Arkansas, $6.4 million of assets located in Florida, $127,000 located in Alabama and zero from SPF and Centennial CFG.

As of December 31, 2018, we had two foreclosed properties with a carrying value greater than $1.0 million. The first property was a development property in Florida acquired from BOC with a carrying value of $2.1 million at December 31, 2018. The second property was a nonfarm non-residential property in Florida acquired from Stonegate with a carrying value of $1.9 million at December 31, 2018. The Company does not currently anticipate any additional losses on these properties. As of December 31, 2018, no other foreclosed assets held for sale have a carrying value greater than $1.0 million.

Table 11 shows the summary of foreclosed assets held for sale as of December 31, 2018, 2017, 2016, 2015 and 2014.

Table 11: Total Foreclosed Assets Held for Sale

	As of December 31, 2018			As of December 31, 2017		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
	(In thousands)					
Commercial real estate loans						
Non-farm/non-residential	$ 5,555	$	$ 5,555	$ 9,766	$	$ 9,766
Construction/land development	3,534		3,534	5,920		5,920
Agricultural						
Residential real estate loans						
Residential 1-4 family	4,142		4,142	2,654		2,654
Multifamily residential	5		5	527		527

Total foreclosed assets held for sale	$ 13,236	$	$ 13,236	$ 18,867	$	$ 18,867

Table of Contents

	As of December 31, 2016			As of December 31, 2015		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
	(In thousands)					
Commercial real estate loans						
Non-farm/non-residential	$ 9,423	$	$ 9,423	$ 9,787	$	$ 9,787
Construction/land development	4,009		4,009	5,286		5,286
Agricultural						
Residential real estate loans						
Residential 1-4 family	2,076		2,076	3,233	614	3,847
Multifamily residential	443		443	220		220
Total foreclosed assets held for sale	$ 15,951	$	$ 15,951	$ 18,526	$ 614	$ 19,140

	As of December 31, 2014		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
	(In thousands)		
Commercial real estate loans			
Non-farm/non-residential	$ 6,894	$ 3,935	$ 10,829
Construction/land development	6,189	2,847	9,036
Agricultural		3	3
Residential real estate loans			
Residential 1-4 family	3,381	1,086	4,467
Multifamily residential	487		487
Total foreclosed assets held for sale	$ 16,951	$ 7,871	$ 24,822

A loan is considered impaired when it is probable that we will not receive all amounts due according to the contracted terms of the loans. Impaired loans include non-performing loans (loans past due 90 days or more and non-accrual loans), criticized and/or classified loans with a specific allocation, loans categorized as TDRs and certain other loans identified by management that are still performing (loans included in multiple categories are only included once). As of December 31, 2018, average impaired loans were $81.3 million compared to $87.2 million as of December 31, 2017. As of December 31, 2018, impaired loans were $85.6 million compared to $75.6 million as of December 31, 2017, for an increase of $10.0 million. This increase is primarily associated with the $12.4 million increase in impaired loans in our Florida market since December 31, 2017 and $3.4 million in impaired loans for our SPF market which was partially offset by $5.4 million reduction in impaired loans in our Arkansas market since December 31, 2017. As of December 31, 2018, our Arkansas, Florida, Alabama, SPF and Centennial CFG markets accounted for approximately $28.5 million, $53.1 million, $560,000, $3.4 million and zero of the impaired loans, respectively.

We evaluated loans purchased in conjunction with our historical acquisitions for impairment in accordance with the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*.

Purchased loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected. Purchased credit impaired loans are not classified as non-performing assets for the recognition of interest income as the pools are considered to be performing. However, for the purpose of calculating the non-performing credit metrics, we have included all of the loans which are contractually 90 days past due and still accruing, including those in performing pools. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all purchased impaired loans.

Table of Contents

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

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

Past Due and Non-Accrual Loans

Table 12 shows the summary non-accrual loans as of December 31, 2018, 2017, 2016, 2015 and 2014:

Table 12: Total Non-Accrual Loans

	As of December 31, 2018	As of December 31, 2017	As of December 31, 2016	As of December 31, 2015	As of December 31, 2014
			(In thousands)		
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	$ 15,031	$ 9,600	$ 17,988	$ 15,811	$ 8,901
Construction/land development	5,280	5,011	3,956	2,952	926
Agricultural	20	19	435	531	
Residential real estate loans					
Residential 1-4 family	17,384	14,437	20,311	12,574	11,949
Multifamily residential	972	153	262	870	1,344
Total real estate	38,687	29,220	42,952	32,738	23,120
Consumer	2,912	145	140	239	279
Commercial and industrial	5,451	4,584	3,155	2,363	1,108
Agricultural	32	54			
Other	1	29	935	1,034	184
Total non-accrual loans	$ 47,083	$ 34,032	$ 47,182	$ 36,374	$ 24,691

If the non-accrual loans had been accruing interest in accordance with the original terms of their respective agreements, interest income of approximately $2.9 million for the year ended December 31, 2018, $2.3 million in 2017, and $2.4 million in 2016 would have been recorded. Interest income recognized on the non-accrual loans for the years ended December 31, 2018, 2017 and 2016 was considered immaterial.

Table of Contents

Table 13 shows the summary of accruing past due loans 90 days or more as of December 31, 2018, 2017, 2016, 2015 and 2014:

Table 13: Total Loans Accruing Past Due 90 Days or More

	As of December 31, 2018			As of December 31, 2017		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
			(In thousands)			
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	$ 9,679	$	$ 9,679	$ 3,119	$	$ 3,119
Construction/land development	3,481		3,481	3,247		3,247
Agricultural						
Residential real estate loans						
Residential 1-4 family	1,753		1,753	2,175		2,175
Multifamily residential				100		100
Total real estate	14,913		14,913	8,641		8,641
Consumer	720		720	26		26
Commercial and industrial	1,526		1,526	1,944		1,944
Agricultural and other				54		54
Total loans accruing past due 90 days or more	$ 17,159	$	$ 17,159	$ 10,665	$	$ 10,665

	As of December 31, 2016			As of December 31, 2015		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
			(In thousands)			
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	$ 9,530	$	$ 9,530	$ 9,247	$	$ 9,247
Construction/land development	3,086		3,086	4,176		4,176
Agricultural				30		30
Residential real estate loans						
Residential 1-4 family	2,996		2,996	3,915	3,292	7,207
Multifamily residential				1		1
Total real estate	15,612		15,612	17,369	3,292	20,661
Consumer	21		21	46		46
Commercial and industrial	309		309	6,430		6,430
Other						

Total loans accruing past due 90 days or more	$ 15,942	$	$ 15,942	$ 23,845	$ 3,292	$ 27,137

	As of December 31, 2014		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
	(In thousands)		
Real estate:			
Commercial real estate loans			
Non-farm/non-residential	$ 5,880	$ 9,029	$ 14,909
Construction/land development	734	4,376	5,110
Agricultural	34	72	106
Residential real estate loans			
Residential 1-4 family	4,128	7,597	11,725
Multifamily residential	691		691
Total real estate	11,467	21,074	32,541
Consumer	579		579
Commercial and industrial	2,825	1,387	4,212
Other		32	32
Total loans accruing past due 90 days or more	$ 14,871	$ 22,493	$ 37,364

Our total loans accruing past due 90 days or more and non-accrual loans to total loans was 0.58% and 0.43% as of December 31, 2018 and 2017, respectively. Our acquisition of SPF during 2018 increased our loans accruing past due 90 days or more by $720,000 as of December 31, 2018.

Allowance for Loan Losses

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

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

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

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

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

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

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

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

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

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

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

Loans Collectively Evaluated for Impairment. Loans receivable collectively evaluated for impairment increased by approximately $854.3 million from $9.94 billion at December 31, 2017 to $10.79 billion at December 31, 2018. The percentage of the allowance for loan losses allocated to loans receivable collectively evaluated for impairment to the total loans collectively evaluated for impairment decreased slightly from 1.06% at December 31, 2017 to 0.98% at

December 31, 2018.

Charge-offs and Recoveries. Total charge-offs decreased to $9.0 million for the year ended December 31, 2018, compared to $17.5 million for the year ended December 31, 2018. Total recoveries decreased to $3.1 million for the year ended December 31, 2018, compared to $3.5 million for the same period in 2017.

The net loans charged off for the years ended December 31, 2018, 2017 and 2016 were $5.8 million, $14.0 million and $7.8 million, respectively. For the years ended December 31, 2018, 2017 and 2016, approximately $3.7 million, $10.0 million and $6.6 million, respectively, of the net charge-offs are from our Arkansas market. For the years ended December

Table of Contents

31, 2018, 2017 and 2016, approximately $1.9 million, $3.8 million and $1.3 million, respectively, of the net charge-offs are from our Florida market. The remaining $176,000, $215,000 and $76,000 relates to net charge-offs, net recoveries and net charge-offs, respectively, on loans in our Alabama market for the years ended December 31, 2018, 2017 and 2016, respectively. There have been zero charge-offs for Centennial CFG and SPF since those franchises were formed in 2015 and 2018, respectively.

While the 2018 charge-offs and recoveries consisted of many relationships, there were no individual relationships consisting of a charge-offs greater than $1.0 million.

While the 2017 charge-offs and recoveries consisted of many relationships, there were three individual relationships consisting of a charge-offs greater than $1.0 million. The combined impact of these charge-offs was $4.5 million at December 31, 2017.

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

Table of Contents

Table 14 shows the allowance for loan losses, charge-offs and recoveries for loans as of and for the years ended December 31, 2018, 2017, 2016, 2015 and 2014.

Table 14: Analysis of Allowance for Loan Losses

	As of December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Balance, beginning of year	$ 110,266	$ 80,002	$ 69,224	$ 55,011	$ 43,815
Loans charged off					
Real estate:					
Commercial real estate loans:					
Non-farm/non-residential	1,211	3,622	3,586	4,878	4,376
Construction/land development	399	1,632	382	644	1,099
Agricultural		127			
Residential real estate loans:					
Residential 1-4 family	2,744	3,895	4,986	4,257	3,218
Multifamily residential		85	611	460	266
Total real estate	4,354	9,361	9,565	10,239	8,959
Consumer	285	198	220	567	355
Commercial and industrial	2,221	5,578	5,778	2,638	2,323
Agricultural					
Other	2,128	2,334	1,938	2,508	2,440
Total loans charged off	8,988	17,471	17,501	15,952	14,077
Recoveries of loans previously charged off					
Real estate:					
Commercial real estate loans:					
Non-farm/non-residential	527	1,042	857	762	279
Construction/land development	180	462	1,125	236	474
Agricultural					
Residential real estate loans:					
Residential 1-4 family	878	621	1,098	845	1,473
Multifamily residential	46	55	54	70	37
Total real estate	1,631	2,180	3,134	1,913	2,263
Consumer	190	119	209	61	246
Commercial and industrial	624	464	5,533	802	306
Agricultural					
Other	746	722	795	766	913
Total recoveries	3,191	3,485	9,671	3,542	3,728
Net loans charged off (recovered)	5,797	13,986	7,830	12,410	10,349

Provision for loan losses	4,322	44,250	18,608	25,164	22,664
Increase in FDIC indemnification asset				1,459	(1,119)
Balance, end of year	$ 108,791	$ 110,266	$ 80,002	$ 69,224	$ 55,011
Net charge-offs (recoveries) to average loans receivable	0.05%	0.17%	0.11%	0.22%	0.22%
Allowance for loan losses to total loans	0.98	1.07	1.08	1.04	1.09
Allowance for loan losses to net charge-offs (recoveries)	1,877	788	1,022	558	532

Table of Contents

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

Hurricanes Irma & Michael. In 2017, the Company established a $32.9 million storm-related provision for loans affected by Hurricane Irma. The $32.9 million of storm-related provision for loan losses was calculated by taking a 5.0% allocation on the loans in the Florida Key loans receivable balances, a 5.0% allocation on specific large loans located in the path of the hurricane on the mainland of Florida, and a 0.75% allocation on balances in the remaining counties within the FEMA-designated disaster areas. As of December 31, 2018, $2.5 million in charge-offs had been taken against the storm-related provision for loan losses. As a result, management reevaluated the storm-related allowance for Hurricane Irma. Based on this analysis, management determined a $2.9 million storm-related allowance was still necessary. This amount was calculated by assigning a 0.10% to 0.35% allocation on the loans in the impacted counties, with the counties most heavily impacted receiving the 0.35% allocation. During the fourth quarter of 2018, Hurricane Michael made landfall in the Florida Panhandle as a Category 4 hurricane. Due to this event, the Company s management performed an analysis on the loans with collateral in the impacted counties in the Florida Panhandle. Based on this analysis, management determined a $20.4 million storm-related provision was necessary. This amount was calculated by taking a 1.0% to 6.0% allocation on the loans in the impacted counties. The counties that experienced the most damage were assigned a 6.0% allocation. After establishing the storm-related provision for Hurricane Michael and adjusting the allowance for Hurricane Irma, the storm-related allowance was $23.3 million for the year ended December 31, 2018. We believe the storm-related allowance recorded as of December 31, 2018 is appropriate.

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

Table of Contents

Table 15 presents the allocation of allowance for loan losses as of December 31, 2018, 2017, 2016, 2015 and 2014.

Table 15: Allocation of Allowance for Loan Losses

	As of December 31,									
	2018		2017		2016		2015		2014	
	Allowance Amount	% of loans[(1)]	Allowance Amount	% of loans[(1)]	Allowance Amount	% of loans[(1)]	Allowance Amount	% of loans[(1)]	Allowance Amount	% of loans[(1)]
	(Dollars in thousands)									
Real estate:										
Commercial real estate loans:										
Non-farm/non-residential	$ 41,721	43.4%	$ 42,893	44.5%	$ 27,695	42.7%	$ 26,330	44.7%	$ 17,770	41.2%
Construction/land development	21,302	14.0	20,343	16.4	11,522	15.4	10,782	14.3	8,548	14.6
Agricultural	615	0.7	1,046	0.8	493	1.1	468	1.1	387	1.5
Residential real estate loans:										
Residential 1-4 family	22,547	17.8	21,370	19.1	14,397	18.3	12,552	17.9	11,061	20.8
Multifamily residential	4,187	5.1	3,136	4.3	2,120	4.6	2,266	6.5	3,545	5.1
Total real estate	90,372	81.0	88,788	85.1	56,227	82.1	52,398	84.5	41,311	83.1
Consumer	1,153	4.0	462	0.4	398	0.6	544	0.8	763	1.1
Commercial and industrial	14,981	13.3	15,292	12.6	12,756	15.2	9,324	12.8	5,965	13.4
Agricultural	2,175	0.4	2,692	0.5	3,790	1.0	4,463	1.0	5,035	1.0
Other	110	1.3	180	1.4		1.1	9	0.9	3	1.3
Unallocated			2,852		6,831		2,486		1,934	
Total	$ 108,791	100.0%	$ 110,266	100.0%	$ 80,002	100.0%	$ 69,224	100.0%	$ 55,011	100.0%

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

Table of Contents

Investment Securities

Our securities portfolio is the second largest component of earning assets and provides a significant source of revenue. Securities within the portfolio are classified as held-to-maturity, available-for-sale, or trading based on the intent and objective of the investment and the ability to hold to maturity. Fair values of securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities. The estimated effective duration of our securities portfolio was 2.9 years as of December 31, 2018.

As of December 31, 2018 and 2017 we had $192.8 million and $224.8 million of held-to-maturity securities, respectively. Of the $192.8 million of held-to-maturity securities as of December 31, 2018, $3.3 million were invested in U.S. Government-sponsored enterprises, $57.3 million were invested in mortgage-backed securities and $132.2 million were invested in state and political subdivisions. Of the $224.8 million of held-to-maturity securities as of December 31, 2017, $5.8 million were invested in U.S. Government-sponsored enterprises, $73.6 million were invested in mortgage-backed securities and $145.4 million were invested in state and political subdivisions.

Securities available-for-sale are reported at fair value with unrealized holding gains and losses reported as a separate component of stockholders equity as other comprehensive income. Securities that are held as available-for-sale are used as a part of our asset/liability management strategy. Securities that may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital, and other similar factors are classified as available-for-sale. Available-for-sale securities were $1.79 billion and $1.66 billion as of December 31, 2018 and 2017, respectively.

As of December 31, 2018, $1.03 billion, or 57.6%, of our available-for-sale securities were invested in mortgage-backed securities, compared to $971.4 million, or 58.4%, of our available-for-sale securities as of December 31, 2017. To reduce our income tax burden, $308.6 million, or 17.3%, of our available-for-sale securities portfolio as of December 31, 2018, was primarily invested in tax-exempt obligations of state and political subdivisions, compared to $250.3 million, or 15.0%, of our available-for-sale securities as of December 31, 2017. We had $414.1 million, or 23.2%, invested in obligations of U.S. Government-sponsored enterprises as of December 31, 2018, compared to $406.3 million, or 24.4%, of our available-for-sale securities as of December 31, 2017. Also, we had approximately $34.3 million, or 1.9%, invested in other securities as of December 31, 2018, compared to $35.5 million, or 2.1%, of our available-for-sale securities as of December 31, 2017.

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

Table of Contents

Table 16 presents the carrying value and fair value of investment securities as of December 31, 2018, 2017 and 2016.

Table 16: Investment Securities

	As of December 31, 2018				As of December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
				(In thousands)				
Available-for-sale								
U.S. government-sponsored enterprises	$ 418,605	$ 504	$ (4,976)	$ 414,133	$ 407,387	$ 899	$ (1,982)	$ 406,304
Residential mortgage-backed securities	580,183	1,230	(8,512)	572,901	481,981	538	(4,919)	477,600
Commercial mortgage-backed securities	463,084	539	(7,745)	455,878	497,870	332	(4,430)	493,772
State and political subdivisions	308,835	2,311	(2,589)	308,557	247,292	3,783	(774)	250,301
Other securities	34,336	304	(247)	34,393	34,617	1,225	(302)	35,540
Total	$ 1,805,043	$ 4,888	$ (24,069)	$ 1,785,862	$ 1,669,147	$ 6,777	$ (12,407)	$ 1,663,517
Held-to-maturity								
U.S. government-sponsored enterprises	$ 3,261	$ 14	$ (71)	$ 3,204	$ 5,791	$ 15	$ (15)	$ 5,791
Residential mortgage-backed securities	39,707	20	(689)	39,038	56,982	107	(402)	56,687
Commercial mortgage-backed securities	17,587	58	(267)	17,378	16,625	114	(40)	16,699
State and political subdivisions	132,221	1,815	(46)	133,990	145,358	3,031	(27)	148,362
Total	$ 192,776	$ 1,907	$ (1,073)	$ 193,610	$ 224,756	$ 3,267	$ (484)	$ 227,539

	As of December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value

		(In thousands)		
Available-for-sale				
U.S. government-sponsored enterprises	$ 237,439	$ 963	$ (1,641)	$ 236,761
Residential mortgage-backed securities	259,037	1,226	(1,627)	258,636
Commercial mortgage-backed securities	322,316	845	(2,342)	320,819
State and political subdivisions	215,209	3,471	(2,181)	216,499
Other securities	38,261	2,603	(659)	40,205
Total	$ 1,072,262	$ 9,108	$ (8,450)	$ 1,072,920
Held-to-maturity				
U.S. government-sponsored enterprises	$ 6,637	$ 23	$ (32)	$ 6,628
Residential mortgage-backed securities	71,956	267	(301)	71,922
Commercial mortgage-backed securities	35,863	107	(133)	35,837
State and political subdivisions	169,720	3,100	(169)	172,651
Total	$ 284,176	$ 3,497	$ (635)	$ 287,038

Table of Contents

Table 17 reflects the amortized cost and estimated fair value of debt securities as of December 31, 2018, by contractual maturity and the weighted-average yields (for tax-exempt obligations on a fully taxable equivalent basis) of those securities. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

Table 17: Maturity Distribution of Investment Securities

	As of December 31, 2018					
	1 Year or Less	1 Year Through 5 Years	5 Years Through 10 Years	Over 10 Years	Total Amortized Cost	Total Fair Value
	(Dollars in thousands)					
Available-for-sale						
U.S. Government-sponsored enterprises	$ 180,832	$ 173,438	$ 49,762	$ 14,573	$ 418,605	$ 414,133
Residential mortgage-backed securities	103,150	323,542	108,437	45,054	580,183	572,901
Commercial mortgage-backed securities	45,887	268,487	102,154	46,556	463,084	455,878
State and political subdivisions	54,673	134,868	104,558	14,737	308,835	308,557
Other securities	7,018	19,248	6,999	1,071	34,336	34,393
Total	$ 391,560	$ 919,583	$ 371,910	$ 121,991	$ 1,805,043	$ 1,785,862
Percentage of total amortized cost	21.7%	50.9%	20.6%	6.8%	100.0%	
Weighted-average yield	2.8%	2.9%	3.4%	3.4%	3.0%	
Held-to-maturity						
U.S. Government-sponsored enterprises	$ 367	$ 2,145	$ 480	$ 268	$ 3,260	$ 3,204
Residential mortgage-backed securities	9,264	23,981	4,003	2,458	39,706	39,038
Commercial mortgage-backed securities	549	14,646	1,410	983	17,588	17,378
State and political subdivisions	75,480	23,391	5,554	27,796	132,221	133,990
Total	$ 85,660	$ 64,163	$ 11,447	$ 31,505	$ 192,775	$ 193,610
Percentage of total amortized cost	44.4%	33.3%	5.9%	16.3%	100.0%	
Weighted-average yield	4.7%	3.2%	3.4%	5.8%	4.3%	

Deposits

Our deposits averaged $10.53 billion for the year ended December 31, 2018 and $8.27 billion for 2017. Total deposits increased $511.3 million, or 4.9%, to $10.90 billion as of December 31, 2018, from $10.39 billion as of December 31, 2017. Including the effects of the purchase accounting adjustments, we acquired approximately $2.97 billion of deposits, as of acquisition date from our 2017 acquisitions. Deposits are our primary source of funds. We offer a variety of products designed to attract and retain deposit customers. Those products consist of checking accounts, regular savings deposits, NOW accounts, money market accounts and certificates of deposit. Deposits are gathered from individuals, partnerships and corporations in our market areas. In addition, we obtain deposits from state and local entities and, to a lesser extent, U.S. Government and other depository institutions.

Table of Contents

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

Table 18 reflects the classification of the brokered deposits as of December 31, 2018 and 2017.

Table 18: Brokered Deposits

	December 31, 2018	December 31, 2017
	(In thousands)	
Time Deposits	$ 125,610	$ 60,022
CDARS	109	53,588
Insured Cash Sweep and Other Transaction Accounts	534,508	915,060
Total Brokered Deposits	$ 660,228	$ 1,028,670

The Economic Growth, Regulatory Relief and Consumer Protection Act enacted in May 2018, provides that most reciprocal deposits are no longer treated as brokered deposits. As a result of this new law, our brokered deposits as of December 31, 2018 were approximately $485.6 million lower than they would otherwise have been.

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

The Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. The Federal Funds target rate, which is the cost to banks of immediately available overnight funds, has increased 100 basis points since December 31, 2017, and is currently at 2.25% to 2.50%.

Table of Contents

Table 19 reflects the classification of the average deposits and the average rate paid on each deposit category which is in excess of 10 percent of average total deposits, for the years ended December 31, 2018, 2017, and 2016.

Table 19: Average Deposit Balances and Rates

	Years Ended December 31,					
	2018		2017		2016	
	Average	Average	Average	Average	Average	Average
	(Dollars in thousands)					
Non-interest-bearing transaction accounts	$ 2,464,024	%	$ 2,005,632	%	$ 1,619,128	%
Interest-bearing transaction accounts	5,767,788	1.20	4,265,529	0.53	3,252,416	0.27
Savings deposits	650,398	0.22	558,097	0.11	465,464	0.06
Time deposits:						
$100,000 or more	1,158,403	1.86	961,371	0.86	868,839	0.58
Other time deposits	487,583	0.94	483,457	0.48	493,841	0.38
Total	$ 10,528,196	0.94%	$ 8,274,086	0.41%	$ 6,699,688	0.24%

Table 20 presents our maturities of large denomination time deposits as of December 31, 2018 and 2017.

Table 20: Maturities of Large Denomination Time Deposits ($100,000 or more)

	As of December 31,			
	2018		2017	
	Balance	Percent	Balance	Percent
	(Dollars in thousands)			
Maturing				
Three months or less	$ 260,659	18.5%	$ 134,117	13.4%
Over three months to six months	95,400	6.8	199,701	20.0
Over six months to 12 months	681,424	48.4	184,526	18.5
Over 12 months	371,815	26.4	479,999	48.1
Total	$ 1,409,298	100.0%	$ 998,343	100.0%

Securities Sold Under Agreements to Repurchase

We enter into short-term purchases of securities under agreements to resell (resale agreements) and sales of securities under agreements to repurchase (repurchase agreements) of substantially identical securities. The amounts advanced under resale agreements and the amounts borrowed under repurchase agreements are carried on the balance sheet at the amount advanced. Interest incurred on repurchase agreements is reported as interest expense. Securities sold under agreements to repurchase decreased $4.1 million, or 2.8%, from $147.8 million as of December 31, 2017 to $143.7 million as of December 31, 2018.

FHLB and Other Borrowed Funds

Our FHLB borrowed funds were $1.47 billion and $1.30 billion at December 31, 2018 and 2017, respectively. Other borrowed funds were $2.5 million and are classified as short-term advances as of December 31, 2018. During the fourth quarter of 2018, approximately $770.0 million of FHLB advances matured. At December 31, 2018, $782.6 million and $689.8 million of the outstanding balance were issued as short-term and long-term advances, respectively. At December 31, 2017, $525.0 million and $774.2 million of the outstanding balance were issued as short-term and long-term advances, respectively. Including the effects of the purchase accounting adjustments, we acquired approximately $89.4 million of FHLB borrowed funds, as of acquisition date from our 2017 acquisitions. Our remaining FHLB borrowing capacity was $2.62 billion and $1.96 billion as of December 31, 2018 and 2017, respectively. Maturities of borrowings as of December 31, 2018 include: 2019 $925.6 million; 2020 $146.4 million; 2021 zero; 2022 zero; 2023 zero; after 2023 $400.4 million. Expected maturities will differ from contractual maturities because FHLB may have the right to call or we may have the right to prepay certain obligations.

Table of Contents

Subordinated Debentures

Subordinated debentures, which consist of subordinated debt securities and guaranteed payments on trust preferred securities, were $368.8 million and $368.0 million as of December 31, 2018 and 2017, respectively.

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

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

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

Stockholders Equity

Stockholders equity was $2.35 billion at December 31, 2018 compared to $2.20 billion at December 31, 2017. The increase in stockholders equity is primarily associated with the $221.5 million increase in retained earnings and the issuance of $28.2 million in stock as a part of the acquisition of Shore Premier Finance offset by a $10.4 million change in accumulated other comprehensive income and the repurchase of $104.3 million of our common stock during 2018 which includes the repurchase of the shares issued as part of the acquisition of the Shore Premier Finance. The improvement in stockholders equity was 6.6% for the year ended December 31, 2018 compared to December 31, 2017. As of December 31, 2018 and 2017, our equity to asset ratio was 15.36% and 15.25%, respectively. Book value per common share was $13.76 at December 31, 2018 compared to $12.70 at December 31, 2017.

Common Stock Cash Dividends. We declared cash dividends on our common stock of $0.4600, $0.40000 and $0.3425 per share for the years ended December 31, 2018, 2017 and 2016, respectively. The common stock dividend payout ratio for the year ended December 31, 2018, 2017 and 2016 was 26.59%, 44.69% and 27.15%, respectively.

Stock Repurchase Program. On February 21, 2018, our Board of Directors authorized the repurchase of up to an additional 5,000,000 shares of our common stock under our previously approved stock repurchase program, which brought the total amount of authorized shares to repurchase to 14,752,000 shares. During 2018, we utilized a portion of this stock repurchase program. We repurchased a total of 5,307,689 shares with a weighted-average stock price of $19.62 per share during 2018. Shares repurchased to date under the program total 9,832,553 shares. The remaining balance available for repurchase is 4,919,447 shares at December 31, 2018. Additionally, on January 18, 2019, the Board of Directors of the Company authorized the repurchase of up to an additional 5,000,000 shares of Company s common stock under this repurchase program. The Company has received approval from the Federal Reserve Bank to repurchase up to $188.0 million of stock during the year ending December 31, 2019.

Table of Contents

Liquidity and Capital Adequacy Requirements

Parent Company Liquidity. The primary sources for payment of our operating expenses, and dividends are current cash on hand ($64.4 million as of December 31, 2018), dividends received from our bank subsidiary and a $20.0 million unfunded line of credit with another financial institution.

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

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

Quantitative measures established by regulation to ensure capital adequacy require us to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes that, as of December 31, 2018 and 2017, we met all regulatory capital adequacy requirements to which we were subject.

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

Table of Contents

Table 21 presents our risk-based capital ratios as of December 31, 2018 and 2017.

Table 21: Risk-Based Capital

	As of December 31, 2018	As of December 31, 2017
	(Dollars in thousands)	
Tier 1 capital		
Stockholders equity	$ 2,349,886	$ 2,204,291
Goodwill and core deposit intangibles, net	(1,000,842)	(966,890)
Unrealized (gain) loss on available-for-sale securities	13,815	3,421
Deferred tax assets		
Total common equity Tier 1 capital	1,362,859	1,240,822
Qualifying trust preferred securities	70,841	70,698
Total Tier 1 capital	1,433,700	1,311,520
Tier 2 capital		
Qualifying subordinated notes	297,949	297,332
Qualifying allowance for loan losses	108,791	110,266
Total Tier 2 capital	406,740	407,598
Total risk-based capital	$ 1,840,440	$ 1,719,118
Average total assets for leverage ratio	$ 13,838,137	$ 13,147,046
Risk weighted assets	$ 12,022,576	$ 11,424,963
Ratios at end of period		
Common equity Tier 1 capital	11.34%	10.86%
Leverage ratio	10.36	9.98
Tier 1 risk-based capital	11.93	11.48
Total risk-based capital	15.31	15.05
Minimum guidelines Basel III phase-in schedule		
Common equity Tier 1 capital	6.375%	5.75%
Leverage ratio	4.00	4.00
Tier 1 risk-based capital	7.875	7.25
Total risk-based capital	9.875	9.25
Minimum guidelines Basel III fully phased-in		
Common equity Tier 1 capital	7.00%	7.00%
Leverage ratio	4.00	4.00
Tier 1 risk-based capital	8.50	8.50

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

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

Table of Contents

Table 22 presents actual capital amounts and ratios as of December 31, 2017 and 2016, for our bank subsidiary and us.

Table 22: Capital and Ratios

	Actual		Minimum Capital Requirement Basel III Phase-In Schedule		Minimum Capital Requirement Basel III Fully Phased-In		Minimum To Be Well-Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)							
As of December 31, 2018								
Common equity Tier 1 capital ratios:								
Home BancShares	$ 1,362,859	11.34%	$ 766,158	6.375%	$ 841,271	7.00%	$ N/A	N/A%
Centennial Bank	1,654,810	13.77	766,116	6.375	841,225	7.00	781,138	6.50
Leverage ratios:								
Home BancShares	$ 1,433,700	10.36%	$ 553,552	4.000%	$ 553,552	4.00%	$ N/A	N/A%
Centennial Bank	1,654,810	11.93	554,840	4.000	554,840	4.00	693,550	5.00
Tier 1 capital ratios:								
Home BancShares	$ 1,433,700	11.93%	$ 946,386	7.875%	$ 1,021,496	8.50%	$ N/A	N/A%
Centennial Bank	1,654,810	13.77	946,378	7.875	1,021,488	8.50	961,400	8.00
Total risk-based capital ratios:								
Home BancShares	$ 1,840,440	15.31%	$ 1,187,090	9.875%	$ 1,262,222	10.50%	$ N/A	N/A%
Centennial Bank	1,763,601	14.68	1,186,346	9.875	1,261,431	10.50	1,201,363	10.00
As of December 31, 2017								
Common equity Tier 1 capital ratios:								
Home BancShares	$ 1,240,822	10.86%	$ 656,973	5.750%	$ 799,793	7.00%	$ N/A	N/A%
Centennial Bank	1,546,451	13.55	656,243	5.750	798,905	7.00	741,840	6.50
Leverage ratios:								
Home BancShares	$ 1,311,520	9.98%	$ 525,659	4.000%	$ 525,659	4.00%	$ N/A	N/A%
Centennial Bank	1,546,451	11.76	526,004	4.000	526,004	4.00	657,505	5.00
Tier 1 capital ratios:								
Home BancShares	$ 1,311,520	11.48%	$ 828,268	7.250%	$ 971,073	8.50%	$ N/A	N/A%
Centennial Bank	1,546,451	13.55	827,437	7.250	970,098	8.50	913,034	8.00

Total risk-based capital ratios:								
Home BancShares	$ 1,719,118	15.05%	$ 1,056,601	9.250%	$ 1,199,385	10.50%	$ N/A	N/A%
Centennial Bank	1,656,717	14.52	1,055,415	9.250	1,198,039	10.50	1,140,990	10.00

Off-Balance Sheet Arrangements and Contractual Obligations

In the normal course of business, we enter into a number of financial commitments. Examples of these commitments include but are not limited to operating lease obligations, FHLB advances & other borrowings, lines of credit, subordinated debentures, unfunded loan commitments and letters of credit.

Commitments to extend credit and letters of credit are legally binding, conditional agreements generally having certain expiration or termination dates. These commitments generally require customers to maintain certain credit standards and are established based on management s credit assessment of the customer. The commitments may expire without being drawn upon. Therefore, the total commitment does not necessarily represent future requirements.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Company had total outstanding letters of credit amounting to $55.6 million and $70.5 million at December 31, 2018 and 2017, respectively, with maturities ranging from currently due to four years.

Table 23 presents the funding requirements of our most significant financial commitments, excluding interest, as of December 31, 2018.

Table 23: Funding Requirements of Financial Commitments

	Payments Due by Period				
	Less than One Year	One-Three Years	Three-Five Years	Greater than Five Years	Total
			(In thousands)		
Operating lease obligations	$ 8,589	$ 14,668	$ 9,902	$ 33,208	$ 66,367
FHLB advances & other borrowings by contractual maturity	925,598	146,428		400,367	1,472,393
Subordinated debentures				368,790	368,790
Loan commitments	73,244	1,216,435	345,227	708,022	2,342,928
Letters of credit	54,391	612	521	38	55,562

Non-GAAP Financial Measurements

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

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

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

Earnings, as adjusted, and diluted earnings per common share, as adjusted, are meaningful non-GAAP financial measures for management, as they exclude certain items such as merger expenses and/or certain gains and losses.

Management believes the exclusion of these items in expressing earnings provides a meaningful foundation for period-to-period and company-to-company comparisons, which management believes will aid both investors and analysts in analyzing our financial measures and predicting future performance. These non-GAAP financial measures are also used by management to assess the performance of our business, because management does not consider these items to be relevant to ongoing financial performance.

In Table 24 below, we have provided a reconciliation of the non-GAAP calculation of the financial measure for the periods indicated.

Table of Contents

Table 24: Earnings, As Adjusted

	2018	2017	2016
	(In thousands, except per share data)		
GAAP net income available to common shareholders (A)	$ 300,403	$ 135,083	$ 177,146
Adjustments:			
Gain on acquisitions		(3,807)	
Merger expenses	6,013	25,743	433
FDIC loss share buy-out			3,849
Reduced provision for loan losses as a result of a significant loan recovery			(4,457)
Hurricane expenses (1)	470	33,445	
Effect of tax rate change		36,935	
Total adjustments	6,483	92,316	(175)
Tax-effect of adjustments (2)	1,694	22,626	(69)
Adjustments after-tax (B)	4,789	69,690	(106)
Earnings, as adjusted (C)	$ 305,192	$ 204,773	$ 177,040
Average diluted shares outstanding (D)	174,124	151,528	140,713
GAAP diluted earnings per share: A/D	$ 1.73	$ 0.89	$ 1.26
Adjustments after-tax: B/D	0.02	0.46	
Diluted earnings per common share excluding adjustments: C/D	$ 1.75	$ 1.35	$ 1.26

(1) Hurricane expenses for 2018 include $470,000 of damage expense related to Hurricane Michael and expenses for 2017 include $32.9 million of provision for loan losses and $556,000 of damage expense related to Hurricane Irma.

(2) Effective tax rate of 26.135% for 2018 and 39.225% for 2017, adjusted for non-taxable gain on acquisition and non-deductible merger-related costs.

We had $1.00 billion, $977.3 million and $396.3 million total goodwill, core deposit intangibles and other intangible assets as of December 31, 2018, 2017 and 2016, respectively. Because of our level of intangible assets and related amortization expenses, management believes diluted earnings per common share excluding intangible amortization, tangible book value per common share, return on average assets excluding intangible amortization, return on average tangible common equity excluding intangible amortization and tangible common equity to tangible assets are useful in evaluating our company. These calculations, which are similar to the GAAP calculation of diluted earnings per common share, book value, return on average assets, return on average common equity, and common equity to assets, are presented in Tables 25 through 28, respectively.

Table of Contents

Table 25: Tangible Book Value Per Share

	Years Ended December 31, 2018	2017	2016
	(In thousands, except per share data)		
Book value per share: A/B	$ 13.76	$ 12.70	$ 9.45
Tangible book value per share: (A-C-D)/B	7.90	7.07	6.63
(A) Total equity	$ 2,349,886	$ 2,204,291	$ 1,327,490
(B) Shares outstanding	170,720	173,633	140,472
(C) Goodwill	$ 958,408	$ 927,949	$ 377,983
(D) Core deposit and other intangibles	42,896	49,351	18,311

Table 26: Return on Average Assets Excluding Intangible Amortization

	Years Ended December 31, 2018	2017	2016
	(Dollars in thousands)		
Return on average assets: A/D	2.06%	1.17%	1.85%
Return on average assets excluding intangible amortization: (A+B)/(D-E)	2.25	1.26	1.95
Return on average assets excluding gain on acquisitions, merger expenses, FDIC loss share buy-out expense, hurricane expenses & effect of tax rate change: (ROA, as adjusted) (A+C)/D	2.10	1.78	1.85
(A) Net income	$ 300,403	$ 135,083	$ 177,146
(B) Intangible amortization after-tax	4,767	2,557	1,903
(C) Adjustments after-tax	4,789	69,690	(106)
(D) Average assets	14,567,213	11,499,105	9,568,853
(E) Average goodwill, core deposits and other intangible assets	989,033	576,258	397,809

93

Table of Contents

Table 27: Return on Average Tangible Equity Excluding Intangible Amortization

	Years Ended December 31, 2018	2017	2016
	(Dollars in thousands)		
Return on average equity: A/D	13.17%	8.23%	14.08%
Return on average common equity excluding gain on acquisitions, merger expenses, FDIC loss share buy-out expense, reduced provision for loan losses as a result of a significant loan recovery hurricane expenses & effect of tax rate change: (ROE, as adjusted) (A+C)/D	13.38	12.48	14.07
Return on average tangible equity excluding intangible amortization: B/(D-E)	23.62	12.92	20.82
Return on average tangible common equity excluding gain on acquisitions, merger expenses, FDIC loss share buy-out expense, reduced provision for loan losses as a result of a significant loan recovery, hurricane expenses & effect of tax rate change: (ROTCE, as adjusted) (A+C)/(D-E)	23.62	19.23	20.58
(A) Net income	$ 300,403	$ 135,083	$ 177,146
(B) Earnings excluding intangible amortization	305,170	137,640	179,049
(C) Adjustments after-tax	4,789	69,690	(106)
(D) Average equity	2,281,055	1,641,278	1,257,926
(E) Average goodwill, core deposits and other intangible assets	989,033	576,258	397,809

Table 28: Tangible Equity to Tangible Assets

	Years Ended December 31, 2018	2017	2016
	(Dollars in thousands)		
Equity to assets: B/A	15.36%	15.25%	13.53%
Tangible equity to tangible assets: (B-C-D)/(A-C-D)	9.43	9.11	9.89
(A) Total assets	$ 15,302,438	$ 14,449,760	$ 9,808,465
(B) Total equity	2,349,886	2,204,291	1,327,490
(C) Goodwill	958,408	927,949	377,983
(D) Core deposit and other intangibles	42,896	49,351	18,311

Table of Contents

The efficiency ratio is a standard measure used in the banking industry and is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income. The efficiency ratio, as adjusted, is a meaningful non-GAAP measure for management, as it excludes certain items and is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income excluding items such as merger expenses and/or certain other gains and losses. In Table 29 below, we have provided a reconciliation of the non-GAAP calculation of the financial measure for the periods indicated.

Table 29: Efficiency Ratio, As Adjusted

	Years Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Net interest income (A)	$ 561,013	$ 455,905	$ 405,958
Non-interest income (B)	102,832	99,636	87,051
Non-interest expense (C)	264,003	240,208	191,755
FTE Adjustment (D)	5,513	7,856	7,924
Amortization of intangibles (E)	6,455	4,207	3,132
Adjustments:			
Non-interest income:			
Gain on acquisitions	$	$ 3,807	$
Gain (loss) on OREO, net	2,401	1,025	(554)
Gain (loss) on SBA loans	566	738	1,088
Gain (loss) on branches, equipment and other assets, net	(120)	(960)	700
Gain (loss) on securities, net		2,132	669
Other income(1)			925
Total non-core non-interest income (F)	$ 2,847	$ 6,742	$ 2,828
Non-interest expense:			
Merger expenses	$ 6,013	$ 25,743	$ 433
FDIC loss share buy-out			3,849
Hurricane damage expense	470	556	
Other expense(2)		47	2,283
Total non-core non-interest expense (G)	$ 6,483	$ 26,346	$ 6,565
Efficiency ratio (reported): ((C-E)/(A+B+D))	38.48%	41.89%	37.65%
Core efficiency ratio (non-GAAP): ((C-E-G)/(A+B+D-F))	37.67	37.66	36.55

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

Table of Contents

Table 30 presents selected unaudited quarterly financial information for 2018 and 2017.

Table 30: Quarterly Results

	2018 Quarters				
	First	Second	Third	Fourth	Total
	(In thousands, except per share data)				
Income statement data:					
Total interest income	$ 160,976	$ 166,561	$ 180,051	$ 177,780	$ 685,368
Total interest expense	24,767	27,949	34,141	37,498	124,355
Net interest income	136,209	138,612	145,910	140,282	561,013
Provision for loan losses	1,600	2,722			4,322
Net interest income after provision for loan losses	134,609	135,890	145,910	140,282	556,691
Total non-interest income	25,805	27,673	25,847	23,507	102,832
Total non-interest expense	63,380	63,228	66,123	71,272	264,003
Income before income taxes	97,034	100,335	105,634	92,517	395,520
Income tax expense	23,970	24,310	25,350	21,487	95,117
Net income	$ 73,064	$ 76,025	$ 80,284	$ 71,030	$ 300,403
Per share data:					
Basic earnings per common share	$ 0.42	$ 0.44	$ 0.46	$ 0.41	$ 1.73
Diluted earnings per common share	0.42	0.44	0.46	0.41	1.73

	2017 Quarters				
	First	Second	Third	Fourth	Total
	(In thousands, except per share data)				
Income statement data:					
Total interest income	$ 114,494	$ 122,863	$ 123,913	$ 158,981	$ 520,251
Total interest expense	9,679	15,511	17,144	22,012	64,346
Net interest income	104,815	107,352	106,769	136,969	455,905
Provision for loan losses	3,914	387	35,023	4,926	44,250
Net interest income after provision for loan losses	100,901	106,965	71,746	132,043	411,655
Total non-interest income	26,470	24,417	21,457	27,292	99,636
Total non-interest expense	55,141	51,003	70,846	63,218	240,208
Income before income taxes	72,230	80,379	22,357	96,117	271,083
Income tax expense	25,374	30,282	7,536	72,808	136,000
Net income	$ 46,856	$ 50,097	$ 14,821	$ 23,309	$ 135,083

Per share data:					
Basic earnings per common share	$ 0.33	$ 0.35	$ 0.10	$ 0.13	$ 0.90
Diluted earnings per common share	0.33	0.35	0.10	0.13	0.89

Recent Accounting Pronouncements

See Note 24 to the Notes to Consolidated Financial Statements for a discussion of certain recent accounting pronouncements.

Table of Contents

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
Liquidity and Market Risk Management

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

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

Liquidity needs can be met from either assets or liabilities. On the asset side, our primary sources of liquidity include cash and due from banks, federal funds sold, available-for-sale investment securities and scheduled repayments and maturities of loans. We maintain adequate levels of cash and cash equivalents to meet our day-to-day needs. As of December 31, 2018, our cash and cash equivalents were $657.9 million, or 4.3% of total assets, compared to $635.9 million, or 4.4% of total assets, as of December 31, 2017. Our available-for-sale investment securities and federal funds sold were $1.79 billion and $1.69 billion as of December 31, 2018 and 2017, respectively.

As of December 31, 2018, our investment portfolio was comprised of approximately 73.1% or $1.31 billion of securities which mature in less than five years. As of December 31, 2018 and 2017, $1.32 billion and $1.18 billion, respectively, of securities were pledged as collateral for various public fund deposits and securities sold under agreements to repurchase.

On the liability side, our principal sources of liquidity are deposits, borrowed funds, and access to capital markets. Customer deposits are our largest sources of funds. As of December 31, 2018, our total deposits were $10.90 billion, or 71.2% of total assets, compared to $10.39 billion, or 71.9% of total assets, as of December 31, 2017. We attract our deposits primarily from individuals, business, and municipalities located in our market areas.

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

As of December 31, 2018 and 2017, we could have borrowed up to $288.0 million and $106.4 million, respectively, on a secured basis from the Federal Reserve, up to $50.0 million from First National Bankers Bank on an unsecured basis, and up to $45.0 million in the aggregate from other financial institutions on an unsecured basis. The unsecured lines may be terminated by the respective institutions at any time.

The lines of credit we maintain with the FHLB can provide us with both short-term and long-term forms of liquidity on a secured basis. FHLB borrowed funds were $1.47 billion and $1.30 billion at December 31, 2018 and 2017, respectively. Other borrowed funds were $2.5 million and are classified as short-term advances as of December 31, 2018. At December 31, 2018, $782.6 million and $698.8 million of the outstanding balance were issued as short-term and long-term advances, respectively. At December 31, 2017, $525.0 million and $774.2 million of the outstanding balance were issued as short-term and long-term advances, respectively. Our FHLB borrowing capacity was $2.62 and $1.96 billion as of December 31, 2018 and 2017, respectively.

Table of Contents

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

For purposes of determining our liquidity position, we use the primary liquidity ratio; a measure of liquidity calculated as the excess Federal Reserve Bank balances plus federal funds sold plus unpledged securities divided by total liabilities. We also use the alternative liquidity ratio which is calculated as cash and due from banks plus federal funds sold plus unpledged securities divided by total liabilities. Our primary liquidity ratio and alternative liquidity ratio were 8.50% and 10.89%, respectively, as of December 31, 2018. Management believes our current liquidity position is adequate to meet foreseeable liquidity requirements.

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

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

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

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

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

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

For the rising and falling interest rate scenarios, the base market interest rate forecast was increased and decreased over twelve months by 200 and 100 basis points, respectively. At December 31, 2018, our net interest margin exposure related to these hypothetical changes in market interest rates was within the current guidelines established by us.

98

Table of Contents

Table 31 presents our sensitivity to net interest income as of December 31, 2018.

Table 31: Sensitivity of Net Interest Income

Interest Rate Scenario	Percentage Change from Base
Up 200 basis points	5.77%
Up 100 basis points	3.16
Down 100 basis points	(5.90)
Down 200 basis points	(11.90)

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

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

Gap analysis attempts to capture the amounts and timing of balances exposed to changes in interest rates at a given point in time. As of December 31, 2018, our gap position was asset sensitive with a one-year cumulative repricing gap as a percentage of total earning assets of 1.2%.

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

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

Table of Contents

Table 32 presents a summary of the repricing schedule of our interest-earning assets and interest-bearing liabilities (gap) as of December 31, 2018.

Table 32: Interest Rate Sensitivity

	Interest Rate Sensitivity Period							
	0-30 Days	31-90 Days	91-180 Days	181-365 Days	1-2 Years	2-5 Years	Over 5 Years	Total
				(Dollars in thousands)				
rning assets								
terest-bearing posits due om banks	$ 482,915	$	$	$	$	$	$	$ 482,91
deral funds ld	325							32
vestment curities	290,771	56,617	54,121	136,971	203,274	499,002	737,882	1,978,63
ans ceivable	3,403,325	639,552	805,744	1,356,484	1,704,797	2,495,465	666,512	11,071,87
otal earning sets	4,177,336	696,169	859,865	1,493,455	1,908,071	2,994,467	1,404,394	13,533,75
terest-bearing bilities								
vings and erest-bearing nsaction counts	$ 1,218,028	$ 514,287	$ 771,431	$ 1,542,862	$ 884,867	$ 643,506	$ 1,049,429	$ 6,624,40
me deposits	201,778	187,292	282,728	849,734	244,375	105,496	2,736	1,874,13
curities sold der purchase reements	143,679							143,67
ILB rrowed funds	330.580	450,797	15,046	478,853	197,117			1,472,39
bordinated bentures	70,841					297,949		368,79
otal erest-bearing bilities	1,964,906	1,152,376	1,069,205	2,871,449	1,326,359	1,046,951	1,052,162	10,483,40
terest rate nsitivity gap	$ 2,212,430	$ (456,207)	$ (209,340)	$ (1,377,994)	$ 581,712	$ 1,947,516	$ 352,232	$ 3,050,34

umulative erest rate nsitivity gap	$ 2,212,430	$ 1,756,223	$ 1,546,883	$ 168,889	$ 750,601	$ 2,698,117	$ 3,050,349
umulative rate nsitive assets rate nsitive bilities	212.6%	156.3%	136.9%	102.4%	109.0%	128.6%	129.1%
umulative gap a % of total rning assets	16.3%	13.0%	11.4%	1.2%	5.5%	19.9%	22.5%

Table of Contents

Item 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management s Report on Internal Control Over Financial Reporting

The management of Home BancShares, Inc. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of the Company s financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Accordingly, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2018. In making this assessment, management used the criteria set forth in *Internal Control Integrated Framework* (2013 edition) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company s internal control over financial reporting as of December 31, 2018 is effective based on the specified criteria.

BKD, LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of the Company s internal control over financial reporting as of December 31, 2018. The report, which expresses an unqualified opinion on the effectiveness of the Company s internal control over financial reporting as of December 31, 2018, is included herein.

Table of Contents

Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders

Home BancShares, Inc.

Conway, Arkansas

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Home BancShares, Inc. (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, stockholders equity and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively referred to as the financial statements). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company s internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control Integrated Framework* (2013 edition) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 26, 2019, expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the Company s financial statements based on our audits.

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BKD, LLP

We have served as the Company s auditor since 2005.

Little Rock, Arkansas

February 26, 2019

Table of Contents

Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders

Home BancShares, Inc.

Conway, Arkansas

Opinion on the Internal Control Over Financial Reporting

We have audited Home BancShares, Inc. s (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control Integrated Framework (2013 edition) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control Integrated Framework: (2013) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements of the Company and our report dated February 26, 2019, expressed an unqualified opinion thereon.

Basis for Opinion

The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

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

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definitions and Limitations of Internal Control Over Financial Reporting

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Table of Contents

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BKD, LLP

Little Rock, Arkansas

February 26, 2019

Table of Contents

Home BancShares, Inc.

Consolidated Balance Sheets

(In thousands, except share data)	**December 31, 2018**	**2017**
Assets		
Cash and due from banks	$ 175,024	$ 166,915
Interest-bearing deposits with other banks	482,915	469,018
Cash and cash equivalents	657,939	635,933
Federal funds sold	325	24,109
Investment securities available-for-sale	1,785,862	1,663,517
Investment securities held-to-maturity	192,776	224,756
Loans receivable	11,071,879	10,331,188
Allowance for loan losses	(108,791)	(110,266)
Loans receivable, net	10,963,088	10,220,922
Bank premises and equipment, net	233,261	237,439
Foreclosed assets held for sale	13,236	18,867
Cash value of life insurance	148,621	146,866
Accrued interest receivable	48,945	45,708
Deferred tax asset, net	73,275	76,564
Goodwill	958,408	927,949
Core deposit and other intangibles	42,896	49,351
Other assets	183,806	177,779
Total assets	$ 15,302,438	$ 14,449,760
Liabilities and Stockholders Equity		
Deposits:		
Demand and non-interest-bearing	$ 2,401,232	$ 2,385,252
Savings and interest-bearing transaction accounts	6,624,407	6,476,819
Time deposits	1,874,139	1,526,431
Total deposits	10,899,778	10,388,502
Securities sold under agreements to repurchase	143,679	147,789
FHLB and other borrowed funds	1,472,393	1,299,188
Accrued interest payable and other liabilities	67,912	41,959
Subordinated debentures	368,790	368,031
Total liabilities	12,952,552	12,245,469
Stockholders equity:		
Common stock, par value $0.01; shares authorized 200,000,000 in 2018 and 2017; shares issued and outstanding 170,720,072 in 2018 and 173,632,983 in 2017	1,707	1,736

Capital surplus	1,609,810	1,675,318
Retained earnings	752,184	530,658
Accumulated other comprehensive (loss) income	(13,815)	(3,421)
Total stockholders equity	2,349,886	2,204,291
Total liabilities and stockholders equity	$ 15,302,438	$ 14,449,760

See accompanying notes.

Table of Contents

Home BancShares, Inc.

Consolidated Statements of Income

(In thousands, except per share data)	Year Ended December 31, 2018	2017	2016
Interest income:			
Loans	$ 630,596	$ 479,189	$ 403,394
Investment securities			
Taxable	36,833	26,776	21,246
Tax-exempt	13,257	11,967	11,417
Deposits other banks	4,649	2,309	471
Federal funds sold	33	10	9
Total interest income	685,368	520,251	436,537
Interest expense:			
Interest on deposits	79,589	33,777	15,926
Federal funds purchased	1	1	2
FHLB and other borrowed funds	22,354	14,513	12,484
Securities sold under agreements to repurchase	1,822	918	574
Subordinated debentures	20,589	15,137	1,593
Total interest expense	124,355	64,346	30,579
Net interest income	561,013	455,905	405,958
Provision for loan losses	4,322	44,250	18,608
Net interest income after provision for loan losses	556,691	411,655	387,350
Non-interest income:			
Service charges on deposit accounts	26,851	24,922	25,049
Other service charges and fees	36,591	36,127	30,200
Trust fees	1,552	1,678	1,457
Mortgage lending income	12,379	13,286	14,399
Insurance commissions	2,110	1,948	2,296
Increase in cash value of life insurance	2,856	1,989	1,412
Dividends from FHLB, FRB, First National Bankers Bank & other	5,757	3,485	3,091
Gain on acquisitions		3,807	
Gain on sale of SBA loans	566	738	1,088
Gain (loss) on sale of branches, equipment and other assets, net	(120)	(960)	700
Gain (loss) on OREO, net	2,401	1,025	(554)
Gain (loss) on securities, net		2,132	669
FDIC indemnification accretion/(amortization), net			(772)
Other income	11,889	9,459	8,016

Total non-interest income	102,832	99,636	87,051
Non-interest expense:			
Salaries and employee benefits	143,545	119,369	101,962
Occupancy and equipment	33,960	30,055	26,129
Data processing expense	14,428	11,998	10,499
Other operating expenses	72,070	78,786	53,165
Total non-interest expense	264,003	240,208	191,755
Income before income taxes	395,520	271,083	282,646
Income tax expense	95,117	136,000	105,500
Net income	$ 300,403	$ 135,083	$ 177,146
Basic earnings per common share	$ 1.73	$ 0.90	$ 1.26
Diluted earnings per common share	$ 1.73	$ 0.89	$ 1.26

See accompanying notes.

Table of Contents

Home BancShares, Inc.

Consolidated Statements of Comprehensive Income

(In thousands)	Year Ended December 31, 2018	2017	2016
Net income available to all stockholders	$ 300,403	$ 135,083	$ 177,146
Net unrealized gain (loss) on available-for-sale securities	(12,983)	(3,419)	(5,546)
Less: reclassification adjustment for realized (gains) losses included in income		(2,132)	(669)
Effect of tax rate change on unrealized gain (loss) on available-for-sale securities		(737)	
Other comprehensive income (loss), before tax effect	(12,983)	(6,288)	(6,215)
Tax effect on other comprehensive (loss) income	3,579	2,467	2,438
Other comprehensive income (loss)	(9,404)	(3,821)	(3,777)
Comprehensive income	$ 290,999	$ 131,262	$ 173,369

Home BancShares, Inc.

Consolidated Statements of Stockholders Equity

Years Ended December 31, 2018, 2017 and 2016

(In thousands, except share data)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances at January 1, 2016	701	867,981	326,898	4,177	1,199,757
Comprehensive income:					
Net income			177,146		177,146
Other comprehensive income (loss)				(3,777)	(3,777)
Net issuance of 492,739 shares of common stock from exercise of stock options plus issuance of 10,000 bonus shares of unrestricted common stock	3	1,492			1,495
Issuance of common stock 2-for-1 stock split	702	(702)			
Repurchase of 510,608 shares of common stock	(3)	(9,814)			(9,817)
Tax benefit from stock options exercised		4,154			4,154

Share-based compensation net issuance of 243,734 shares of restricted common stock	2	6,626			6,628
Cash dividends Common Stock, $0.3425 per share			(48,096)		(48,096)
Balances at December 31, 2016	1,405	869,737	455,948	400	1,327,490
Comprehensive income:					
Net income			135,083		135,083
Other comprehensive income (loss)				(3,821)	(3,821)
Net issuance of 185,116 shares of common stock from exercise of stock options	2	1,080			1,082
Issuance of 2,738,038 shares of common stock from acquisition of GHI, net of issuance costs of approximately $195	27	77,290			77,317
Issuance of 30,863,658 shares of common stock from acquisition of Stonegate, net of issuance costs of approximately $630	309	741,324			741,633
Repurchase of 857,800 shares of common stock	(9)	(20,816)			(20,825)
Share-based compensation net issuance of 231,766 shares of restricted common stock	2	6,703			6,705
Cash dividends Common Stock, $0.4000 per share			(60,373)		(60,373)
Balances at December 31, 2017	$ 1,736	$ 1,675,318	$ 530,658	$ (3,421)	$ 2,204,291
Comprehensive income:					
Net income			300,403		300,403
Other comprehensive income (loss)				(9,404)	(9,404)
Net issuance of 201,371 shares of common stock from exercise of stock options	2	1,452			1,454
Issuance of 1,250,000 shares of common stock from acquisition of Shore Premier Finance	13	28,188			28,201
Impact of adoption of new accounting standards(1)			990	(990)	
Repurchase of 5,307,689 shares of common stock	(53)	(104,223)			(104,276)
Share-based compensation net issuance of 961,125 shares of restricted common stock	9	9,075			9,084
Cash dividends Common Stock, $0.46 per share			(79,867)		(79,867)
Balances at December 31, 2018	$ 1,707	$ 1,609,810	$ 752,184	$ (13,815)	$ 2,349,886

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

See accompanying notes.

107

Table of Contents

Home BancShares, Inc.

Consolidated Statements of Cash Flows

	Year Ended December 31,		
(In thousands)	**2018**	**2017**	**2016**
Operating Activities			
Net income	$ 300,403	$ 135,083	$ 177,146
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation & amortization	19,205	16,716	14,548
Amortization of securities, net	14,205	12,917	11,591
Accretion of purchased loans	(41,455)	(35,716)	(42,343)
Share-based compensation	9,084	6,705	6,628
Tax benefits from stock options exercised			(4,154)
(Gain) loss on assets	(3,302)	(4,223)	1,978
Gain on acquisitions		(3,807)	
Provision for loan losses	4,322	44,250	18,608
Deferred income tax effect	3,289	34,084	12,705
Increase in cash value of life insurance	(2,856)	(1,989)	(1,412)
Originations of mortgage loans held for sale	(347,410)	(333,558)	(354,481)
Proceeds from sales of mortgage loans held for sale	327,488	345,501	337,128
Changes in assets and liabilities:			
Accrued interest receivable	(2,413)	(6,451)	(1,706)
Indemnification and other assets	(2,419)	(37,285)	(11,520)
Accrued interest payable and other liabilities	24,078	(31,033)	10,985
Net cash provided by operating activities	302,219	141,194	175,701
Investing Activities			
Net decrease (increase) in federal funds sold	23,784	(21,044)	
Net increase in loans, excluding loans acquired	(329,001)	(137,219)	(722,322)
Purchases of investment securities available-for-sale	(500,713)	(692,482)	(253,458)
Proceeds from maturities of investment securities available-for-sale	348,032	184,280	284,392
Proceeds from sale of investment securities available-for-sale		32,732	87,157
Proceeds from sale of equity securities	3,768		
Purchases of investment securities held-to-maturity		(281)	(25,933)
Proceeds from maturities of investment securities held-to-maturity	31,360	58,162	49,231
Proceeds from qualified sale of investment securities held-to-maturity		491	
Proceeds from foreclosed assets held for sale	19,249	18,734	13,978
Proceeds from sale of SBA loans	9,443	13,630	17,910
Purchases of premises and equipment, net	(7,950)	(5,191)	(3,082)
Return of investment on cash value of life insurance	1,544	592	57
Net cash proceeds (paid) received market acquisitions	(377,411)	227,842	
Cash paid on FDIC loss share buy-out			(6,613)

Net cash used in investing activities	(777,895)	(319,754)	(558,683)
Financing Activities			
Net increase in deposits, excluding deposits acquired	511,276	476,623	503,918
Net (decrease) increase in securities sold under agreements to repurchase	(4,110)	336	(7,099)
Net increase (decrease) in FHLB and other borrowed funds	173,205	(95,375)	(100,747)
Proceeds from exercise of stock options	1,454	1,082	1,495
Proceeds from issuance of subordinated debentures		297,201	
Repurchase of common stock	(104,276)	(20,825)	(9,817)
Common stock issuance costs market acquisitions		(825)	
Tax benefits from stock options exercised			4,154
Dividends paid on common stock	(79,867)	(60,373)	(48,096)
Net cash provided by financing activities	497,682	597,844	343,808
Net change in cash and cash equivalents	22,006	419,284	(39,174)
Cash and cash equivalents beginning of year	635,933	216,649	255,823
Cash and cash equivalents end of year	$ 657,939	$ 635,933	$ 216,649

See accompanying notes.

108

Table of Contents

Home BancShares, Inc.

Notes to Consolidated Financial Statements

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 bank subsidiary Centennial Bank (sometimes referred to as Centennial or the Bank). The Bank has branch locations in Arkansas, Florida, South Alabama and New York City. The Company is subject to competition from other financial institutions. The Company also is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

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

Operating Segments

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

Use of Estimates

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

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

Principles of Consolidation

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

Reclassifications

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

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash held as demand deposits at various banks and the Federal Reserve Bank (FRB) and interest-bearing deposits with other banks. The Bank is required to maintain an average reserve balance with either the FRB or in the form of cash on hand. The required reserve balance at December 31, 2018 was $47.8 million.

Investment Securities

Interest on investment securities is recorded as income as earned. Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains or losses on the sale of securities are determined using the specific identification method.

Management determines the classification of securities as available-for-sale, held-to-maturity, or trading at the time of purchase based on the intent and objective of the investment and the ability to hold to maturity. Fair values of securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities. The Company has no trading securities.

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

Securities held-to-maturity, which include any security for which we have the positive intent and ability to hold until maturity, are reported at historical cost adjusted for amortization of premiums and accretion of discounts. Starting January 1, 2018, premiums are now amortized to call date under ASU 2017-08 and discounts are accreted to interest income using the constant yield method over the period to maturity.

Loans Receivable and Allowance for Loan Losses

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balance adjusted for any charge-offs, deferred fees or costs on originated loans. Interest income on loans is accrued over the term of the loans based on the principal balance outstanding. Loan origination fees and direct origination costs are capitalized and recognized as adjustments to yield on the related loans.

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

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and classified loans less than $2.0 million and is based on historical charge-off experience and expected loss given default derived from the Bank s internal risk rating process. Other adjustments may be made to the allowance for pools of loans accounted for under FASB ASC 310-30, *Loans Acquired with Deteriorated Credit Quality,* after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

Loans considered impaired, under FASB ASC 310-10-35, are loans for which, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The aggregate amount of impairment of loans is utilized in evaluating the adequacy of the allowance for loan losses and amount of provisions thereto. Losses on impaired loans are charged against the allowance for loan losses when in the process of collection, it appears likely that such losses will be realized. The accrual of interest on impaired loans is discontinued when, in management s opinion, the borrower may be unable to meet payments as they become due. When accrual of interest is discontinued, all unpaid accrued interest is reversed.

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

Loans are placed on non-accrual status when management believes that the borrower s financial condition, after giving consideration to economic and business conditions and collection efforts, is such that collection of interest is doubtful, or generally when loans are 90 days or more past due. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. Accrued interest related to non-accrual loans is generally charged against the allowance for loan losses when accrued in prior years and reversed from interest income if accrued in the current year. Interest income on non-accrual loans may be recognized to the extent cash payments are received, but payments received are usually applied to principal. Non-accrual loans are generally returned to accrual status after being current for a period of at least six months. An exception to this six-month period can be made if it can be proven that the borrower has historically demonstrated repayment performance consistent with the terms of the loan and the Company expects to collect all principal and interest.

Acquisition Accounting and Acquired Loans

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

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

For further discussion of the Company s acquisitions, see Note 2 to the Notes to Consolidated Financial Statements.

Foreclosed Assets Held for Sale

Real estate and personal properties acquired through or in lieu of loan foreclosure are to be sold and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis.

Valuations are periodically performed by management, and the real estate and personal properties are carried at fair value less costs to sell. Gains and losses from the sale of other real estate and personal properties are recorded in non-interest income, and expenses used to maintain the properties are included in non-interest expenses.

Table of Contents

Bank Premises and Equipment

Bank premises and equipment are carried at cost or fair market value at the date of acquisition less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Accelerated depreciation methods are used for tax purposes. Leasehold improvements are capitalized and amortized using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements whichever is shorter. The assets estimated useful lives for book purposes are as follows:

Bank premises	15-40 years
Furniture, fixtures, and equipment	3-15 years

Cash value of life insurance

The Company has purchased life insurance policies on certain key employees. Life insurance owned by the Company is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Intangible Assets

Intangible assets consist of goodwill and core deposit intangibles. Goodwill represents the excess purchase price over the fair value of net assets acquired in business acquisitions. The core deposit intangible represents the excess intangible value of acquired deposit customer relationships as determined by valuation specialists. The core deposit intangibles are being amortized over 48 to 121 months on a straight-line basis. Goodwill is not amortized but rather is evaluated for impairment on at least an annual basis. The Company performed its annual impairment test of goodwill and core deposit intangibles during 2018, 2017 and 2016, as required by FASB ASC 350, *Intangibles Goodwill and Other*. The 2018, 2017 and 2016 tests indicated no impairment of the Company s goodwill or core deposit intangibles.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase consist of obligations of the Company to other parties. At the point funds deposited by customers become investable, those funds are used to purchase securities owned by the Company and held in its general account with the designation of Customers Securities. A third party maintains control over the securities underlying overnight repurchase agreements. The securities involved in these transactions are generally U.S. Treasury or Federal Agency issues. Securities sold under agreements to repurchase generally mature on the banking day following that on which the investment was initially purchased and are treated as collateralized financing transactions which are recorded at the amounts at which the securities were sold plus accrued interest. Interest rates and maturity dates of the securities involved vary and are not intended to be matched with funds from customers.

Derivative Financial Instruments

The Company may enter into derivative contracts for the purposes of managing exposure to interest rate risk. The Company records all derivatives on the consolidated balance sheet at fair value. Historically the Company s policy has been not to invest in derivative type investments.

During 2017, the Company acquired standalone derivative financial instruments from Stonegate (See Note 2). These derivative financial instruments consist of interest rate swaps and are recognized as assets and liabilities in the consolidated statements of financial condition at fair value. The Bank s derivative instruments have not been designated as hedging instruments. These undesignated derivative instruments are recognized on the consolidated balance sheet at fair value, with changes in fair value recorded in other noninterest income. As of December 31, 2018 and 2017, these derivative instruments are not considered to be material to the Company s financial position and results of operations. In addition, as of December 31, 2018 and December 31, 2017, the Company had derivative contracts outstanding associated with the mortgage loans held for sale portfolio.

112

Table of Contents

Stock Options

The Company accounts for stock options in accordance with FASB ASC 718, *Compensation Stock Compensation,* and FASB ASC 505-50, *Equity-Based Payments to Non-Employees*, which establishes standards for the accounting for transactions in which an entity (i) exchanges its equity instruments for goods and services, or (ii) incurs liabilities in exchange for goods and services that are based on the fair value of the entity s equity instruments or that may be settled by the issuance of the equity instruments. FASB ASC 718 requires that such transactions be recognized as compensation cost in the income statement based on their fair values on the measurement date, which is generally the date of the grant.

In March 2016, the FASB issued ASU 2016-09, *Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for share-based payment awards to employees, including the accounting for income taxes, forfeitures, statutory tax withholding requirements and classification in the statement of cash flows. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted in any annual or interim period for which financial statements have not yet been issued, and all amendments in the ASU that apply must be adopted in the same period. The Company adopted the new guidance in the first quarter of 2017. Under the new guidance, excess tax benefits related to equity compensation have been recognized in the income tax expense in the consolidated statements of income rather than in capital surplus in the consolidated balance sheets and has been applied on a prospective basis. Changes to the statements of cash flows related to the classification of excess tax benefits and employee taxes paid for share-based payment arrangements have been implemented on a retrospective basis. The Company s stock-based compensation plan has not historically generated material amounts of excess tax benefits or deficiencies and, therefore, the Company has not experienced a material change in the Company s financial position or results of operations as a result of the adoption and implementation of ASU 2016-09. For additional information on the stock-based compensation plan, see Note 13.

Termination of Remaining Loss-Share Agreements

Effective July 27, 2016, we reached an agreement terminating our remaining loss-share agreements with the FDIC. As a result, $57.4 million of the loans, previously under loss-share agreements including their associated discounts which were previously classified as covered loans, migrated to non-covered loans status during 2016. Under the terms of the agreement, Centennial made a net payment of $6.6 million to the FDIC as consideration for the early termination of the loss share agreements, and all rights and obligations of Centennial and the FDIC under the loss share agreements, including the clawback provisions and the settlement of loss share and expense reimbursement claims, have been resolved and terminated. This transaction with the FDIC created a one-time acceleration of the indemnification asset plus the negotiated settlement for the true-up liability and resulted in a negative $3.8 million pre-tax financial impact to the third quarter of 2016.

Income Taxes

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

Table of Contents

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

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

Revenue Recognition.

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

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

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

Table of Contents

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 years ended December 31:

	2018	2017	2016
	(In thousands, except per share data)		
Net income	$ 300,403	$ 135,083	$ 177,146
Average common shares outstanding	173,657	150,806	140,418
Effect of common stock options	467	722	295
Diluted common shares outstanding	174,124	151,528	140,713
Basic earnings per common share	$ 1.73	$ 0.90	$ 1.26
Diluted earnings per common share	$ 1.73	$ 0.89	$ 1.26

2. Business Combinations

Acquisition of Shore Premier Finance

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

Including the purchase accounting adjustments, as of acquisition date, SPF had approximately $377.0 million in total assets, including $376.2 million in total loans, which resulted in goodwill of $30.5 million being recorded.

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

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

Acquisition of Stonegate Bank

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

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

Table of Contents

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

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

Equity			
Total equity assumed	391,768	(391,768)	
Total liabilities and equity assumed	$ 2,992,825	$ (390,664)	2,602,161
Net assets acquired			285,362
Purchase price			792,370
Goodwill			$ 507,008

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

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

Investment securities Investment securities were acquired from Stonegate with an approximately $474,000 adjustment to market value based upon quoted market prices.

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

Table of Contents

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

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

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

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

Accrued interest receivable   Accrued interest receivable was acquired from Stonegate at market value.

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

Core deposit intangible   This intangible asset represents the value of the relationships that Stonegate had with its deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the deposit base, and the net maintenance cost attributable to customer deposits. The Company recorded $30.9 million of core deposit intangible.

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

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

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

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

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

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

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

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

Table of Contents

Acquisition of The Bank of Commerce

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Acquisition of Giant Holdings, Inc.

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

<u>Cash value of life insurance</u> Cash value of life insurance was acquired from GHI at market value.

<u>Accrued interest receivable</u> Accrued interest receivable was acquired from GHI at market value.

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

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

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

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

<u>Accrued interest payable and other liabilities</u> The fair value used represents the adjustments of certain estimated liabilities from GHI.

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

Table of Contents

3. Investment Securities

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

	December 31, 2018			
	Available-for-Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 418,605	$ 504	$ (4,976)	$ 414,133
Residential mortgage-backed securities	580,183	1,230	(8,512)	572,901
Commercial mortgage-backed securities	463,084	539	(7,745)	455,878
State and political subdivisions	308,835	2,311	(2,589)	308,557
Other securities	34,336	304	(247)	34,393
Total	$ 1,805,043	$ 4,888	$ (24,069)	$ 1,785,862

	Held-to-Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 3,261	$ 14	$ (71)	$ 3,204
Residential mortgage-backed securities	39,707	20	(689)	39,038
Commercial mortgage-backed securities	17,587	58	(267)	17,378
State and political subdivisions	132,221	1,815	(46)	133,990
Total	$ 192,776	$ 1,907	$ (1,073)	$ 193,610

	December 31, 2017			
	Available-for-Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 407,387	$ 899	$ (1,982)	$ 406,304
Residential mortgage-backed securities	481,981	538	(4,919)	477,600
Commercial mortgage-backed securities	497,870	332	(4,430)	493,772
State and political subdivisions	247,292	3,783	(774)	250,301
Other securities	34,617	1,225	(302)	35,540
Total	$ 1,669,147	$ 6,777	$ (12,407)	$ 1,663,517

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

Table of Contents

Assets, principally investment securities, having an amortized cost of approximately $1.32 billion and $1.18 billion at December 31, 2018 and 2017, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. Also, investment securities pledged as collateral for repurchase agreements totaled approximately $143.7 million and $147.8 million at December 31, 2018 and 2017, respectively.

The amortized cost and estimated fair value of securities classified as available-for-sale and held-to-maturity at December 31, 2018, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers 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	$ 391,560	$ 387,433	$ 85,661	$ 86,813
Due after one year through five years	919,583	908,823	64,163	63,941
Due after five years through ten years	371,909	369,147	11,447	11,443
Due after ten years	121,991	120,459	31,505	31,413
Total	$ 1,805,043	$ 1,785,862	$ 192,776	$ 193,610

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 year ended December 31, 2018, no available-for-sale securities were sold. However, approximately $3.8 million in equity securities carried at fair value were sold. There were no realized gains or losses recorded on the sales for the year ended December 31, 2018. The income tax expense/benefit to net security gains and losses was 26.135% of the gross amounts.

During the year ended December 31, 2017, approximately $30.6 million in available-for-sale securities were sold. The gross realized gains and losses on the sales for the year ended December 31, 2017 totaled approximately $2.3 million and $127,000, respectively. The income tax expense/benefit to net security gains and losses was 39.225% of the gross amounts.

During the year ended December 31, 2016, approximately $87.2 million, in available-for-sale securities were sold. There were approximately $795,000 in gains and $126,000 in losses on the available-for-sale securities sold. The income tax expense/benefit to net security gains and losses was 39.225% of the gross amounts.

During 2018, no held-to-maturity securities were sold. During 2017, one held-to-maturity security experienced its second downgrade in its credit rating. The Company made a strategic decision to sell this held-to-maturity security for approximately $483,000, which resulted in a gross realized loss on the sale for the year ended December 31, 2017 of approximately $7,000. During 2016, no held-to-maturity securities were sold.

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.

For the year ended December 31, 2018, the Company had approximately $21.8 million in unrealized losses, which were 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 73.1% 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.

Table of Contents

For the year ended December 31, 2017, the Company had approximately $5.3 million in unrealized losses, which were 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 76.6% 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 December 31, 2018 and 2017:

	December 31, 2018					
	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	$ 148,392	$ (1,398)	$ 192,456	$ (3,649)	$ 340,848	$ (5,047)
Residential mortgage-backed securities	95,001	(713)	386,279	(8,488)	481,280	(9,201)
Commercial mortgage-backed securities	33,917	(337)	368,705	(7,675)	402,622	(8,012)
State and political subdivisions	64,376	(763)	77,602	(1,872)	141,978	(2,635)
Other securities	3,364	(154)	8,307	(93)	11,671	(247)
Total	$ 345,050	$ (3,365)	$ 1,033,349	$ (21,777)	$ 1,378,399	$ (25,142)

	December 31, 2017					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. government-sponsored enterprises	$ 234,213	$ (1,288)	$ 40,122	$ (709)	$ 274,335	$ (1,997)
Residential mortgage-backed securities	389,541	(3,656)	99,989	(1,665)	489,530	(5,321)
Commercial mortgage-backed securities	314,301	(2,343)	120,365	(2,127)	434,666	(4,470)
State and political subdivisions	41,299	(331)	20,980	(470)	62,279	(801)
Other securities			9,852	(302)	9,852	(302)
Total	$ 979,354	$ (7,618)	$ 291,308	$ (5,273)	$ 1,270,662	$ (12,891)

As of December 31, 2018, the Company s securities portfolio consisted of 1,321 investment securities, 683 of which were in an unrealized loss position. As noted in the table above, the total amount of the unrealized loss was $25.1 million. The U.S government-sponsored enterprises portfolio contained unrealized losses of $5.0 million on 95 securities. The residential mortgage-backed securities portfolio contained $9.2 million of unrealized losses on 290 securities, and the commercial mortgage-backed securities portfolio contained $8.0 million of unrealized losses on 124 securities. The state and political subdivisions portfolio contained $2.6 million of unrealized losses on 169 securities. In addition, the other securities portfolio contained $247,000 of unrealized losses on 5 securities. The unrealized losses on the Company s investments were a result of interest rate changes. The Company expects to recover the amortized cost basis over the term of the securities. Because the decline in market value was attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2018.

Income earned on securities for the years ended is as follows:

		December 31,	
	2018	**2017**	**2016**
		(In thousands)	
Taxable:			
Available-for-sale	$ 35,026	$ 24,231	$ 17,880
Held-to-maturity	1,807	2,545	3,366
Tax-exempt:			
Available-for-sale	8,226	6,441	6,238
Held-to-maturity	5,031	5,526	5,179
Total	$ 50,090	$ 38,743	$ 32,663

4. Loans Receivable

The various categories of loans receivable are summarized as follows:

	December 31, 2018	December 31, 2017
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 4,806,684	$ 4,600,117
Construction/land development	1,546,035	1,700,491
Agricultural	76,433	82,229
Residential real estate loans		
Residential 1-4 family	1,975,586	1,970,311
Multifamily residential	560,475	441,303
Total real estate	8,965,213	8,794,451
Consumer	443,105	46,148
Commercial and industrial	1,476,331	1,297,397
Agricultural	48,562	49,815
Other	138,668	143,377
Loans receivable	$ 11,071,879	$ 10,331,188

During the year ended December 31, 2018, the Company sold $8.9 million of the guaranteed portion of certain SBA loans, which resulted in a gain of approximately $566,000. During the year ended December 31, 2017, the Company sold $12.9 million of the guaranteed portion of certain SBA loans, which resulted in a gain of approximately $738,000. During the year ended December 31, 2016, the Company sold $16.8 million of the guaranteed portion of certain SBA loans, which resulted in a gain of approximately $1.1 million.

Mortgage loans held for sale of approximately $64.2 million and $44.3 million at December 31, 2018 and 2017, respectively, are included in residential 1-4 family loans. Mortgage loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis. Gains and losses resulting from sales of mortgage loans are recognized when the respective loans are sold to investors. Gains and losses are determined by the difference between the selling price and the carrying amount of the loans sold, net of discounts collected or paid. The Company obtains forward commitments to sell mortgage loans to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. The forward commitments acquired by the Company for mortgage loans in process of origination are considered mandatory forward commitments. Because these commitments are structured on a mandatory basis, the Company is required to substitute another loan or to buy back the commitment if the original loan does not fund. These commitments are derivative instruments and their fair values at December 31, 2018 and 2017 were not material.

The Company had $2.90 billion of purchased loans, which includes $113.6 million of discount for credit losses on purchased loans, at December 31, 2018. The Company had $39.3 million and $74.3 million remaining of non-accretable discount for credit losses on purchased loans and accretable discount for credit losses on purchased loans, respectively, as of December 31, 2018. The Company had $3.46 billion of purchased loans, which includes $146.6 million of discount for credit losses on purchased loans, at December 31, 2017. The Company had

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

Table of Contents

5. Allowance for Loan Losses, Credit Quality and Other

In 2017, the Company established a $32.9 million storm-related provision for loans affected by Hurricane Irma. The $32.9 million of storm-related provision for loan losses was calculated by taking a 5.0% allocation on the loans in the Florida Key loans receivable balances, a 5.0% allocation on specific large loans located in the path of the hurricane on the mainland of Florida, and a 0.75% allocation on balances in the remaining counties within the FEMA-designated disaster areas. As of December 31, 2018, $2.5 million in charge-offs had been taken against the storm-related allowance for loan losses. As a result, management reevaluated the storm-related allowance for Hurricane Irma. Based on this analysis, management determined a $2.9 million storm-related allowance was still necessary. This amount was calculated by assigning a 0.10% to 0.35% allocation on the loans in the impacted counties, with the counties most heavily impacted receiving the 0.35% allocation. During the fourth quarter of 2018, Hurricane Michael made landfall in the Florida Panhandle as a Category 4 hurricane. Due to this event, the Company s management performed an analysis on the loans with collateral in the impacted counties in the Florida Panhandle. Based on this analysis, management determined a $20.4 million storm-related provision was necessary. This amount was calculated by taking a 1.0% to 6.0% allocation on the loans in the impacted counties. The counties that experienced the most damage were assigned a 6.0% allocation. After establishing the storm-related provision for Hurricane Michael and adjusting the allowance for Hurricane Irma, the storm-related allowance was $23.3 million for the year ended December 31, 2018.

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

	December 31, 2018 (In thousands)
Allowance for loan losses:	
Beginning balance	$ 110,266
Loans charged off	(8,988)
Recoveries of loans previously charged off	3,191
Net loans recovered (charged off)	(5,797)
Provision for loan losses	4,322
Balance, December 31, 2018	$ 108,791

Table of Contents

The following tables present the balance in the allowance for loan losses for the year ended December 31, 2018, and the allowance for loan losses and recorded investment in loans based on portfolio segment by impairment method as of December 31, 2018. 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, 2018						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Beginning balance	$ 20,343	$ 43,939	$ 24,506	$ 15,292	$ 3,334	$ 2,852	$ 110,266
Loans charged off	(399)	(1,211)	(2,744)	(2,221)	(2,413)		(8,988)
Recoveries of loans previously charged off	180	527	924	624	936		3,191
Net loans recovered (charged off)	(219)	(684)	(1,820)	(1,597)	(1,477)		(5,797)
Provision for loan losses	1,178	(919)	4,048	1,286	1,581	(2,852)	4,322
Balance, December 31	$ 21,302	$ 42,336	$ 26,734	$ 14,981	$ 3,438	$	$ 108,791

	As of December 31, 2018						
	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	$ 732	$ 468	$ 100	$ 21	$	$	$ 1,321
Loans collectively evaluated for impairment	20,336	41,512	25,970	14,789	3,438		106,045
Loans evaluated for impairment balance, December 31	21,068	41,980	26,070	14,810	3,438		107,366
	234	356	664	171			1,425

Purchased credit impaired loans							
Balance, December 31	$ 21,302	$ 42,336	$ 26,734	$ 14,981	$ 3,438	$	$ 108,791
Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 14,519	$ 58,706	$ 29,535	$ 30,251	$ 3,688	$	$ 136,699
Loans collectively evaluated for impairment	1,522,520	4,741,484	2,473,467	1,431,608	624,561		10,793,640
Loans evaluated for impairment balance, December 31	1,537,039	4,800,190	2,503,002	1,461,859	628,249		10,930,339
Purchased credit impaired loans	8,996	82,927	33,059	14,472	2,086		141,540
Balance, December 31	$ 1,546,035	$ 4,883,117	$ 2,536,061	$ 1,476,331	$ 630,335	$	$ 11,071,879

128

Table of Contents

The following tables present the balance in the allowance for loan losses for the year ended December 31, 2017, and the allowance for loan losses and recorded investment in loans based on portfolio segment by impairment method as of December 31, 2017. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories.

	Year Ended December 31, 2017						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Beginning balance	$ 11,522	$ 28,188	$ 16,517	$ 12,756	$ 4,188	$ 6,831	$ 80,002
Loans charged off	(1,632)	(3,749)	(3,980)	(5,578)	(2,532)		(17,471)
Recoveries of loans previously charged off	462	1,042	676	464	841		3,485
Net loans recovered (charged off)	(1,170)	(2,707)	(3,304)	(5,114)	(1,691)		(13,986)
Provision for loan losses	9,991	18,458	11,293	7,650	837	(3,979)	44,250
Balance, December 31	$ 20,343	$ 43,939	$ 24,506	$ 15,292	$ 3,334	$ 2,852	$ 110,266

	As of December 31, 2017						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 1,378	$ 768	$ 188	$ 843	$ 7	$	$ 3,184
Loans collectively evaluated for impairment	18,954	42,824	23,341	14,290	3,310	2,852	105,571
Loans evaluated for impairment balance, December 31	20,332	43,592	23,529	15,133	3,317	2,852	108,755
Purchased credit impaired loans	11	347	977	159	17		1,511

Balance, December 31	$ 20,343	$ 43,939	$ 24,506	$ 15,292	$ 3,334	$ 2,852	$ 110,266
Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 26,860	$ 124,124	$ 20,431	$ 21,867	$ 500	$	$ 193,782
Loans collectively evaluated for impairment	1,658,519	4,442,201	2,341,081	1,261,161	236,392		9,939,354
Loans evaluated for impairment balance, December 31	1,685,379	4,566,325	2,361,512	1,283,028	236,892		10,133,136
Purchased credit impaired loans	15,112	116,021	50,102	14,369	2,448		198,052
Balance, December 31	$ 1,700,491	$ 4,682,346	$ 2,411,614	$ 1,297,397	$ 239,340	$	$ 10,331,188

129

Table of Contents

The following tables present the balance in the allowance for loan losses for the loan portfolio for the year ended December 31, 2016, and the allowance for loan losses and recorded investment in loans based on portfolio segment by impairment method as of December 31, 2016. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories.

	Year Ended December 31, 2016						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Beginning balance	$ 10,782	$ 26,798	$ 14,818	$ 9,324	$ 5,016	$ 2,486	$ 69,224
Loans charged off	(382)	(3,586)	(5,597)	(5,778)	(2,158)		(17,501)
Recoveries of loans previously charged off	1,125	857	1,152	5,533	1,004		9,671
Net loans recovered (charged off)	743	(2,729)	(4,445)	(245)	(1,154)		(7,830)
Provision for loan losses	(3)	4,119	6,144	3,677	326	4,345	18,608
Balance, December 31	$ 11,522	$ 28,188	$ 16,517	$ 12,756	$ 4,188	$ 6,831	$ 80,002

	As of December 31, 2016						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 15	$ 1,416	$ 103	$ 95	$	$	$ 1,629
Loans collectively evaluated for impairment	11,463	25,641	15,796	12,596	4,176	6,831	76,503
Loans evaluated for impairment balance, December 31	11,478	27,057	15,899	12,691	4,176	6,831	78,132
Purchased credit impaired loans	44	1,131	618	65	12		1,870

Balance, December 31	$	11,522	$	28,188	$	16,517	$	12,756	$	4,188	$	6,831	$ 80,002
Loans receivable:													
Period end amount allocated to:													
Loans individually evaluated for impairment	$	12,374	$	74,723	$	35,187	$	25,873	$	1,096	$		$ 149,253
Loans collectively evaluated for impairment		1,105,921		3,080,201		1,608,805		1,085,891		198,064			7,078,882
Loans evaluated for impairment balance, December 31		1,118,295		3,154,924		1,643,992		1,111,764		199,160			7,228,135
Purchased credit impaired loans		17,548		75,933		53,070		11,449		1,564			159,564
Balance, December 31	$	1,135,843	$	3,230,857	$	1,697,062	$	1,123,213	$	200,724	$		$ 7,387,699

130

Table of Contents

The following is an aging analysis for loans receivable for the years ended December 31, 2018 and 2017:

	December 31, 2018						
	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	$ 3,598	$ 927	$ 24,710	$ 29,235	$ 4,777,449	$ 4,806,684	$ 9,679
Construction/land development	2,057	261	8,761	11,079	1,534,956	1,546,035	3,481
Agricultural	98		20	118	76,315	76,433	
Residential real estate loans							
Residential 1-4 family	5,890	3,745	19,137	28,772	1,946,814	1,975,586	1,753
Multifamily residential		200	972	1,172	559,303	560,475	
Total real estate	11,643	5,133	53,600	70,376	8,894,837	8,965,213	14,913
Consumer	5,712	168	3,632	9,512	433,593	443,105	720
Commercial and industrial	1,237	87	6,977	8,301	1,468,030	1,476,331	1,526
Agricultural and other	1,121		33	1,154	186,076	187,230	
Total	$ 19,713	$ 5,388	$ 64,242	$ 89,343	$ 10,982,536	$ 11,071,879	$ 17,159

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

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

Non-accruing loans at December 31, 2018 and 2017 were $47.1 million and $34.0 million, respectively.

Table of Contents

The following is a summary of the impaired loans as of December 31, 2018, 2017 and 2016:

	December 31, 2018			Year Ended	
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses	Average Recorded Investment	Interest Recognized
			(In thousands)		
Loans without a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	$ 42	$ 42	$	$ 34	$ 3
Construction/land development	16	16		27	1
Agricultural	11	11		15	1
Residential real estate loans					
Residential 1-4 family	223	223		193	16
Multifamily residential					
Total real estate	292	292		269	21
Consumer	27	27		24	2
Commercial and industrial	236	236		199	13
Agricultural and other					
Total loans without a specific valuation allowance	555	555		492	36
Loans with a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	42,474	38,594	460	34,891	1,632
Construction/land development	13,178	12,091	732	12,337	307
Agricultural	291	294	8	388	18
Residential real estate loans					
Residential 1-4 family	22,570	20,526	58	19,017	485
Multifamily residential	2,369	2,369	42	2,166	83
Total real estate	80,882	73,874	1,300	68,799	2,525
Consumer	3,830	3,629		1,236	52
Commercial and industrial	11,176	7,550	21	10,599	257
Agricultural and other	33	32		146	3
Total loans with a specific valuation allowance	95,921	85,085	1,321	80,780	2,837
Total impaired loans					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	42,516	38,636	460	34,925	1,635
Construction/land development	13,194	12,107	732	12,364	308

Agricultural	302	305	8	403	19
Residential real estate loans					
Residential 1-4 family	22,793	20,749	58	19,210	501
Multifamily residential	2,369	2,369	42	2,166	83
Total real estate	81,174	74,166	1,300	69,068	2,546
Consumer	3,857	3,656		1,260	54
Commercial and industrial	11,412	7,786	21	10,798	270
Agricultural and other	33	32		146	3
Total impaired loans	$ 96,476	$ 85,640	$ 1,321	$ 81,272	$ 2,873

Note: Purchased credit impaired loans are accounted for on a pooled basis under ASC 310-30. All of these pools are currently considered to be performing resulting in none of the purchased credit impaired loans being classified as impaired loans as of December 31, 2018.

Table of Contents

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

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

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

Table of Contents

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

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

Note: Purchased credit impaired loans are accounted for on a pooled basis under ASC 310-30. All of these pools are currently considered to be performing resulting in none of the purchased credit impaired loans being classified as impaired loans as of December 31, 2016.

Interest recognized on impaired loans during the years ended December 31, 2018, 2017 and 2016 was approximately $2.9 million, $2.4 million and $2.3 million, respectively. The amount of interest recognized on impaired loans on the cash basis is not materially different than the accrual basis.

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

	December 31, 2018			
	Risk Rated 6	Risk Rated 7	Risk Rated 8	Classified Total
	(In thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	$ 44,089	$ 484	$	$ 44,573
Construction/land development	15,236			15,236
Agricultural	301	3		304
Residential real estate loans				
Residential 1-4 family	34,731	253		34,984
Multifamily residential	972			972
Total real estate	95,329	740		96,069
Consumer	3,226	3		3,229
Commercial and industrial	16,362	585		16,947
Agricultural and other	48			48
Total	$ 114,965			