SEAHAWK DRILLING, INC.
Form 8-K
September 01, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) September 1, 2010 (September 1, 2010)

Seahawk Drilling, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**001-34231**	**72-1269401**
(State or other jurisdiction of incorporation)	**(Commission File Number)**	**(IRS Employer Identification No.)**

5 Greenway Plaza, Suite 2700, Houston, Texas 77046

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code (713) 369-7300

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

On September 1, 2010, Seahawk Drilling, Inc. (the Company) borrowed approximately $11.5 million under its Revolving Credit Agreement dated as of August 4, 2009 among the Company, as borrower, certain of its subsidiaries, Natixis, New York Branch, as administrative agent, and other lenders and agents party thereto, and as amended from time to time (the Credit Agreement) (incorporated by reference to Exhibit 4.2 of the Company s Registration Statement on Form 10 filed with the Securities and Exchange Commission on August 6, 2009, Exhibit 4.3 of the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, Exhibit 4.4 of the Company s Annual Report on Form 10-K for the year ended December 31, 2009, Exhibit 4.1 of the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 and Exhibit 4.1 of the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010). The Company will use the approximately $11.5 million, in addition to approximately $2.3 million of cash, to pay for work on the *Seahawk 3000* drilling rig. The Company expects that the loan will bear interest at 6.75% and will be repaid no later than the termination date of the Credit Agreement. The foregoing summary is qualified in its entirety by reference to the terms and provisions of the Credit Agreement. The Credit Agreement is described in the information statement that was filed as an exhibit to the Company s Registration Statement on Form 10, as amended, which was declared effective on August 12, 2009, which description is incorporated herein by reference.

The Company expects that the work on the *Seahawk 3000* will be completed in the second or third week of November 2010. Upon completion, the *Seahawk 3000* will commence working, pending the approval of permits, on its previously disclosed contracted backlog of approximately 197 days.

SIGNATURE

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

SEAHAWK DRILLING, INC.

Date: September 1, 2010

By: /s/ James R. Easter
James R. Easter
Senior Vice President and Chief Financial Officer

2

bsp; 4 100.0

FDIC indemnification accretion/(amortization), net

(2,202) (6,622) 4,420 (66.7) (6,158) (11,366) 5,208 (45.8)

Other income

1,385 793 592 74.7 2,549 1,554 995 64.0

Total non-interest income								
	$17,027	$11,539	$5,488	47.6%	$31,697	$23,720	$7,977	33.6%

Non-interest income increased $5.5 million, or 47.6%, to $17.0 million for the three-month period ended June 30, 2015 from $11.5 million for the same period in 2014. Non-interest income increased $8.0 million, or 33.6%, to $31.7 million for the six-month period ended June 30, 2015 from $23.7 million for the same period in 2014. Non-interest income excluding gain on acquisitions increased $6.3 million, or 26.7%, to $30.1 million for the six months ended June 30, 2015 from $23.7 million for the same period in 2014.

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

Additional details for the three months ended June 30, 2015 on some of the more significant changes are as follows:

The $137,000 decrease in service charges on deposit accounts primarily results from a decline in overdraft fees.

The $521,000 increase in other service charges and fees is primarily from our 2014 and 2015 acquisitions plus additional loan payoff fees generated by the Centennial Property Finance Group.

Table of Contents

The $863,000 increase in trust fees is primarily associated with $865,000 in 12B-1 trust fees during the second quarter of 2015, of which the Company anticipates only $77,000 will be received on a recurring basis.

The $1.2 million increase in mortgage lending income is from the additional lending volume from the 2014 and 2015 acquisitions combined with the organic loan growth during 2015. Also, the Company hired a mortgage lending president during 2014 to oversee this product offering. This additional management position is responsible for improved pricing and efficiencies which is ultimately generating more revenue.

The $294,000 decrease in insurance commissions is primarily from the sale of insurance book of business. Effective January 1, 2015, Centennial Insurance Agency sold the insurance book of business of the former Town and Country Insurance to Stephens Insurance, LLC of Little Rock. This disposal was completed at our book value with no gain or loss. The net profit on this book of business was immaterial.

The $4.4 million improvement in FDIC indemnification accretion/amortization, net is primarily associated with the approaching conclusion of the five-year covered loan loss-share agreements plus a lack of recent additional credit improvements in the covered loan portfolio which has not created additional FDIC indemnification asset amortization. For further discussion and analysis, reference Tables 2 and 3 in the Management s Discussion and Analysis.

The $592,000 increase in other income is primarily associated with a loan recovery on one of our FDIC covered transactions. We were able to collect a recovery of approximately $2.2 million in the second quarter of 2015 on a loan that was charged-off prior to the acquired bank being closed by the FDIC. Our agreement with the FDIC requires us to share 80% of these type recoveries with the FDIC and we are able to retain the remaining 20%. As a result, we recorded approximately $417,000 in other income for this recovery. The remaining increase in other income is primarily associated with the 2014 and 2015 acquisitions.

Additional details for the six months ended June 30, 2015 on some of the more significant changes are as follows:

The $630,000 decrease in service charges on deposit accounts primarily results from a decline in overdraft fees.

The $1.1 million increase in other service charges and fees is primarily from our 2014 and 2015 acquisitions plus additional loan payoff fees generated by the Centennial Property Finance Group.

The $859,000 increase in trust fees is primarily associated with $865,000 in 12B-1 trust fees during the second quarter of 2015, of which the Company anticipates only $77,000 will be received on a recurring basis.

The $1.6 million increase in mortgage lending income is from the additional lending volume from the 2014 and 2015 acquisitions. Also, the Company hired a mortgage lending president during 2014 to oversee this product offering. This additional management position is responsible for improved pricing and efficiencies which is ultimately generating more revenue.

The $1.1 million decrease in insurance commissions is primarily from the sale of insurance book of business. Effective January 1, 2015, Centennial Insurance Agency sold the insurance book of business of the former Town and Country Insurance to Stephens Insurance, LLC of Little Rock. This disposal was completed at our book value with no gain or loss. The net profit on this book of business was immaterial.

The $5.2 million improvement in FDIC indemnification accretion/amortization, net is primarily associated with the approaching conclusion of the five-year covered loan loss-share agreements plus a lack of recent additional credit improvements in the covered loan portfolio which has not created additional FDIC indemnification asset amortization. For further discussion and analysis, reference Tables 2 and 3 in the Management s Discussion and Analysis.

The $995,000 increase in other income is primarily associated with two loan recoveries on two of our FDIC covered transactions. We were able to collect a total recovery of approximately $3.2 million in the first six months of 2015 on two loans that were charged-off prior to the acquired bank being closed by the FDIC. Our agreement with the FDIC requires us to share 80% of these type recoveries with the FDIC and we are able to retain the remaining 20%. As a result, we recorded approximately $626,000 in other income for these two recoveries. The remaining increase in other income is primarily associated with the 2014 and 2015 acquisitions.

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 10 below sets forth a summary of non-interest expense for the three and six-month periods ended June 30, 2015 and 2014, as well as changes for the three and six-month periods ended June 30, 2015 compared to the same periods in 2014.

Table 10: Non-Interest Expense

	Three Months Ended June 30,		2015 Change from 2014		Six Months Ended June 30,		2015 Change from 2014	
	2015	2014			2015	2014		
	(Dollars in thousands)							
Salaries and employee benefits	$ 22,056	$ 18,813	$ 3,243	17.2%	$ 41,446	$ 37,746	$ 3,700	9.8%
Occupancy and equipment	6,678	6,251	427	6.8	12,727	12,477	250	2.0
Data processing expense	3,063	1,793	1,270	70.8	5,482	3,586	1,896	52.9
Other operating expenses:								
Advertising	657	581	76	13.1	1,436	1,103	333	30.2
Merger and acquisition expenses		106	(106)	(100.0)	1,417	955	462	48.4
Amortization of intangibles	1,100	1,147	(47)	(4.1)	2,229	2,314	(85)	(3.7)
Electronic banking expense	1,299	1,312	(13)	(1.0)	2,531	2,650	(119)	(4.5)
Directors fees	281	206	75	36.4	576	433	143	33.0
Due from bank service charges	286	205	81	39.5	501	404	97	24.0
FDIC and state assessment	1,172	1,058	114	10.8	2,568	2,172	396	18.2
Insurance	617	582	35	6.0	1,283	1,196	87	7.3
Legal and accounting	706	419	287	68.5	1,153	836	317	37.9
Other professional fees	560	583	(23)	(3.9)	1,048	1,090	(42)	(3.9)
Operating supplies	509	515	(6)	(1.2)	943	987	(44)	(4.5)
Postage	295	327	(32)	(9.8)	604	679	(75)	(11.0)
Telephone	470	463	7	1.5	974	917	57	6.2
Other expense	3,501	4,259	(758)	(17.8)	7,045	8,432	(1,387)	(16.4)
Total non-interest expense	$ 43,250	$ 38,620	$ 4,630	12.0%	$ 83,963	$ 77,977	$ 5,986	7.7%

Non-interest expense for the three months ended June 30, 2015 was $43.3 million compared to $38.6 million for the three months ended June 30, 2014. Non-interest expense, excluding merger expenses, was $43.3 million for the three months ended June 30, 2015 compared to $38.5 million for the same quarter in 2014. Non-interest expense for the six months ended June 30, 2015 was $84.0 million compared to $78.0 million for the six months ended June 30, 2014. Non-interest expense, excluding merger expenses, was $82.5 million for the six months ended June 30, 2015 compared to $77.0 million for the same quarter in 2014.

The change in non-interest expense this quarter and the six months was 12.0% and 7.7%, respectively, when compared to a year ago due to the completion of the 2014 and 2015 acquisitions and the opening of the Centennial CFG loan production office. While the cost of doing business in New York City is significantly higher than our Arkansas, Florida and Alabama markets, the Company is still committed to cost-saving measures while achieving our goals of growing the Company.

Table of Contents

Income Taxes

The income tax expense increased $3.5 million, or 21.4%, to $19.9 million for the three-month period ended June 30, 2015, from $16.4 million as of June 30, 2014. The income tax expense increased $6.1 million, or 19.1%, to $38.1 million for the six-month period ended June 30, 2015, from $32.0 million as of June 30, 2014. The effective income tax rate was 37.03% and 36.92% for the three and six-month periods ended June 30, 2015, compared to 36.61% and 36.44% for the same periods in 2014, respectively. The primary cause of the increase in taxes is the result of our higher earnings at our marginal tax rate of 39.225%.

Financial Condition as of and for the Period Ended June 30, 2015 and December 31, 2014

Our total assets as of June 30, 2015 increased $671.1 million to $8.07 billion from the $7.40 billion reported as of December 31, 2014. Our loan portfolio not covered by loss share increased by $681.7 million to $5.50 billion as of June 30, 2015, from $4.82 billion as of December 31, 2014. This increase is primarily associated with the first quarter of 2015 acquisition of $37.9 million of Doral Florida non-covered loans, net of the $4.3 million discount, the first quarter of 2015 migration of $56.3 million net covered loans to non-covered status, the second quarter of 2015 acquisition of $289.1 million in national commercial real estate loans plus $298.5 million of organic loan growth since December 31, 2014. Our loan portfolio covered by loss share decreased by $80.3 million to $159.9 million as of June 30, 2015, from $240.2 million as of December 31, 2014. This decrease is primarily associated with the first quarter 2015 migration of $56.3 million net covered loans to non-covered status plus normal pay-downs and payoffs. Stockholders equity increased $46.4 million to $1.06 billion as of June 30, 2015, compared to $1.02 billion as of December 31, 2014. The annualized improvement in stockholders equity for the first six months of 2015 was 9.2%. The increase in stockholders equity is primarily associated with the $63.9 million of comprehensive income less the $16.9 million of dividends paid for the first six months of 2015.

Loan Portfolio

Loans Receivable Not Covered by Loss Share

On April 1, 2015, the Company acquired a pool of national commercial real estate loans from J.C. Flowers & Co. LLC totaling approximately $289.1 million. The Company produced approximately $279.9 million of organic non-covered loan growth since March 31, 2015, of which $223.7 million is associated with loan originations in the legacy footprint with the remaining $56.2 million being associated with Centennial CFG.

During the first quarter of 2015, the five-year loss share agreements on the commercial real estate and commercial and industrial loans acquired through the FDIC-assisted acquisitions of Old Southern and Key West concluded. As a result, $56.3 million of these loans including their associated discounts previously classified as covered loans have migrated to non-covered loans status.

Our non-covered loan portfolio averaged $5.34 billion and $4.14 billion during the three-month periods ended June 30, 2015 and 2014, respectively. Our non-covered loan portfolio averaged $5.10 billion and $4.15 billion during the six-month periods ended June 30, 2015 and 2014, respectively. Non-covered loans were $5.50 billion as of June 30, 2015 compared to $4.82 billion as of December 31, 2014, which is a $681.7 million, or 28.5%, annualized increase. Excluding the acquisition of Doral Florida, the migration of Old Southern and Key West loans from loans covered by FDIC loss share to loans not covered by loss share status, and the acquisition of national commercial real estate loans, the loans increased $298.5 million or an annualized increase of 12.5%.

The most significant components of the non-covered loan portfolio were commercial real estate, residential real estate, consumer, and commercial and industrial loans. These non-covered loans are primarily originated within our market areas of Arkansas, Florida, South Alabama and New York, and are generally secured by residential or commercial real estate or business or personal property within our market areas. Non-covered loans were approximately $3.42 billion, $1.51 billion, $229.0 million and $345.4 million as of June 30, 2015 in Arkansas, Florida, Alabama and New York, respectively.

Table of Contents

As of June 30, 2015, we had $358.2 million of construction land development loans which were collateralized by land. This consisted of $219.5 million for raw land and $138.7 million for land with commercial and or residential lots.

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

Table 11: Loan Portfolio Not Covered by Loss Share

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

As of acquisition date, the Company evaluated $1.61 billion of net loans ($1.67 billion gross loans less $62.1 million discount) purchased in conjunction with the acquisition of Liberty in accordance with the provisions of FASB ASC Topic 310-20, *Nonrefundable Fees and Other Costs*. As of June 30, 2015, the net loan balance of the Liberty ASC Topic 310-20 purchased loans is $920.1 million ($944.3 million gross loans less $24.2 million discount). The fair value discount is being accreted into interest income over the weighted-average life of the loans using a constant yield method.

As of acquisition date, the Company evaluated $120.5 million of net loans ($162.4 million gross loans less $41.9 million discount) purchased in conjunction with the acquisition of Liberty in accordance with the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. As of June 30, 2015, the net loan balance of the Liberty ASC Topic 310-30 purchased loans is $77.5 million ($112.7 million gross loans less $35.2 million discount). These purchased non-covered loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected. During the latter part of the second quarter of 2014 the Company received a $6.0 million unexpected recovery from one large commercial loan that was significantly charged down prior to the acquisition date. Since the Liberty impaired loans are accounted for on a pool basis, this recovery is increasing the yield on the impaired loans over the weighted-average life of the loans in the pool going forward by $4.7 million.

Non-Covered Commercial Real Estate Loans. In our market areas, we originate non-farm and non-residential loans, which are primarily secured by commercial real estate, and construction/land development loans and agricultural loans, which are generally secured by real estate. Our commercial mortgage loans are generally collateralized by first liens on real estate and amortized over a 15 to 25 year period with balloon payments due at the end of one to five years. These loans are generally underwritten by assessing cash flow (debt service coverage), primary and secondary sources 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, 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.

Table of Contents

As of June 30, 2015, non-covered commercial real estate loans totaled $3.36 billion, or 61.0% of our non-covered loan portfolio, which is comparable to $2.76 billion, or 57.3% of our non-covered loan portfolio, as of December 31, 2014. Our Arkansas, Florida, Alabama and New York non-covered commercial real estate loans were $1.95 billion, $970.0 million, $145.4 million and $288.8 million at June 30, 2015, respectively.

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

As of June 30, 2015, non-covered residential real estate loans totaled $1.32 billion, or 24.0% of our non-covered loan portfolio, compared to $1.21 billion, or 25.2% of our non-covered loan portfolio, as of December 31, 2014. Our Arkansas, Florida, Alabama and New York non-covered residential real estate loans were $839.8 million, $365.3 million, $57.9 million and $56.5 million at June 30, 2015, respectively.

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

As of June 30, 2015, our non-covered consumer loan portfolio totaled $48.3 million, or 0.9% of our total non-covered loan portfolio, compared to the $56.7 million, or 1.2% of our non-covered loan portfolio as of December 31, 2014. Our Arkansas, Florida and Alabama non-covered consumer loans were $32.4 million, $14.7 million and $1.2 million at June 30, 2015, respectively. There were no consumer loans outstanding in New York as of June 30, 2015.

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

As of June 30, 2015, non-covered commercial and industrial loans outstanding totaled $658.5 million, or 12.0% of our non-covered loan portfolio, which is comparable to $670.1 million, or 13.9% of our non-covered loan portfolio, as of December 31, 2014. Our Arkansas, Florida and Alabama non-covered commercial and industrial loans were $482.8 million, $151.5 million and $24.2 million at June 30, 2015, respectively. There were no commercial and industrial loans outstanding in New York as of June 30, 2015.

Table of Contents

Total Loans Receivable

Table 12 presents total loans receivable by category.

Table 12: Total Loans Receivable

As of June 30, 2015

	Loans Receivable Not Covered by Loss Share	Loans Receivable Covered by FDIC Loss Share (In thousands)	Total Loans Receivable
Real estate:			
Commercial real estate loans			
Non-farm/non-residential	$ 2,477,688	$ 54,777	$ 2,532,465
Construction/land development	796,589	24,003	820,592
Agricultural	81,633	848	82,481
Residential real estate loans			
Residential 1-4 family	997,952	72,002	1,069,954
Multifamily residential	321,593	1,394	322,987
Total real estate	4,675,455	153,024	4,828,479
Consumer	48,320	17	48,337
Commercial and industrial	658,501	6,118	664,619
Agricultural	72,766		72,766
Other	43,986	732	44,718
Total	$ 5,499,028	$ 159,891	$ 5,658,919

Non-Performing Assets Not Covered by Loss Share

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

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

We have non-covered loans acquired with deteriorated credit quality in our June 30, 2015 financial statements as a result of our historical acquisitions plus the migration of loans covered by FDIC loss share to loans not covered by loss share status. The credit metrics most heavily impacted by our acquisitions of acquired non-covered loans with deteriorated credit quality were the following credit quality indicators listed in Table 13 below:

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

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

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

67

Table of Contents

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

Table 13 sets forth information with respect to our non-performing non-covered assets as of June 30, 2015 and December 31, 2014. As of these dates, all non-performing non-covered restructured loans are included in non-accrual non-covered loans.

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

	As of June 30, 2015	As of December 31, 2014
	(Dollars in thousands)	
Non-accrual non-covered loans	$ 29,033	$ 24,691
Non-covered loans past due 90 days or more (principal or interest payments)	10,847	14,871
Total non-performing non-covered loans	39,880	39,562
Other non-performing non-covered assets		
Non-covered foreclosed assets held for sale, net	16,539	16,951
Other non-performing non-covered assets	12	
Total other non-performing non-covered assets	16,551	16,951
Total non-performing non-covered assets	$ 56,431	$ 56,513
Allowance for loan losses for non-covered loans to non- performing non-covered loans	140.11%	132.63%
Non-performing non-covered loans to total non-covered loans	0.73	0.82
Non-performing non-covered assets to total non-covered assets	0.71	0.79

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

Total non-performing non-covered loans were $39.9 million as of June 30, 2015, compared to $39.6 million as of December 31, 2014, for an increase of $318,000. Of the $318,000 increase in non-performing loans, $1.2 million is from an increase in non-performing loans in our Arkansas market combined with a $384,000 increase in non-performing loans in our Alabama market offset by a $1.2 million decrease in non-performing loans in Florida. Non-performing loans at June 30, 2015 are approximately $25.6 million, $13.6 million and $686,000 in the Arkansas, Florida and Alabama markets, respectively. There were no non-performing loans in New York market at June 30, 2015.

Although the current state of the real estate market has improved, uncertainties still present in the economy may continue to increase our level of non-performing non-covered loans. While we believe our allowance for loan losses is adequate and our purchased loans are adequately discounted at June 30, 2015, 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 2015. Our current or historical provision levels should not be relied upon as a predictor or indicator of future levels going forward.

Table of Contents

Troubled debt restructurings (TDRs) generally occur when a borrower is experiencing, or is expected to experience, financial difficulties in the near term. As a result, the Bank will work with the borrower to prevent further difficulties, and ultimately to improve the likelihood of recovery on the loan. In those circumstances it may be beneficial to restructure the terms of a loan and work with the borrower for the benefit of both parties, versus forcing the property into foreclosure and having to dispose of it in an unfavorable and depressed real estate market. When we have modified the terms of a loan, we usually either reduce the monthly payment and/or interest rate for generally about three to twelve months. For our troubled debt restructurings that accrue interest at the time the loan is restructured, it would be a rare exception to have charged-off any portion of the loan. Only non-performing restructured loans are included in our non-performing non-covered loans. As of June 30, 2015, we had $27.4 million of non-covered restructured loans that are in compliance with the modified terms and are not reported as past due or non-accrual in Table 13. Our Florida market contains $14.4 million of these non-covered restructured loans.

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

The majority of the Bank s loan modifications relate to commercial lending and involve reducing the interest rate, changing from a principal and interest payment to interest-only, a lengthening of the amortization period, or a combination of some or all of the three. In addition, it is common for the Bank to seek additional collateral or guarantor support when modifying a loan. At June 30, 2015, the amount of troubled debt restructurings was $29.2 million, an increase of 8.6% from $26.9 million at December 31, 2014. As of June 30, 2015 and December 31, 2014, 93.8% and 100.0%, respectively, of all restructured loans were performing to the terms of the restructure.

Total foreclosed assets held for sale not covered by loss share were $16.5 million as of June 30, 2015, compared to $17.0 million as of December 31, 2014 for a decrease of $412,000. The foreclosed assets held for sale not covered by loss share as of June 30, 2015 are comprised of $11.9 million of assets located in Arkansas, $4.7 million of assets located in Florida and the remaining $15,000 located in Alabama.

During the first six months of 2015, we had four non-covered foreclosed properties with a carrying value greater than $1.0 million. Two of these four properties are non-farm/non-residential properties in the Florida Panhandle and hold an aggregate carrying value of $2.1 million at June 30, 2015. Another non-farm/non-residential property was acquired in the Liberty acquisition and holds an aggregate carrying value of $3.2 million at June 30, 2015. The remaining property is a development loan in Northwest Arkansas which has been foreclosed since the first quarter of 2011. The carrying value was $2.0 million at June 30, 2015. The Company does not currently anticipate any additional losses on these properties. As of June 30, 2015, no other foreclosed assets held for sale not covered by loss share have a carrying value greater than $1.0 million.

Table of Contents

Table 14 shows the summary of foreclosed assets held for sale as of June 30, 2015 and December 31, 2014.

Table 14: Total Foreclosed Assets Held For Sale

	As of June 30, 2015			As of December 31, 2014		
	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	$ 7,093	$ 3,525	$ 10,618	$ 6,894	$ 3,935	$ 10,829
Construction/land development	5,751	471	6,222	6,189	2,847	9,036
Agricultural					3	3
Residential real estate loans						
Residential 1-4 family	2,852	476	3,328	3,381	1,086	4,467
Multifamily residential	843		843	487		487
Total foreclosed assets held for sale	$ 16,539	$ 4,472	$ 21,011	$ 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 June 30, 2015, average non-covered impaired loans were $85.5 million compared to $91.8 million as of December 31, 2014. As of June 30, 2015, non-covered impaired loans were $84.1 million compared to $85.4 million as of December 31, 2014 for a decrease of $1.4 million. This decrease is primarily associated with the improvements in loan balances with a specific allocation offset by an increase in the level of loans categorized as TDRs. As of June 30, 2015, our Arkansas, Florida and Alabama markets accounted for approximately $48.1 million, $35.3 million and $686,000 of the non-covered impaired loans, respectively. There were no non-covered impaired loans in New York market at June 30, 2015.

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 impaired non-covered loans are not classified as non-performing non-covered assets for the recognition of interest income as the pools are considered to be performing. However, for the purpose of calculating the non-performing credit metrics, the Company has included all of the non-covered loans which are contractually 90 days past due and still accruing, including those in performing pools. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all purchased impaired loans.

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

As of June 30, 2015 and December 31, 2014, there were no non-covered loans acquired with deteriorated credit quality on non-accrual status as a result of the loans being accounted for on the pool basis and the pools are considered to be performing for the accruing of interest income. Also, acquired loans contractually past due 90 days or more are accruing interest because the pools are considered to be performing for the purpose of accruing interest income.

70

Table of Contents

Past Due and Non-Accrual Loans

Table 15 shows the summary non-accrual loans as of June 30, 2015 and December 31, 2014:

Table 15: Total Non-Accrual Loans

	As of June 30, 2015			As of December 31, 2014		
	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	$ 10,222	$	$ 10,222	$ 8,901	$	$ 8,901
Construction/land development	1,763		1,763	926		926
Agricultural						
Residential real estate loans						
Residential 1-4 family	13,656		13,656	11,949		11,949
Multifamily residential	1,330		1,330	1,344		1,344
Total real estate	26,971		26,971	23,120		23,120
Consumer	529		529	279		279
Commercial and industrial	1,151		1,151	1,108		1,108
Other	382		382	184		184
Total non-accrual loans	$ 29,033	$	$ 29,033	$ 24,691	$	$ 24,691

If the non-covered non-accrual loans had been accruing interest in accordance with the original terms of their respective agreements, interest income of approximately $403,000 and $365,000 for the three-month periods ended June 30, 2015 and 2014, respectively, would have been recorded. If the non-covered non-accrual loans had been accruing interest in accordance with the original terms of their respective agreements, interest income of approximately $803,000 and $632,000 for the six-month periods ended June 30, 2015 and 2014, respectively, would have been recorded. The interest income recognized on the non-covered non-accrual loans for the three and six-month periods ended June 30, 2015 and 2014 was considered immaterial.

Table 16 shows the summary of accruing past due loans 90 days or more as of June 30, 2015 and December 31, 2014:

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

	As of June 30, 2015			As of December 31, 2014		
	Not Covered by Loss	Covered by FDIC Loss Share	Total	Not Covered by Loss	Covered by FDIC Loss Share	Total

	Share			Share		
			(In thousands)			
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	$ 2,928	$ 2,089	$ 5,017	$ 5,880	$ 9,029	$ 14,909
Construction/land development	1,392	2,191	3,583	734	4,376	5,110
Agricultural	31	72	103	34	72	106
Residential real estate loans						
Residential 1-4 family	4,794	4,887	9,681	4,128	7,597	11,725
Multifamily residential	1		1	691		691
Total real estate	9,146	9,239	18,385	11,467	21,074	32,541
Consumer	92		92	579		579
Commercial and industrial	1,609	358	1,967	2,825	1,387	4,212
Other					32	32
Total loans accruing past due 90 days or more	$ 10,847	$ 9,597	$ 20,444	$ 14,871	$ 22,493	$ 37,364

71

Table of Contents

The Company s total past due and non-accrual covered loans to total covered loans was 6.0% and 9.4% as of June 30, 2015 and December 31, 2014, respectively.

Allowance for Loan Losses for Non-Covered Loans

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

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

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

For collateral dependent loans, we do not consider an appraisal outdated simply due to the passage of time. However, if 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 a new appraisal for the impairment analysis. The recognition of any provision or related charge-off on a collateral dependent loan is either through annual credit analysis or, many times, when the relationship becomes delinquent. If the borrower is not current, we will update our credit and cash flow analysis to determine the borrower s repayment ability. If we determine this ability does not exist and it appears that the collection of the entire principal and interest is not likely, then the loan could be placed on non-accrual status. In any case, loans are classified as non-accrual no later than 105 days past due. If the loan requires a quarterly impairment analysis, this analysis is completed in conjunction with the completion of the analysis of the adequacy of the allowance for loan losses for non-covered loans. Any exposure identified through the impairment analysis is shown as a specific reserve on the individual impairment. If it is determined that a new appraisal is required, it is ordered and will be taken into consideration during 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 over $1.0 million or the total loan relationship is over $2.0 million, our policy requires an annual credit review. In addition, we update all financial information and calculate the global repayment ability of the borrower/guarantors.

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.

Table of Contents

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

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

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

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

Loans Collectively Evaluated for Impairment. Non-covered loans collectively evaluated for impairment was $5.17 billion and $4.51 billion at June 30, 2015 and December 31, 2014, respectively. The percentage of the allowance for loan losses for non-covered loans allocated to non-covered loans collectively evaluated for impairment to the total non-covered loans collectively evaluated for impairment increased from 0.96% at December 31, 2014 to 0.97% at June 30, 2015. This increase is the result of the normal changes associated with the calculation of the allocation of the allowance for loan losses and includes routine changes from the previous year end reporting period such as organic loan growth, unallocated allowance, individual loan impairments, asset quality and net charge-offs.

Charge-offs and Recoveries. Total non-covered charge-offs increased to $3.3 million and $6.5 million for the three and six months ended June 30, 2015, respectively, compared to $2.5 million and $5.0 million for the same periods in 2014, respectively. Total non-covered recoveries increased to $1.2 million and $1.7 million for the three and six months ended June 30, 2015, respectively, compared to $635,000 and $1.1 million for the same periods in 2014, respectively. For the three months ended June 30, 2015, the net charge-offs were $2.2 million for Arkansas and $13,000 for Alabama plus net recoveries of $38,000 for Florida, equaling a net charge-off position of $2.1 million. For the six months ended June 30, 2015, the net charge-offs were $4.2 million for Arkansas, $511,000 for Florida and $21,000 for Alabama, equaling a net charge-off position of $4.8 million.

During the first six months of 2015, there were $6.5 million in non-covered charge-offs and $1.7 million in non-covered recoveries. While these charge-offs and recoveries consisted of many relationships, there were no individual relationships consisting of charge-offs greater than $1.0 million.

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

Table of Contents

Table 17 shows the allowance for loan losses, charge-offs and recoveries for non-covered loans as of and for the three and six-month periods ended June 30, 2015 and 2014.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Balance, beginning of period	$ 52,731	$ 44,024	$ 52,471	$ 39,022
Loans charged off				
Real estate:				
Commercial real estate loans:				
Non-farm/non-residential	854	601	1,656	668
Construction/land development	394	145	477	167
Agricultural				
Residential real estate loans:				
Residential 1-4 family	1,088	870	1,952	1,217
Multifamily residential				266
Total real estate	2,336	1,616	4,085	2,318
Consumer	18	32	106	198
Commercial and industrial	590	316	1,419	1,184
Agricultural				
Other	395	562	879	1,250
Total loans charged off	3,339	2,526	6,489	4,950
Recoveries of loans previously charged off				
Real estate:				
Commercial real estate loans:				
Non-farm/non-residential	700	199	701	221
Construction/land development	8	20	66	45
Agricultural				
Residential real estate loans:				
Residential 1-4 family	92	(6)	249	46
Multifamily residential		2		7
Total real estate	800	215	1,016	319
Consumer	22	152	40	214
Commercial and industrial	205	30	236	65
Agricultural				
Other	157	238	433	525
Total recoveries	1,184	635	1,725	1,123

Net loans charged off (recovered)	2,155	1,891	4,764	3,827
Provision for loan losses for non-covered loans	5,301	6,115	8,170	13,053
Balance, June 30	$ 55,877	$ 48,248	$ 55,877	$ 48,248
Net charge-offs (recoveries) on loans not covered by loss share to average non-covered loans	0.16%	0.18%	0.19%	0.19%
Allowance for loan losses for non-covered loans to total non-covered loans[1]	1.02	1.17	1.02	1.17
Allowance for loan losses for non-covered loans to net charge-offs (recoveries)	646	10,234	582	2,542

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

74

Table of Contents

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

The changes for the period ended June 30, 2015 and the year ended December 31, 2014 in the allocation of the allowance for loan losses for non-covered loans for the individual types of loans are primarily associated with changes in the ASC 310 calculations, both individual and aggregate, and changes in the ASC 450 calculations. These calculations are affected by changes in individual loan impairments, changes in asset quality, net charge-offs during the period and normal changes in the outstanding loan portfolio, as well any changes to the general allocation factors due to changes within the actual characteristics of the loan portfolio.

Table 18 presents the allocation of allowance for loan losses for non-covered loans as of June 30, 2015 and December 31, 2014.

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

	As of June 30, 2015		As of December 31, 2014	
	Allowance Amount	% of loans[1]	Allowance Amount	% of loans[1]
	(Dollars in thousands)			
Real estate:				
Commercial real estate loans:				
Non-farm/non-residential	$ 19,547	45.1%	$ 16,872	41.3%
Construction/land development	9,403	14.5	8,116	14.5
Agricultural	435	1.5	355	1.5
Residential real estate loans:				
Residential 1-4 family	9,181	18.1	9,909	20.0
Multifamily residential	3,753	5.8	3,537	5.2
Total real estate	42,319	85.0	38,789	82.5
Consumer	669	0.9	763	1.2
Commercial and industrial	7,534	12.0	5,950	13.9
Agricultural	4,342	1.3	5,035	1.0
Other		0.8		1.4
Unallocated	1,013		1,934	
Total	$ 55,877	100.0%	$ 52,471	100.0%

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

Allowance for Loan Losses for Covered Loans

Allowance for loan losses for covered loans were $4.4 million and $2.5 million at June 30, 2015 and December 31, 2014, respectively.

Total covered charge-offs decreased to zero or the three months ended June 30, 2015, compared to $1.1 million for the same period in 2014. Total covered recoveries increased to $186,000 for the three months ended June 30, 2015, compared to $128,000 for the same period in 2014. There was an $80,000 provision for loan losses taken on covered loans during the three months ended June 30, 2015. There was zero provision for loan losses taken on covered loans during the three months ended June 30, 2014.

75

Table of Contents

Total charge-offs decreased to $772,000 for the six months ended June 30, 2015, compared to $1.1 million for the same period in 2014. Total recoveries increased to $451,000 for the six months ended June 30, 2015, compared to $302,000 for the same period in 2014. There was $998,000 provision for loan losses taken on covered loans during the six months ended June 30, 2015. There was zero provision for loan losses taken on covered loans during the six months ended June 30, 2014.

Investments and Securities

Our securities portfolio is the second largest component of earning assets and provides a significant source of revenue. Securities within the portfolio are classified as held-to-maturity, available-for-sale, or trading based on the intent and objective of the investment and the ability to hold to maturity. Fair values of securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities. The estimated effective duration of our securities portfolio was 3.0 years as of June 30, 2015.

As of June 30, 2015 and December 31, 2014 we had $337.0 million and $356.8 million of held-to-maturity securities, respectively. Of the $337.0 million of held-to-maturity securities, $148.5 million were invested in mortgage-backed securities, $180.6 million were invested in state and political subdivisions, and $7.8 million were invested in obligations of U.S. Government-sponsored enterprises as of June 30, 2015. Of the $356.8 million of held-to-maturity securities, $161.1 million were invested in mortgage-backed securities, $191.0 million were invested in state and political subdivisions, and $4.7 million were invested in U.S. Government-sponsored enterprises as of December 31, 2014.

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 $1.08 billion and $1.07 billion as of June 30, 2015 and December 31, 2014, respectively.

As of June 30, 2015, $492.3 million, or 45.6%, of our available-for-sale securities were invested in mortgage-backed securities, compared to $503.1 million, or 47.1%, of our available-for-sale securities as of December 31, 2014. To reduce our income tax burden, $183.0 million, or 16.9%, of our available-for-sale securities portfolio as of June 30, 2015, was primarily invested in tax-exempt obligations of state and political subdivisions, compared to $176.6 million, or 16.6%, of our available-for-sale securities as of December 31, 2014. Also, we had approximately $357.5 million, or 33.1%, invested in obligations of U.S. Government-sponsored enterprises as of June 30, 2015, compared to $336.1 million, or 31.5%, of our available-for-sale securities as of December 31, 2014.

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

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

Deposits

Our deposits averaged $5.91 billion and $5.76 billion for the three and six-month periods ended June 30, 2015. Total deposits as of June 30, 2015 were $5.88 billion, for an annualized increase of 16.9% from December 31, 2014. 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. As of June 30, 2015 and December 31, 2014, brokered deposits were $82.0 million and $33.6 million, respectively. Included in these brokered deposits are $27.0 million and $28.6 million of Certificate of Deposit Account Registry Service (CDARS) as of June 30, 2015 and December 31, 2014, respectively. CDARS are deposits of our customers we have swapped with other institutions. This gives our customers the potential for FDIC insurance of up to $50.0 million.

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

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

Table 19 reflects the classification of the average deposits and the average rate paid on each deposit category, which is in excess of 10 percent of average total deposits, for the three and six-month periods ended June 30, 2015 and 2014.

Table 19: Average Deposit Balances and Rates

	Three Months Ended June 30,			
	2015		2014	
	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
	(Dollars in thousands)			
Non-interest-bearing transaction accounts	$ 1,344,580	%	$ 1,054,233	%
Interest-bearing transaction accounts	2,732,292	0.22	2,457,506	0.19
Savings deposits	417,198	0.06	351,350	0.06
Time deposits:				
$100,000 or more	808,688	0.53	734,974	0.65
Other time deposits	610,115	0.44	645,275	0.42
Total	$ 5,912,873	0.22%	$ 5,243,338	0.24%

	Six Months Ended June 30,			
	2015		2014	
	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
	(Dollars in thousands)			
Non-interest-bearing transaction accounts	$ 1,286,275	%	$ 1,029,004	%
Interest-bearing transaction accounts	2,685,063	0.22	2,447,322	0.10
Savings deposits	410,420	0.06	349,780	0.03

Time deposits:				
$100,000 or more	736,323	0.60	782,364	0.34
Other time deposits	641,300	0.42	671,391	0.23
Total	$ 5,759,381	0.23%	$ 5,279,861	0.13%

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 $25.7 million, or 14.6%, from $176.5 million as of December 31, 2014 to $150.7 million as of June 30, 2015.

77

Table of Contents

FHLB Borrowed Funds

Our FHLB borrowed funds were $866.9 million and $698.0 million at June 30, 2015 and December 31, 2014, respectively. At June 30, 2015, $25.0 million and $841.9 million of the outstanding balance were issued as short-term and long-term advances, respectively. At December 31, 2014, $515.0 million and $183.0 million of the outstanding balance were issued as short-term and long-term advances, respectively. Our remaining FHLB borrowing capacity was $735.8 billion and $905.6 million as of June 30, 2015 and December 31, 2014, respectively. Expected maturities will differ from contractual maturities, because FHLB may have the right to call or HBI may have the right to prepay certain obligations.

Subordinated Debentures

Subordinated debentures, which consist of guaranteed payments on trust preferred securities, were $60.8 million as June 30, 2015 and December 31, 2014.

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

Stockholders Equity

Stockholders equity was $1.06 billion at June 30, 2015 compared to $1.02 billion at December 31, 2014, an annualized increase of 9.2%. As of June 30, 2015 and December 31, 2014 our equity to asset ratio was 13.1% and 13.7% respectively. Book value per share was $15.67 at June 30, 2015 compared to $15.03 at December 31, 2014, an 8.6% annualized increase.

Common Stock Cash Dividends. We declared cash dividends on our common stock of $0.125 per share and $0.075 per share for each of the three-month periods ended June 30, 2015 and 2014, respectively. The common stock dividend payout ratio for the three months ended June 30, 2015 and 2014 was 24.92% and 17.18%, respectively. The common stock dividend payout ratio for the six months ended June 30, 2015 and 2014 was 25.98% and 17.52%, respectively. For the third quarter of 2015, the Board of Directors declared a regular $0.15 per share quarterly cash dividend payable September 2, 2015, to shareholders of record August 12, 2015.

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

78

Table of Contents

Liquidity and Capital Adequacy Requirements

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

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 (Basel III). Basel III became effective for the Company and its bank subsidiary on January 1, 2015.

Basel III applies to all depository institutions, bank holding companies with total consolidated assets of $500 million or more, and savings and loan holding companies. Among other things, Basel III establishes a new minimum and well-capitalized common equity Tier 1 capital requirement of 4.5% and 6.5% of risk-weighted assets, respectively. It also raises the minimum and well-capitalized Tier 1 risk-based capital requirement to 6% and 8% of risk-weighted assets, respectively. Basel III changes assigned higher risk weightings (150%) to exposures that are more than 90 days past due or are on non-accrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property.

Basel III permanently grandfathers trust preferred securities and other non-qualifying capital instruments that were issued and outstanding as of May 19, 2010 in the Tier 1 capital of bank holding companies with total consolidated assets of less than $15.00 billion as of December 31, 2009.

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 June 30, 2015 and December 31, 2014, we met all regulatory capital adequacy requirements to which we were subject.

Table of Contents

Table 20 presents our risk-based capital ratios as of June 30, 2015 and December 31, 2014.

Table 20: Risk-Based Capital

	As of June 30, 2015	As of December 31, 2014
	(Dollars in thousands)	
Tier 1 capital		
Stockholders equity	$ 1,061,701	$ 1,015,292
Goodwill and core deposit intangibles, net	(322,170)	(345,762)
Unrealized (gain) loss on available-for-sale securities	(5,884)	(7,009)
Deferred tax assets	(7,926)	
Total common equity Tier 1 capital	725,721	662,521
Qualifying trust preferred securities	59,000	59,000
Total Tier 1 capital	784,721	721,521
Tier 2 capital		
Qualifying allowance for loan losses	60,258	55,011
Total Tier 2 capital	60,258	55,011
Total risk-based capital	$ 844,979	$ 776,532
Average total assets for leverage ratio	$ 7,570,625	$ 7,000,248
Risk weighted assets	$ 6,765,022	$ 5,747,191
Ratios at end of period		
Common equity Tier 1 capital	10.73%	N/A
Leverage ratio	10.37	10.31%
Tier 1 risk-based capital	11.60	12.55
Total risk-based capital	12.49	13.51
Minimum guidelines		
Common equity Tier 1 capital	4.50%	N/A
Leverage ratio	4.00	4.00%
Tier 1 risk-based capital	6.00	4.00
Total risk-based capital	8.00	8.00
Well-capitalized guidelines		
Common equity Tier 1 capital	6.50%	N/A
Leverage ratio	5.00	5.00%
Tier 1 risk-based capital	8.00	6.00
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 leverage, Tier 1 risk-based capital, and total risk-based capital ratios as set forth in the table. There are no conditions or events since that notification that we believe have changed the bank subsidiary s category.

Table of Contents

Non-GAAP Financial Measurements

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

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

The Company experienced an $814,000 decrease in the provision for loan losses for non-covered loans during the second quarter of 2015 versus 2014. This expected decrease is primarily a reflection of a slowdown in the migration of the acquired Liberty loans from purchased-loan accounting treatment to originated-loan accounting treatment offset by provisioning for second quarter 2015 organic loan growth. The Company experienced a $4.9 million decrease in the provision for loan losses for non-covered loans during the first six months of 2015 versus 2014. This expected decrease is primarily a reflection of a slowdown in the migration of the acquired Liberty loans from purchased-loan accounting treatment to originated-loan accounting treatment combined with a lower level of non-performing loans. 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 loans acquired being recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820. However, as the acquired loans payoff or renew and the acquired footprint originates new loan production, it is necessary to establish an allowance which represents an amount that, in management s judgment, will be adequate to absorb credit losses. Traditionally, there is a large migration of these loans during the first year after acquisition, which can create an elevated provision for loan losses as was the case during 2014 with respect to the Liberty acquisition. As the acquired loans mature and are renewed as new credits, management evaluates the credit risk associated with these new credit decisions and determines the required allowance for loan loss for these new originated loans using the allowance for loan loss methodology for all originated loans as disclosed in Note 1 to the Notes to Consolidated Financial Statements in our Form 10-K.

We had $1.48 billion of purchased non-covered loans, which includes $131.7 million of discount for credit losses on non-covered loans acquired, at June 30, 2015. We had $1.77 billion of purchased non-covered loans, which includes $139.7 million of discount for credit losses on non-covered loans acquired, at December 31, 2014. For purchased credit-impaired financial assets, GAAP requires a discount embedded in the purchase price that is attributable to the expected credit losses at the date of acquisition, which is a different approach from non-purchased-credit-impaired assets. While the discount for credit losses on purchased non-covered loans is not available for credit losses on non-purchased non-covered loans, management believes it is useful information to show the same accounting as if applied to all loans, including those acquired in a business combination.

81

Table of Contents

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

Table 21: Non-GAAP Earnings

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands, except per share data)			
GAAP net income	$ 33,906	$ 28,429	$ 65,025	$ 55,766
Accretion to net interest income	(10,959)	(16,439)	(21,301)	(31,703)
Provision for loan losses	2,501	6,115	5,370	13,053
FDIC indemnification amortization	2,202	6,622	6,158	11,366
FDIC true-up accrual	383	371	765	638
Amortization of intangible assets	1,100	1,147	2,229	2,314
Gain on acquisitions			(1,635)	
Merger and acquisition expenses		106	1,417	955
Tax impact of the above items	2,901	1,263	4,252	2,052
Non-GAAP impact to net income	(1,872)	(815)	(2,745)	(1,325)
Non-GAAP net income	$ 32,034	$ 27,614	$ 62,280	$ 54,441
GAAP diluted earnings per share	$ 0.50	$ 0.43	$ 0.96	$ 0.85
Impact of purchase accounting, net of tax	(0.03)	(0.01)	(0.04)	(0.02)
Non-GAAP diluted earnings per share	$ 0.47	$ 0.42	$ 0.92	$ 0.83
Average diluted shares outstanding	67,915	65,545	67,912	65,523

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

Table 22: Average Yield on Loans

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	(Dollars in thousands)			
Interest income on loans receivable FTE	$ 82,470	$ 75,518	$ 158,060	$ 150,650
Purchase accounting accretion	10,705	16,303	20,903	31,432
Non-GAAP interest income on loans receivable FTE	$ 71,765	$ 59,215	$ 137,157	$ 119,218
Average loans	$ 5,507,405	$ 4,403,767	$ 5,289,205	$ 4,415,814
Average purchase accounting loan discounts (1)	168,558	256,731	180,434	269,964
Average loans (non-GAAP)	$ 5,675,963	$ 4,660,498	$ 5,469,639	$ 4,685,778
Average yield on loans (reported)	6.01%	6.88%	6.03%	6.88%
Average contractual yield on loans (non-GAAP)	5.07	5.10	5.06	5.13

(1) Balance includes $131.7 million of discount of credit losses for non-covered loans acquired as of June 30, 2015.

82

Table of Contents

Table 23: Average Cost of Deposits

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Interest expense on deposits	$ 3,311	$ 3,095	$ 6,569	$ 6,479
Amortization of time deposit (premiums)/discounts, net	254	136	398	271
Non-GAAP interest expense on deposits	$ 3,565	$ 3,231	$ 6,967	$ 6,750
Average deposits	$ 4,568,293	$ 4,189,105	$ 4,473,106	$ 4,250,857
Average unamortized CD (premium)/discount, net	(1,352)	(125)	(1,039)	(57)
Average deposits (non-GAAP)	$ 4,566,941	$ 4,188,980	$ 4,472,067	$ 4,250,800
Average cost of deposits (reported)	0.29%	0.30%	0.30%	0.31%
Average contractual cost of deposits (non-GAAP)	0.31	0.31	0.31	0.32

Table 24: Net Interest Margin

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Net interest income FTE	$ 87,328	$ 79,667	$ 168,254	$ 158,258
Total purchase accounting accretion	10,959	16,439	21,301	31,703
Non-GAAP net interest income FTE	$ 76,369	$ 63,228	$ 146,953	$ 126,555
Average interest-earning assets	$ 7,005,404	$ 5,807,532	$ 6,826,278	$ 5,810,815
Average purchase accounting loan discounts (1)	168,558	256,731	180,434	269,964
Average interest-earning assets (non-GAAP)	$ 7,173,962	$ 6,064,263	$ 7,006,712	$ 6,080,779
Net interest margin (reported)	5.00%	5.50%	4.97%	5.49%
Net interest margin (non-GAAP)	4.27	4.18	4.23	4.20

(1) Balance includes $131.7 million of discount of credit losses for non-covered loans acquired as of June 30, 2015.

Table of Contents

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

	As of June 30, 2015		
	Non-Covered Loans	Purchased Non-Covered Loans	Total
	(Dollars in thousands)		
Loan balance reported (A)	$ 4,016,808	$ 1,444,453	$ 5,499,028
Loan balance reported plus discount (B)	4,016,808	1,576,199	5,630,774
Allowance for loan losses for non-covered loans (C)	55,877		55,877
Discount for credit losses on non-covered loans acquired (D)		131,746	131,746
Total allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired (E)	$ 55,877	$ 131,746	$ 187,623
Allowance for loan losses for non-covered loans to total non-covered loans (C/A)	1.38%	N/A	1.02%
Discount for credit losses on non-covered loans acquired to non-covered loans acquired plus discount for credit losses on non-covered loans acquired (D/B)	N/A	8.36%	N/A
Allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired to total non-covered loans plus discount for credit losses on non-covered loans acquired (E/B)	N/A	N/A	3.33%

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

	As of December 31, 2014		
	Non-Covered Loans	Purchased Non-Covered Loans	Total
	(Dollars in thousands)		
Loan balance reported (A)	$ 3,044,153	$ 1,773,161	$ 4,817,314
Loan balance reported plus discount (B)	3,044,153	1,912,881	4,957,034
Allowance for loan losses for non-covered loans (C)	52,471		52,471
		139,720	139,720

Discount for credit losses on non-covered loans acquired (D)			
Total allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired (E)	$ 52,471	$ 139,720	$ 192,191
Allowance for loan losses for non-covered loans to total non-covered loans (C/A)	1.72%	N/A	1.09%
Discount for credit losses on non-covered loans acquired to non-covered loans acquired plus discount for credit losses on non-covered loans acquired (D/B)	N/A	7.30%	N/A
Allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired to total non-covered loans plus discount for credit losses on non-covered loans acquired (E/B)	N/A	N/A	3.88%

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

84

Table of Contents

We had $342.5 million, $346.3 million, and $321.7 million total goodwill, core deposit intangibles and other intangible assets as of June 30, 2015, December 31, 2014 and June 30, 2014, respectively. Because of our level of intangible assets and related amortization expenses, management believes diluted earnings per share excluding intangible amortization, tangible book value per share, return on average assets excluding intangible amortization, return on average tangible equity excluding intangible amortization and tangible equity to tangible assets are useful in evaluating our company. These calculations, which are similar to the GAAP calculation of diluted earnings per share, tangible book value, return on average assets, return on average equity, and equity to assets, are presented in Tables 26 through 30, respectively.

Table 26: Diluted Earnings Per Share Excluding Intangible Amortization

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands, except per share data)			
GAAP net income	$ 33,906	$ 28,429	$ 65,025	$ 55,766
Intangible amortization after-tax	669	697	1,355	1,406
Earnings excluding intangible amortization	$ 34,575	$ 29,126	$ 66,380	$ 57,172
GAAP diluted earnings per share	$ 0.50	$ 0.43	$ 0.96	$ 0.85
Intangible amortization after-tax	0.01	0.01	0.02	0.02
Diluted earnings per share excluding intangible amortization	$ 0.51	$ 0.44	$ 0.98	$ 0.87

Table 27: Tangible Book Value Per Share

	As of June 30, 2015	As of December 31, 2014
	(In thousands, except per share data)	
Book value per share: A/B	$ 15.67	$ 15.03
Tangible book value per share: (A-C-D)/B	10.61	9.90
(A) Total equity	$ 1,061,701	$ 1,015,292
(B) Shares outstanding	67,774	67,571
(C) Goodwill	$ 322,728	$ 325,423
(D) Core deposit and other intangibles	19,816	20,925

Table 28: Return on Average Assets Excluding Intangible Amortization

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			

Return on average assets: A/C	1.72%	1.70%	1.70%	1.67%
Return on average assets excluding intangible amortization: B/(C-D)	1.83	1.83	1.81	1.80
(A) Net income	$ 33,906	$ 28,429	$ 65,025	$ 55,766
Intangible amortization after-tax	669	697	1,355	1,406
(B) Earnings excluding intangible amortization	$ 34,575	$ 29,126	$ 66,380	$ 57,172
(C) Average assets	$ 7,900,721	$ 6,721,920	$ 7,722,256	$ 6,744,139
(D) Average goodwill, core deposits and other intangible assets	343,083	322,274	343,653	322,851

85

Table of Contents

Table 29: Return on Average Tangible Equity Excluding Intangible Amortization

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	(Dollars in thousands)			
Return on average equity: A/C	12.98%	12.96%	12.66%	12.98%
Return on average tangible equity excluding intangible amortization: B/(C-D)	19.68	20.94	19.34	21.20
(A) Net income	$ 33,906	$ 28,429	$ 65,025	$ 55,766
(B) Earnings excluding intangible amortization	34,575	29,126	66,380	57,172
(C) Average equity	1,047,765	880,044	1,035,691	866,586
(D) Average goodwill, core deposits and other intangible assets	343,083	322,274	343,653	322,851

Table 30: Tangible Equity to Tangible Assets

	As of June 30, 2015	As of December 31, 2014
	(Dollars in thousands)	
Equity to assets: B/A	13.15%	13.71%
Tangible equity to tangible assets: (B-C-D)/(A-C-D)	9.30	9.48
(A) Total assets	$ 8,074,382	$ 7,403,272
(B) Total equity	1,061,701	1,015,292
(C) Goodwill	322,728	325,423
(D) Core deposit and other intangibles	19,816	20,925

Recently Issued Accounting Pronouncements

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

Table of Contents

Item 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Liquidity and Market Risk Management

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

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

Liquidity needs can be met from either assets or liabilities. On the asset side, our primary sources of liquidity include cash and due from banks, federal funds sold, available-for-sale investment securities and scheduled repayments and maturities of loans. We maintain adequate levels of cash and cash equivalents to meet our day-to-day needs. As of June 30, 2015, our cash and cash equivalents were $204.4 million, or 2.5% of total assets, compared to $112.5 million, or 1.5% of total assets, as of December 31, 2014. Our available-for-sale investment securities and federal funds sold were $1.08 billion as of June 30, 2015 and $1.07 billion as of December 31, 2014.

Our investment portfolio is comprised of approximately 78.6% or $1.11 billion of securities which mature in less than five years. As of June 30, 2015 and December 31, 2014, $1.35 billion and $1.40 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 June 30, 2015, our total deposits were $5.88 billion, or 72.8% of total assets, compared to $5.42 billion, or 73.3% of total assets, as of December 31, 2014. We attract our deposits primarily from individuals, business, and municipalities located in our market areas.

We may occasionally use our Fed funds lines of credit in order to temporarily satisfy short-term liquidity needs. We have Fed funds lines with three other financial institutions pursuant to which we could have borrowed up to $35.0 million on an unsecured basis as of June 30, 2015 and December 31, 2014. These lines may be terminated by the respective lending institutions at any time.

We also maintain lines of credit with the Federal Home Loan Bank. Our FHLB borrowed funds were $866.9 million and $698.0 million at June 30, 2015 and December 31, 2014, respectively. At June 30, 2015, $25.0 million and $841.9 million of the outstanding balance were issued as short-term and long-term advances, respectively. At December 31, 2014, $515.0 million and $183.0 million of the outstanding balance were short-term and long-term advances, respectively. Our FHLB borrowing capacity was $735.8 billion and $905.6 million as of June 30, 2015 and December 31, 2014, respectively.

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

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

Table of Contents

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

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

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

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

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

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

Gap analysis attempts to capture the amounts and timing of balances exposed to changes in interest rates at a given point in time. As of June 30, 2015, our gap position was liability sensitive with a one-year cumulative repricing gap as a percentage of total earning assets of negative 5.7%. During this period, the amount of change our asset base realizes in relation to the total change in market interest rates is lower than that of the liability base. As a result, our net interest income will have a negative 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 31 presents a summary of the repricing schedule of our interest-earning assets and interest-bearing liabilities (gap) as of June 30, 2015.

Table 31: 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)							
Earning assets								
Interest-bearing deposits due from banks	$ 87,729	$	$	$	$	$	$	$ 87,729
Federal funds sold								
Investment securities	98,668	81,063	66,081	108,415	166,320	486,077	410,369	1,416,993
Loans receivable, net	1,075,748	409,531	503,135	855,117	927,608	1,443,621	383,901	5,598,661
Total earning assets	1,262,145	490,594	569,216	963,532	1,093,928	1,929,698	794,270	7,103,383
Interest-bearing liabilities								
Interest-bearing transaction and savings deposits	131,927	263,854	395,781	791,561	517,570	504,081	494,748	3,099,522
Time deposits	205,983	201,113	267,435	482,742	154,607	59,002	1,581	1,372,463
Federal funds purchased								
Securities sold under repurchase agreements	150,746							150,746
FHLB borrowed funds	710,068	16,211	10,169	360	15,530	110,845	3,724	866,907
Subordinated debentures	60,826							60,826
Total interest-bearing liabilities	1,259,550	481,178	673,385	1,274,663	687,707	673,928	500,053	5,550,464
	$ 2,595	$ 9,416	$ (104,169)	$ (311,131)	$ 406,221	$ 1,255,770	$ 294,217	$ 1,552,919

nterest rate ensitivity gap							
Cumulative nterest rate ensitivity gap	$ 2,595	$ 12,011	$ (92,158)	$ (403,289)	$ 2,932	$ 1,258,702	$ 1,552,919
Cumulative rate ensitive assets o rate sensitive iabilities	100.2%	100.7%	96.2%	89.1%	100.1%	124.9%	128.0%
Cumulative gap s a % of total earning assets	0.0%	0.2%	-1.3%	-5.7%	0.0%	17.7%	21.9%

Item 4: CONTROLS AND PROCEDURES

Article I. <u>Evaluation of Disclosure Controls</u>

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

Article II. <u>Changes in Internal Control Over Financial Reporting</u>

There have not been any changes in the Company s internal controls over financial reporting during the quarter ended June 30, 2015, which have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Table of Contents

PART II: OTHER INFORMATION

Item 1: Legal Proceedings

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

Item 1A: Risk Factors

Except for the risk factors set for below, there were no material changes from the risk factors set forth in Part I, Item 1A, Risk Factors, of our Form 10-K for the year ended December 31, 2014. See the discussion of our risk factors in the Form 10-K, as filed with the SEC. The risks described are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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 and Kevin D. Hester plus Centennial Bank s Chief Executive Officer and President, Tracy M. French, and our regional Centennial Bank presidents, Robert F. Birch, Russell D. Carter, III and Jim F. Haynes, Jr. Centennial Bank, in particular, relies heavily on its management team s relationships in its local communities to generate business. Because we do not have employment agreements or non-compete agreements with our executive officers and regional bank presidents, these employees are free to resign at any time and accept an employment offer from another company, including a competitor. 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.

If our bank subsidiary s assets exceed $10 billion in the future, its change in status under the federal bank regulatory framework will result in increased compliance costs for the bank subsidiary, which could affect our operating results.

Among other things, the Dodd-Frank Act created the Consumer Financial Protection Bureau (the CFPB), which has broad regulatory and enforcement powers over consumer financial products and services. Banks with total assets of more than $10 billion are subject to certain capital testing regulations which are not applicable to smaller banks, and further, the CFPB has exclusive or primary authority to examine banks with more than $10 billion for, and enforce compliance with, the federal consumer financial protection laws. As of June 30, 2015, our bank subsidiary had $8.06 billion in assets. On a pro-forma basis assuming completion of our acquisition of FBBI and its bank subsidiary, our bank subsidiary would have had $8.63 billion in assets as of June 30, 2015. In the event that our bank subsidiary s total assets exceed $10 billion at the end of four consecutive quarters in the future, the bank subsidiary would become subject to additional requirements and regulations and CFPB supervision, examination and enforcement. We expect that our bank subsidiary would have increased compliance costs as a result of such a change in status, which could affect our operating results.

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

Not applicable.

Item 3: Defaults Upon Senior Securities

Not applicable.

Item 4: Mine Safety Disclosures

Not applicable.

Item 5: Other Information

Not applicable.

Item 6: Exhibits

10.1	Amendment to Home Bancshares, Inc. Amended and Restated 2006 Stock Option and Performance Incentive Plan*
12.1	Computation of Ratios of Earnings to Fixed Charges*
15	Awareness of Independent Registered Public Accounting Firm*
31.1	CEO Certification Pursuant Rule 13a-14(a)/15d-14(a)*
31.2	CFO Certification Pursuant Rule 13a-14(a)/15d-14(a)*
32.1	CEO Certification Pursuant 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes Oxley Act of 2002*
32.2	CFO Certification Pursuant 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes Oxley Act of 2002*
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*

* Filed herewith

Table of Contents

SIGNATURES

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

HOME BANCSHARES, INC.
(Registrant)

Date:	August 6, 2015	/s/ C. Randall Sims C. Randall Sims, Chief Executive Officer
Date:	August 6, 2015	/s/ Brian S. Davis Brian S. Davis, Chief Financial Officer

92