

2016



NASDAQ
COMPOSITE

UNCHANGED

5.78

0.00

NASDAQ
BIOTECHNOLOGY

UNCHANGED

-8.01

2,780.98

0.63

UNCHANGED

\$41.63

NASDAQ-100

-0.2%

4,355.10

-7.80

HOMB
Nasdaq Listed

0.00

S&P 500
INDEX

-0.2%

2,048.04

-4.28

NASDAQ-100
PRE-MARKET INDICATOR

+0.4%

4,371.50

DOW JONES
INDUSTRIAL AVERAGE

-0.0%

17,492.93

-8.01

+16.40

NASDAQ
COMPOSITE

-0.1%

4,765.78



Nasdaq

HOMB
Nasdaq Listed



Dear Shareholders,

It was another record year for Home BancShares, Inc. The record financial results for 2016 resulted from careful planning, strategy and successful execution both past and present. Our steady focus on the things we can control and our daily execution on the fundamentals were evident as we grew net interest income primarily through organic loan growth, maintained expense control, and realized continued improvement in credit metrics throughout the year. Our strong foundation, along with opportunities for growth in and around the markets we serve combined with the concentrated efforts of our dedicated associates, will provide positive returns to customers, shareholders and the communities we serve.

Achieving these excellent results was made possible by the hard work of our outstanding team of professional bankers who helped create positive earnings momentum and improvement of our various performance metrics. These results were achieved despite the lingering low interest rate environment that makes profitable asset growth challenging for all banks. While we look forward to continued success in 2017, let's review some of the impressive highlights from 2016.

For the year ended December 31, 2016, we achieved net income of \$177.1 million, which was an increase of \$38.9 million, or 28.2%, over the year ended 2015. Diluted earnings per share for the year ended 2016 was \$1.26 per share compared to \$1.01 per share (split adjusted) for 2015, representing an increase of \$0.25 per share or 24.8% for the year ended 2016 when compared to the previous year. Besides our record earnings, during 2016 we also sustained impressive loan growth of 11.2%, maintained a sub-40 core efficiency ratio of 36.55%

for the year ended, and reached a 1.85% return on average assets for the year.

In May 2016, members of the Home BancShares management team were featured on the NASDAQ Tower in Times Square as we rang the NASDAQ Opening Bell in celebration of our 10th anniversary as a NASDAQ listed company. Since listing on NASDAQ at our initial public offering ("IPO") on June 22, 2006, Home BancShares has grown from approximately \$2.0 billion in assets to \$9.8 billion in assets at December 31, 2016. Our market cap has also improved dramatically from approximately \$263.4 million at our IPO to approximately \$3.90 billion for the year just ended. Between December 31, 2006 and December 31, 2016, the Company had an annual earnings per share compound annual growth rate of approximately 18.6%. Home BancShares' stock has seen a total shareholder return of approximately 733.7% since its listing with NASDAQ.

During 2016, we announced two new acquisitions, Giant Holdings, Inc. ("GHI") of Ft. Lauderdale, Florida with approximately \$463.0 million in assets and The Bank of Commerce ("BOC") of Sarasota, Florida with approximately \$195.7 million in assets. In the first quarter of 2017, we closed on these acquisitions. We expect the systems conversion for GHI and BOC to occur during the first and second quarters of 2017, respectively.

In last year's letter, we told you we anticipated crossing over the \$10 billion asset threshold as it relates to the Durbin Amendment to the Dodd-Frank Act ("Durbin Amendment") and the Federal Reserve's Dodd-Frank Act Stress Test

("DFAST"). As previously mentioned, our assets ended the year 2016 at \$9.8 billion. With the acquisitions of GHI and BOC, we will surpass assets of \$10 billion in 2017. We anticipate the Company will begin to see a reduction in our interchange fee revenue as a result of the Durbin Amendment in July 2018. A significant portion of the DFAST costs have already begun to be incorporated into our current run rate during 2016 and we will be required to file our first DFAST report by July 1, 2019.

Centennial Bank ("Bank") entered into an agreement with the Federal Deposit Insurance Corporation ("FDIC") in July 2016 to terminate the Bank's loss share agreements with the FDIC. The loss share agreements were related to the Bank's acquisition of assets and assumption of liabilities of six failed banks through FDIC-assisted transactions in 2010. The agreement with the FDIC to terminate our loss share agreements early was a sound financial decision for our Company and our investors.

During April 2016, the Board of Directors ("Board") elected former Arkansas governor Mike Beebe to fill the vacancy on the Board resulting from the retirement of Richard A. Buckheim as of the expiration of his term at the 2016 Annual Meeting. Mike's extensive leadership experience, ability to collaborate and his long-time support and understanding of business have been and will continue to be assets to our team of valuable board members.

The Company's Board declared a two-for-one stock split in April 2016, which was paid in the form of a 100% stock dividend on June 8, 2016 to shareholders of record at the close of business on May 18, 2016. The Company's common stock began trading on a split-adjusted basis on the NASDAQ Global Select Market on June 9, 2016.

Since our inception as a public company in 2006, we are proud our Board has chosen to provide a reliable dividend during good times as well as tough times. In 2016, we increased the regular annual cash dividend 24.5% from \$0.2750 per share (split adjusted) as of December 31, 2015 to \$0.3425 per share as of December 31, 2016. As such, our shareholders received from the Company a total of \$48.1 million in regular quarterly cash dividends, or average annual dividend yield on Home BancShares, Inc. stock of 1.59%.

Since 2010, we have added ten new banks to our Company with combined assets of approximately \$6.0 billion. While we were a little quiet on the merger and acquisition ("M&A") front in 2016, our due diligence teams are continually looking for other target banks, and more importantly, good bankers. As the banking industry continues to consolidate, we do not anticipate a slowdown of M&A opportunities in the coming year. It is our hope to be able to announce and close more bank acquisitions during the year; however, as in the past, we are committed to remaining disciplined while doing deals, a practice that has proven valuable since we began this institution. We also realize the importance of protecting the value of our currency, which we hold as an esteemed competitive advantage. You can be confident that, as we continue to analyze future acquisition opportunities, we will approach these transactions with logic, discipline and discernment.

Thanks to acquisitions and organic loan growth, Home BancShares has more than doubled in asset size in the last four years. Our executive team has done an incredible job of helping us manage through this growth. We have stayed the course through growing and maintaining our capital, growing our earnings and revenue, holding our net interest margin strong, improving efficiencies, and expanding return on average assets in order to provide both short- and long-term shareholder value. We intend to continue the same old "blocking and tackling" logic that has worked for us throughout the years. However, we meet challenges head on and are not afraid to incorporate new ideas into the playbook when necessary. We realize the banking industry is continually evolving, and as we have in the past, we aim to be well prepared for the complexities, challenges and opportunities that those changes will create.

We want to extend our appreciation to the Home BancShares team—our associates, management and board members—who execute our strategy every day to ensure we deliver exceptional service to our customers and ultimately reward our shareholders. To our associates, at all levels of the Company—you bring our Company to life in the communities we serve. You are the secret to our success and we thank you. To our Board, the guidance, dedication and insight you've provided have helped our Company make not only wise decisions but also operate as one of the best community banks in the country.

And finally, thank you to our shareholders for the trust and confidence you have in Home BancShares. We have been very fortunate to have had a great group of both local and institutional shareholders who have invested with us for a long time. Please know we are grateful for your loyalty, and we will continue to do all we can to maintain that level of trust.

We are proud of our outstanding 2016 results, and look forward to the opportunities for advancement that lie ahead for Home BancShares during 2017.



John W. Allison
Chairman



Randy Sims
President & CEO

A stylized, handwritten signature in black ink, likely belonging to John W. Allison.

A stylized, handwritten signature in black ink, likely belonging to Randy Sims.

Home BancShares, Inc. Board of Directors & Executive Officers and Centennial Bank Executive Committee



John W. Allison
Chairman
• HOMB Director
• Executive Officer



Robert H. Adcock, Jr.
Vice Chairman
• HOMB Director



Randy Sims
CEO & President of HOMB
• HOMB Director
• Executive Officer



Tracy M. French
CEO & President of
Centennial Bank
• HOMB Director
• Executive Officer



Brian S. Davis
Chief Financial Officer of
HOMB & Centennial Bank
• HOMB Director
• Executive Officer



Stephen Tipton
Chief Operating Officer of
HOMB & Centennial Bank
• Executive Officer



Donna Townsell
SEVP of HOMB &
Centennial Bank
& Director of Marketing
• Executive Officer



Jennifer C. Floyd
Chief Accounting Officer of
HOMB & Centennial Bank
& Investor Relations Officer
of HOMB
• Executive Officer



Milburn Adams
• HOMB Director



Richard H. Ashley
• HOMB Director



Dale A. Bruns
• HOMB Director



Mike Beebe
• HOMB Director



Jack E. Engelkes
• HOMB Director



James G. Hinkle
• HOMB Director



Alex R. Lieblong
• HOMB Director



Thomas J. Longe
• HOMB Director



Kevin Hester
Chief Lending Officer
• Executive Officer



Davy Carter
Regional President
• Centennial Bank
• Executive Officer



Bob Birch
Regional President
• Centennial Bank
• Executive Officer

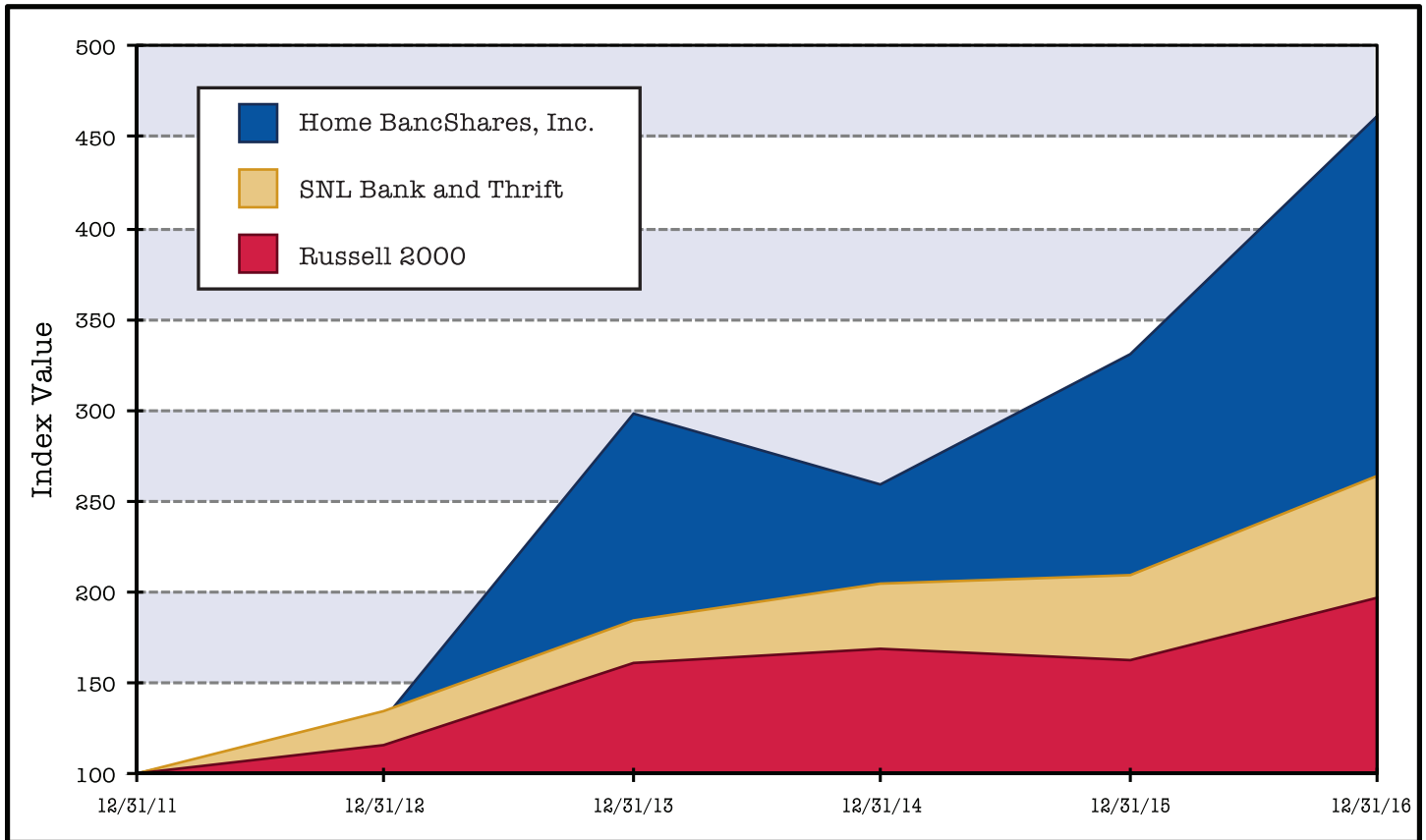


Jim Haynes
Regional President
• Centennial Bank
• Executive Officer



Kevin W. Bartholomew
Chief Information Officer
• Centennial Bank

Total Return Performance



INDEX	PERIOD ENDING					
	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16
Home BancShares, Inc.	100.00	129.92	297.54	259.09	331.25	461.27
Russell 2000	100.00	116.35	161.52	169.43	161.95	196.45
SNL Bank and Thrift	100.00	134.28	183.86	205.25	209.39	264.35

Graph illustrates investing in Home BancShares, Inc. has been a sound investment over the past six years.

Financial Highlights

12/31/16

Total Assets
\$9,808,465

Total Revenue
\$523,588

Return on Average Assets
1.85%

Total Loans
\$7,387,699

Diluted Earnings Per Share
\$1.26

Core Efficiency Ratio
36.55%

Total Deposits
\$6,942,427

Dividends Per Share
\$0.3425

Tangible Common Equity
to Tangible Assets
9.89%

Net Income
\$177,146

Tangible Book Value Per Share
\$6.63

Net Interest Margin
4.81%

Dollars in thousands, except per share data.

Chairman's Award

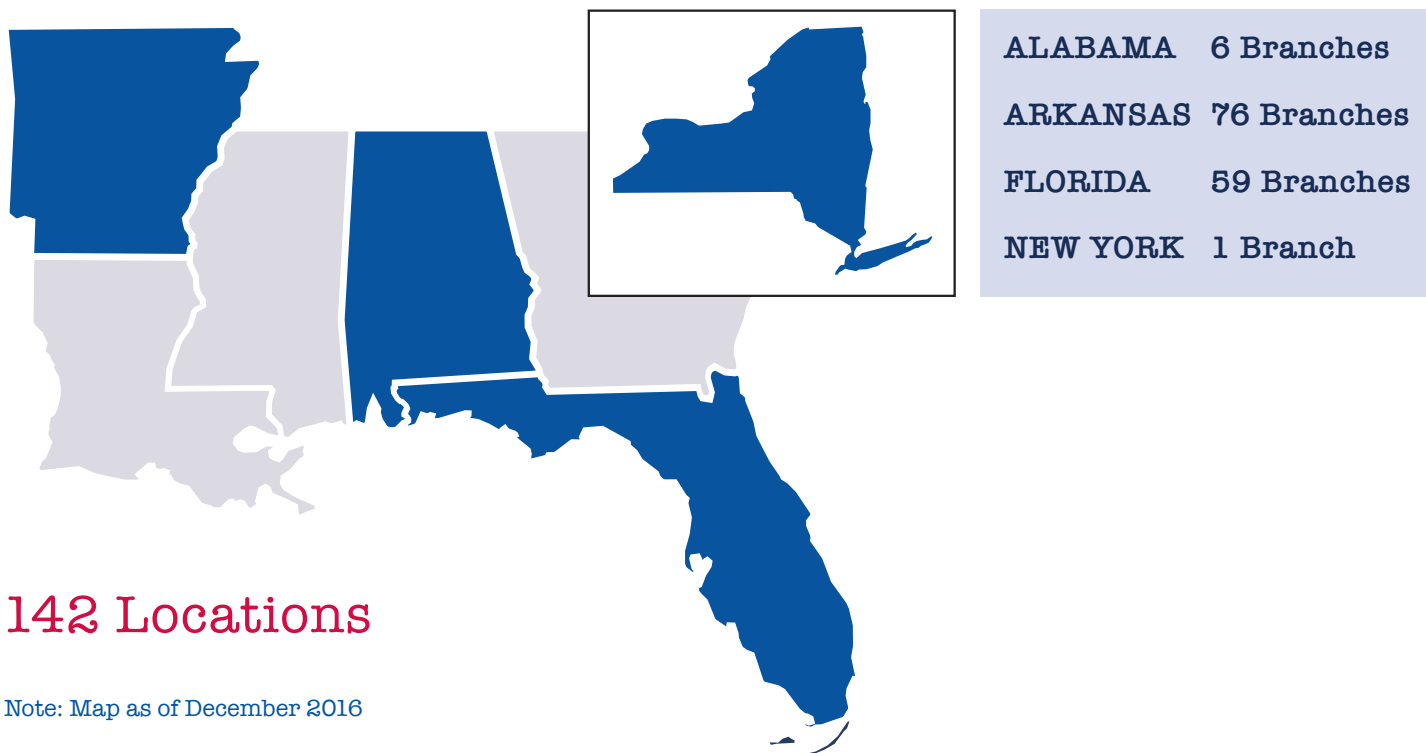


L to R: John Allison, Chairman; Kevin Hester, Chief Lending Officer; Dustin Stokesbary, Commercial Loan Officer; Donna Townsell, Director of Marketing; Nicole Haynes, Director of Electronic Banking Services; Brad Shipman, Market President; Kevin Rose, Market President; Blaise Adams, Market President; Bunny Adcock, Vice Chairman.

John W. Allison, Home BancShares' Chairman of the Board, assisted by Robert H. "Bunny" Adcock, Jr., Home BancShares' Vice Chairman, named the recipients of the Annual Chairman's Awards during the 2016 Annual Meeting.

These prestigious accolades are given to individuals for outstanding service to the company, well beyond expectation.

2016 Locations by State



2016 Highlights

Shareholder's Return

\$1,000 initial investment

(Day 1 of HOMB)



Note: Current Value = 12/30/2016 closing market value & includes the reinvestment of dividends since the Company went public in 2006.

2016 Accolades

- Ranked #23 on Investor Business Daily's '50 to Watch List' (2/29/16)
- Forbes ranked HOMB #15 on 'Best Banks in America' listing for 2016
- "Once again, Home has profited by cleaning up other people's disasters. Home has been turning around other people's failures for years."
- Seeking Alpha

Law Enforcement Torch Run for Special Olympics



**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 10-K

(Mark One)

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Fiscal Year Ended December 31, 2016

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Transition period from ____ to ____

Commission File Number: 000-51904

HOME BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

<u>Arkansas</u> (State or other jurisdiction of incorporation or organization)	<u>71-0682831</u> (I.R.S. Employer Identification No.)
<u>719 Harkrider, Suite 100, Conway, Arkansas</u> (Address of principal executive offices)	<u>72032</u> (Zip Code)
<u>(501) 339-2929</u> (Registrant's telephone number, including area code)	

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

<u>None</u> Title of each class	<u>N/A</u> Name of each exchange on which registered
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Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$0.01 per share
(Title of Class)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

The aggregate market value of the registrant's common stock, par value \$0.01 per share, held by non-affiliates on June 30, 2016, was \$2.35 billion based upon the last trade price as reported on the NASDAQ Global Select Market of \$19.79.

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

Common Stock Issued and Outstanding: 143,431,944 shares as of February 24, 2017.

Documents incorporated by reference: Part III is incorporated by reference from the registrant's Proxy Statement relating to its 2017 Annual Meeting to be held on April 20, 2017.

HOME BANCSHARES, INC.
FORM 10-K
December 31, 2016

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- the effects of future local, regional, national and international economic conditions, including inflation or a decrease in commercial real estate and residential housing values;
- changes in the level of nonperforming assets and charge-offs, and credit risk generally;
- governmental monetary and fiscal policies, as well as legislative and regulatory changes, including as a result of initiatives of the newly elected administration of President Donald J. Trump;
- legislation and regulation affecting the financial services industry as a whole, and the Company and its subsidiaries in particular, including the effects resulting from the reforms enacted by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and the adoption of regulations by regulatory bodies under the Dodd-Frank Act;
- increased regulatory requirements and supervision that will apply as a result of our exceeding \$10 billion in total assets;
- the risks of changes in interest rates or the level and composition of deposits, loan demand and the values of loan collateral, securities and interest-sensitive assets and liabilities;
- the effects of terrorism and efforts to combat it;
- political instability;
- technological changes;
- the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in our market area and elsewhere, including institutions operating regionally, nationally and internationally, together with competitors offering banking products and services by mail, telephone and the Internet;
- the effect of any mergers, acquisitions or other transactions to which we or our subsidiaries may from time to time be a party, including our ability to successfully integrate any businesses that we acquire;
- the effect of changes in accounting policies and practices and auditing requirements, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board, and other accounting standard setters; and
- the failure of assumptions underlying the establishment of our allowance for loan losses.

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

PART I

Item 1. BUSINESS

Company Overview

Home BancShares, Inc. (“Home BancShares”, which may also be referred to in this document as “we”, “us” or the “Company”) is a Conway, Arkansas headquartered bank holding company registered under the federal Bank Holding Company Act of 1956. The Company’s common stock is traded through the NASDAQ Global Select Market under the symbol “HOMB”. We are primarily engaged in providing a broad range of commercial and retail banking and related financial services to businesses, real estate developers and investors, individuals and municipalities through our wholly owned community bank subsidiary – Centennial Bank. Centennial Bank has branch locations in Arkansas, Florida, South Alabama and New York City. Although the Company has a diversified loan portfolio, at December 31, 2016 and 2015, commercial real estate loans represented 59.1% and 60.0% of gross loans and 328.9% and 332.4% of total stockholders’ equity, respectively. The Company’s total assets, total deposits, total revenue and net income for each of the past three years are as follows:

	As of or for the Years Ended December 31,		
	2016	2015	2014
	(In thousands)		
Total assets	\$ 9,808,465	\$ 9,289,122	\$ 7,403,272
Total deposits	6,942,427	6,438,509	5,423,971
Total revenue (interest income plus non-interest income)	523,588	442,934	380,650
Net income	177,146	138,199	113,063

Home BancShares acquires, organizes and invests in community banks that serve attractive markets. Our community banking team is built around experienced bankers with strong local relationships. The Company was formed in 1998 by an investor group led by John W. Allison, our Chairman, and Robert H. “Bunny” Adcock, Jr., our Vice Chairman. After obtaining a bank charter, we established First State Bank in Conway, Arkansas, in 1999. We acquired Community Bank, Bank of Mountain View and Centennial Bank in 2003, 2005 and 2008, respectively. Home BancShares and its founders were also involved in the formation of Twin City Bank and Marine Bank, both of which we acquired in 2005. During 2008 and 2009, we merged all of our banks into one charter and adopted Centennial Bank as the common name. In 2010, we acquired six banks in Florida through Federal Deposit Insurance Corporation (“FDIC”) assisted transactions with loss share, including Old Southern Bank, Key West Bank, Coastal Community Bank, Bayside Savings Bank, Wakulla Bank and Gulf State Community Bank. In 2012, we acquired three banks headquartered in Florida including Vision Bank, Premier Bank and Heritage Bank of Florida (“Heritage”). Heritage was acquired through an FDIC-assisted transaction without loss share. In 2013, we acquired Liberty Bancshares, Inc. headquartered in Jonesboro, Arkansas. During 2014, we acquired Florida Traditions Bank headquartered in Dade City, Florida and Broward Financial Holdings, Inc. headquartered in Fort Lauderdale, Florida. During 2015, we acquired Doral Bank’s Florida Panhandle operations (“Doral Florida”), a pool of national commercial real estate loans, and Florida Business BancGroup, Inc., headquartered in Tampa, Florida. In connection with the acquisition of the pool of national commercial real estate loans, we opened a loan production office in New York City, which was converted to a branch in 2016, and created Centennial Commercial Finance Group (“Centennial CFG”). In February 2017, we have acquired Giant Holdings, Inc. headquartered in Fort Lauderdale, Florida, and we expect to complete our acquisition of The Bank of Commerce headquartered in Sarasota, Florida during the first quarter of 2017.

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

Vision Bank – On February 16, 2012, Centennial Bank completed the acquisition of operating assets and liabilities of Vision Bank, a Florida state-chartered bank with its principal office located in Panama City, Florida (“Vision”), pursuant to a Purchase and Assumption Agreement, dated November 16, 2011, between the Company, Centennial, Park National Corporation, parent company of Vision, and Vision.

Prior to the acquisition, Vision conducted banking business from 17 banking offices, including eight locations in Baldwin County, Alabama, and nine locations in the Florida Panhandle counties of Bay, Gulf, Okaloosa, Santa Rosa and Walton. Including the effects of the purchase accounting adjustments, Centennial Bank acquired approximately \$529.5 million in assets, approximately \$340.3 million in performing loans including loan discounts and approximately \$524.4 million of deposits.

Heritage Bank of Florida – On November 2, 2012, Centennial Bank acquired all the deposits and substantially all the assets of Heritage from the FDIC, as receiver for Heritage. This transaction did not include any non-performing loans or other real estate owned of Heritage. In connection with the Heritage acquisition, Centennial Bank opted to not enter into a loss-sharing agreement with the FDIC.

Prior to the acquisition, Heritage operated three banking offices located in Tampa, Lutz and Wesley Chapel, Florida. Including the effects of the purchase accounting adjustments, Centennial Bank acquired approximately \$224.8 million in assets plus a cash settlement to balance the transaction, approximately \$92.6 million in performing loans including loan discounts and approximately \$219.5 million of deposits.

Premier Bank – On December 1, 2012, the Company completed the acquisition of all of the issued and outstanding shares of common stock of Premier Bank (“Premier”), a Florida state-chartered bank with its principal office located in Tallahassee, Florida, pursuant to an Asset Purchase Agreement with Premier Bank Holding Company, a Florida corporation and bank holding company (“PBHC”), dated August 14, 2012. The Company then merged Premier with and into Centennial Bank. The Company paid a purchase price to PBHC of \$1,415,000 for the Premier acquisition. Prior to the acquisition, Premier conducted banking business from six locations in the Florida panhandle cities of Tallahassee (five) and Quincy (one). Including the effects of the purchase accounting adjustments, Centennial Bank acquired approximately \$264.8 million in assets, approximately \$138.1 million in loans including loan discounts and approximately \$246.3 million of deposits.

The Premier acquisition was conducted in accordance with the provisions of Section 363 of the United States Bankruptcy Code pursuant to a voluntary petition for relief under Chapter 11 of the Bankruptcy Code filed by PBHC with the United States Bankruptcy Court for the Northern District of Florida on August 14, 2012.

Liberty Bancshares, Inc. – On October 24, 2013, the Company completed the acquisition of all of the issued and outstanding shares of common stock of Liberty Bancshares, Inc. (“Liberty”), parent company of Liberty Bank of Arkansas (“Liberty Bank”), and merged Liberty Bank into Centennial Bank. Under the terms of the Agreement and Plan of Merger dated June 25, 2013 among Home BancShares, Centennial Bank, Liberty, Liberty Bank and an acquisition subsidiary of Home BancShares, the shareholders of Liberty received approximately \$290.1 million of the Company’s common stock valued at the time of the closing, plus approximately \$30.0 million in cash, in exchange for all outstanding shares of Liberty common stock. The Company also repurchased all of Liberty’s SBLF preferred stock held by the U.S. Treasury shortly after the closing.

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

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

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

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

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

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

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

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

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

Florida Business BancGroup, Inc. – On October 1, 2015, the Company completed its acquisition of Florida Business BancGroup, Inc. (“FBBI”), parent company of Bay Cities Bank (“Bay Cities”). The Company paid a purchase price to the FBBI shareholders of \$104.1 million for the FBBI acquisition. Under the terms of the agreement, shareholders of FBBI received shares of the Company’s common stock valued at approximately \$83.8 million as of October 1, 2015, plus approximately \$20.3 million in cash in exchange for all outstanding shares of FBBI common stock. A portion of the cash consideration, \$2.0 million, has been placed into escrow, and FBBI shareholders have a contingent right to receive their pro-rata portions of such amount. The amount, if any, of such escrowed funds to be released to FBBI shareholders will depend upon the amount of losses that the Company incurs in the two years following the completion of the merger related to two class action lawsuits that are pending against Bay Cities.

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

For an additional discussion regarding the acquisitions of Traditions, Broward, Doral Florida, the pool of national commercial real estate loans and FBBI, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note 2 “Business Combinations” in the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K. For an additional discussion regarding the acquisition of Liberty, see Note 2 “Business Combinations” in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2014. For an additional discussion regarding the acquisitions of Vision, Heritage and Premier, see Note 2 “Business Combinations” in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2013.

Our Management Team

The following table sets forth, as of December 31, 2016, information concerning the individuals who are our executive officers.

<u>Name</u>	<u>Age</u>	<u>Positions Held with Home BancShares, Inc.</u>	<u>Positions Held with Centennial Bank</u>
John W. Allison	70	Chairman of the Board	Chairman of the Board
C. Randall Sims	62	Chief Executive Officer, President and Director	Director
Brian S. Davis	51	Chief Financial Officer, Treasurer and Director	Chief Financial Officer, Treasurer and Director
Jennifer C. Floyd	42	Chief Accounting Officer and Investor Relations Officer	Chief Accounting Officer
Kevin D. Hester	53	Chief Lending Officer	Chief Lending Officer and Director
J. Stephen Tipton	35	Chief Operating Officer	Chief Operating Officer
Tracy M. French	55	Director	Chief Executive Officer, President and Director
Donna J. Townsell	46	Senior Executive Vice President	Senior Executive Vice President and Director of Marketing
Robert F. Birch, Jr.	66	—	Regional President
Russell D. Carter, III	41	—	Regional President
Jim Haynes	50	—	Regional President

Our Growth Strategy

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

- *Strategic acquisitions* – Strategic acquisitions have been a significant component of our historical growth strategy, and we believe properly priced bank acquisitions can continue to be a large part of our growth strategy. In the near term, our principal acquisition focus will be to continue to expand our presence in Arkansas, Florida and Alabama and into other contiguous markets through pursuing both non-FDIC-assisted and FDIC-assisted bank acquisitions, although we may expand into other areas if attractive financial opportunities in other market areas arise. We are continually evaluating potential bank acquisitions to determine what is in the best interests of our Company. Our goals in making these decisions are to maximize the return to our shareholders and to enhance our franchise.
- *Organic growth* – We believe our current branch network provides us with the capacity to grow within our existing market areas. We also believe we are well positioned to attract new business and additional experienced personnel as a result of ongoing changes in our competitive markets. We believe the markets we entered into as a result of historical acquisitions provide us opportunities for organic growth as we now have a presence in several large markets where our market share has not previously been significant. Additionally, through our Centennial CFG franchise, we are continuing to build out a national lending platform that focuses on commercial real estate plus commercial and industrial loans. As opportunities arise, we will evaluate new (commonly referred to as de novo) branches in our current markets and in other attractive market areas. During 2016, two de novo branches were opened. During the first quarter of 2017, we have plans to open a loan production office in Los Angeles under the management of Centennial CFG. We will continue to evaluate de novo opportunities during 2017 and make decisions on a case-by-case basis in the best interest of the shareholders. Overall, we expect the organic loan growth we experienced in 2016 to continue in all of our markets as the economic environment has improved.

Community Banking Philosophy

Our community banking philosophy consists of four basic principles:

- manage our community banking franchise with experienced bankers and community bank boards who are empowered to make customer-related decisions quickly;
- provide exceptional service and develop strong customer relationships;
- pursue the business relationships of our local boards of directors, executive officers, stockholders, and customers to actively promote our community bank; and
- maintain our commitment to the communities we serve by supporting civic and nonprofit organizations.

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

Operating Goals

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

- *Maintain strong credit quality* – Credit quality is our first priority. We employ a set of credit standards designed to ensure the proper management of credit risk. Our management team plays an active role in monitoring compliance with these credit standards in the different communities served by Centennial Bank. We have a centralized loan review process, which we believe enables us to take prompt action on potential problem loans. During the past few years we have taken an aggressive approach to resolving problem loans, including those problem loans acquired in our FDIC-assisted and non-FDIC-assisted acquisitions. We are committed to maintaining high credit quality standards.
- *Continue to improve profitability* – We will continue to strive to improve our profitability and achieve high performance ratios as we continue to utilize the available capacity of branches and employees. As we work out problem loans in our special assets department, we plan to emphasize business development and relationship enhancement in lending and retail areas in our newly acquired markets. Our core efficiency ratio has improved from 59.4% for the year ended 2008 to 36.6% for the year ended 2016. Core efficiency ratio is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income excluding non-fundamental items such as merger expenses and/or gain and losses. These improvements in operating efficiency are being driven by, among other factors, increasing revenue from organic loan growth, improving our cost savings from the acquisitions, implementing our efficiency study initiatives, streamlining the processes in our lending and retail operations and improving our purchasing power.
- *Attract and motivate experienced bankers* – We believe a major factor in our success has been our ability to attract and motivate bankers who have experience in and knowledge of their local communities. Historically, our hiring and retaining experienced relationship bankers has been integral to our ability to grow quickly when entering new markets.
- *Maintain a “fortress” balance sheet* – We intend to maintain a strong balance sheet through a focus on four key governing principles: (1) maintain solid asset quality; (2) remain well-capitalized; (3) pursue high performance metrics including return on tangible equity (ROTE), return on assets (ROA), efficiency ratio and net interest margin; and (4) retain liquidity at the bank holding company level that can be utilized should attractive acquisition opportunities be identified or for internal capital needs. We strive to maintain capital levels above the regulatory capital requirements through our focus on these governing principles, which historically has allowed us to take advantage of acquisition opportunities as they become available without the need for additional capital.

Our Market Areas

As of December 31, 2016, we conducted business principally through 76 branches in Arkansas, 59 branches in Florida, six branches in Alabama and one branch in New York City. Our branch footprint includes markets in which we are the deposit market share leader as well as markets where we believe we have opportunities for deposit market share growth.

Lending Activities

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

Our loan portfolio as of December 31, 2016, was comprised as follows:

	Total Loans Receivable	Percentage of portfolio
	(Dollars in thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	\$ 3,153,121	42.6 %
Construction/land development	1,135,843	15.4
Agricultural	77,736	1.1
Residential real estate loans		
Residential 1-4 family	1,356,136	18.4
Multifamily residential	340,926	4.6
Total real estate	6,063,762	82.1
Consumer	41,745	0.6
Commercial and industrial	1,123,213	15.2
Agricultural	74,673	1.0
Other	84,306	1.1
Total	<u>\$ 7,387,699</u>	<u>100.0 %</u>

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

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

Real Estate – Residential. Our residential mortgage loan program primarily originates loans to individuals for the purchase of residential property. We generally do not retain long-term, fixed-rate residential real estate loans in our portfolio due to interest rate and collateral risks. Residential mortgage loans to individuals retained in our loan portfolio primarily consisted of approximately 40.5% owner occupied 1-4 family properties and approximately 47.2% non-owner occupied 1-4 family properties (rental) as of December 31, 2016. The primary source of repayment for these loans is generally the income and/or assets of the individual to whom the loan is made. Often, a secondary source of repayment will include the sale of the subject collateral. When this is the case, it is generally our practice to obtain an independent appraisal of this collateral within the Interagency Appraisal and Evaluation Guidelines.

Consumer. While our focus is on service to small and medium-sized businesses, we also make a variety of loans to individuals for personal, family and household purposes, including secured and unsecured installment and term loans. The primary source of repayment for these loans is generally the income and/or assets of the individual to whom the loan is made. When secured, we may independently assess the value of the collateral using a third-party valuation source.

Commercial and Industrial. Our commercial and industrial loan portfolio primarily consisted of 49.0% inventory/accounts receivable financing, 18.9% equipment/vehicle financing and 32.1% other, including letters of credit at less than 1%, as of December 31, 2016. This category includes loans to smaller business ventures, credit lines for working capital and short-term inventory financing, for example. These loans are typically secured by the assets of the business, and are supplemented by personal guaranties of the principals and often mortgages on the principals' primary residences. The primary source of repayment may be conversion of the assets into cash flow, as in inventory and accounts receivable, or may be cash flow generated by operations, as in equipment/vehicle financing. Assessing the value of inventory can involve many factors including, but not limited to, type, age, condition, level of conversion and marketability, and can involve applying a discount factor or obtaining an independent valuation, based on the assessment of the above factors. Assessing the value of accounts receivable can involve many factors including, but not limited to, concentration, aging, and industry, and can involve applying a discount factor or obtaining an independent valuation, based on the assessment of the above factors. Assessing the value of equipment/vehicles may involve a third-party valuation source, where applicable.

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

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

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

Lending Policies. We have established common loan documentation procedures and policies, based on the type of loan, for our bank subsidiary. The board of directors periodically reviews these policies for validity. In addition, it has been and will continue to be our practice to attempt to independently verify information provided by our borrowers, including assets and income. We have not made loans similar to those commonly referred to as “no doc” or “stated income” loans. We focus on the primary and secondary methods of repayment, and prepare global cash flows where appropriate. There are legal restrictions on the dollar amount of loans available for each lending relationship. The Arkansas Banking Code provides that no loan relationship may exceed 20% of a bank’s risk based capital, and we are in compliance with this restriction. In addition, we are not dependent upon any single lending relationship for an amount exceeding 10% of our revenues. As of December 31, 2016, the maximum amount outstanding to a single borrower was \$122.6 million. As a community lender, we believe from time to time it is in our best interest to agree to modifications or restructurings. These modifications/restructurings can take the form of a reduction in interest rate, a move to interest-only from principal and interest payments, or a lengthening in the amortization period or any combination thereof. Occasionally, we will modify/restructure a single loan by splitting it into two loans following the interagency guidance involving the workout of commercial real estate loans. The loan representing the portion that is supported by the current cash flow of the borrower or project will remain on our books, while the new loan representing the portion that cannot be serviced by the current cash flow is charged-off. Furthermore, we may make an additional loan or loans to a borrower or related interest of a borrower who is past due more than 90 days. These circumstances will be very limited in nature, and when approved by the appropriate lending authority, will likely involve obtaining additional collateral that will improve the collectability of the overall relationship. It is our belief that judicious usage of these tools can improve the quality of our loan portfolio by providing our borrowers an improved probability of survival during difficult economic times.

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

- *Individual Authorities.* The board of directors of Centennial Bank establishes the authorization levels for individual loan officers on a case-by-case basis. Generally, the more experienced a loan officer, the higher the authorization level. The approval authority for individual loan officers ranges from \$2,500 to \$1.0 million for secured loans and from \$1,000 to \$100,000 for unsecured loans.
- *Officers’ Loan Committees.* Our bank subsidiary also gives its Officers’ Loan Committees loan approval authority. Credits in excess of individual loan limits are submitted to the region’s Officers’ Loan Committee. The Officers’ Loan Committee consists of members of the senior management team of that region and is chaired by that region’s chief lending officer. The regional Officers’ Loan Committees have approval authority of up to \$2.0 million secured on all loans and \$500,000 unsecured on loan renewals.
- *Directors’ Loan Committee.* Each region throughout our bank subsidiary has a Directors’ Loan Committee consisting of outside directors and senior lenders of that region. Generally, each region requires a majority of outside directors be present to establish a quorum. Generally, this committee is chaired either by the Regional Chief Lending Officer or the Regional President. The regional Directors’ Loan Committees have approval authority up to \$6.0 million secured and \$500,000 unsecured.
- *Executive Loan Committee* – The board of directors of Centennial Bank established the Executive Loan Committee consisting of three outside board members and members of executive management. This committee requires five voting members to establish a quorum, including at least two of the outside board members, and is chaired by the Chief Lending Officer of the bank. The Executive Loan Committee has approval authority up to the in-house consolidated lending limit of \$20.0 million.

Currently, our board of directors has established an in-house consolidated lending limit of \$20.0 million to any one borrowing relationship without obtaining the approval of both our Chairman and our director Richard H. Ashley. We have 72 separate relationships that exceed this in-house limit.

Deposits and Other Sources of Funds

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

Other Banking Services

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

Insurance

Centennial Insurance Agency, Inc. is an independent insurance agency, originally founded in 1959 and purchased by Centennial Bank in 2000. Centennial Insurance Agency writes policies for commercial and personal lines of business including insurance for property, casualty, life, health and employee benefits. It is subject to regulation by the Arkansas Insurance Department. The offices of Centennial Insurance Agency are currently located in Jacksonville, Cabot and Conway, Arkansas. In connection with the 2013 purchase of Liberty, we acquired Town and Country Insurance. Shortly after the acquisition of Liberty we merged Town and Country Insurance into Centennial Insurance Agency. As a result, all of the offices in Arkansas operated as Centennial Insurance Agency, Inc. at December 31, 2014. On January 1, 2015, Centennial Insurance Agency sold the insurance book of business of the former Town and Country Insurance to Stephens Insurance, LLC of Little Rock. This disposal was completed at our book value with no gain or loss. The profitability on this book of business was immaterial.

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

The Company may merge the book of business of Cook Insurance Agency into the Centennial Insurance Agency at some point in the future.

Competition

As of December 31, 2016, we conducted business through 146 branches in our primary market areas of Pulaski, Faulkner, Craighead, Lonoke, Pope, Washington, White, Benton, Greene, Sebastian, Cleburne, Independence, Stone, Baxter, Clay, Conway, Crawford, Johnson, Saline, Sharp and Yell counties in Arkansas; Monroe, Leon, Hillsborough, Bay, Franklin, Broward, Gulf, Charlotte, Collier, Escambia, Orange, Osceola, Pasco, Polk, Walton, Calhoun, Gadsden, Hernando, Liberty, Okaloosa, Pinellas, Santa Rosa, Sarasota, Seminole, Wakulla, counties in Florida; Baldwin County in Alabama; and New York County in New York. Many other commercial banks, savings institutions and credit unions have offices in our primary market areas. These institutions include many of the largest banks operating in these respective states, including some of the largest banks in the country. Many of our competitors serve the same counties we do. Our competitors often have greater resources, have broader geographic markets, have higher lending limits, offer various services that we may not currently offer and may better afford and make broader use of media advertising, support services and electronic technology than we do. To offset these competitive disadvantages, we depend on our reputation as having greater personal service, consistency, and flexibility and the ability to make credit and other business decisions quickly.

Employees

On December 31, 2016, we had 1,503 full-time equivalent employees. Except for any additional employees acquired in future acquisitions, we expect that our 2017 staffing levels will be slightly higher than those at year end 2016 as we incorporate the acquisitions of Giant Holdings, Inc. and The Bank of Commerce into our Company and continue to achieve efficiencies throughout our Company. We consider our employee relations to be good, and we have no collective bargaining agreements with any employees.

SUPERVISION AND REGULATION

General

We and our bank subsidiary are subject to extensive state and federal banking regulations that impose restrictions on and provide for general regulatory oversight of our company and its operations. These laws generally are intended to protect depositors, the deposit insurance fund of the Federal Deposit Insurance Corporation (“FDIC”) and the banking system as a whole, and not stockholders. The following discussion describes the material elements of the regulatory framework that applies to us.

Financial Regulatory Reform

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) made extensive changes in the regulation of financial institutions and their holding companies. The Dodd-Frank Act contains a comprehensive set of provisions designed to govern the practices and oversight of financial institutions and other participants in the financial markets. The act includes provisions that, among other things:

- Centralized responsibility for consumer financial protection by creating the Consumer Financial Protection Bureau, which is responsible for implementing, examining, and enforcing compliance with federal consumer financial laws, including mortgage disclosure laws.
- Created the Financial Stability Oversight Council that provides comprehensive monitoring to ensure the stability of our nation’s financial system.
- Provided mortgage reform provisions regarding a customer’s ability to repay, restricting variable-rate lending by requiring that the ability to repay variable-rate loans be determined by using the maximum rate that will apply during the first five years of a variable-rate loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions.
- Changed the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminated the ceiling on the size of the Deposit Insurance Fund (“DIF”), and increased the floor on the size of the DIF, which generally will require an increase in the level of assessments for institutions with assets in excess of \$10 billion.
- Made permanent the \$250,000 limit for federal deposit insurance and temporarily provided unlimited federal deposit insurance until January 1, 2013 for noninterest-bearing demand transaction accounts at all insured depository institutions.
- Implemented corporate governance revisions, including with regard to executive compensation and proxy access by shareholders, which apply to all public companies, not just financial institutions.
- Repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transactions and other accounts.
- Amended the Electronic Funds Transfer Act to, among other things, give the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over \$10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer.

Many provisions of the Dodd-Frank Act have delayed effective dates, and the legislation requires various federal agencies to adopt a broad range of new rules and regulations and to prepare numerous studies and reports for Congress. These agencies are still in the process of promulgating the required regulations, and the studies and reports could potentially result in additional legislative or regulatory action. The substance and scope of these regulations therefore cannot be completely determined at this time. We expect our operating and compliance costs to continue to increase as a result of the Dodd-Frank Act and implementing its regulations. Finally, President Donald J. Trump and the Congressional majority have indicated that the Dodd-Frank Act will be under further scrutiny and some of the provisions of the Dodd-Frank Act rules promulgated thereunder may be revised, repealed or amended. There can be no assurance that these or future reforms will not significantly increase our compliance or operating costs or otherwise have a significant impact on our business.

Home BancShares

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

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

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

Under the Bank Holding Company Act, if well-capitalized and well managed, we, as well as other bank holding companies located within the states in which we operate, may purchase a bank located outside of those states. Conversely, a well-capitalized and well managed bank holding company located outside of the states in which we operate may purchase a bank located inside those states. In each case, however, restrictions may be placed on the acquisition of a bank that has only been in existence for a limited amount of time or will result in specified concentrations of deposits.

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

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

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

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

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

The Federal Reserve Board has broad authority to prohibit activities of bank holding companies and their non-banking subsidiaries which represent unsafe and unsound banking practices or which constitute violations of laws or regulations, and can assess civil money penalties for certain activities conducted on a knowing and reckless basis, if those activities caused a substantial loss to a depository institution. The penalties can be as high as \$1 million for each day the activity continues.

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

Capital Adequacy Requirements. The Federal Reserve Board has adopted a system using risk-based capital guidelines to evaluate the capital adequacy of bank holding companies having \$500 million or more in assets on a consolidated basis. We currently have consolidated assets in excess of \$500 million, and are therefore subject to the Federal Reserve Board's capital adequacy guidelines.

Under the guidelines, specific categories of assets are assigned different risk weights, based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a "risk-weighted" asset base. The guidelines in effect as of December 31, 2016 require a minimum total risk-based capital ratio of 8.0% (of which at least 6.0% is required to consist of Tier 1 capital elements) and a total risk-based capital ratio of at least 10% (of which at least 8.0% is required to consist of Tier 1 capital elements) to be "well-capitalized." Total capital is the sum of Tier 1 and Tier 2 capital. As of December 31, 2016, our Tier 1 risk-based capital ratio was 12.01% and our total risk-based capital ratio was 12.97%. Thus, as of December 31, 2016, we are considered well-capitalized for regulatory purposes.

In addition to the risk-based capital guidelines, the Federal Reserve Board uses a leverage ratio as an additional tool to evaluate the capital adequacy of bank holding companies. The leverage ratio is a company's Tier 1 capital divided by its average total consolidated assets. Certain highly-rated bank holding companies may maintain a minimum leverage ratio of 3.0%, but other bank holding companies are required to maintain a leverage ratio of at least 4.0%. Well-capitalized is a leverage ratio in excess of 5%. As of December 31, 2016, our leverage ratio was 10.63%.

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

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

In July 2013, the Federal Reserve Board and the other federal bank regulatory agencies issued a final rule to revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to make them consistent with the agreements that were reached by the Basel Committee on Banking Supervision in “Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems” and certain provisions of the Dodd-Frank Act. The final rule applies to all depository institutions, bank holding companies with total consolidated assets of \$500 million or more and savings and loan holding companies (collectively, “banking organizations”). Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets) and a higher minimum Tier 1 risk-based capital requirement (6% of risk-weighted assets) and assigns higher risk weightings (150%) to exposures that are more than 90 days past due or are on non-accrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property. As of December 31, 2016, the Company’s common equity Tier 1 capital ratio was 11.30%. The final rule permanently grandfathered trust preferred securities and other non-qualifying capital instruments that were issued and outstanding as of May 19, 2010 in the Tier 1 capital of bank holding companies with total consolidated assets of less than \$15 billion as of December 31, 2009. The rule phases out of Tier 1 capital these non-qualifying capital instruments issued before May 19, 2010 by all other bank holding companies. The final rule also limits a banking organization’s capital distributions and certain discretionary bonus payments if the banking organization does not hold a “capital conservation buffer” of 2.5% of common equity Tier 1 capital to risk-weighted assets, which is in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule became effective for the Company and our bank subsidiary on January 1, 2015. The capital conservation buffer requirement began being phased in on January 1, 2016, and the full capital conservation buffer requirement will be effective January 1, 2019. As of January 1, 2016, the required capital conservation buffer was 0.625% of common equity Tier 1 capital to risk-weighted assets. The required capital conservation buffer increased to 1.25% as of January 1, 2017, and will further increase to 1.875% effective January 1, 2018. As of December 31, 2016, our capital conservation buffer was 4.97%.

Subsidiary Bank

General. Our bank subsidiary, Centennial Bank, is chartered as an Arkansas state bank and is a member of the Federal Reserve System, making it primarily subject to regulation and supervision by both the Federal Reserve Board and the Arkansas State Bank Department. In addition, our bank subsidiary is subject to various requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be granted and the interest that they may charge, and limitations on the types of investments they may make and on the types of services they may offer. Various consumer laws and regulations also affect the operations of our bank subsidiary.

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

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

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

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

The FDIC imposes an assessment against institutions for deposit insurance. This assessment is based primarily on the risk category of the institution and certain risk adjustments specified by the FDIC, with riskier institutions paying higher assessments.

In October 2010, the FDIC adopted a new restoration program for the DIF to help bolster the DIF reserve ratio to 1.35% by September 30, 2020, as required by the Dodd-Frank Act. The plan provides that, at least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required.

On February 7, 2011, the FDIC approved a final rule implementing changes to the deposit insurance assessment system, as authorized by the Dodd-Frank Act, which became effective on April 1, 2011. The final rule, among other things, changed the assessment base for insured depository institutions from adjusted domestic deposits to the institution's average consolidated total assets during an assessment period less average tangible equity capital (Tier 1 capital) during that period. The rule revised the assessment rate schedule so that it ranges from 2.5 basis points for the least risky institutions to 45 basis points for the riskiest institutions. The rule also suspended indefinitely the requirement of the FDIC to pay dividends from the DIF when it reaches 1.5% of insured deposits. In lieu of the dividends, the FDIC adopted progressively lower assessment rate schedules when the reserve ratio exceeds 1.15%, 2.0% and 2.5%, respectively.

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

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

Other Regulations. Interest and other charges collected or contracted for by our bank subsidiary are subject to state usury laws and federal laws concerning interest rates.

Loans to Insiders. Sections 22(g) and (h) of the Federal Reserve Act and its implementing regulation, Regulation O, place restrictions on loans by a bank to executive officers, directors, and principal stockholders. Under Section 22(h), loans to a director, an executive officer and to a greater than 10% stockholder of a bank and certain of their related interests, or insiders, and insiders of affiliates, may not exceed, together with all other outstanding loans to such person and related interests, the bank's loans-to-one-borrower limit (generally equal to 15% of the institution's unimpaired capital and surplus). Section 22(h) also requires that loans to insiders and to insiders of affiliates be made on terms substantially the same as offered in comparable transactions to other persons, unless the loans are made pursuant to a benefit or compensation program that (i) is widely available to employees of the bank and (ii) does not give preference to insiders over other employees of the bank. Section 22(h) also requires prior board of director's approval for certain loans, and the aggregate amount of extensions of credit by a bank to all insiders cannot exceed the institution's unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers.

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

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

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

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

Brokered Deposits. Under FDICIA, banks may be restricted in their ability to accept brokered deposits, depending on their capital classification. "Well-capitalized" banks are permitted to accept brokered deposits, but banks that are not well-capitalized are not permitted to accept such deposits. The FDIC may, on a case-by-case basis, permit banks that are adequately capitalized to accept brokered deposits if the FDIC determines that acceptance of such deposits would not constitute an unsafe or unsound banking practice with respect to the bank.

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

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

Mortgage Banking Operations. Our bank subsidiary is subject to the rules and regulations of FHA, VA, FNMA, FHLMC and GNMA with respect to originating, processing, selling and servicing mortgage loans and the issuance and sale of mortgage-backed securities. Those rules and regulations, among other things, prohibit discrimination and establish underwriting guidelines which include provisions for inspections and appraisals, require credit reports on prospective borrowers and fix maximum loan amounts, and, with respect to VA loans, fix maximum interest rates. Mortgage origination activities are subject to, among others, the Equal Credit Opportunity Act, Federal Truth-in-Lending Act and the Real Estate Settlement Procedures Act and the regulations promulgated thereunder which, among other things, prohibit discrimination and require the disclosure of certain basic information to mortgagors concerning credit terms and settlement costs. In addition, our bank subsidiary is subject to the Secure and Fair Enforcement for Mortgage Licensing Act of 2008, or SAFE Act, and the rules promulgated thereunder which, among other things, require residential mortgage loan originators who are employees of regulated financial institutions to be registered with the Nationwide Mortgage Licensing System and Registry, a database created by the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators to support the licensing of mortgage loan originators by the states. As part of this registration process, mortgage loan originators must furnish the Registry with certain information and fingerprints and undergo a criminal background check. Our bank subsidiary is also subject to regulation by the Arkansas State Bank Department, as applicable, with respect to, among other things, the establishment of maximum origination fees on certain types of mortgage loan products.

The Consumer Financial Protection Bureau (“CFPB”) created by the Dodd-Frank Act took over responsibility for enforcing the principal federal consumer protection laws, such as the Truth in Lending Act, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act and the Truth in Saving Act, among others, on July 21, 2011. Institutions that have assets of \$10 billion or less will continue to be supervised and examined in this area by their primary federal regulators (in the case of our bank subsidiary, the Federal Reserve Board). However, the Dodd-Frank Act gives the CFPB expanded data collecting powers for fair lending purposes for both small business and mortgage loans, as well as expanded authority to prevent unfair, deceptive and abusive practices.

In January 2013, the CFPB issued a series of final rules related to mortgage loan origination and mortgage loan servicing. In particular, on January 10, 2013, the CFPB issued a final rule implementing the ability-to-repay and qualified mortgage provisions of the Truth in Lending Act, as amended by the Dodd-Frank Act (the “QM Rule”). The ability-to-repay provision requires creditors to make reasonable, good faith determinations that borrowers are able to repay their mortgages before extending the credit based on a number of factors and consideration of financial information about the borrower from reasonably reliable third-party documents. The lender is presumed to have satisfied the ability-to-repay requirements if the loan is a “qualified mortgage,” which meets certain requirements related to the loan’s amortization, fees, payment terms and maturity as well as the borrower’s debt-to-income ratio. The QM Rule became effective January 10, 2014.

Payment of Dividends

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

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

There are certain state-law limitations on the payment of dividends by our bank subsidiary. Centennial Bank, which is subject to Arkansas banking laws, may not declare or pay a dividend of 75% or more of the net profits of such bank after all taxes for the current year plus 75% of the retained net profits for the immediately preceding year without the prior approval of the Arkansas State Bank Commissioner. Members of the Federal Reserve System must also comply with the dividend restrictions with which a national bank would be required to comply. Among other things, these restrictions require that if losses have at any time been sustained by a bank equal to or exceeding its undivided profits then on hand, no dividend may be paid. Although we have regularly paid dividends on our common stock beginning with the second quarter of 2003, there can be no assurances that we will be able to pay dividends in the future under the applicable regulatory limitations.

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

Restrictions on Transactions with Affiliates

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

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

The restrictions on loans to directors, executive officers, principal stockholders and their related interests (collectively, the "insiders") contained in Sections 22(g) and (h) of the Federal Reserve Act and in its implementing regulation, Regulation O, also apply to all insured institutions and their subsidiaries and holding companies. Insiders are subject to enforcement actions for knowingly accepting loans in violation of applicable restrictions.

Heightened Requirements for Bank Holding Companies with \$10 Billion or More in Assets

Various federal banking laws and regulations, including rules adopted by the Federal Reserve pursuant to the requirements of the Dodd-Frank Act, impose heightened requirements on certain large banks and bank holding companies. Most of these rules apply primarily to bank holding companies with at least \$50 billion in total consolidated assets, but certain rules also apply to banks and bank holding companies with at least \$10 billion in total consolidated assets. Following the fourth consecutive quarter (and any applicable phase-in period) where our or our bank subsidiary's total consolidated assets, as applicable, equal or exceed \$10 billion, we or our bank subsidiary, as applicable, will, among other requirements:

- be required to perform annual stress tests as follows: In October 2012, as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, the Federal Reserve and the FDIC published final rules regarding company-run stress testing. These rules require bank holding companies and banks with average total consolidated assets greater than \$10 billion to conduct an annual company-run stress test of capital, consolidated earnings and losses under one base and at least two stress scenarios provided by the federal bank regulators. Neither we nor our bank subsidiary is currently subject to the stress testing requirements, but we expect that once we are subject to those requirements, the Federal Reserve, the FDIC and the Arkansas State Bank Department will consider our results as an important factor in evaluating our capital adequacy, and that of our bank subsidiary, in evaluating any proposed acquisitions and in determining whether any proposed dividends or stock repurchases by us or by our bank subsidiary may be an unsafe or unsound practice;

- be required to establish a dedicated risk committee of our board of directors responsible for overseeing our enterprise-wide risk management policies, which must be commensurate with our capital structure, risk profile, complexity, activities, size and other appropriate risk-related factors, and including as a member at least one risk management expert;
- calculate our FDIC deposit assessment base using the performance score and a loss-severity score system as follows: For institutions with \$10 billion or more in assets, the FDIC uses a performance score and a loss-severity score that are used to calculate an initial assessment rate. In calculating these scores, the FDIC uses a bank's capital level and regulatory supervisory ratings and certain financial measures to assess an institution's ability to withstand asset-related stress and funding-related stress. The FDIC also has the ability to make discretionary adjustments to the total score based upon significant risk factors that are not adequately captured in the calculations. In addition to ordinary assessments described above, the FDIC has the ability to impose special assessments in certain instances; and
- be examined for compliance with federal consumer protection laws primarily by the CFPB.

Beginning on July 1 of the calendar year following the year in which our total consolidated assets pass the \$10 billion threshold, we will also become subject to the so-called Durbin Amendment to the Dodd-Frank Act relating to debit card interchange fees, called "swipe fees." Under the Durbin Amendment and the Federal Reserve's implementing regulations, bank issuers who are not exempt may only receive an interchange fee from merchants that is reasonable and proportional to the cost of clearing the transaction. The maximum permissible interchange fee is equal to no more than 21 cents plus 5 basis points of the transaction value for many types of debit interchange transactions. A debit card issuer may also recover 1 cent per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements required by the Federal Reserve. In addition, the Federal Reserve has rules governing routing and exclusivity that require issuers to offer two unaffiliated networks for routing transactions on each debit or prepaid product.

While neither we nor our bank subsidiary are currently subject to the above requirements, we have begun analyzing these rules to ensure we are prepared to comply with the rules if and when they become applicable to us. We believe they will become applicable to us in 2018.

Incentive Compensation

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

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

In April 2011, the Federal Reserve, other federal banking agencies and the SEC jointly published proposed rulemaking designed to implement the provisions of the Dodd-Frank Act prohibiting incentive compensation arrangements that encourage inappropriate risk taking at a covered institution, which includes a bank or bank holding company with \$1 billion or more of assets, such as the Company and our bank subsidiary. The proposed joint compensation regulations would require compensation practices consistent with the three principles discussed above. As of February 1, 2017, these regulations have not been finalized. Unless and until a final rule is adopted, we cannot fully determine whether compliance with such a rule will adversely affect the Company's or our bank subsidiary's ability to hire, retain and motivate our key employees.

The Volcker Rule

The Dodd-Frank Act prohibits banks and their affiliates from engaging in proprietary trading and investing in and sponsoring hedge funds and private equity funds. The statutory provision is commonly called the "Volcker Rule." In December 2013, federal regulators adopted final rules to implement the Volcker Rule that became effective in April 2014. The Federal Reserve, however, issued an order extending the period that institutions have to conform their activities to the requirements of the Volcker Rule to July 21, 2015. The Federal Reserve has granted an additional extension until July 21, 2017 of the conformance period for banking entities to conform investments in and relationships with covered funds that were in place prior to December 31, 2013. In addition, the Federal Reserve recently indicated that it would grant up to five year extension requests to banks who applied and met certain conditions. Such applications were due January 20, 2017. We are continuing to evaluate the effects of the Volcker Rule on our business, but we do not currently anticipate that the Volcker Rule will have a material effect on our operations.

Privacy

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

Anti-Terrorism and Money Laundering Legislation

Our bank subsidiary is subject to the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"), the Bank Secrecy Act and rules and regulations of the Office of Foreign Assets Control (the "OFAC"). These statutes and related rules and regulations impose requirements and limitations on specific financial transactions and account relationships intended to guard against money laundering and terrorism financing. Our bank subsidiary has established a customer identification program pursuant to Section 326 of the USA PATRIOT Act and the Bank Secrecy Act, and otherwise has implemented policies and procedures intended to comply with the foregoing rules.

Proposed Legislation and Regulatory Action

New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations and competitive relationships of financial institutions operating and doing business in the United States. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

Effect of Governmental Monetary Policies

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

AVAILABLE INFORMATION

We are subject to the information requirements of the Securities Exchange Act of 1934. Accordingly, we file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. You can also review our filings by accessing the website maintained by the SEC at <http://www.sec.gov>. The site contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. In addition, we maintain a website at <http://www.homebancshares.com>. We make available on our website copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to such documents as soon as practicable after we electronically file such materials with or furnish such documents to the SEC.

Item 1A. RISK FACTORS

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

Risks Related to Our Industry

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

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

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

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

President Trump and the Congressional majority have indicated that they intend to closely scrutinize the Dodd-Frank Act and that provisions of the act and rules promulgated thereunder may be revised, repealed or amended. While any such reforms are expected to be favorable to our industry, we cannot assure that they will not significantly increase our compliance or operating costs or otherwise have a significant impact on our business. The provisions of the Dodd-Frank Act and the regulations promulgated under the act may continue to be implemented, and there could be additional new federal or state laws, regulations and policies regarding lending and funding practices and liquidity standards. Additionally, financial institution regulatory agencies have intensified their response to concerns and trends identified in examinations, including through the issuance of formal enforcement actions. Negative developments in the financial services industry or other new legislation or regulations could adversely impact our operations and our financial performance by subjecting us to additional costs, restricting our business operations, including our ability to originate or sell loans, and/or increasing the ability of non-banks to offer competing financial services.

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

We have exceeded \$10 billion in assets, and as result, we expect to become subject to increased regulatory requirements, which could materially and adversely affect us.

As a result of the completion of our acquisition of Giant Holdings, Inc. on February 23, 2017, our total assets and our bank subsidiary's total assets now exceed \$10 billion. Therefore, we anticipate that we and our bank subsidiary will become subject to increased regulatory requirements beginning in 2018. The Dodd-Frank Act and its implementing regulations impose various additional requirements on bank holding companies with \$10 billion or more in total assets, including compliance with portions of the Federal Reserve's enhanced prudential oversight requirements and annual stress testing requirements. Failure to meet the enhanced prudential standards and stress testing requirements could limit, among other things, our ability to engage in expansionary activities or make dividend payments to our shareholders. In addition, banks with \$10 billion or more in total assets are primarily examined by the CFPB with respect to various federal consumer financial protection laws and regulations. Currently, our bank subsidiary is subject to regulations adopted by the CFPB, but the Federal Reserve is primarily responsible for examining our bank subsidiary's compliance with consumer protection laws and those CFPB regulations. As a relatively new agency with evolving regulations and practices, there is uncertainty as to how the CFPB's examination and regulatory authority might impact our business. Further, the possibility of changes in the authority of the CFPB by Congress or the Trump Administration is uncertain, and we cannot ascertain the impact, if any, changes to the CFPB may have on our business.

With respect to deposit-taking activities, banks with assets in excess of \$10 billion are subject to two changes. First, these institutions are subject to a deposit assessment based on a new scorecard issued by the FDIC. This scorecard considers, among other things, the bank's CAMELS rating, results of asset-related stress testing and funding-related stress, as well as our use of core deposits, among other things. Depending on the results of the bank's performance under that scorecard, the total base assessment rate is between 2.5 to 45 basis points. Any increase in our bank subsidiary's deposit insurance assessments may result in an increased expense related to our use of deposits as a funding source. Additionally, banks with over \$10 billion in total assets are no longer exempt from the requirements of the Federal Reserve's rules on interchange transaction fees for debit cards. This means that, beginning on July 1, 2018, our bank subsidiary will be limited to receiving only a "reasonable" interchange transaction fee for any debit card transactions processed using debit cards issued by our bank subsidiary to our customers. The Federal Reserve has determined that it is unreasonable for a bank with more than \$10 billion in total assets to receive more than \$0.21 plus 5 basis points of the transaction plus a \$0.01 fraud adjustment for an interchange transaction fee for debit card transactions. A reduction in the amount of interchange fees we receive for electronic debit interchange will reduce our revenues. During fiscal year 2016, we collected \$18.5 million in debit card interchange fees. We estimate that had we been subject to this limitation during 2016, our interchange fee revenue would have been reduced by approximately \$7.0 million.

In anticipation of becoming subject to the heightened regulatory requirements, we have hired additional compliance personnel and implemented structural initiatives to address these requirements. However, compliance with these requirements may necessitate that we hire additional compliance or other personnel, design and implement additional internal controls, and/or incur other significant expenses, any of which could have a material adverse effect on our business, financial condition or results of operations. Compliance with the annual stress testing requirements, part of which must be publicly disclosed, may also be misinterpreted by the market generally or our customers and, as a result, may adversely affect our stock price or our ability to retain our customers or effectively compete for new business opportunities. To ensure compliance with these heightened requirements when effective, our regulators may require us to fully comply with these requirements or take actions to prepare for compliance even before our or our bank subsidiary's total assets have equaled or exceeded \$10 billion at the end of four consecutive quarters. As a result, we may incur compliance-related costs before we might otherwise be required. Our regulators may also consider our preparation for compliance with these regulatory requirements when examining our operations generally or considering any request for regulatory approval we may make, even requests for approvals on unrelated matters.

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

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

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

Recent legislative and regulatory initiatives to address difficult market and economic conditions, and any future repeal, replacement or amendments to such initiatives or other legislative or regulatory reforms could adversely affect the U.S. banking system or our financial condition and results of operations.

Since 2008, the U.S. Congress, the Federal Reserve, the Treasury, the FDIC, the CFPB, the SEC and others have taken numerous legislative and regulatory actions to stabilize the U.S. banking system and to prevent future financial crises like the one experienced in 2008 and 2009. These measures have included the Emergency Economic Stabilization Act of 2008, which authorized the Treasury to purchase troubled assets and capital securities from banks and their holding companies under the TARP program; significant financial reforms under the Dodd-Frank Act; homeowner relief that encourages loan restructuring and modification; the establishment of significant liquidity and credit facilities for financial institutions and investment banks; the lowering of the federal funds rate; emergency action against short selling practices; a temporary guaranty program for money market funds; the establishment of a commercial paper funding facility to provide back-stop liquidity to commercial paper issuers; efforts by the Federal Reserve to purchase U.S. Treasury bonds; and coordinated international efforts to address illiquidity and other weaknesses in the banking sector.

While the banking system in the United States has substantially stabilized, it is unknown whether these legislative and regulatory initiatives will produce broad, long-term stability, particularly if conditions in the real estate markets worsen or if any significant negative economic developments occur as a result of fiscal and political uncertainties in the United States and abroad. Should these or other legislative or regulatory initiatives fail to fully stabilize the financial markets and prevent similar future crises, our business, financial condition, results of operations and prospects could be materially and adversely affected. Further, it is possible that some or many of these initiatives may be subject to revision, repeal or amendment by Congress and the Trump Administration. Any such future reforms may also impact the future stability of the United States banking system.

Additionally, President Trump has proposed that Congress enact reforms to the federal tax laws which would include reducing federal corporate income tax rates. While we anticipate that a reduction in corporate tax rates could have a favorable long-term impact on our profitability, any such reforms may negatively affect the carrying value of our existing deferred tax asset and thus could materially and adversely impact our short-term financial results during the period or periods in which such reforms are implemented. For example, while a 5% to 20% reduction in the top marginal federal corporate income tax rate could result in income tax expense savings in the range of approximately \$12.6 million to \$50.3 million based on our 2016 net income, had such a reduction taken effect on December 31, 2016, we would have incurred a one-time after tax expense in the range of approximately \$7.3 million to \$29.2 million due to the reduction in value of our existing deferred tax asset. Further, there is no assurance that any potential tax savings from a reduction in corporate tax rates, if enacted, would be realized to the extent anticipated or at all.

The short-term and long-term impact of the changing regulatory capital requirements and new capital rules is uncertain.

In July 2013, the Federal Reserve Board and the other federal bank regulatory agencies issued a final rule to revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to make them consistent with the agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The final rule applies to all banking organizations. Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets) and a higher minimum Tier 1 risk-based capital requirement (6% of risk-weighted assets) and assigns higher risk weightings (150%) to exposures that are more than 90 days past due or are on non-accrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" of 2.5% of common equity tier 1 capital to risk-weighted assets, which is in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule became effective for our bank subsidiary and us on January 1, 2015. The capital conservation buffer requirement began being phased in on January 1, 2016, and the full capital conservation buffer requirement will be effective January 1, 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such activities.

While our current capital levels well exceed the revised capital requirements, our capital levels could decrease in the future as a result of factors such as acquisitions, faster than anticipated growth, reduced earnings levels, operating losses and other factors. The application of more stringent capital requirements for us could, among other things, result in lower returns on equity, require the raising of additional capital, and result in our inability to pay dividends or repurchase shares if we were to be unable to comply with such requirements.

Additional bank failures or further changes to the FDIC insurance assessment system may increase our FDIC insurance assessments and result in higher noninterest expense.

In July 2010, the Dodd-Frank Act made permanent the \$250,000 per depositor coverage limit on federal deposit insurance provided by the FDIC. The FDIC has taken a number of actions since 2008 in order to maintain a strong funding position and restore reserve ratios of the DIF of the FDIC depleted by the increased deposit insurance coverage and the high number of bank failures.

Effective April 1, 2011, the FDIC approved a final rule implementing additional changes to the deposit insurance assessment system, as authorized by the Dodd-Frank Act. The final rule, among other things, changes the assessment base for insured institutions, suspends indefinitely certain requirements of the FDIC to pay dividends from the DIF to prevent the DIF from becoming unnecessarily large and adopts, in place of the dividends, progressively lower assessment rate schedules when the reserve ratio exceeds certain levels. Additionally, the final rule changes the method of calculating assessment rates for large institutions and highly complex institutions. As a result of our bank subsidiary exceeding \$10 billion in total assets, we anticipate becoming subject to these changes to the method of calculating assessment rates in 2018.

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

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

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

As of December 31, 2016, our one-year ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities was 113.2% and our cumulative repricing gap position was 6.2% of total earning assets, resulting in a limited impact on earnings for various interest rate change scenarios. Floating rate loans made up 37.7% of our \$7.39 billion total loan portfolio. A loan is considered fixed rate if the loan is currently at its adjustable floor or ceiling. In addition, 55.6% of our loans receivable and 72.2% of our time deposits at December 31, 2016, were scheduled to reprice within 12 months and our other rate sensitive asset and rate sensitive liabilities composition is subject to change. As a result, our interest rate sensitivity profile was asset sensitive as of December 31, 2016, meaning that we estimate our net interest income would increase more from rising interest rates than from falling interest rates. Significant composition changes in our rate sensitive assets or liabilities could result in a more unbalanced position and interest rate changes would have more of an impact on our earnings.

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

Risks Related to Our Business

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

Management makes various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of our secured loans. We endeavor to maintain an allowance for loan losses that we consider adequate to absorb future losses that may occur in our loan portfolio. As of December 31, 2016, our allowance for loan losses was approximately \$80.0 million, or 1.08% of our total loans. In determining the size of the allowance, we analyze our loan portfolio based on our historical loss experience, volume and classification of loans, volume and trends in delinquencies and non-accruals, national and local economic conditions, and other pertinent information.

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

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

As of December 31, 2016, 82.1% of our total loan portfolio was comprised of loans with real estate as a primary or secondary component of collateral. This includes commercial real estate loans (excluding construction/land development) of \$3.23 billion, or 43.7% of total loans, construction/land development loans of \$1.14 billion, or 15.4% of total loans, and residential real estate loans of \$1.70 billion, or 23.0% of total loans. This high concentration of real estate loans could subject us to increased credit risk in the event of a decrease in real estate values in our markets, a real estate recession or a natural disaster. Also, in any such event, our ability to recover on defaulted loans by foreclosing and selling real estate collateral would be diminished, and we would be more likely to suffer losses on defaulted loans.

In addition to the risks associated with the high concentration of real estate-secured loans, the commercial real estate and construction/land development loans, which comprised 59.1% of our total loan portfolio as of December 31, 2016, expose us to a greater risk of loss than our residential real estate loans, which comprised 23.0% of our total loan portfolio as of December 31, 2016. Commercial real estate and land development loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential loans. Consequently, an adverse development with respect to one commercial loan or one credit relationship exposes us to a significantly greater risk of loss compared to an adverse development with respect to one residential mortgage loan.

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

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

Our bank subsidiary operates through branch locations in Arkansas, Florida, Alabama and New York City. However, approximately 84.1% of our total loans and 85.7% of our real estate loans as of December 31, 2016, are to borrowers whose collateral is located in Alabama, Arkansas, Florida and New York, the states in which the Company has its branch locations. An adverse development with respect to the market conditions of any of these specific market areas or a decrease in real estate values in those market areas could expose us to a greater risk of loss than a portfolio that is spread among a larger geographic base.

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

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

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

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

As of December 31, 2016, loans in the Florida market totaled \$2.46 billion, or 33.3% of our loans receivable. Of the Florida loans, approximately 90.0% were secured by real estate. In prior years, the difficult local economic conditions have adversely affected the values of our real estate collateral in Florida, and they could do so again if the markets were to once again deteriorate in the future. The real estate collateral in each case provides an alternate source of repayment on our loans in the event of default by the borrower but may deteriorate in value during the time credit is extended. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected.

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

We have a concentration of exposure to a number of individual borrowers. Under applicable law, our bank subsidiary is generally permitted to make loans to one borrowing relationship up to 20% of its Tier 1 capital plus the allowance for loan losses. As of December 31, 2016, the legal lending limit of our bank subsidiary for secured loans was approximately \$200.0 million. Our board of directors has established an in-house lending limit of \$20.0 million to any one borrowing relationship without obtaining the approval of both our Chairman, John W. Allison, and our director Richard H. Ashley. As of December 31, 2016, we had a total of \$3.39 billion, or 45.8% of our total loans, committed to the aggregate group of borrowers whose total debt exceeds the established in-house lending limit of \$20.0 million.

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

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

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

Our success depends significantly on our Chairman, John W. Allison, and our executive officers, especially C. Randall Sims, Brian S. Davis, J. Stephen Tipton and Kevin D. Hester plus Centennial Bank Chief Executive Officer and President, Tracy M. French, and our regional Centennial Bank presidents 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.

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

Growth through the acquisition of banks, including FDIC-assisted transactions, and *de novo* branching represent important components of our business strategy. Any future acquisitions we might make will be accompanied by the risks commonly encountered in acquisitions. These risks include, among other things:

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

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

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

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

- the inability to obtain all required regulatory approvals;
- the significant upfront costs and anticipated operating losses associated with establishing a *de novo* branch or a new bank;
- the inability to secure the services of qualified senior management;
- the local market receptivity for branches established or banks acquired outside of those markets in which we currently maintain a material presence;
- the local economic conditions within the market to be served by the *de novo* branch or new bank;
- the inability to obtain attractive locations within a new market at a reasonable cost; and
- the additional strain on management resources and internal systems and controls.

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

There may be undiscovered risks or losses associated with our bank acquisitions which would have a negative impact upon our future income.

Our growth strategy includes strategic acquisitions of banks. We have acquired 20 banks since we started our first subsidiary bank in 1999, including a total of 14 banks from 2010 through 2015 and one additional bank in February 2017, and we anticipate completing another acquisition in the first quarter of 2017. We will continue to consider strategic acquisitions, with a primary focus on Arkansas, Florida, South Alabama and other nearby markets. In most cases, our acquisition of a bank includes the acquisition of all or a substantial portion of the target bank's assets and liabilities, including all or a substantial portion of its loan portfolio. There may be instances when we, under our normal operating procedures, may find after the acquisition that there may be additional losses or undisclosed liabilities with respect to the assets and liabilities of the target bank, and, with respect to its loan portfolio, that the ability of a borrower to repay a loan may have become impaired, the quality of the value of the collateral securing a loan may fall below our standards, or our determination of the fair value of any such loan may be inadequate. One or more of these factors might cause us to have additional losses or liabilities, additional loan charge-offs, or increases in allowances for loan losses, which would have a negative impact upon our financial condition and results of operations.

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

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

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

Our management is responsible for establishing and maintaining effective disclosure controls and procedures that are designed to cause the material information that we are required to disclose in reports that we file or submit under the Exchange Act to be recorded, processed, summarized, and reported to the extent applicable within the time periods required by the SEC's rules and forms. As a result of our acquisitions, we may implement changes to processes, information technology systems and other components of internal control over financial reporting as part of our integration activities. Notwithstanding any changes to our disclosure controls and procedures resulting from our evaluation of the same after the acquisition, our control systems, no matter how well designed and operated, may not result in the material information that we are required to disclose in our SEC reports being recorded, processed, summarized, and reported within required time periods. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. If, as a result of our acquisitions or otherwise, we are unable to achieve and maintain effective disclosure controls and procedures and internal control over financial reporting, investors and customers may lose confidence in the accuracy and completeness of our financial reports, we may suffer adverse regulatory consequences or violate listing standards, and the market price of our common stock could decline.

Competition from other financial institutions may adversely affect our profitability.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our directors and executive officers own a significant portion of our common stock and can exert significant influence over our business and corporate affairs.

Our directors and executive officers, as a group, beneficially owned 11.6% of our common stock as of December 31, 2016. Consequently, if they vote their shares in concert, they can significantly influence the outcome of all matters submitted to our shareholders for approval, including the election of directors. The interests of our officers and directors may conflict with the interests of other holders of our common stock, and they may take actions affecting the Company with which you disagree.

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

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

Risks Related to Owning Our Stock

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

As of December 31, 2016, we have \$60.8 million of subordinated debentures issued in connection with trust preferred securities. Payments of the principal and interest on the trust preferred securities are unconditionally guaranteed by us. The subordinated debentures are senior to our shares of common stock. As a result, we must make payments on the subordinated debentures (and the related trust preferred securities) before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the debentures must be satisfied before any distributions can be made to the holders of our common stock. We have the right to defer distributions on the subordinated debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid to holders of our capital stock. If we elect to defer or if we default with respect to our obligations to make payments on these subordinated debentures, this would likely have a material adverse effect on the market value of our common stock.

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

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

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

- We may not have sufficient earnings since our primary source of income, the payment of dividends to us by our bank subsidiary, is subject to federal and state laws that limit the ability of that bank to pay dividends.
- Federal Reserve Board policy requires bank holding companies to pay cash dividends on common stock only out of net income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition.
- Before dividends may be paid on our common stock in any year, payments must be made on our subordinated debentures.
- Our board of directors may determine that, even though funds are available for dividend payments, retaining the funds for internal uses, such as expansion of our operations, is a better strategy.

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

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

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

Item 1B. UNRESOLVED STAFF COMMENTS

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

Item 2. PROPERTIES

The Company's main office is located in a Company-owned 33,000 square foot building located at 719 Harkrider Street in downtown Conway, Arkansas. As of December 31, 2016, our bank subsidiary owned or leased a total of 76 branches located in Arkansas, 59 branches in Florida, six branches in South Alabama and one branch in New York City. The Company also owns or leases other buildings that provide space for operations, mortgage lending and other general purposes. We believe that our banking and other offices are in good condition and are suitable to our needs.

Item 3. LEGAL PROCEEDINGS

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

Item 4. MINE SAFETY DISCLOSURE

Not applicable.

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

Our common stock is listed on the NASDAQ Global Select Market under the symbol "HOMB." Set forth below are the high and low sales prices for our common stock as reported by the NASDAQ Global Select Market for the two most recently completed fiscal years (adjusted for the 2-for-1 stock split in June 2016). Also set forth below are dividends declared per share in each of these periods:

	Price per Common Share		Quarterly Dividends Per Common Share
	High	Low	
2016			
First Quarter	\$ 21.29	\$ 17.07	\$ 0.0750
Second Quarter	22.30	18.55	0.0875
Third Quarter	23.50	18.91	0.0900
Fourth Quarter	28.46	19.89	0.0900
2015			
First Quarter	\$ 17.33	\$ 14.33	\$ 0.0625
Second Quarter	18.68	16.26	0.0625
Third Quarter	20.60	18.00	0.0750
Fourth Quarter	23.26	19.80	0.0750

As of February 24, 2017, there were approximately 1,082 stockholders of record of the Company's common stock.

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

There were no sales of our unregistered securities during the period covered by this report.

We currently maintain a compensation plan, the Home BancShares, Inc. Amended and Restated 2006 Stock Option and Performance Incentive Plan, which provides for the issuance of stock-based compensation to directors, officers and other employees. This plan has been approved by the stockholders. The following table sets forth information regarding outstanding options and shares reserved for future issuance under the foregoing plan as of December 31, 2016:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a)) (c)
Equity compensation plans approved by the stockholders	2,397,149	\$ 15.19	2,612,671
Equity compensation plans not approved by the stockholders	-	-	-

During the three months ended December 31, 2016, the Company utilized a portion of its stock repurchase program approved by the Board of Directors in January 2008. This program authorized the repurchase of 4,752,000 shares (split adjusted) of the Company's common stock. The following table sets forth information with respect to purchases made by or on behalf of the Company of shares of the Company's common stock during the periods indicated:

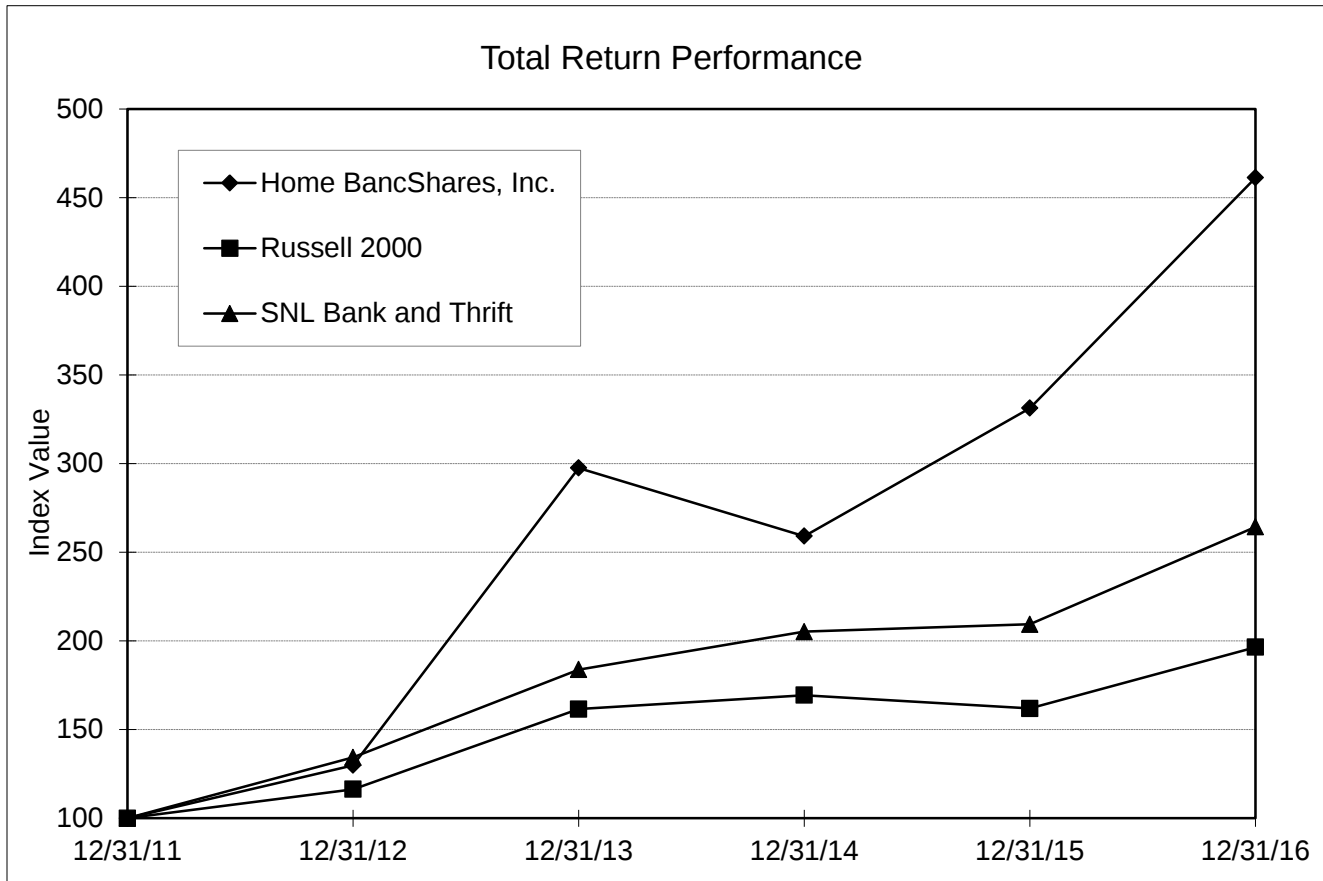
Issuer Purchases of Equity Securities

Period	Number of Shares Purchased⁽¹⁾	Average Price Paid Per Share Purchased	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs⁽¹⁾	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs⁽¹⁾
January 1 through January 31, 2016	95,428	18.16	95,428	1,500,116
February 1 through February 29, 2016	364,572	19.45	364,572	1,135,544
March 1 through March 31, 2016	1,800	20.00	1,800	1,133,744
October 1 through October 31, 2016	48,808	19.97	48,808	1,084,936
December 1 through December 31, 2016	-	-	-	1,084,936
Total	510,608	19.23	510,608	

- (1) The shares are adjusted to reflect the two-for-one stock split in June 2016. Additionally, on January 20, 2017, the Board of Directors of the Company authorized the repurchase of up to an additional 5,000,000 shares of Company's common stock under the stock repurchase program. The above described stock repurchase program has no expiration date.

Performance Graph

Below is a graph which summarizes the cumulative return earned by the Company's stockholders since December 31, 2011, compared with the cumulative total return on the Russell 2000 Index and SNL Bank and Thrift Index. This presentation assumes that the value of the investment in the Company's common stock and each index was \$100.00 on December 31, 2011 and that subsequent cash dividends were reinvested.



<i>Index</i>	<i>Period Ending</i>					
	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16
Home BancShares, Inc.	100.00	129.92	297.54	259.09	331.25	461.27
Russell 2000	100.00	116.35	161.52	169.43	161.95	196.45
SNL Bank and Thrift	100.00	134.28	183.86	205.25	209.39	264.35

Item 6. SELECTED FINANCIAL DATA.

Summary Consolidated Financial Data

As of or for the Years Ended December 31,

2016	2015	2014	2013	2012
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(Dollars and shares in thousands, except per share data)

Income statement data:

Total interest income	\$ 436,537	\$ 377,436	\$ 335,888	\$ 217,126	\$ 177,135
Total interest expense	30,579	21,724	18,870	14,531	21,535
Net interest income	405,958	355,712	317,018	202,595	155,600
Provision for loan losses	18,608	25,164	22,664	5,180	2,750
Net interest income after provision for loan losses	387,350	330,548	294,354	197,415	152,850
Non-interest income	87,051	65,498	44,762	40,365	47,969
Non-interest expense	191,755	177,555	161,943	133,307	102,368
Income before income taxes	282,646	218,491	177,173	104,473	98,451
Provision for income taxes	105,500	80,292	64,110	37,953	35,429
Net income	<u>\$ 177,146</u>	<u>\$ 138,199</u>	<u>\$ 113,063</u>	<u>\$ 66,520</u>	<u>\$ 63,022</u>

Per share data⁽¹¹⁾:

Basic earnings per common share	\$ 1.26	\$ 1.01	\$ 0.86	\$ 0.58	\$ 0.56
Diluted earnings per common share	1.26	1.01	0.85	0.57	0.56
Diluted earnings per common share excluding intangible amortization ⁽¹⁾	1.27	1.03	0.88	0.59	0.57
Book value per common share	9.45	8.55	7.51	6.46	4.59
Tangible book value per common share ⁽²⁾⁽⁵⁾	6.63	5.71	4.95	3.97	3.72
Dividends - common	0.3425	0.275	0.175	0.145	0.145
Average common shares outstanding	140,418	136,615	131,902	115,816	112,548
Average diluted shares outstanding	140,713	137,130	132,662	116,504	113,260

Performance ratios:

Return on average assets	1.85 %	1.68 %	1.63 %	1.43 %	1.58 %
Return on average assets excluding intangible amortization ⁽⁶⁾	1.95	1.79	1.75	1.52	1.66
Return on average common equity	14.08	12.77	12.34	11.27	12.75
Return on average tangible common equity excluding intangible amortization ⁽²⁾⁽⁷⁾	20.82	19.37	19.80	15.26	15.87
Net interest margin ⁽¹⁰⁾	4.81	4.98	5.37	5.19	4.70
Efficiency ratio ⁽³⁾	37.65	40.44	42.67	52.44	47.88

Asset quality:

Non-performing assets to total assets	0.81 %	0.89 %	1.18 %	1.84 %	3.55 %
Non-performing loans to total loans	0.85	0.96	1.23	1.66	3.61
Allowance for loan losses to non-performing loans	126.74	109.00	88.65	59.12	51.59
Allowance for loans losses to total loans ⁽⁹⁾	1.08	1.04	1.09	0.98	1.86
Net charge-offs to average total loans	0.11	0.22	0.22	0.51	0.41

Summary Consolidated Financial Data – Continued

	As of or for the Years Ended December 31,				
	2016	2015	2014	2013	2012
(Dollars and shares in thousands, except per share data)					
Balance sheet data (period end):					
Total assets	\$ 9,808,465	\$ 9,289,122	\$ 7,403,272	\$ 6,811,861	\$ 4,242,130
Investment securities – available-for-sale	1,072,920	1,206,580	1,067,287	1,175,484	726,223
Investment securities – held-to-maturity	284,176	309,042	356,790	114,621	-
Loans receivable	7,387,699	6,641,571	5,057,502	4,476,953	2,716,083
Allowance for loan losses	80,002	69,224	55,011	43,815	50,632
Intangible assets	396,294	399,426	346,348	324,034	97,742
Non-interest-bearing deposits	1,695,184	1,456,624	1,203,306	991,161	666,414
Total deposits	6,942,427	6,438,509	5,423,971	5,393,046	3,483,452
Subordinated debentures (trust preferred securities)	60,826	60,826	60,826	60,826	28,867
Stockholders' equity	1,327,490	1,199,757	1,015,292	840,955	515,473
Capital ratios:					
Common equity to assets	13.53 %	12.92 %	13.71 %	12.35 %	12.15 %
Tangible common equity to tangible assets ⁽²⁾⁽⁸⁾	9.89	9.00	9.48	7.97	10.08
Common equity Tier 1 capital	11.30	10.50	-	-	-
Tier 1 leverage ratio ⁽⁴⁾	10.63	9.91	10.31	9.38	10.95
Tier 1 risk-based capital ratio	12.01	11.26	12.55	10.88	13.94
Total risk-based capital ratio	12.97	12.16	13.51	11.75	15.20
Dividend payout - common	27.15	27.19	20.49	25.51	25.89

(1) Diluted earnings per common share excluding intangible amortization reflect diluted earnings per share plus per share intangible amortization expense, net of the corresponding tax effect. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Table 33,” for the non-GAAP tabular reconciliation.

(2) Tangible calculations eliminate the effect of goodwill and acquisition-related intangible assets and the corresponding amortization expense on a tax-effected basis.

(3) The efficiency ratio is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income.

(4) Leverage ratio is Tier 1 capital to quarterly average total assets less intangible assets and gross unrealized gains/losses on available-for-sale investment securities.

(5) See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Table 34,” for the non-GAAP tabular reconciliation.

(6) See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Table 35,” for the non-GAAP tabular reconciliation.

(7) See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Table 36,” for the non-GAAP tabular reconciliation.

(8) See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Table 37,” for the non-GAAP tabular reconciliation.

(9) See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Table 32,” for additional information on non-GAAP tabular disclosure.

(10) Fully taxable equivalent (assuming an income tax rate of 39.225%).

(11) Share and per share amounts have been restated for the 2-for-1 stock split in June 2016.

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

The following discussion and analysis presents our consolidated financial condition and results of operations for the years ended December 31, 2016, 2015 and 2014. This discussion should be read together with the “Summary Consolidated Financial Data,” our consolidated financial statements and the notes thereto, and other financial data included in this document. In addition to the historical information provided below, we have made certain estimates and forward-looking statements that involve risks and uncertainties. Our actual results could differ significantly from those anticipated in these estimates and in the forward-looking statements as a result of certain factors, including those discussed in the section of this document captioned “Risk Factors,” and elsewhere in this document. Unless the context requires otherwise, the terms “Company”, “us”, “we”, and “our” refer to Home BancShares, Inc. on a consolidated basis.

General

We are a bank holding company headquartered in Conway, Arkansas, offering a broad array of financial services through our wholly owned bank subsidiary, Centennial Bank. As of December 31, 2016, we had, on a consolidated basis, total assets of \$9.81 billion, loans receivable, net of \$7.31 billion, total deposits of \$6.94 billion, and stockholders’ equity of \$1.33 billion.

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

Table 1: Key Financial Measures

	As of or for the Years Ended December 31,⁽¹⁾		
	2016	2015	2014
	(Dollars in thousands, except per share data)		
Total assets	\$ 9,808,465	\$ 9,289,122	\$ 7,403,272
Loans receivable	7,387,699	6,641,571	5,057,502
Allowance for loan losses	80,002	69,224	55,011
Total deposits	6,942,427	6,438,509	5,423,971
Total stockholders’ equity	1,327,490	1,199,757	1,015,292
Net income	177,146	138,199	113,063
Basic earnings per share	1.26	1.01	0.86
Diluted earnings per share	1.26	1.01	0.85
Diluted earnings per share excluding intangible amortization ⁽²⁾	1.27	1.03	0.88
Net interest margin – FTE	4.81 %	4.98 %	5.37 %
Efficiency ratio	37.65	40.44	42.67
Return on average assets	1.85	1.68	1.63
Return on average common equity	14.08	12.77	12.34

(1) Share and per share amounts have been restated for the 2-for-1 stock split in June 2016.

(2) See Table 33 “Diluted Earnings Per Common Share Excluding Intangible Amortization” for a reconciliation to GAAP for diluted earnings per share excluding intangible amortization.

Credit Improvement in Purchased Credit Impaired Loan Pools

Impairment testing on the estimated cash flows of the purchased credit impaired loan pools is performed each quarter. Because the economy has improved since the impaired loans were acquired, quite often the impairment test has revealed a projected credit improvement in certain loan pools. As a result of these improvements, we are recognizing additional adjustments to yield over the weighted-average life of the loans.

Tables 2 and 3 summarize the recognition of these positive events and the financial impact to the years ended December 31, 2016, 2015 and 2014:

Table 2: Overall Estimated Impact to Financial Statements Initially Reported

	Additional Adjustment to Yield	Reduction of Indemnification Asset	Increase of FDIC True-up Liability
	(In thousands)		
Periods Tested:			
Prior to 2015	\$ 83,278	\$ 58,535	\$ 6,764
March 31, 2015	-	-	-
June 30, 2015	-	-	-
September 30, 2015	28,522	-	-
December 31, 2015	-	-	-
March 31, 2016	4,319	-	-
June 30, 2016	2,539	-	-
September 30, 2016	2,514	-	-
December 31, 2016	2,396	-	-
Total	<u>\$ 123,568</u>	<u>\$ 58,535</u>	<u>\$ 6,764</u>

Table 3: Financial Impact for the Years Ended December 31, 2016, 2015 and 2014

	Yield Accretion Income	Amortization of Indemnification Asset	FDIC True-up Expense
	(In thousands)		
Years Ended:			
December 31, 2015	\$ 23,348	\$ (9,794)	\$ (1,979)
December 31, 2016	22,268	(912)	-
Additional income/expense	<u>\$ (1,080)</u>	<u>\$ 8,882</u>	<u>\$ 1,979</u>
Years Ended:			
December 31, 2014	\$ 28,072	\$ (26,458)	\$ (1,403)
December 31, 2015	23,348	(9,794)	(1,979)
Additional income/expense	<u>\$ (4,724)</u>	<u>\$ 16,664</u>	<u>\$ (576)</u>

2016 Overview

Our net income increased \$38.9 million, or 28.2%, to \$177.1 million for the year ended December 31, 2016, from \$138.2 million for the same period in 2015. On a diluted earnings per share basis, our earnings were \$1.26 per share and \$1.01 per share (split adjusted) for the years ended December 31, 2016 and 2015, respectively, representing an increase of \$0.25 per share or 24.8% for the year ended 2016 when compared to the previous year. The \$38.9 million increase in net income is primarily associated with additional net interest income during 2016 largely resulting from our 2015 acquisitions, organic loan growth, a slight decrease in provision for loan losses, growth in non-interest income and the reduced amortization of the indemnification asset, when compared to the same period in 2015. These improvements were partially offset by an increase in the costs associated with the asset growth when compared to the same period in 2015.

Our net interest margin decreased from 4.98% for the year ended December 31, 2015 to 4.81% for the year ended December 31, 2016. For the year ended December 31, 2016 and 2015, we recognized \$42.3 million and \$47.6 million, respectively, in total net accretion for acquired loans and deposits. The non-GAAP margin excluding accretion income was flat at 4.24% and 4.23% for the year ended December 31, 2016 and 2015. Additionally, the non-GAAP yield on loans excluding accretion income was also relatively flat at 5.10% and 5.05% for the year ended December 31, 2016 and 2015, respectively. Consequently, with a growth of the average loan balance of \$1.25 billion, we experienced a decline in the GAAP yield on loans and net interest margin because the organic loan growth was approximately at our lower non-GAAP loan yields.

Our efficiency ratio was 37.65% for the year ended December 31, 2016, compared to 40.44% for the same period in 2015. For year ended 2016, our core efficiency ratio was 36.55% which is improved from the 39.48% reported for the year ended 2015. While we have realized the cost savings from our acquisitions and reduced costs from our recent branch closures, the improvement in the core efficiency ratio was primarily achieved through revenue from additional net interest income during 2016 resulting from our acquisitions and our organic loan growth, growth in non-interest income and our July 2016 buy-out of the FDIC loss share portfolio. Core efficiency ratio is a non-GAAP measure and is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income excluding non-fundamental items such as merger expenses, FDIC loss share buy-out expense and/or gains and losses.

Our return on average assets was 1.85% for the year ended December 31, 2016, compared to 1.68% for the same period in 2015. Our return on average common equity was 14.08% for the year ended December 31, 2016, compared to 12.77% for the same period in 2015. We have been making notable progress in improving the performance of our legacy and acquired franchises, which is reflected in the improvement in our return on average assets and return on average common equity from 2015 to 2016.

Our total assets as of December 31, 2016 increased \$519.3 million to \$9.81 billion from the \$9.29 billion reported as of December 31, 2015. Our loan portfolio increased \$746.1 million to \$7.39 billion as of December 31, 2016, from \$6.64 billion as of December 31, 2015. This increase is a result of our organic loan growth since December 31, 2015. Stockholders' equity increased \$127.7 million to \$1.33 billion as of December 31, 2016, compared to \$1.20 billion as of December 31, 2015. The improvement in stockholders' equity for the year ended 2016 was 10.6%. The increase in stockholders' equity is primarily associated with the \$129.1 million increase in retained earnings.

As of December 31, 2016, our non-performing loans decreased to \$63.1 million, or 0.85%, of total loans from \$63.5 million, or 0.96%, of total loans as of December 31, 2015. The allowance for loan losses as a percent of non-performing loans increased to 126.74% as of December 31, 2016, compared to 109.00% as of December 31, 2015. Non-performing loans from our Arkansas franchise were \$28.5 million at December 31, 2016 compared to \$28.3 million as of December 31, 2015. Non-performing loans from our Florida franchise were \$34.0 million at December 31, 2016 compared to \$35.1 million as of December 31, 2015. Non-performing loans from our Alabama franchise were \$656,000 at December 31, 2016 compared to \$132,000 as of December 31, 2015. There were no non-performing loans from our Centennial CFG franchise.

As of December 31, 2016, our non-performing assets decreased to \$79.1 million, or 0.81%, of total assets from \$82.7 million, or 0.89%, of total assets as of December 31, 2015. Non-performing assets from our Arkansas franchise were \$41.0 million at December 31, 2016 compared to \$40.3 million as of December 31, 2015. Non-performing assets from our Florida franchise were \$36.8 million at December 31, 2016 compared to \$41.5 million as of December 31, 2015. Non-performing assets from our Alabama franchise were \$1.2 million at December 31, 2016 compared to \$892,000 as of December 31, 2015. There were no non-performing assets from our Centennial CFG franchise.

2015 Overview

Our net income increased 22.2% to \$138.2 million for the year ended December 31, 2015, from \$113.1 million for the same period in 2014. On a diluted earnings per share basis, our earnings increased 18.8% to \$1.01 per share (split adjusted) for the year ended December 31, 2015, as compared to \$0.85 per share (split adjusted) for the same period in 2014. Excluding the \$1.6 million of one-time gain on acquisition offset by \$4.8 million of merger expenses associated with the acquisitions of Doral Bank's Florida Panhandle operations ("Doral Florida") and Florida Business BancGroup, Inc. ("FBBI"), net income was \$140.1 million and diluted earnings per share for the year ended 2015 was \$1.03 per share (split adjusted). Excluding the \$4.8 million of merger expenses associated with the acquisitions of Doral Florida and FBBI, net income was \$141.1 million and diluted earnings per share for the year ended 2015 was \$1.03 per share (split adjusted). Excluding the \$6.4 million of 2014 merger expenses associated with the acquisitions of Florida Traditions Bank ("Traditions") and Broward Financial Holdings, Inc. ("Broward"), diluted earnings per share for the year ended 2014 was \$0.88 per share (split adjusted). Excluding merger expenses and gain on acquisition, this represents an increase of \$0.15 per share, or 15.9%, for the year ended 2015 when compared to the previous year. Excluding merger expenses and gain on acquisition, net income for the years ended 2015 and 2014 would have been \$140.1 million and \$117.0 million, respectively, for an increase of \$23.1 million, or 19.8%. The \$23.1 million increase in net income excluding merger expenses and gain on acquisition is primarily associated with additional net interest income largely resulting from our acquisitions and organic loan growth combined with reduced amortization of the indemnification asset when compared to the same period in 2014. These improvements were partially offset by an increase in the costs associated with the asset growth and the increase in provision for loan losses due to organic loan growth during 2015 when compared to the same period in 2014.

Each quarter we perform credit impairment tests on the loans acquired in our FDIC loss-sharing and non-loss-sharing acquisitions. During 2015, the quarterly impairment testing on the estimated cash flows of our FDIC loss-share loans noted a slight decline in asset quality in several of our covered loan (loans previously covered by FDIC loss share agreements) pools, which resulted in a net covered provision for loan loss of \$998,000. Conversely, during the 2015 impairment tests on the estimated cash flows of non-loss-share loans, we established that several non-covered loan pools were determined to have a materially projected credit improvement. As a result of this improvement, we will recognize approximately \$28.5 million as an additional adjustment to yield over the weighted average life of the loans. For the years ended December 31, 2015 and 2014, we recognized \$47.6 million and \$60.2 million, respectively, in total net accretion for loans and deposits. For additional information on non-GAAP tabular disclosure, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Table 31." Consequently, with growth of average loan balance of \$1.12 billion, yields on total loans and net interest margin for the year ended December 31, 2015 were reduced when compared to the year ended December 31, 2014.

Our net interest margin, on a fully taxable equivalent basis, was 4.98% for the year ended December 31, 2015, compared to 5.37% for the same period in 2014. The non-GAAP margin excluding accretion income was, however, relatively flat at 4.23% and 4.20% for the years ended December 31, 2015 and 2014, respectively. For the years ended December 31, 2015 and 2014, the effective yields on non-covered loans were 5.67% and 6.01% and covered loans were 18.83% and 17.29%, respectively.

Our return on average assets was 1.68% for the year ended December 31, 2015, compared to 1.63% for the same period in 2014. Our return on average common equity was 12.77% for the year ended December 31, 2015, compared to 12.34% for the same period in 2014. Excluding merger expenses and gain on acquisition, our return on average assets was 1.71% for the year ended December 31, 2015, compared to 1.68% for the same period in 2014. Excluding merger expenses and gain on acquisition, our return on average common equity was 12.94% for the year ended December 31, 2015, compared to 12.77% for the same period in 2014. As noted previously, we have been making notable progress in improving the performance of our legacy and acquired franchises. As a result, excluding merger expenses and acquisition gain, there was a slight improvement in our return on average assets and return on average common equity from 2014 to 2015.

Our efficiency ratio was 40.44% for the year ended December 31, 2015, compared to 42.67% for the same period in 2014. Our core efficiency ratio for the year ended December 31, 2015 was 39.48%, which is improved from the 41.23% for the year ended December 31, 2014. The improvement in the core efficiency ratio is primarily associated with additional net interest income resulting from our organic loan growth and acquisitions plus the realized cost savings from these acquisitions combined with the reduced costs from our recent branch closures. Core efficiency ratio is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income excluding non-fundamental items such as merger expenses and/or gains and losses.

Our total assets increased \$1.89 billion, an increase of 25.5%, to \$9.29 billion as of December 31, 2015, from the \$7.40 billion reported as of December 31, 2014. Our loan portfolio not covered by loss share increased \$1.76 billion, an increase of 36.6%, to \$6.58 billion as of December 31, 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 2015 migration of \$145.2 million net covered loans to non-covered status; the second quarter of 2015 acquisition of \$289.1 million in national commercial real estate loans; the fourth quarter of 2015 acquisition of \$422.4 million of FBBI non-covered loans, net of the \$14.1 million discount; and \$881.6 million of organic loan growth since December 31, 2014. Our loan portfolio covered by loss share decreased by \$178.0 million, a reduction of 74.1%, to \$62.2 million as of December 31, 2015, from \$240.2 million as of December 31, 2014. This decrease is primarily associated with the migration of a total of \$145.2 million net covered loans to non-covered status during 2015 as a result of the expiration of our five-year loss-share agreements plus normal pay-downs and payoffs. Stockholders' equity increased \$184.5 million, an increase of 18.2%, to \$1.20 billion as of December 31, 2015, compared to \$1.02 billion as of December 31, 2014. The increase in stockholders' equity is primarily associated with the \$100.6 million increase in retained earnings plus \$83.8 million of common stock issued to the FBBI shareholders offset by the \$2.8 million of comprehensive losses.

As of December 31, 2015, our non-performing non-covered loans increased to \$60.2 million, or 0.92%, of total non-covered loans from \$39.6 million, or 0.82%, of total non-covered loans as of December 31, 2014. Our acquisition of FBBI during the fourth quarter of 2015 added \$13.6 million to non-performing loans as of December 31, 2015. The allowance for loan losses for non-covered loans as a percent of non-performing non-covered loans decreased to 110.66% as of December 31, 2015, compared to 132.63% as of December 31, 2014. Non-performing non-covered loans in Arkansas were \$28.3 million at December 31, 2015, compared to \$24.5 million as of December 31, 2014. Non-performing non-covered loans in Florida were \$31.8 million at December 31, 2015, compared to \$14.8 million as of December 31, 2014. Non-performing non-covered loans in Alabama were \$132,000 at December 31, 2015 compared to \$302,000 as of December 31, 2014.

As of December 31, 2015, our non-performing non-covered assets increased to \$78.8 million, or 0.85%, of total non-covered assets from \$56.5 million, or 0.79%, of total non-covered assets as of December 31, 2014. Our acquisition of FBBI during the fourth quarter of 2015 added \$13.6 million to non-performing assets as of December 31, 2015. Non-performing non-covered assets in Arkansas were \$40.3 million at December 31, 2015, compared to \$39.2 million as of December 31, 2014. Non-performing non-covered assets in Florida were \$37.5 million at December 31, 2015, compared to \$17.0 million as of December 31, 2014. Non-performing non-covered assets in Alabama were \$892,000 at December 31, 2015, compared to \$317,000 as of December 31, 2014.

Critical Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Acquisitions

Florida Business BancGroup, Inc.

On October 1, 2015, we completed our acquisition of FBBI, parent company of Bay Cities Bank (“Bay Cities”). We paid a purchase price to the FBBI shareholders of \$104.1 million for the FBBI acquisition. Under the terms of the agreement, shareholders of FBBI received 4,159,708 shares (split adjusted) of our common stock valued at approximately \$83.8 million as of October 1, 2015, plus approximately \$20.3 million in cash in exchange for all outstanding shares of FBBI common stock. A portion of the cash consideration, \$2.0 million, has been placed into escrow, and FBBI shareholders have a contingent right to receive their pro-rata portions of such amount. The amount, if any, of such escrowed funds to be released to FBBI shareholders will depend upon the amount of losses that HBI incurs in the two years following the completion of the merger related to two class action lawsuits that are pending against Bay Cities.

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

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

Pool of National Commercial Real Estate Loans

On April 1, 2015, our wholly-owned bank subsidiary, Centennial Bank acquired a pool of national commercial real estate loans from AM PR LLC, an affiliate of J.C. Flowers & Co., totaling approximately \$289.1 million for a purchase price of 99% of the total principal value of the acquired loans. The acquired loans were originated by the former Doral Bank of San Juan, Puerto Rico within its Doral Property Finance portfolio and were transferred to the Seller by Banco Popular of Puerto Rico (“Popular”) upon its acquisition of the assets and liabilities of Doral Bank from the FDIC, as receiver for the failed Doral Bank. This pool of loans is now managed by a division of Centennial known as the Centennial Commercial Finance Group (“Centennial CFG”), which is responsible for servicing the acquired loan pool and originating new loan production.

In connection with this acquisition of loans, the Company opened a loan production office on April 23, 2015 in New York City, which became a branch on September 1, 2016. Through the New York office, Centennial CFG is building out a national lending platform focusing on commercial real estate plus commercial and industrial loans. As of December 31, 2016 and 2015, Centennial CFG had \$1.11 billion and \$715.7 million in total loans net of discount, respectively.

Doral Bank's Florida Panhandle operations

On February 27, 2015, Centennial Bank acquired all the deposits and substantially all the assets of Doral Florida through an alliance agreement with Popular who was the successful lead bidder to acquire the assets and liabilities of the failed Doral Bank from the FDIC. Including the effects of the purchase accounting adjustments, the acquisition provided us with loans of approximately \$37.9 million net of loan discounts, deposits of approximately \$467.6 million, plus a \$428.2 million cash settlement to balance the transaction. We recorded a bargain purchase gain of \$1.6 million, in connection with the Doral Florida acquisition. The FDIC did not provide loss-sharing with respect to the acquired assets.

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

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

Broward Financial Holdings, Inc.

On October 23, 2014, we completed our acquisition of all of the issued and outstanding shares of common stock of Broward Financial Holdings, Inc. (“Broward”), parent company of Broward Bank, and merged Broward Bank into Centennial Bank. Under the terms of the Agreement and Plan of Merger, HBI issued 2,041,648 shares (split adjusted) of its common stock valued at approximately \$30.2 million as of October 23, 2014, plus \$3.3 million in cash in exchange for all outstanding shares of Broward common stock. In connection with the acquisition, we agreed to pay the Broward shareholders at an undetermined date up to approximately \$751,000 in additional consideration. The amount and timing of the additional payment, if any, was contingent upon future payments received or losses incurred by Centennial Bank from certain current Broward Bank loans. During the first quarter of 2016, we determined and reached an agreement with the Broward shareholders that no additional consideration is owed or will be paid to the Broward shareholders.

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

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

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

Florida Traditions Bank

On July 17, 2014, we completed the acquisition of all of the issued and outstanding shares of common stock of Traditions and merged Traditions into Centennial Bank. Under the terms of the acquisition, the shareholders of Traditions received approximately \$39.5 million of our common stock valued at the time of closing, in exchange for all outstanding shares of Traditions common stock.

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

The transaction was accretive to our book value per common share and tangible book value per common share.

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

Termination of Remaining Loss-Share Agreements

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

Future Acquisitions

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

During 2016, we announced two new acquisitions, Giant Holdings, Inc. (“GHI”) of Ft. Lauderdale, Florida and The Bank of Commerce (“BOC”) of Sarasota, Florida. We completed the acquisition of GHI on February 23, 2017, and we expect to close the acquisition of BOC in the first quarter of 2017. We expect the systems conversion for GHI and BOC to occur during the first and second quarters of 2017, respectively.

GHI formerly operated six branch locations in the Ft. Lauderdale, Florida area. Excluding the effects of any purchase accounting adjustments, as of January 31, 2017, GHI had approximately \$396.9 million in total assets, \$329.4 million in loans, and \$302.6 million in deposits. Upon completion of the acquisition, the Company will have approximately \$10.21 billion in total assets.

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

Branches

As opportunities arise, we will continue to open new (commonly referred to as *de novo*) branches in our current markets and in other attractive market areas. During 2016, we added deposit operations to our loan production office in New York City and opened one branch location in Davie, Florida.

During 2014, we initiated a branch efficiency study. Since that time, we have gathered data and evaluated over 40 branch locations across our footprint. The branch efficiency study considers many variables, such as proximity to other branches, deposits, transactions, market share and profitability. As a result of the study, we closed three Arkansas and three Florida locations during 2016. During the second quarter of 2016, we closed and sold our Clermont, Florida location for a gain of \$738,000. During 2017, we currently have no plans to close any branches; however we may announce additional strategic consolidations where it improves efficiency in certain markets.

As of December 31, 2016, we had 76 branches in Arkansas, 59 branches in Florida, 6 branches in Alabama and one branch in New York City.

Results of Operations for the Years Ended December 31, 2016, 2015 and 2014

Our net income increased \$38.9 million, or 28.2%, to \$177.1 million for the year ended December 31, 2016, from \$138.2 million for the same period in 2015. On a diluted earnings per share basis, our earnings were \$1.26 per share and \$1.01 per share (split adjusted) for the years ended December 31, 2016 and 2015, respectively, representing an increase of \$0.25 per share, or 24.8%, for the year ended 2016 when compared to the previous year. The \$38.9 million increase in net income is primarily associated with additional net interest income during 2016 largely resulting from our 2015 acquisitions, organic loan growth, a slight decrease in provision for loan losses, growth in non-interest income, and the reduced amortization of the indemnification asset, when compared to the same period in 2015. These improvements were partially offset by an increase in the costs associated with the asset growth when compared to the same period in 2015.

Our net income increased 22.2% to \$138.2 million for the year ended December 31, 2015, from \$113.1 million for the same period in 2014. On a diluted earnings per share basis, our earnings increased 18.8% to \$1.01 per share (split adjusted) for the year ended December 31, 2015, as compared to \$0.85 per share (split adjusted) for the same period in 2014. Excluding the \$1.6 million of one-time gain on acquisition offset by \$4.8 million of merger expenses associated with the acquisitions of Doral Florida and FBBI, net income was \$140.1 million and diluted earnings per share for the year ended 2015 was \$1.03 per share (split adjusted). Excluding the \$4.8 million of merger expenses associated with the acquisitions of Doral Florida and FBBI, net income was \$141.1 million and diluted earnings per share for the year ended 2015 was \$1.03 per share (split adjusted). Excluding the \$6.4 million of 2014 merger expenses associated with the acquisitions of Florida Traditions and Broward, diluted earnings per share for the year ended 2014 was \$0.88 per share (split adjusted). Excluding merger expenses and gain on acquisition, this represents an increase of \$0.15 per share, or 15.9%, for the year ended 2015 when compared to the previous year. Excluding merger expenses and gain on acquisition, net income for the years ended 2015 and 2014 would have been \$140.1 million and \$117.0 million, respectively, for an increase of \$23.1 million, or 19.8%. The \$23.1 million increase in net income excluding merger expenses and gain on acquisition is primarily associated with additional net interest income largely resulting from our acquisitions and organic loan growth combined with reduced amortization of the indemnification asset when compared to the same period in 2014. These improvements were partially offset by an increase in the costs associated with the asset growth and the increase in provision for loan losses due to organic loan growth during 2015 when compared to the same period in 2014.

Net Interest Income

Net interest income, our principal source of earnings, is the difference between the interest income generated by earning assets and the total interest cost of the deposits and borrowings obtained to fund those assets. Factors affecting the level of net interest income include the volume of earning assets and interest-bearing liabilities, yields earned on loans and investments and rates paid on deposits and other borrowings, the level of non-performing loans and the amount of non-interest-bearing liabilities supporting earning assets. Net interest income is analyzed in the discussion and tables below on a fully taxable equivalent basis. The adjustment to convert certain income to a fully taxable equivalent basis consists of dividing tax-exempt income by one minus the combined federal and state income tax rate (39.225% for years ended December 31, 2016, 2015 and 2014).

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 remained until December 16, 2015, when the rate was increased slightly to 0.50% to 0.25%. The rate was slightly raised again on December 14, 2016 to 0.75% to 0.50%.

Each quarter we perform credit impairment tests on the loans acquired in our FDIC loss-sharing and non-loss-sharing acquisitions. During 2015, the quarterly impairment testing on the estimated cash flows of our FDIC loss-share loans noted a slight decline in asset quality in several of our covered loan pools, which resulted in a net covered provision for loan loss of \$998,000. Conversely, during the 2015 impairment tests on the estimated cash flows of non-loss-share loans, we established that several non-covered loan pools were determined to have a materially projected credit improvement. As a result of this improvement, we will recognize approximately \$28.5 million as an additional adjustment to yield over the weighted average life of the loans. For the years ended December 31, 2015 and 2014, we recognized \$47.6 million and \$60.2 million, respectively, in total net accretion for loans and deposits. For additional information on non-GAAP tabular disclosure, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Table 31.” Consequently, with a growth of average loan balance of \$1.12 billion, yields on total loans and net interest margin for the year ended December 31, 2015 is reduced when compared to the year ended December 31, 2014.

Our net interest margin decreased from 4.98% for the year ended December 31, 2015 to 4.81% for the year ended December 31, 2016. For the years ended December 31, 2016 and 2015, we recognized \$42.3 million and \$47.6 million, respectively, in total net accretion for acquired loans and deposits. The non-GAAP margin excluding accretion income was flat at 4.24% and 4.23% for the years ended December 31, 2016 and 2015, respectively. Additionally, the non-GAAP yield on loans excluding accretion income was also relatively flat at 5.10% and 5.05% for the years ended December 31, 2016 and 2015, respectively. Consequently, with growth of the average loan balance of \$1.25 billion, we experienced a decline in the GAAP yield on loans and net interest margin because the organic loan growth was approximately at our lower non-GAAP loan yields.

Net interest income on a fully taxable equivalent basis increased \$50.5 million, or 13.9%, to \$413.9 million for the year ended December 31, 2016, from \$363.4 million for the same period in 2015. This increase in net interest income was the result of a \$59.3 million increase in interest income combined with an \$8.8 million increase in interest expense. The \$59.3 million increase in interest income was primarily the result of a higher level of earning assets offset by lower yields on our loans. The higher level of earning assets resulted in an increase in interest income of \$74.2 million. The lower yield was primarily driven by the repricing of our loans, which resulted in a \$14.9 million decrease in interest income. The \$8.8 million increase in interest expense for the year ended December 31, 2016, is primarily the result of an increase in higher level of our interest bearing liabilities from our acquisitions combined with our interest bearing liabilities repricing in a slightly higher interest rate environment. The higher level of our interest bearing liabilities resulted in an increase in interest expense of approximately \$4.9 million. The repricing of our interest bearing liabilities in a slightly higher interest rate environment resulted in a \$3.9 million increase in interest expense.

Our net interest margin, on a fully taxable equivalent basis, was 4.98% for the year ended December 31, 2015, compared to 5.37% for the same period in 2014. The non-GAAP margin excluding accretion income was, however, relatively flat at 4.23% and 4.20% for the years ended December 31, 2015 and 2014, respectively. For the years ended December 31, 2015 and 2014, the effective yield on non-covered loans was 5.67% and 6.01% and covered loans was 18.83% and 17.29%, respectively.

Net interest income on a fully taxable equivalent basis increased \$39.6 million, or 12.21%, to \$363.4 million for the year ended December 31, 2015, from \$323.9 million for the same period in 2014. This increase in net interest income was the result of a \$42.4 million increase in interest income combined with a \$2.9 million increase in interest expense. The \$42.4 million increase in interest income was primarily the result of a higher level of earning assets offset by lower yields on our loans. The higher level of earning assets resulted in an increase in interest income of \$72.5 million. The lower yield was primarily driven by the repricing of our loans, which resulted in a \$30.1 million decrease in interest income. The \$2.9 million increase in interest expense for the year ended December 31, 2015, is primarily the result of an increase in higher level of our interest bearing liabilities from our acquisitions offset by our interest bearing liabilities repricing in the lower interest rate environment. The higher level of our interest bearing liabilities resulted in an increase in interest expense of approximately \$4.0 million. The repricing of our interest bearing liabilities in the lower interest rate environment resulted in a \$1.1 million decrease in interest expense.

Net interest margin, on a fully taxable equivalent basis, was 4.81% for the year ended December 31, 2016, compared to 4.98% and 5.37% for the same periods in 2015 and 2014, respectively.

Additional information and analysis for our net interest margin can be found in Tables 29 through 31 of our Non-GAAP Financial Measurements section of this “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Tables 4 and 5 reflect an analysis of net interest income on a fully taxable equivalent basis for the years ended December 31, 2016, 2015 and 2014, as well as changes in fully taxable equivalent net interest margin for the years 2016 compared to 2015 and 2015 compared to 2014.

Table 4: Analysis of Net Interest Income

	Years Ended December 31,		
	2016	2015	2014
	(Dollars in thousands)		
Interest income	\$ 436,537	\$ 377,436	\$ 335,888
Fully taxable equivalent adjustment	7,924	7,710	6,854
Interest income – fully taxable equivalent	444,461	385,146	342,742
Interest expense	30,579	21,724	18,870
Net interest income – fully taxable equivalent	<u>\$ 413,882</u>	<u>\$ 363,422</u>	<u>\$ 323,872</u>
Yield on earning assets – fully taxable equivalent	5.17 %	5.28 %	5.68 %
Cost of interest-bearing liabilities	0.46	0.38	0.38
Net interest spread – fully taxable equivalent	4.71	4.90	5.30
Net interest margin – fully taxable equivalent	4.81	4.98	5.37

Table 5: Changes in Fully Taxable Equivalent Net Interest Margin

	December 31,	
	2016 vs. 2015	2015 vs. 2014
	(In thousands)	
Increase (decrease) in interest income due to change in earning assets	\$ 74,166	\$ 72,482
Increase (decrease) in interest income due to change in earning asset yields	(14,850)	(30,078)
(Increase) decrease in interest expense due to change in interest-bearing liabilities	(4,903)	(3,955)
(Increase) decrease in interest expense due to change in interest rates paid on interest-bearing liabilities	(3,953)	1,101
Increase (decrease) in net interest income	<u>\$ 50,460</u>	<u>\$ 39,550</u>

Table 6 shows, for each major category of earning assets and interest-bearing liabilities, the average amount outstanding, the interest income or expense on that amount and the average rate earned or expensed for the years ended December 31, 2016, 2015 and 2014. The table also shows the average rate earned on all earning assets, the average rate expensed on all interest-bearing liabilities, the net interest spread and the net interest margin for the same periods. The analysis is presented on a fully taxable equivalent basis. Non-accrual loans were included in average loans for the purpose of calculating the rate earned on total loans.

Table 6: Average Balance Sheets and Net Interest Income Analysis

	2016			Years Ended December 31,			2014		
	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
(Dollars in thousands)									
ASSETS									
Earnings assets									
Interest-bearing balances due from banks	\$ 117,022	\$ 471	0.40 %	\$ 108,315	\$ 233	0.22 %	\$ 49,794	\$ 97	0.19 %
Federal funds sold	1,764	9	0.51	9,250	24	0.26	24,018	50	0.21
Investment securities – taxable	1,161,428	21,246	1.83	1,114,829	21,695	1.95	1,041,322	19,305	1.85
Investment securities – non-taxable	337,318	18,598	5.51	332,048	18,309	5.51	301,051	16,502	5.48
Loans receivable	6,986,759	404,137	5.78	5,732,315	344,885	6.02	4,613,919	306,788	6.65
Total interest-earning assets	8,604,291	<u>\$444,461</u>	5.17	7,296,757	<u>\$385,146</u>	5.28	6,030,104	<u>\$342,742</u>	5.68
Non-earning assets	964,562			914,225			922,311		
Total assets	<u>\$ 9,568,853</u>			<u>\$ 8,210,982</u>			<u>\$ 6,952,415</u>		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Liabilities									
Interest-bearing liabilities									
Savings and interest-bearing transaction accounts	\$ 3,717,880	\$ 8,978	0.24 %	\$ 3,218,745	\$ 6,306	0.20 %	\$ 2,839,329	\$ 5,279	0.19 %
Time deposits	1,362,680	6,948	0.51	1,381,562	6,665	0.48	1,373,273	7,517	0.55
Total interest-bearing deposits	5,080,560	15,926	0.31	4,600,307	12,971	0.28	4,212,602	12,796	0.30
Federal funds purchased	255	2	0.78	824	4	0.49	956	3	0.31
Securities sold under agreement to repurchase	120,576	574	0.48	156,513	621	0.40	151,610	717	0.47
FHLB borrowed funds	1,376,364	12,484	0.91	902,852	6,774	0.75	486,742	4,041	0.83
Subordinated debentures	60,826	1,593	2.62	60,826	1,354	2.23	60,826	1,313	2.16
Total interest-bearing liabilities	6,638,581	<u>30,579</u>	0.46	5,721,322	<u>21,724</u>	0.38	4,912,736	<u>18,870</u>	0.38
Non-interest bearing liabilities									
Non-interest bearing deposits	1,619,128			1,358,905			1,101,923		
Other liabilities	53,218			48,170			21,469		
Total liabilities	8,310,927			7,128,397			6,036,128		
Stockholders' equity	1,257,926			1,082,585			916,287		
Total liabilities and stockholders' equity	<u>\$ 9,568,853</u>			<u>\$ 8,210,982</u>			<u>\$ 6,952,415</u>		
Net interest spread			4.71 %			4.90 %			5.30 %
Net interest income and margin		<u>\$413,882</u>	4.81		<u>\$363,422</u>	4.98		<u>\$323,872</u>	5.37

Table 7 shows changes in interest income and interest expense resulting from changes in volume and changes in interest rates for the year ended December 31, 2016 compared to 2015 and 2015 compared to 2014 on a fully taxable basis. The changes in interest rate and volume have been allocated to changes in average volume and changes in average rates, in proportion to the relationship of absolute dollar amounts of the changes in rates and volume.

Table 7: Volume/Rate Analysis

	Years Ended December 31,					
	2016 over 2015			2015 over 2014		
	Volume	Yield /Rate	Total	Volume	Yield /Rate	Total
	(In thousands)					
Increase (decrease) in:						
Interest income:						
Interest-bearing balances due from banks	\$ 20	\$ 218	\$ 238	\$ 125	\$ 11	\$ 136
Federal funds sold	(28)	13	(15)	(36)	10	(26)
Investment securities – taxable	885	(1,333)	(448)	1,402	988	2,390
Investment securities – non-taxable	291	(2)	289	1,708	99	1,807
Loans receivable	72,998	(13,746)	59,252	69,283	(31,186)	38,097
Total interest income	74,166	(14,850)	59,316	72,482	(30,078)	42,404
Interest expense:						
Interest-bearing transaction and savings deposits	1,069	1,603	2,672	732	295	1,027
Time deposits	(92)	375	283	45	(897)	(852)
Federal funds purchased	-	(1)	(1)	-	1	1
Securities sold under agreement to repurchase	(158)	111	(47)	22	(118)	(96)
FHLB borrowed funds	4,084	1,626	5,710	3,156	(423)	2,733
Subordinated debentures	-	239	239	-	41	41
Total interest expense	4,903	3,953	8,856	3,955	(1,101)	2,854
Increase (decrease) in net interest income	\$ 69,263	\$ (18,803)	\$ 50,460	\$ 68,527	\$ (28,977)	\$ 39,550

Provision for Loan Losses

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

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

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

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

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

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

There was \$18.6 million, \$25.2 million and \$22.7 million provision loan losses for years ended December 31, 2016, 2015 and 2014, respectively.

We experienced a \$6.6 million decrease in the provision for loan losses during 2016 versus 2015. This \$6.6 million decrease is primarily a reflection of reduced provision for loan losses as a result of a significant loan recovery offset by lower organic loan growth versus the year ended 2015. We were able to reduce 2016 provision for loan losses as a result of a significant loan recovery from a borrower which was charged-off in 2010. We estimate the 2016 provision for loan losses was reduced by \$2.0 million as a result of this loan recovery.

We experienced a \$2.5 million increase in the provision for loan losses during 2015 versus 2014. The expected increase from the year ended 2014 is primarily a reflection of provisioning for 2015 organic loan growth offset by a slowdown from 2014 to 2015 in the migration of the acquired Liberty loans from purchased-loan accounting treatment to originated-loan accounting treatment.

Based upon current accounting guidance, the allowance for loan losses is not carried over in an acquisition. As a result, 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. The allowance for loan loss methodology for all originated loans as disclosed in Note 1 to the Notes to Consolidated Financial Statements was used for these loans. Our current or historical provision levels should not be relied upon as a predictor or indicator of future levels going forward.

Non-Interest Income

Total non-interest income was \$87.1 million in 2016, compared to \$65.5 million in 2015 and \$44.8 million in 2014. Our recurring non-interest income includes service charges on deposit accounts, other service charges and fees, trust fees, mortgage lending, insurance, increase in cash value of life insurance, dividends and FDIC indemnification accretion/amortization.

Table 8 measures the various components of our non-interest income for the years ended December 31, 2016, 2015, and 2014, respectively, as well as changes for the years 2016 compared to 2015 and 2015 compared to 2014.

	Table 8: Non-Interest Income							
	Years Ended December 31,			2016 Change		2015 Change		
	2016	2015	2014	from 2015		from 2014		
	(Dollars in thousands)							
Service charges on deposit accounts	\$ 25,049	\$ 24,252	\$ 24,522	\$ 797	3.3 %	\$ (270)	(1.1) %	
Other service charges and fees	30,200	26,186	23,914	4,014	15.3	2,272	9.5	
Trust fees	1,457	2,381	1,378	(924)	(38.8)	1,003	72.8	
Mortgage lending income	14,399	10,423	7,556	3,976	38.1	2,867	37.9	
Insurance commissions	2,296	2,268	4,311	28	1.2	(2,043)	(47.4)	
Increase in cash value of life insurance	1,412	1,199	1,210	213	17.8	(11)	(0.9)	
Dividends from FHLB, FRB, Bankers' bank & other	3,091	1,698	1,611	1,393	82.0	87	5.4	
Gain on acquisitions	-	1,635	-	(1,635)	(100.0)	1,635	100.0	
Gain on sale of SBA loans	1,088	541	183	547	101.1	358	195.6	
Gain (loss) on sale of branches, equipment and other assets, net	700	(214)	322	914	427.1	(536)	(166.5)	
Gain (loss) on OREO, net	(554)	(317)	2,191	(237)	74.8	(2,508)	(114.5)	
Gain (loss) on securities, net	669	4	-	665	16,625.0	4	100.0	
FDIC indemnification accretion/(amortization), net	(772)	(9,391)	(25,752)	8,619	(91.8)	16,361	(63.5)	
Other income	8,016	4,833	3,316	3,183	65.9	1,517	45.7	
Total non-interest income	\$ 87,051	\$ 65,498	\$ 44,762	\$ 21,553	32.9 %	\$ 20,736	46.3 %	

Non-interest income increased \$21.6 million, or 32.9%, to \$87.1 million for the year ended December 31, 2016 from \$65.5 million for the same period in 2015. Non-interest income excluding gain on acquisitions increased \$23.2 million, or 36.3%, to \$87.1 million for the year ended December 31, 2016 from \$63.9 million for the same period in 2015.

Excluding gain on acquisitions, the primary factors that resulted in the increase from December 31, 2015 to December 31, 2016 were changes related to service charges on deposit accounts, other service charges and fees, trust fees, mortgage lending, dividends, gain (loss) on sale of branches, equipment and other assets, net, amortization on our FDIC indemnification asset and other income.

Additional details for the year ended December 31, 2016 on some of the more significant changes are as follows:

- The \$797,000 increase in service charges on deposit accounts primarily results from an increase in overdraft fees from additional volume from our 2015 acquisitions and deposit growth.
- The \$4.0 million increase in other service charges and fees is primarily from our 2015 acquisition plus additional loan payoff fees generated by Centennial CFG.
- The \$924,000 decrease 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 \$4.0 million increase in mortgage lending income is from the additional lending volume from our 2015 acquisitions combined with organic loan growth. We hired a mortgage lending president during 2014 to oversee this product offering. This additional management position is responsible for improved pricing and efficiencies which are ultimately generating more revenue from the organic growth.

- The \$1.4 million increase in dividends from FHLB, FRB, Bankers' bank & other is primarily associated with additional dividends from the FHLB. We have been increasing our use of FHLB borrowings, which has caused us to increase our ownership in the FHLB stock, plus the FHLB has been increasing the rate on their cash dividend.
- The \$914,000 increase in gain (loss) on sale of branches, equipment and other assets, net is primarily associated with a gain on the sale of our Clermont, Florida branch location and a gain on the sale of a piece of software for \$738,000 and \$102,000, respectively, offset by a \$140,000 net loss on sale of vacant properties from closed branches during 2016.
- The \$8.6 million increase in FDIC indemnification accretion/amortization, net, is primarily associated with the conclusion of the five-year covered loan loss-share agreements plus the termination of our loss share agreements during 2016.
- Other income includes \$561,000 of additional other income for an item previously charged-off plus loan recoveries of \$591,000 on our former FDIC covered transactions, \$244,000 on other purchased loans and \$925,000 on other historical losses.

Excluding gain on acquisitions, the primary factors that resulted in the increase from December 31, 2014 to December 31, 2015 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 branches, equipment and other assets gains and losses, and net changes in OREO gains and losses.

Additional details for the year ended December 31, 2015 on some of the more significant changes are as follows:

- Although we experienced an increase in deposits from acquisitions during 2015, we have experienced a \$270,000 decrease in service charges on deposit accounts. This decrease is primarily the result of an improving economy where the banking industry is experiencing fewer overdraft fees.
- The \$2.3 million increase in other service charges and fees is primarily from our acquisitions plus additional loan payoff fees generated by the Centennial CFG.
- The \$1.0 million increase in trust fees is primarily associated with \$865,000 in 12B-1 trust fees during the second quarter of 2015, of which we anticipate only approximately \$77,000 will be received on a recurring basis.
- The \$2.9 million increase in mortgage lending income is from the additional lending volume from our acquisitions combined with the organic growth during 2015. We 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 from the organic growth.
- The \$2.0 million decrease in insurance commissions is primarily from the sale of an 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 \$16.4 million improvement in FDIC indemnification accretion/amortization, net, is primarily associated with the conclusion of the five-year covered loan loss-share agreements, plus a lack of recent additional credit improvements in the covered loan portfolio, which did not create additional FDIC indemnification asset amortization. For further discussion and analysis, reference Tables 2 and 3 in this "Management's Discussion and Analysis of Financial Condition and Results of Operations."

- The \$1.6 million increase in other income is primarily associated with \$1.0 million of loan recoveries on our FDIC covered transactions. The most significant portion of this \$1.0 million was loan recoveries on two of our FDIC covered loans. We were able to collect a total recovery of approximately \$3.2 million in 2015 on two loans that were charged-off prior to the acquired bank being closed by the FDIC. Our agreement with the FDIC required us to share 80% of these type recoveries with the FDIC and we were able to retain the remaining 20%. As a result, we recorded approximately \$626,000 in other income for these two recoveries.

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 9 below sets forth a summary of non-interest expense for the years ended December 31, 2016, 2015, and 2014, as well as changes for the years ended 2016 compared to 2015 and 2015 compared to 2014.

Table 9: Non-Interest Expense

	<u>Years Ended December 31,</u>			<u>2016 Change</u>		<u>2015 Change</u>	
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>from 2015</u>		<u>from 2014</u>	
	(Dollars in thousands)						
Salaries and employee benefits	\$ 101,962	\$ 87,512	\$ 77,025	\$ 14,450	16.5 %	\$ 10,487	13.6 %
Occupancy and equipment	26,129	25,967	25,031	162	0.6	936	3.7
Data processing expense	10,499	10,774	7,229	(275)	(2.6)	3,545	49.0
Other operating expenses:							
Advertising	3,332	2,986	2,568	346	11.6	418	16.3
Merger and acquisition expenses	433	4,800	6,438	(4,367)	(91.0)	(1,638)	(25.4)
FDIC loss share buy-out expense	3,849	-	-	3,849	100.0	-	0.0
Amortization of intangibles	3,132	4,079	4,630	(947)	(23.2)	(551)	(11.9)
Electronic banking expense	5,742	5,166	5,308	576	11.1	(142)	(2.7)
Directors' fees	1,150	1,071	912	79	7.4	159	17.4
Due from bank service charges	1,354	1,096	803	258	23.5	293	36.5
FDIC and state assessment	5,491	5,287	4,288	204	3.9	999	23.3
Insurance	2,193	2,542	2,538	(349)	(13.7)	4	0.2
Legal and accounting	2,206	2,028	2,012	178	8.8	16	0.8
Other professional fees	4,049	3,226	2,200	823	25.5	1,026	46.6
Operating supplies	1,758	1,880	1,928	(122)	(6.5)	(48)	(2.5)
Postage	1,084	1,196	1,331	(112)	(9.4)	(135)	(10.1)
Telephone	1,751	1,917	1,968	(166)	(8.7)	(51)	(2.6)
Other expense	15,641	16,028	15,734	(387)	(2.4)	294	1.9
Total non-interest expense	<u>\$ 191,755</u>	<u>\$ 177,555</u>	<u>\$ 161,943</u>	<u>\$ 14,200</u>	8.0 %	<u>\$ 15,612</u>	9.6 %

Non-interest expense, excluding merger expenses, increased \$18.6 million, or 10.7%, to \$191.3 million for the year ended December 31, 2016, from \$172.8 million for the same period in 2015. Non-interest expense, excluding merger expenses and FDIC loss share buy-out expense, was \$187.5 million for the year ended December 31, 2016 compared to \$172.8 million for the same period in 2015.

The change in non-interest expense for 2016 when compared to 2015 is primarily related to the completion of our 2015 acquisitions, the opening of the Centennial CFG loan production office during the second quarter of 2015, the termination of the FDIC loss share agreements, write-downs on vacant properties from closed branches and the normal increased cost of doing business.

The Centennial CFG loan production office incurred \$14.5 million of non-interest expense during the year ended December 31, 2016, compared to \$7.4 million of non-interest expense during the year ended December 31, 2015. While the cost of doing business in New York City is significantly higher than our Arkansas, Florida and Alabama markets, we are still committed to cost-saving measures while achieving our goals of growing the Company.

During 2016, the Company had write-downs on vacant property from closed branches of approximately \$2.3 million. These write-downs are included in other expense.

Non-interest expense, excluding merger expenses, increased \$17.3 million, or 11.1%, to \$172.8 million for the year ended December 31, 2015, from \$155.5 million for the same period in 2014. This increase primarily results from additional expense associated with the creation of Centennial CFG and the acquisitions of Traditions, Broward and FBBI. These acquisitions helped us grow from \$6.81 billion in total assets as of December 31, 2013 to \$9.29 billion as of December 31, 2015.

Income Taxes

The income tax expense increased \$25.2 million, or 31.4%, to \$105.5 million for the year ended December 31, 2016, from \$80.3 million for 2015. The income tax expense increased \$16.2 million, or 25.2%, to \$80.3 million for the year ended December 31, 2015, from \$64.1 million for 2014. The effective tax rate for the years ended December 31, 2016, 2015 and 2014 were 37.33%, 36.75% and 36.18%, 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 Conditions as of and for the Years Ended December 31, 2016 and 2015

Our total assets as of December 31, 2016 increased \$519.3 million to \$9.81 billion from the \$9.29 billion reported as of December 31, 2015. Our loan portfolio increased \$746.1 million to \$7.39 billion as of December 31, 2016, from \$6.64 billion as of December 31, 2015. This increase is a result of our organic loan growth since December 31, 2015. Stockholders' equity increased \$127.7 million to \$1.33 billion as of December 31, 2016, compared to \$1.20 billion as of December 31, 2015. The improvement in stockholders' equity for the year ended 2016 was 10.6%. The increase in stockholders' equity is primarily associated with the \$129.1 million increase in retained earnings.

Our total assets increased \$1.89 billion, an increase of 25.5%, to \$9.29 billion as of December 31, 2015, from the \$7.40 billion reported as of December 31, 2014. Our loan portfolio not covered by loss share increased \$1.76 billion, an increase of 36.6%, to \$6.58 billion as of December 31, 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 2015 migration of \$145.2 million net covered loans to non-covered status, the second quarter of 2015 acquisition of \$289.1 million in national commercial real estate loans, the fourth quarter of 2015 acquisition of \$422.4 million of FBBI non-covered loans, net of the \$14.1 million discount, plus \$881.6 million of organic loan growth since December 31, 2014. Our loan portfolio covered by loss share decreased by \$178.0 million, a reduction of 74.1%, to \$62.2 million as of December 31, 2015, from \$240.2 million as of December 31, 2014. This decrease is primarily associated with the migration of a total of \$145.2 million net covered loans to non-covered status during 2015 as a result of the expiration of our five-year loss-share agreements plus normal pay-downs and payoffs. Stockholders' equity increased \$184.5 million, an increase of 18.2%, to \$1.20 billion as of December 31, 2015, compared to \$1.02 billion as of December 31, 2014. The increase in stockholders' equity is primarily associated with the \$100.6 million increase in retained earnings plus \$83.8 million of common stock issued to the FBBI shareholders offset by the \$2.8 million of comprehensive losses.

Loan Portfolio

Our loan portfolio averaged \$6.99 billion and \$5.73 billion during the years ended December 31, 2016 and 2015, respectively. Loans receivable were \$7.39 billion as of December 31, 2016 compared to \$6.64 billion as of December 31, 2015, which is an increase of \$746.1 million, or 11.2%.

On February 27, 2015, we acquired \$37.9 million of loans after \$4.3 million of loan discounts from Doral Florida. On April 1, 2015, we acquired a pool of national commercial real estate loans from J.C. Flowers & Co. LLC totaling approximately \$289.1 million. On October 1, 2015, we acquired \$408.3 million of loans, after \$14.1 million of loan discounts, from FBBI. All of these acquired loans are being accounted for in accordance with the provisions of ASC Topic 310-20 and ASC Topic 310-30.

We produced approximately \$746.1 million of organic loan growth since December 31, 2015, of which \$392.7 million is associated with Centennial CFG with the remaining \$353.4 million being associated with loan originations in the legacy footprint. Centennial CFG had total loans of \$1.11 billion at December 31, 2016.

During 2015, the five-year loss share coverage on the commercial real estate and commercial and industrial loans acquired through the FDIC-assisted acquisitions of Old Southern, Key West, Coastal, Bayside, Wakulla and Gulf State concluded. As a result, \$145.2 million of these loans including their associated discounts previously classified as covered loans migrated to non-covered loans status during 2015.

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

The most significant components of the loan portfolio were commercial real estate, residential real estate, consumer and commercial and industrial loans. These loans are generally secured by residential or commercial real estate or business or personal property. Although these loans are primarily originated within our franchises in Arkansas, Florida, South Alabama and Centennial CFG, the property securing these loans may not physically be located within our market areas of Arkansas, Florida, Alabama and New York. Loans receivable were approximately \$3.58 billion, \$2.46 billion, \$235.9 million and \$1.11 billion as of December 31, 2016 originated in Arkansas, Florida, Alabama and New York, respectively.

As of December 31, 2016, we had \$439.3 million of construction/land development loans which were collateralized by land. This consisted of \$252.1 million for raw land and \$187.2 million for land with commercial and/or residential lots.

Table 10 presents our loans receivable balances by category as of December 31, 2016, 2015, 2014, 2013, and 2012.

Table 10: Loans Receivable

	As of December 31,				
	2016	2015	2014	2013	2012
	(In thousands)				
Real estate:					
Commercial real estate loans:					
Non-farm/non-residential	\$ 3,153,121	\$ 2,968,335	\$ 2,081,869	\$ 1,856,832	\$ 1,183,762
Construction/land development	1,135,843	944,787	740,085	611,055	321,513
Agricultural	77,736	75,027	73,154	82,850	34,795
Residential real estate loans:					
Residential 1-4 family	1,356,136	1,190,279	1,051,299	1,011,735	674,894
Multifamily residential	340,926	430,256	258,839	223,610	139,309
Total real estate	6,063,762	5,608,684	4,205,246	3,786,082	2,354,273
Consumer	41,745	52,258	56,736	69,590	37,501
Commercial and industrial	1,123,213	850,587	678,775	517,273	271,576
Agricultural	74,673	67,109	48,833	37,129	19,825
Other	84,306	62,933	67,912	66,879	32,908
Total loans receivable	<u>\$ 7,387,699</u>	<u>\$ 6,641,571</u>	<u>\$ 5,057,502</u>	<u>\$ 4,476,953</u>	<u>\$ 2,716,083</u>

As of December 31, 2016, 2015, 2014, 2013 and 2012, we had covered loan balances of zero, \$62.2 million, \$240.2 million, \$282.5 million and \$384.9 million, respectively.

As of the acquisition date, we 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 December 31, 2016, the net loan balance of the Liberty ASC Topic 310-20 purchased loans is \$409.6 million (\$418.7 million gross loans less \$9.1 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 the acquisition date, we 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 December 31, 2016, the net loan balance of the Liberty ASC Topic 310-30 purchased loans is \$58.6 million (\$80.5 million gross loans less \$21.9 million discount). These 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.

Commercial Real Estate Loans. We originate non-farm and non-residential loans (primarily secured by commercial real estate), construction/land development loans, and agricultural loans, which are generally secured by real estate located in our market areas. Our commercial mortgage loans are generally collateralized by first liens on real estate and amortized over a 15 to 25 year period with balloon payments due at the end of one to five years. These loans are generally underwritten by assessing cash flow (debt service coverage), primary and secondary source of repayment, the financial strength of any guarantor, the strength of the tenant (if any), the borrower's liquidity and leverage, management experience, ownership structure, economic conditions and industry specific trends and collateral. Generally, we will loan up to 85% of the value of improved property, 65% of the value of raw land and 75% of the value of land to be acquired and developed. A first lien on the property and assignment of lease is required if the collateral is rental property, with second lien positions considered on a case-by-case basis.

As of December 31, 2016, commercial real estate loans totaled \$4.37 billion, or 59.1% of loans receivable, as compared to \$3.99 billion, or 60.0% of loans receivable, as of December 31, 2015. Commercial real estate loans originated in our franchises in Arkansas, Florida, Alabama and Centennial CFG were \$1.96 billion, \$1.58 billion, \$125.9 million and \$696.8 million at December 31, 2016, respectively.

Residential Real Estate Loans. We originate one to four family, residential mortgage loans generally secured by property located in our primary market areas. Approximately 40.5% and 47.2% of our residential mortgage loans consist of owner occupied 1-4 family properties and non-owner occupied 1-4 family properties (rental), respectively, as of December 31, 2016. 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 December 31, 2016, residential real estate loans totaled \$1.70 billion, or 23.0%, of loans receivable, compared to \$1.62 billion, or 24.4% of loans receivable, as of December 31, 2015. Residential real estate loans originated in our franchises in Arkansas, Florida, Alabama and Centennial CFG were \$879.0 million, \$633.5 million, \$82.0 million and \$102.7 million at December 31, 2016, respectively.

Consumer Loans. Our consumer loans are composed of secured and unsecured loans originated by our bank. The performance of consumer loans will be affected by the local and regional economies as well as the rates of personal bankruptcies, job loss, divorce and other individual-specific characteristics.

As of December 31, 2016, consumer loans totaled \$41.8 million, or 0.6% of loans receivable, compared to \$52.3 million, or 0.8% of loans receivable, as of December 31, 2015. Consumer loans originated in our franchises in Arkansas, Florida, Alabama and Centennial CFG were \$25.3 million, \$15.4 million, \$1.1 million and zero at December 31, 2016, respectively.

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

As of December 31, 2016, commercial and industrial loans totaled \$1.12 billion, or 15.2% of loans receivable, which is comparable to \$850.6 million, or 12.8% of loans receivable, as of December 31, 2015. Commercial and industrial loans originated in our franchises in Arkansas, Florida, Alabama and Centennial CFG were \$585.7 million, \$203.7 million, \$24.9 million and \$309.0 million at December 31, 2016, respectively.

Table 11 presents the distribution of the maturity of our total loans as of December 31, 2016. The table also presents the portion of our loans that have fixed interest rates and interest rates that fluctuate over the life of the loans based on changes in the interest rate environment.

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

Table 11: Maturity of Loans

	One Year or Less	Over One Year Through Five Years	Over Five Years	Total
	(In thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	\$ 783,086	\$ 1,557,743	\$ 812,292	\$ 3,153,121
Construction/land development	448,599	536,904	150,340	1,135,843
Agricultural	19,921	35,482	22,333	77,736
Residential real estate loans				
Residential 1-4 family	238,846	620,541	496,749	1,356,136
Multifamily residential	45,895	147,879	147,152	340,926
Total real estate	1,536,347	2,898,549	1,628,866	6,063,762
Consumer	14,106	25,838	1,801	41,745
Commercial and industrial	388,209	554,610	180,394	1,123,213
Agricultural	26,088	34,272	14,313	74,673
Other	20,701	34,193	29,412	84,306
Total loans receivable	<u>\$ 1,985,451</u>	<u>\$ 3,547,462</u>	<u>\$ 1,854,786</u>	<u>\$ 7,387,699</u>
Fixed interest rates	\$ 992,305	\$ 2,791,670	\$ 657,708	\$ 4,441,683
Floating interest rates	902,786	712,783	1,170,883	2,786,452
Purchased credit impaired loans acquired	90,360	43,009	26,195	159,564
Total loans receivable	<u>\$ 1,985,451</u>	<u>\$ 3,547,462</u>	<u>\$ 1,854,786</u>	<u>\$ 7,387,699</u>

Non-Performing Assets

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

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

We have purchased loans with deteriorated credit quality in our December 31, 2016 financial statements as a result of our historical acquisitions. The credit metrics most heavily impacted by our acquisitions of acquired loans with deteriorated credit quality were the following credit quality indicators listed in Table 13 below:

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

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

Table 12 sets forth information with respect to our non-performing non-covered assets as of December 31, 2016, 2015, 2014, 2013, and 2012. As of these dates, all non-performing non-covered restructured loans are included in non-accrual non-covered loans.

Table 12: Non-Covered Non-performing Assets

	As of December 31,				
	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Non-accrual non-covered loans	\$47,182	\$36,374	\$24,691	\$15,133	\$21,336
Non-covered loans past due 90 days or more (principal or interest payments)	15,942	23,845	14,871	23,141	5,937
Total non-performing non-covered loans	63,124	60,219	39,562	38,274	27,273
Other non-performing non-covered assets					
Non-covered foreclosed assets held for sale, net	15,951	18,526	16,951	29,869	20,393
Other non-performing non-covered assets	3	38	-	281	164
Total other non-performing non-covered assets	15,954	18,564	16,951	30,150	20,557
Total non-performing non-covered assets	<u>\$79,078</u>	<u>\$78,783</u>	<u>\$56,513</u>	<u>\$68,424</u>	<u>\$47,830</u>
Allowance for loan losses for non-covered loans to non-performing non-covered loans	126.74%	110.66%	132.63%	101.95%	165.62%
Non-performing non-covered loans to total non-covered loans	0.85	0.92	0.82	0.91	1.17
Non-performing non-covered assets to total non-covered assets	0.81	0.85	0.79	1.07	1.30

Table 13 sets forth information with respect to our non-performing assets as of December 31, 2016, 2015, 2014, 2013, and 2012. As of these dates, all non-performing restructured loans are included in non-accrual loans.

Table 13: Non-performing Assets

	As of December 31,				
	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Non-accrual loans	\$47,182	\$36,374	\$24,691	\$ 15,133	\$ 21,336
Loans past due 90 days or more (principal or interest payments)	15,942	27,137	37,364	58,983	76,800
Total non-performing loans	63,124	63,511	62,055	74,116	98,136
Other non-performing assets					
Foreclosed assets held for sale, net	15,951	19,140	24,822	50,868	51,919
Other non-performing assets	3	38	189	391	336
Total other non-performing assets	15,954	19,178	25,011	51,259	52,255
Total non-performing assets	\$79,078	\$82,689	\$87,066	\$125,375	\$150,391
Allowance for loan losses to non-performing loans	126.74%	109.00%	88.65%	59.12%	51.59%
Non-performing loans to total loans	0.85	0.96	1.23	1.66	3.61
Non-performing assets to total assets	0.81	0.89	1.18	1.84	3.55

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

Total non-performing loans were \$63.1 million as of December 31, 2016, compared to \$63.5 million as of December 31, 2015, for a decrease of \$387,000. The \$387,000 decrease in non-performing loans is the result of a \$224,000 increase in non-performing loans in our Arkansas market and a \$1.1 million decrease in non-performing loans in our Florida market, offset by a \$524,000 increase in non-performing loans in our Alabama market. Non-performing loans at December 31, 2016 are \$28.5 million, \$34.0 million, \$656,000 and zero in the Arkansas, Florida, Alabama and Centennial CFG markets, respectively.

Although the current state of the real estate market has improved, uncertainties still present in the economy may continue to increase our level of non-performing loans. While we believe our allowance for loan losses is adequate and our purchased loans are adequately discounted at December 31, 2016, 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 2016. Our current or historical provision levels should not be relied upon as a predictor or indicator of future levels going forward.

Troubled debt restructurings (“TDRs”) generally occur when a borrower is experiencing, or is expected to experience, financial difficulties in the near term. As a result, we will work with the borrower to prevent further difficulties, and ultimately to improve the likelihood of recovery on the loan. In those circumstances it may be beneficial to restructure the terms of a loan and work with the borrower for the benefit of both parties, versus forcing the property into foreclosure and having to dispose of it in an unfavorable and depressed real estate market. When we have modified the terms of a loan, we usually either reduce the monthly payment and/or interest rate for generally about three to twelve months. For our TDRs that accrue interest at the time the loan is restructured, it would be a rare exception to have charged-off any portion of the loan. Only non-performing restructured loans are included in our non-performing loans. As of December 31, 2016, we had \$22.5 million of 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 \$19.5 million and our Arkansas market contains \$3.0 million of these restructured loans.

A loan modification that might not otherwise be considered may be granted resulting in classification as a TDR. These loans can involve loans remaining on non-accrual, moving to non-accrual, or continuing on an accrual status, depending on the individual facts and circumstances of the borrower. Generally, a non-accrual loan that is restructured remains on non-accrual for a period of six months to demonstrate that the borrower can meet the restructured terms. However, performance prior to the restructuring, or significant events that coincide with the restructuring, are considered in assessing whether the borrower can pay 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 our 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 us to seek additional collateral or guarantor support when modifying a loan. At December 31, 2016, the amount of TDRs was \$25.5 million, an increase of 40.2% from \$18.2 million at December 31, 2015. As of December 31, 2016 and 2015, 88.0% and 81.2%, respectively, of all restructured loans were performing to the terms of the restructure.

Total foreclosed assets held for sale were \$16.0 million as of December 31, 2016, compared to \$19.1 million as of December 31, 2015, for a decrease of \$3.1 million. The foreclosed assets held for sale as of December 31, 2016 are comprised of \$12.5 million of assets located in Arkansas, \$2.9 million of assets located in Florida, \$581,000 located in Alabama and zero from Centennial CFG.

During 2016, we had one foreclosed property with a carrying value greater than \$1.0 million. This 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 December 31, 2016. The Company does not currently anticipate any additional losses on this property. As of December 31, 2016, no other foreclosed assets held for sale have a carrying value greater than \$1.0 million.

Table 14 shows the summary of foreclosed assets held for sale as of December 31, 2016, 2015, 2014, 2013 and 2012.

Table 14: Total Foreclosed Assets Held For Sale

	As of December 31, 2016			As of December 31, 2015		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
	(In thousands)					
Commercial real estate loans						
Non-farm/non-residential	\$ 9,423	\$ -	\$ 9,423	\$ 9,787	\$ -	\$ 9,787
Construction/land development	4,009	-	4,009	5,286	-	5,286
Agricultural	-	-	-	-	-	-
Residential real estate loans						
Residential 1-4 family	2,076	-	2,076	3,233	614	3,847
Multifamily residential	443	-	443	220	-	220
Total foreclosed assets held for sale	<u>\$ 15,951</u>	<u>\$ -</u>	<u>\$ 15,951</u>	<u>\$ 18,526</u>	<u>\$ 614</u>	<u>\$ 19,140</u>
	As of December 31, 2014			As of December 31, 2013		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
	(In thousands)					
Commercial real estate loans						
Non-farm/non-residential	\$ 6,894	\$ 3,935	\$ 10,829	\$ 8,422	\$ 9,677	\$ 18,099
Construction/land development	6,189	2,847	9,036	17,675	5,517	23,192
Agricultural	-	3	3	-	651	651
Residential real estate loans						
Residential 1-4 family	3,381	1,086	4,467	3,772	5,154	8,926
Multifamily residential	487	-	487	-	-	-
Total foreclosed assets held for sale	<u>\$ 16,951</u>	<u>\$ 7,871</u>	<u>\$ 24,822</u>	<u>\$ 29,869</u>	<u>\$ 20,999</u>	<u>\$ 50,868</u>
	As of December 31, 2012					
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total			
	(In thousands)					
Commercial real estate loans						
Non-farm/non-residential	\$ 7,532	\$ 9,024	\$ 16,556			
Construction/land development	7,343	13,586	20,929			
Agricultural	-	599	599			
Residential real estate loans						
Residential 1-4 family	5,518	8,317	13,835			
Total foreclosed assets held for sale	<u>\$ 20,393</u>	<u>\$ 31,526</u>	<u>\$ 51,919</u>			

A loan is considered impaired when it is probable that we will not receive all amounts due according to the contracted terms of the loans. Impaired loans include non-performing loans (loans past due 90 days or more and non-accrual loans), criticized and/or classified loans with a specific allocation, loans categorized as TDRs and certain other loans identified by management that are still performing (loans included in multiple categories are only included once). As of December 31, 2016, average impaired loans were \$89.6 million compared to \$88.1 million as of December 31, 2015. As of December 31, 2016, impaired loans were \$93.1 million compared to \$91.6 million as of December 31, 2015, for an increase of \$1.5 million. This increase is primarily associated with the increase in loan balances with a specific allocation and an increase in the level of loans categorized as TDRs offset by a slight decrease in non-performing loans. As of December 31, 2016, our Arkansas, Florida, Alabama and Centennial CFG markets accounted for approximately \$38.9 million, \$53.6 million, \$656,000 and zero of the impaired loans, respectively.

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

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

As of December 31, 2016 and 2015, there was not a material amount of purchased loans with deteriorated credit quality on non-accrual status as a result of most of the loans being accounted for on the pool basis and the pools are considered to be performing for the accruing of interest income. Also, acquired loans contractually past due 90 days or more are accruing interest because the pools are considered to be performing for the purpose of accruing interest income.

Past Due and Non-Accrual Loans

Table 15 shows the summary non-accrual loans as of December 31, 2016, 2015, 2014, 2013 and 2012:

Table 15: Total Non-Accrual Loans

	As of December 31, 2016			As of December 31, 2015		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
Real estate:	(In thousands)					
Commercial real estate loans						
Non-farm/non-residential	\$ 17,988	\$ -	\$ 17,988	\$ 15,811	\$ -	\$ 15,811
Construction/land development	3,956	-	3,956	2,952	-	2,952
Agricultural	435	-	435	531	-	531
Residential real estate loans						
Residential 1-4 family	20,311	-	20,311	12,574	-	12,574
Multifamily residential	262	-	262	870	-	870
Total real estate	42,952	-	42,952	32,738	-	32,738
Consumer	140	-	140	239	-	239
Commercial and industrial	3,155	-	3,155	2,363	-	2,363
Agricultural	-	-	-	-	-	-
Other	935	-	935	1,034	-	1,034
Total non-accrual loans	\$ 47,182	\$ -	\$ 47,182	\$ 36,374	\$ -	\$ 36,374

	As of December 31, 2014			As of December 31, 2013		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
Real estate:	(In thousands)					
Commercial real estate loans						
Non-farm/non-residential	\$ 8,901	\$ -	\$ 8,901	\$ 5,093	\$ -	\$ 5,093
Construction/land development	926	-	926	1,080	-	1,080
Agricultural	-	-	-	89	-	89
Residential real estate loans						
Residential 1-4 family	11,949	-	11,949	7,283	-	7,283
Multifamily residential	1,344	-	1,344	1	-	1
Total real estate	23,120	-	23,120	13,546	-	13,546
Consumer	279	-	279	124	-	124
Commercial and industrial	1,108	-	1,108	1,463	-	1,463
Agricultural	-	-	-	-	-	-
Other	184	-	184	-	-	-
Total non-accrual loans	\$ 24,691	\$ -	\$ 24,691	\$ 15,133	\$ -	\$ 15,133

As of December 31, 2012			
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
	(In thousands)		
Real estate:			
Commercial real estate loans			
Non-farm/non-residential	\$ 3,659	\$ -	\$ 3,659
Construction/land development	2,680	-	2,680
Agricultural	140	-	140
Residential real estate loans			
Residential 1-4 family	9,972	-	9,972
Multifamily residential	3,215	-	3,215
Total real estate	19,666	-	19,666
Consumer	593	-	593
Commercial and industrial	1,077	-	1,077
Agricultural	-	-	-
Other	-	-	-
Total non-accrual loans	\$ 21,336	\$ -	\$ 21,336

If the non-accrual loans had been accruing interest in accordance with the original terms of their respective agreements, interest income of approximately \$2.4 million for the year ended December 31, 2016, \$1.8 million in 2015, and \$1.3 million in 2014 would have been recorded. Interest income recognized on the non-accrual loans for the years ended December 31, 2016, 2015 and 2014 was considered immaterial.

Table 16 shows the summary of accruing past due loans 90 days or more as of December 31, 2016, 2015, 2014, 2013 and 2012:

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

	As of December 31, 2016			As of December 31, 2015		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
	(In thousands)					
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	\$ 9,530	\$ -	\$ 9,530	\$ 9,247	\$ -	\$ 9,247
Construction/land development	3,086	-	3,086	4,176	-	4,176
Agricultural	-	-	-	30	-	30
Residential real estate loans						
Residential 1-4 family	2,996	-	2,996	3,915	3,292	7,207
Multifamily residential	-	-	-	1	-	1
Total real estate	15,612	-	15,612	17,369	3,292	20,661
Consumer	21	-	21	46	-	46
Commercial and industrial	309	-	309	6,430	-	6,430
Other	-	-	-	-	-	-
Total loans accruing past due 90 days or more	\$ 15,942	\$ -	\$ 15,942	\$ 23,845	\$ 3,292	\$ 27,137

	As of December 31, 2014			As of December 31, 2013		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
Real estate:	(In thousands)					
Commercial real estate loans						
Non-farm/non-residential	\$ 5,880	\$ 9,029	\$ 14,909	\$ 7,914	\$ 15,287	\$ 23,201
Construction/land development	734	4,376	5,110	4,879	8,410	13,289
Agricultural	34	72	106	-	162	162
Residential real estate loans						
Residential 1-4 family	4,128	7,597	11,725	6,492	10,177	16,669
Multifamily residential	691	-	691	1	357	358
Total real estate	11,467	21,074	32,541	19,286	34,393	53,679
Consumer	579	-	579	100	-	100
Commercial and industrial	2,825	1,387	4,212	3,755	825	4,580
Other	-	32	32	-	624	624
Total loans accruing past due 90 days or more	<u>\$ 14,871</u>	<u>\$ 22,493</u>	<u>\$ 37,364</u>	<u>\$ 23,141</u>	<u>\$ 35,842</u>	<u>\$ 58,983</u>

	As of December 31, 2012		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
Real estate:	(In thousands)		
Commercial real estate loans			
Non-farm/non-residential	\$ 1,437	\$ 32,227	\$ 33,664
Construction/land development	1,296	14,962	16,258
Agricultural	-	548	548
Residential real estate loans			
Residential 1-4 family	2,589	20,005	22,594
Multifamily residential	-	-	-
Total real estate	5,322	67,742	73,064
Consumer	95	-	95
Commercial and industrial	520	3,121	3,641
Total loans accruing past due 90 days or more	<u>\$ 5,937</u>	<u>\$ 70,863</u>	<u>\$ 76,800</u>

Allowance for Loan Losses

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

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

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

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

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

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

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

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

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

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

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

Loans Collectively Evaluated for Impairment. Loans receivable collectively evaluated for impairment increased by approximately \$806.2 million from \$6.28 billion at December 31, 2015 to \$7.09 billion at December 31, 2016. The percentage of the allowance for loan losses allocated to loans receivable collectively evaluated for impairment to the total loans collectively evaluated for impairment increased from 0.99% at December 31, 2015 to 1.08% at December 31, 2016. 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, asset quality and net charge-offs.

Charge-offs and Recoveries. Total charge-offs increased to \$17.5 million for the year ended December 31, 2016, compared to \$16.0 million for the same period in 2015. Total recoveries increased to \$9.7 million for the year ended December 31, 2016, compared to \$3.5 million for the same period in 2015. For the year ended December 31, 2016, net charge-offs were \$6.6 million for Arkansas, net charge-offs were \$1.3 million for Florida, net recoveries were \$76,000 for Alabama and net charge-offs were zero for Centennial CFG, equaling a net charge-off position of \$7.8 million.

The net loans charged off for the years ended December 31, 2016, 2015 and 2014 were \$7.8 million, \$12.4 million and \$10.3 million. For the years ended December 31, 2016, 2015 and 2014, approximately \$6.6 million, \$9.3 million and \$5.1 million, respectively, of the net charge-offs are from our Arkansas market. For the years ended December 31, 2016, 2015 and 2014, approximately \$1.3 million, \$2.7 million and \$4.9 million, respectively, of the net charge-offs are from our Florida market. The remaining \$76,000, \$367,000 and \$347,000 relates to net recoveries, net charge-offs and net charge-offs, respectively, on loans in our Alabama market for the years ended December 31, 2016, 2015 and 2014, respectively. There have been zero charge-offs for Centennial CFG since the division was formed in 2015.

During 2016, there were \$17.5 million in charge-offs and \$9.7 million in recoveries. While these charge-offs and recoveries consisted of many relationships, there were two individual relationships consisting of charge-offs greater than \$1.0 million. During 2016, there was a substantial \$5.3 million recovery from a large loan charge-off taken in 2010.

During 2015, there were \$16.0 million in charge-offs and \$3.5 million in 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, less estimated costs to sell (for collateral dependent loans), for any period presented. Loans partially charged-off are placed on non-accrual status until it is proven that the borrower's repayment ability with respect to the remaining principal balance can be reasonably assured. This is usually established over a period of 6-12 months of timely payment performance.

Table 17 shows the allowance for loan losses, charge-offs and recoveries for loans as of and for the years ended December 31, 2016, 2015, 2014, 2013 and 2012.

Table 17: Analysis of Allowance for Loan Losses

	As of December 31,				
	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Balance, beginning of year	\$ 69,224	\$ 55,011	\$ 43,815	\$ 50,632	\$ 52,129
Loans charged off					
Real estate:					
Commercial real estate loans:					
Non-farm/non-residential	3,586	4,878	4,376	7,480	2,354
Construction/land development	382	644	1,099	1,903	1,734
Agricultural	-	-	-	-	-
Residential real estate loans:					
Residential 1-4 family	4,986	4,257	3,218	4,798	4,460
Multifamily residential	611	460	266	2,336	95
Total real estate	9,565	10,239	8,959	16,517	8,643
Consumer	220	567	355	926	1,143
Commercial and industrial	5,778	2,638	2,323	694	1,356
Agricultural	-	-	-	-	-
Other	1,938	2,508	2,440	1,374	1,693
Total loans charged off	17,501	15,952	14,077	19,511	12,835
Recoveries of loans previously charged off					
Real estate:					
Commercial real estate loans:					
Non-farm/non-residential	857	762	279	2,083	970
Construction/land development	1,125	236	474	49	9
Agricultural	-	-	-	1	234
Residential real estate loans:					
Residential 1-4 family	1,098	845	1,473	1,052	676
Multifamily residential	54	70	37	102	4
Total real estate	3,134	1,913	2,263	3,287	1,893
Consumer	209	61	246	145	134
Commercial and industrial	5,533	802	306	72	124
Agricultural	-	-	-	-	-
Other	795	766	913	556	435
Total recoveries	9,671	3,542	3,728	4,060	2,586
Net loans charged off (recovered)	7,830	12,410	10,349	15,451	10,249
Provision for loan losses	18,608	25,164	22,664	5,180	2,750
Increase in FDIC indemnification asset	-	1,459	(1,119)	3,454	6,002
Balance, end of year	\$ 80,002	\$ 69,224	\$ 55,011	\$ 43,815	\$ 50,632
Net charge-offs (recoveries) to average loans receivable	0.11 %	0.22 %	0.22 %	0.51 %	0.41 %
Allowance for loan losses to total loans ⁽¹⁾	1.08	1.04	1.09	0.98	1.86
Allowance for loan losses to net charge-offs (recoveries)	1,022	558	532	284	494

(1) See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Table 32," for additional information on non-GAAP tabular disclosure.

Table 18 shows the allowance for loan losses, charge-offs and recoveries for covered loans as of and for the years ended December 31, 2016, 2015, 2014, 2013 and 2012.

Table 18: Analysis of Allowance for Loan Losses for Covered Loans

	As of December 31,				
	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Balance, beginning of year	\$ 2,588	\$ 2,540	\$ 4,793	\$ 5,462	\$ -
Loans charged off	(71)	(1,181)	(2,772)	(5,314)	(2,042)
Recoveries of loans previously charged off	10	94	734	200	2
Net loans charged off (recovered)	(61)	(1,087)	(2,038)	(5,114)	(2,040)
Provision for loan losses forecasted outside of loss share	-	-	1,184	-	-
Provision for loan losses before benefit attributable to FDIC loss share agreements	-	2,457	(1,399)	4,445	7,502
Benefit attributable to FDIC loss share agreements	-	(1,459)	1,119	(3,454)	(6,002)
Net provision for loan losses for covered loans	-	998	904	991	1,500
Reclass of provision for loan losses attributable to FDIC loss share agreements	(2,527)	(1,322)	-	-	-
Increase (decrease) in FDIC indemnification asset	-	1,459	(1,119)	3,454	6,002
Balance, end of year	<u>\$ -</u>	<u>\$ 2,588</u>	<u>\$ 2,540</u>	<u>\$ 4,793</u>	<u>\$ 5,462</u>

Table 19 shows the allowance for loan losses, charge-offs and recoveries for non-covered loans as of and for the years ended December 31, 2016, 2015, 2014, 2013 and 2012.

Table 19: Analysis of Allowance for Loan Losses for Non-Covered Loans

	As of December 31,				
	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Balance, beginning of year	\$ 66,636	\$ 52,471	\$ 39,022	\$ 45,170	\$ 52,129
Loans charged off	17,430	14,771	11,305	14,197	10,793
Recoveries of loans previously charged off	9,661	3,448	2,994	3,860	2,584
Net loans charged off (recovered)	7,769	11,323	8,311	10,337	8,209
Provision for loan losses	18,608	24,166	21,760	4,189	1,250
Reclass of provision for loan losses attributable to FDIC loss share agreements	2,527	1,322	-	-	-
Balance, end of year	<u>\$ 80,002</u>	<u>\$ 66,636</u>	<u>\$ 52,471</u>	<u>\$ 39,022</u>	<u>\$ 45,170</u>

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

The changes for the years ended December 31, 2016 and 2015 in the allocation of the allowance for loan losses for the individual types of loans are primarily associated with changes in the ASC 310 calculations, both individual and aggregate, and changes in the ASC 450 calculations. These calculations are affected by changes in individual loan impairments, changes in asset quality, net charge-offs during the period and normal changes in the outstanding loan portfolio, as well as any changes to the general allocation factors due to changes within the actual characteristics of the loan portfolio.

Table 20 presents the allocation of allowance for loan losses as of December 31, 2016, 2015, 2014, 2013 and 2012.

Table 20: Allocation of Allowance for Loan Losses

	As of December 31,									
	2016		2015		2014		2013		2012	
	Allowance Amount	% of loans ⁽¹⁾	Allowance Amount	% of loans ⁽¹⁾	Allowance Amount	% of loans ⁽¹⁾	Allowance Amount	% of loans ⁽¹⁾	Allowance Amount	% of loans ⁽¹⁾
(Dollars in thousands)										
Real estate:										
Commercial real estate loans:										
Non-farm/non-residential	\$ 27,695	42.7%	\$ 26,330	44.7%	\$ 17,770	41.2%	\$ 15,685	41.5%	\$ 23,786	43.6%
Construction/land development	11,522	15.4	10,782	14.3	8,548	14.6	7,989	13.6	6,985	11.8
Agricultural	493	1.1	468	1.1	387	1.5	254	1.8	193	1.3
Residential real estate loans:										
Residential 1-4 family	14,397	18.3	12,552	17.9	11,061	20.8	8,149	22.6	10,695	24.9
Multifamily residential	2,120	4.6	2,266	6.5	3,545	5.1	2,852	5.0	3,346	5.1
Total real estate	56,227	82.1	52,398	84.5	41,311	83.1	34,929	84.5	45,005	86.7
Consumer	398	0.6	544	0.8	763	1.1	632	1.6	894	1.4
Commercial and industrial	12,756	15.2	9,324	12.8	5,965	13.4	2,068	11.6	3,930	10.0
Agricultural	3,790	1.0	4,463	1.0	5,035	1.0	1,931	0.8	394	0.7
Other	-	1.1	9	0.9	3	1.3	-	1.5	-	1.2
Unallocated	6,831	-	2,486	-	1,934	-	4,255	-	409	-
Total	<u>\$ 80,002</u>	<u>100.0%</u>	<u>\$ 69,224</u>	<u>100.0%</u>	<u>\$ 55,011</u>	<u>100.0%</u>	<u>\$ 43,815</u>	<u>100.0%</u>	<u>\$ 50,632</u>	<u>100.0%</u>

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

Investment Securities

Our securities portfolio is the second largest component of earning assets and provides a significant source of revenue. Securities within the portfolio are classified as held-to-maturity, available-for-sale, or trading based on the intent and objective of the investment and the ability to hold to maturity. Fair values of securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities. The estimated effective duration of our securities portfolio was 2.6 years as of December 31, 2016.

As of December 31, 2016 and 2015 we had \$284.2 million and \$309.0 million of held-to-maturity securities, respectively. Of the \$284.2 million of held-to-maturity securities as of December 31, 2016, \$6.6 million were invested in U.S. Government-sponsored enterprises, \$107.8 million were invested in mortgage-backed securities and \$169.7 million were invested in state and political subdivisions. Of the \$309.0 million of held-to-maturity securities as of December 31, 2015, \$7.4 million were invested in U.S. Government-sponsored enterprises, \$134.2 million were invested in mortgage-backed securities and \$167.5 million were invested in state and political subdivisions.

Securities available-for-sale are reported at fair value with unrealized holding gains and losses reported as a separate component of stockholders' equity as other comprehensive income. Securities that are held as available-for-sale are used as a part of our asset/liability management strategy. Securities that may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital, and other similar factors are classified as available-for-sale. Available-for-sale securities were \$1.07 billion and \$1.21 billion as of December 31, 2016 and 2015, respectively.

As of December 31, 2016, \$579.5 million, or 54.0%, of our available-for-sale securities were invested in mortgage-backed securities, compared to \$565.3 million, or 46.9%, of our available-for-sale securities as of December 31, 2015. To reduce our income tax burden, \$216.5 million, or 20.2%, of our available-for-sale securities portfolio as of December 31, 2016, was primarily invested in tax-exempt obligations of state and political subdivisions, compared to \$219.1 million, or 18.2%, of our available-for-sale securities as of December 31, 2015. Also, we had approximately \$236.8 million, or 22.1%, invested in obligations of U.S. Government-sponsored enterprises as of December 31, 2016, compared to \$368.5 million, or 30.5%, of our available-for-sale securities as of December 31, 2015.

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

Table 21 presents the carrying value and fair value of investment securities as of December 31, 2016, 2015 and 2014.

Table 21: Investment Securities

	As of December 31, 2016				As of December 31, 2015			
	Amortized	Gross	Gross	Estimated	Amortized	Gross	Gross	Estimated
	Cost	Unrealized	Unrealized	Fair Value	Cost	Unrealized	Unrealized	Fair Value
		Gains	Losses			Gains	Losses	
	(In thousands)							
Available-for-sale								
U.S. government-sponsored enterprises	\$ 237,439	\$ 963	\$ (1,641)	\$ 236,761	\$ 367,911	\$ 1,875	\$ (1,246)	\$ 368,540
Residential mortgage-backed securities	259,037	1,226	(1,627)	258,636	254,531	1,580	(1,356)	254,755
Commercial mortgage-backed securities	322,316	845	(2,342)	320,819	311,279	994	(1,713)	310,560
State and political subdivisions	215,209	3,471	(2,181)	216,499	211,546	7,723	(151)	219,118
Other securities	38,261	2,603	(659)	40,205	54,440	191	(1,024)	53,607
Total	\$1,072,262	\$ 9,108	\$ (8,450)	\$1,072,920	\$1,199,707	\$ 12,363	\$ (5,490)	\$1,206,580
Held-to-maturity								
U.S. government-sponsored enterprises	\$ 6,637	\$ 23	\$ (32)	\$ 6,628	\$ 7,395	\$ 37	\$ (17)	\$ 7,415
Residential mortgage-backed securities	71,956	267	(301)	71,922	92,585	250	(282)	92,553
Commercial mortgage-backed securities	35,863	107	(133)	35,837	41,579	155	(42)	41,692
State and political subdivisions	169,720	3,100	(169)	172,651	167,483	4,870	(69)	172,284
Total	\$ 284,176	\$ 3,497	\$ (635)	\$ 287,038	\$ 309,042	\$ 5,312	\$ (410)	\$ 313,944
	As of December 31, 2014							
	Amortized	Gross	Gross	Estimated				
	Cost	Unrealized	Unrealized	Fair Value				
		Gains	Losses					
	(In thousands)							
Available-for-sale								
U.S. government-sponsored enterprises	\$ 333,880	\$ 2,467	\$ (269)	\$ 336,078				
Residential mortgage-backed securities	188,956	2,423	(501)	190,878				
Commercial mortgage-backed securities	311,336	1,812	(944)	312,204				
State and political subdivisions	170,207	6,522	(88)	176,641				
Other securities	51,375	437	(326)	51,486				
Total	\$1,055,754	\$ 13,661	\$ (2,128)	\$1,067,287				
Held-to-maturity								
U.S. government-sponsored enterprises	\$ 4,724	\$ 2	\$ (11)	\$ 4,715				
Residential mortgage-backed securities	115,159	384	(145)	115,398				
Commercial mortgage-backed securities	45,892	196	(48)	46,040				
State and political subdivisions	191,015	5,178	(74)	196,119				
Total	\$ 356,790	\$ 5,760	\$ (278)	\$ 362,272				

Table 22 reflects the amortized cost and estimated fair value of debt securities as of December 31, 2016, by contractual maturity and the weighted average yields (for tax-exempt obligations on a fully taxable equivalent basis) of those securities. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

Table 22: Maturity Distribution of Investment Securities

	As of December 31, 2016					
	1 Year or Less	1 Year Through 5 Years	5 Years Through 10 Years	Over 10 Years	Total Amortized Cost	Total Fair Value
	(Dollars in thousands)					
Available-for-sale						
U.S. Government-sponsored enterprises	\$ 54,970	\$ 125,758	\$ 38,565	\$ 18,146	\$ 237,439	\$ 236,761
Residential mortgage-backed securities	51,809	145,063	41,357	20,808	259,037	258,636
Commercial mortgage-backed securities	18,516	242,183	42,327	19,290	322,316	320,819
State and political subdivisions	38,986	149,267	19,848	7,108	215,209	216,499
Other securities	15,431	13,730	7,726	1,374	38,261	40,205
Total	<u>\$ 179,712</u>	<u>\$ 676,001</u>	<u>\$ 149,823</u>	<u>\$ 66,726</u>	<u>\$ 1,072,262</u>	<u>\$ 1,072,920</u>
Percentage of total amortized cost	<u>16.8 %</u>	<u>63.0 %</u>	<u>14.0 %</u>	<u>6.2 %</u>	<u>100.0 %</u>	
Weighted average yield	<u>2.6 %</u>	<u>2.6 %</u>	<u>2.5 %</u>	<u>2.7 %</u>	<u>2.6 %</u>	
Held-to-maturity						
U.S. Government-sponsored enterprises	\$ 340	\$ 4,726	\$ 768	\$ 803	\$ 6,637	\$ 6,628
Residential mortgage-backed securities	13,908	45,876	9,515	2,657	71,956	71,922
Commercial mortgage-backed securities	15,946	11,866	6,466	1,585	35,863	35,837
State and political subdivisions	55,182	59,416	2,791	52,331	169,720	172,651
Total	<u>\$ 85,376</u>	<u>\$ 121,884</u>	<u>\$ 19,540</u>	<u>\$ 57,376</u>	<u>\$ 284,176</u>	<u>\$ 287,038</u>
Percentage of total amortized cost	<u>30.0 %</u>	<u>42.9 %</u>	<u>6.9 %</u>	<u>20.2 %</u>	<u>100.0 %</u>	
Weighted average yield	<u>4.0 %</u>	<u>3.7 %</u>	<u>2.8 %</u>	<u>6.8 %</u>	<u>4.4 %</u>	

Deposits

Our deposits averaged \$6.70 billion for the year ended December 31, 2016, and \$5.96 billion for 2015. Total deposits increased \$503.9 million, or 7.8%, to \$6.94 billion as of December 31, 2016, from \$6.44 billion as of December 31, 2015. Deposits are our primary source of funds. We offer a variety of products designed to attract and retain deposit customers. Those products consist of checking accounts, regular savings deposits, NOW accounts, money market accounts and certificates of deposit. Deposits are gathered from individuals, partnerships and corporations in our market areas. In addition, we obtain deposits from state and local entities and, to a lesser extent, U.S. Government and other depository institutions.

Our policy also permits the acceptance of brokered deposits. From time to time, when appropriate in order to fund strong loan demand, we accept brokered time deposits, generally in denominations of less than \$250,000, from a regional brokerage firm, and other national brokerage networks. Additionally, we participate in the Certificates of Deposit Account Registry Service (“CDARS”), which provides for reciprocal (“two-way”) transactions among banks for the purpose of giving our customers the potential for FDIC insurance of up to \$50.0 million. Although classified as brokered deposits for regulatory purposes, funds placed through the CDARS program are our customer relationships that management views as core funding. We also participate in the One-Way Buy Insured Cash Sweep (“ICS”) service, which provides for one-way buy transactions among banks for the purpose of purchasing cost-effective floating-rate funding without collateralization or stock purchase requirements. Management believes these sources represent a reliable and cost efficient alternative funding source for the Company. However, to the extent that our condition or reputation deteriorates, or to the extent that there are significant changes in market interest rates which we do not elect to match, we may experience an outflow of brokered deposits. In that event we would be required to obtain alternate sources for funding.

Table 23 reflects the classification of the brokered deposits as of December 31, 2016 and 2015.

Table 23: Brokered Deposits

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	(In thousands)	
Time Deposits	\$ 70,028	\$ 55,149
CDARS	26,389	26,920
Insured Cash Sweep and Other Transaction Accounts	406,120	117,185
Total Brokered Deposits	<u>\$ 502,537</u>	<u>\$ 199,254</u>

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 remained until December 16, 2015, when the rate was increased slightly to 0.50% to 0.25%. The rate was slightly raised again on December 14, 2016 to 0.75% to 0.50%.

Table 24 reflects the classification of the average deposits and the average rate paid on each deposit category which is in excess of 10 percent of average total deposits, for the years ended December 31, 2016, 2015, and 2014.

Table 24: Average Deposit Balances and Rates

	Years Ended December 31,					
	<u>2016</u>		<u>2015</u>		<u>2014</u>	
	<u>Average</u>	<u>Average</u>	<u>Average</u>	<u>Average</u>	<u>Average</u>	<u>Average</u>
	(Dollars in thousands)					
Non-interest-bearing transaction accounts	\$ 1,619,128	-%	\$ 1,358,905	-%	\$ 1,101,923	-%
Interest-bearing transaction accounts	3,252,416	0.27	2,789,346	0.22	2,465,881	0.20
Savings deposits	465,464	0.06	429,399	0.06	373,448	0.07
Time deposits:						
\$100,000 or more	868,839	0.58	780,815	0.53	735,404	0.65
Other time deposits	493,841	0.38	600,747	0.42	637,869	0.43
Total	<u>\$ 6,699,688</u>	0.24 %	<u>\$ 5,959,212</u>	0.22 %	<u>\$ 5,314,525</u>	0.24 %

Table 25 presents our maturities of large denomination time deposits as of December 31, 2016 and 2015.

Table 25: Maturities of Large Denomination Time Deposits (\$100,000 or more)

	As of December 31,			
	2016		2015	
	Balance	Percent	Balance	Percent
	(Dollars in thousands)			
Maturing				
Three months or less	\$ 162,422	19.3 %	\$ 223,227	25.2 %
Over three months to six months	100,547	11.9	162,015	18.3
Over six months to 12 months	356,145	42.3	186,963	21.1
Over 12 months	223,767	26.5	313,057	35.4
Total	<u>\$ 842,881</u>	<u>100.0 %</u>	<u>\$ 885,262</u>	<u>100.0 %</u>

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 \$7.1 million, or 5.5%, from \$128.4 million as of December 31, 2015 to \$121.3 million as of December 31, 2016.

FHLB Borrowings

Our FHLB borrowed funds were \$1.31 billion and \$1.41 billion at December 31, 2016 and 2015, respectively. At December 31, 2016, \$40.0 million and \$1.27 billion of the outstanding balance were issued as short-term and long-term advances, respectively. At December 31, 2015, all of the outstanding balance was issued as long-term advances. Our remaining FHLB borrowing capacity was \$718.2 million and \$581.9 million as of December 31, 2016 and 2015, respectively. We received additional borrowing capacity due to an increase in loan volume since December 31, 2015. Maturities of borrowings as of December 31, 2016 include: 2017 – \$556.0 million; 2018 – \$459.2 million; 2019 – \$143.1 million; 2020 – \$146.4 million; 2021 – zero; after 2021 – \$453,000. Expected maturities will differ from contractual maturities because FHLB may have the right to call or we may have the right to prepay certain obligations.

Subordinated Debentures

Subordinated debentures, which consist of guaranteed payments on trust preferred securities, were \$60.8 million as of both December 31, 2016 and 2015.

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 \$1.33 billion at December 31, 2016 compared to \$1.20 billion at December 31, 2015, an increase of 10.6%. The increase in stockholders' equity is primarily associated with the \$129.1 million increase in retained earnings plus the \$1.8 million increase in capital surplus as a result of the activity related to stock based compensation during the year net of \$9.8 million in repurchases of common stock, offset by the \$3.8 million of comprehensive losses. As of December 31, 2016 and 2015, our equity to asset ratio was 13.5% and 12.9% respectively. Book value per share was \$9.45 at December 31, 2016 compared to \$8.55 (split adjusted) at December 31, 2015, a 10.5% increase.

Common Stock Cash Dividends. We declared cash dividends on our common stock of \$0.3425, \$0.2750 (split adjusted) and \$0.1750 (split adjusted) per share for the years ended December 31, 2016, 2015 and 2014, respectively. The common stock dividend payout ratio for the year ended December 31, 2016, 2015 and 2014 was 27.15%, 27.19% and 20.49%, respectively.

Two-for-One Stock Split. On April 21, 2016, our Board of Directors declared a two-for-one stock split paid in the form of a 100% stock dividend on June 8, 2016 to shareholders of record at the close of business on May 18, 2016. The additional shares were distributed by the Company's transfer agent, Computershare, and the Company's common stock began trading on a split-adjusted basis on the NASDAQ Global Select Market on June 9, 2016. The stock split increased the Company's total shares of common stock outstanding as of June 8, 2016 from 70,191,253 shares to 140,382,506 shares.

All share and per share amounts reported prior to the two-for-one stock split have been restated to reflect the retroactive effect of the stock split.

Stock Repurchase Program. During 2016, we utilized a portion of our previously approved stock repurchase program. This program authorized the repurchase of 4,752,000 shares (split adjusted) of our common stock. We repurchased a total of 510,608 shares (split adjusted) with a weighted-average stock price of \$19.23 per share (split adjusted) during 2016. The Company repurchased 95,428 shares (split adjusted) at an average price of \$18.16 per share (split adjusted) during January 2016, 364,572 shares (split adjusted) at an average price of \$19.45 per share (split adjusted) during February 2016, and 1,800 shares (split adjusted) at an average price of \$20.00 per share (split adjusted) during March 2016. No shares were repurchased during the second or third quarters of 2016. The Company repurchased 48,808 shares at an average price of \$19.97 per share (split adjusted) during October 2016. Shares repurchased to date under the program total 3,667,064 shares (split adjusted). The remaining balance available for repurchase is 1,084,936 shares (split adjusted) at December 31, 2016.

Liquidity and Capital Adequacy Requirements

Parent Company Liquidity. The primary sources for payment of our operating expenses, and dividends are current cash on hand (\$53.6 million as of December 31, 2016), dividends received from our bank subsidiary and a \$20.0 million unfunded line of credit with another financial institution.

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

In July 2013, the Federal Reserve Board and the other federal bank regulatory agencies issued a final rule to revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets ("Basel III"). Basel III became effective for us and our 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.

Quantitative measures established by regulation to ensure capital adequacy require us to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes that, as of December 31, 2016 and 2015, we met all regulatory capital adequacy requirements to which we were subject.

Table 26 presents our risk-based capital ratios as of December 31, 2016 and 2015.

Table 26: Risk-Based Capital

	As of December 31, 2016	As of December 31, 2015
	(Dollars in thousands)	
Tier 1 capital		
Stockholders' equity	\$ 1,327,490	\$ 1,199,757
Goodwill and core deposit intangibles, net	(388,336)	(385,957)
Unrealized (gain) loss on available-for-sale securities	(400)	(4,285)
Deferred tax assets	-	-
Total common equity Tier 1 capital	938,754	809,515
Qualifying trust preferred securities	59,000	59,000
Total Tier 1 capital	997,754	868,515
Tier 2 capital		
Qualifying allowance for loan losses	80,002	69,224
Total Tier 2 capital	80,002	69,224
Total risk-based capital	\$ 1,077,756	\$ 937,739
Average total assets for leverage ratio	\$ 9,388,812	\$ 8,766,685
Risk weighted assets	\$ 8,308,468	\$ 7,710,439
Ratios at end of period		
Common equity Tier 1 capital	11.30 %	10.50
Leverage ratio	10.63	9.91 %
Tier 1 risk-based capital	12.01	11.26
Total risk-based capital	12.97	12.16
Minimum guidelines – Basel III phase-in schedule		
Common equity Tier 1 capital	5.125 %	4.50
Leverage ratio	4.000	4.00 %
Tier 1 risk-based capital	6.625	6.00
Total risk-based capital	8.625	8.00
Minimum guidelines – Basel III fully phased-in		
Common equity Tier 1 capital	7.00 %	7.00
Leverage ratio	4.00	4.00 %
Tier 1 risk-based capital	8.50	8.50
Total risk-based capital	10.50	10.50
Well-capitalized guidelines		
Common equity Tier 1 capital	6.50 %	6.50
Leverage ratio	5.00	5.00 %
Tier 1 risk-based capital	8.00	8.00
Total risk-based capital	10.00	10.00

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

Table 27 presents actual capital amounts and ratios as of December 31, 2016 and 2015, for our bank subsidiary and us.

Table 27: Capital and Ratios

	Actual		Minimum Capital Requirement – Basel III Phase-In Schedule		Minimum Capital Requirement – Basel III Fully Phased-In		Minimum To Be Well-Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)								
As of December 31, 2016								
Common equity Tier 1 capital								
Home BancShares	\$ 938,754	11.30 %	\$ 425,762	5.125 %	\$ 581,529	7.00 %	\$ N/A	N/A %
Centennial Bank	920,232	11.10	424,882	5.125	580,326	7.00	538,875	6.50
Leverage ratios:								
Home BancShares	\$ 997,754	10.63 %	\$ 375,448	4.000 %	\$ 375,448	4.00 %	\$ N/A	N/A %
Centennial Bank	920,232	9.81	375,222	4.000	375,222	4.00	469,028	5.00
Tier 1 capital ratios:								
Home BancShares	\$ 997,754	12.01 %	\$ 550,385	6.625 %	\$ 706,154	8.50 %	\$ N/A	N/A %
Centennial Bank	920,232	11.10	549,238	6.625	704,682	8.50	663,230	8.00
Total risk-based capital ratios:								
Home BancShares	\$1,077,756	12.97 %	\$ 716,704	8.625 %	\$ 872,509	10.50 %	\$ N/A	N/A %
Centennial Bank	1,000,234	12.07	714,749	8.625	870,129	10.50	828,694	10.00
As of December 31, 2015								
Common equity Tier 1 capital								
Home BancShares	\$ 809,515	10.50 %	\$ 346,935	4.50 %	\$ 539,677	7.00 %	\$ N/A	N/A %
Centennial Bank	782,100	10.18	345,722	4.50	537,790	7.00	499,376	6.50
Leverage ratios:								
Home BancShares	\$ 868,515	9.91 %	\$ 350,561	4.00 %	\$ 350,561	4.00 %	\$ N/A	N/A %
Centennial Bank	782,100	8.93	350,325	4.00	350,325	4.00	437,906	5.00
Tier 1 capital ratios:								
Home BancShares	\$ 868,515	11.26 %	\$ 462,797	6.00 %	\$ 655,629	8.50 %	\$ N/A	N/A %
Centennial Bank	782,100	10.18	460,963	6.00	653,030	8.50	614,617	8.00
Total risk-based capital ratios:								
Home BancShares	\$ 937,739	12.16 %	\$ 616,934	8.00 %	\$ 809,725	10.50 %	\$ N/A	N/A %
Centennial Bank	851,324	11.08	614,674	8.00	806,760	10.50	768,343	10.00

Off-Balance Sheet Arrangements and Contractual Obligations

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

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

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Company had total outstanding letters of credit amounting to \$41.1 million and \$24.3 million at December 31, 2016 and 2015, respectively, with maturities ranging from currently due to four years.

Table 28 presents the funding requirements of our most significant financial commitments, excluding interest, as of December 31, 2016.

Table 28: Funding Requirements of Financial Commitments

	Payments Due by Period				Total
	Less than One Year	One- Three Years	Three- Five Years	Greater than Five Years	
	(In thousands)				
Operating lease obligations	\$ 4,464	\$ 7,754	\$ 5,466	\$ 16,186	\$ 33,870
FHLB advances by contractual maturity	556,011	602,306	146,428	453	1,305,198
Subordinated debentures	-	-	-	60,826	60,826
Loan commitments	102,212	945,978	319,878	452,094	1,820,162
Letters of credit	26,369	14,599	91	-	41,059

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 our 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 interest margin, efficiency ratio and the allowance for loan losses to total loans receivable.

Because of our significant number of historical acquisitions, our net interest margin and the allowance for loan losses to total loans receivable were impacted by accretion and amortization of the fair value adjustments recorded in purchase accounting. The accretion and amortization affect certain operating ratios as we accrete loan discounts to interest income and amortize premiums and discounts on time deposits to interest expense.

We had \$1.13 billion of purchased loans, which includes \$100.1 million of discount for credit losses on purchased loans, at December 31, 2016. We have \$35.3 million and \$64.9 million remaining of non-accretable discount for credit losses on purchased loans and accretable discount for credit losses on purchased loans, respectively, as of December 31, 2016. We had \$2.16 billion of purchased loans, which includes \$149.4 million of discount for credit losses on purchased loans, at December 31, 2015. For purchased 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 assets. While the discount for credit losses on purchased credit impaired loans is not available for credit losses on non-purchased credit impaired loans, management believes it is useful information to show the same accounting as if applied to all loans receivable, including those acquired in a business combination.

We believe these non-GAAP measures and ratios, when taken together with the corresponding GAAP measures and ratios, provide meaningful supplemental information regarding our performance. We believe investors benefit from referring to these non-GAAP measures and ratios in assessing our operating results and related trends, and when planning and forecasting future periods. However, these non-GAAP measures and ratios should be considered in addition to, and not as a substitute for or preferable to, ratios prepared in accordance with GAAP. In Tables 29 through 32 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 29: Average Yield on Loans

	Years Ended December 31,		
	2016	2015	2014
	(Dollars in thousands)		
Interest income on loans receivable – FTE	\$ 404,137	\$ 344,885	\$ 306,788
Purchase accounting accretion	41,070	46,509	60,630
Non-GAAP interest income on loans receivable – FTE	<u>\$ 363,067</u>	<u>\$ 298,376</u>	<u>\$ 246,158</u>
Average loans	\$ 6,986,759	\$ 5,732,315	\$ 4,613,919
Average purchase accounting loan discounts ⁽¹⁾	127,210	177,389	245,126
Average loans (non-GAAP)	<u>\$ 7,113,969</u>	<u>\$ 5,909,704</u>	<u>\$ 4,859,045</u>
Average yield on loans (reported)	5.78 %	6.02 %	6.65 %
Average contractual yield on loans (non-GAAP)	5.10	5.05	5.07

(1) Balance includes \$100.1 million, \$149.4 million and \$189.7 million of discount for credit losses on purchased loans as of December 31, 2016, 2015 and 2014, respectively.

Table 30: Average Cost of Deposits

	Years Ended December 31,		
	2016	2015	2014
	(Dollars in thousands)		
Interest expense on deposits	\$ 15,926	\$ 12,971	\$ 12,796
Amortization of time deposit (premiums)/discounts, net	1,273	1,101	(397)
Non-GAAP interest expense on deposits	<u>\$ 17,199</u>	<u>\$ 14,072</u>	<u>\$ 12,399</u>
Average interest-bearing deposits	\$ 5,080,560	\$ 4,600,307	\$ 4,212,602
Average unamortized CD (premium)/discount, net	(930)	(1,276)	(183)
Average interest-bearing deposits (non-GAAP)	<u>\$ 5,079,630</u>	<u>\$ 4,599,031</u>	<u>\$ 4,212,419</u>
Average cost of deposits (reported)	0.31 %	0.28 %	0.30 %
Average contractual cost of deposits (non-GAAP)	0.34	0.31	0.29

Table 31: Net Interest Margin

	Years Ended December 31,		
	2016	2015	2014
	(Dollars in thousands)		
Net interest income – FTE	\$ 413,882	\$ 363,422	\$ 323,872
Total purchase accounting accretion	42,343	47,610	60,233
Non-GAAP net interest income – FTE	<u>\$ 371,539</u>	<u>\$ 315,812</u>	<u>\$ 263,639</u>
Average interest-earning assets	\$ 8,604,291	\$ 7,296,757	\$ 6,030,104
Average purchase accounting loan discounts ⁽¹⁾	127,210	177,389	245,126
Average interest-earning assets (non-GAAP)	<u>\$ 8,731,501</u>	<u>\$ 7,474,146</u>	<u>\$ 6,275,230</u>
Net interest margin (reported)	4.81 %	4.98 %	5.37 %
Net interest margin (non-GAAP)	4.26	4.23	4.20

(1) Balance includes \$100.1 million, \$149.4 million and \$189.7 million of discount for credit losses on purchased loans as of December 31, 2016, 2015 and 2014, respectively.

Table 32: Allowance for Loan Losses to Total Loans Receivable

	As of December 31, 2016		
	Net Loans Receivable	Total Purchased Loans	Total Loans Receivable
	(Dollars in thousands)		
Loan balance reported (A)	\$ 6,262,100	\$ 1,125,599	\$ 7,387,699
Loan balance reported plus discount (B)	6,262,100	1,225,747	7,487,847
Allowance for loan losses (C)	80,002	-	80,002
Discount for credit losses on purchased loans (D)	-	100,148	100,148
Total allowance for loan losses plus discount for credit losses on purchased loans (E)	<u>\$ 80,002</u>	<u>\$ 100,148</u>	<u>\$ 180,150</u>
Allowance for loan losses to total loans receivable (C/A)	1.28 %	N/A	1.08 %
Discount for credit losses on purchased loans to purchased loans plus discount for credit losses on purchased loans (D/B)	N/A	8.17 %	N/A
Allowance for loan losses plus discount for credit losses on purchased loans to total loans plus discount for credit losses on purchased loans (E/B)	N/A	N/A	2.41 %

Note: Discount for credit losses on purchased credit impaired loans 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, 2015			
	Net Loans Receivable	Total Purchased Loans (Dollars in thousands)	Total Loans Receivable
Loan balance reported (A)	\$ 4,482,601	\$ 2,158,970	\$ 6,641,571
Loan balance reported plus discount (B)	4,482,601	2,308,364	6,790,965
Allowance for loan losses (C)	69,224	-	69,224
Discount for credit losses on purchased loans (D)	-	149,394	149,394
Total allowance for loan losses plus discount for credit losses on purchased loans (E)	\$ 69,224	\$ 149,394	\$ 218,618
Allowance for loan losses to total loans receivable (C/A)	1.54 %	N/A	1.04 %
Discount for credit losses on purchased loans to purchased loans plus discount for credit losses on purchased loans (D/B)	N/A	6.47 %	N/A
Allowance for loan losses plus discount for credit losses on purchased loans to total loans plus discount for credit losses on purchased loans (E/B)	N/A	N/A	3.22 %

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

We had \$396.3 million, \$399.4 million, and \$346.3 million total goodwill, core deposit intangibles and other intangible assets as of December 31, 2016, 2015 and 2014, respectively. Because of our level of intangible assets and related amortization expenses, management believes diluted earnings per common share excluding intangible amortization, tangible book value per common share, return on average assets excluding intangible amortization, return on average tangible common equity excluding intangible amortization and tangible common equity to tangible assets are useful in evaluating our company. These calculations, which are similar to the GAAP calculation of diluted earnings per common share, book value, return on average assets, return on average common equity, and common equity to assets, are presented in Tables 33 through 37, respectively. All per share data has been restated to reflect the retroactive effect of the 2-for-1 stock split which occurred during June 2016.

Table 33: Diluted Earnings Per Common Share Excluding Intangible Amortization

	Years Ended December 31,		
	2016	2015	2014
	(In thousands, except per share data)		
GAAP net income available to common stockholders	\$ 177,146	\$ 138,199	\$ 113,063
Intangible amortization after-tax	1,903	2,479	2,814
Earnings available to common stockholders excluding intangible amortization	<u>\$ 179,049</u>	<u>\$ 140,678</u>	<u>\$ 115,877</u>
GAAP diluted earnings per common share	\$ 1.26	\$ 1.01	\$ 0.85
Intangible amortization after-tax	0.01	0.02	0.02
Diluted earnings per common share excluding intangible amortization	<u>\$ 1.27</u>	<u>\$ 1.03</u>	<u>\$ 0.87</u>

Table 34: Tangible Book Value Per Common Share

	Years Ended December 31,		
	2016	2015	2014
	(Dollars in thousands, except per share data)		
Book value per common share: A/B	\$ 9.45	\$ 8.55	\$ 7.51
Tangible book value per common share: (A-C-D)/B	6.63	5.71	4.95
(A) Total common equity	\$ 1,327,490	\$ 1,199,757	\$ 1,015,292
(B) Common shares outstanding	140,472	140,241	135,142
(C) Goodwill	\$ 377,983	\$ 377,983	\$ 325,423
(D) Core deposit and other intangibles	18,311	21,443	20,925

Table 35: Return on Average Assets Excluding Intangible Amortization

	Years Ended December 31,		
	2016	2015	2014
	(Dollars in thousands)		
Return on average assets: A/C	1.85 %	1.68 %	1.63 %
Return on average assets excluding intangible amortization: B/(C-D)	1.95	1.79	1.75
(A) Net income	\$ 177,146	\$ 138,199	\$ 113,063
Intangible amortization after-tax	1,903	2,479	2,814
(B) Earnings excluding intangible amortization	<u>\$ 179,049</u>	<u>\$ 140,678</u>	<u>\$ 115,877</u>
(C) Average assets	\$ 9,568,853	\$ 8,210,982	\$ 6,952,415
(D) Average goodwill, core deposits and other intangible assets	397,809	356,385	330,911

Table 36: Return on Average Tangible Common Equity Excluding Intangible Amortization

	Years Ended December 31,		
	2016	2015	2014
	(Dollars in thousands)		
Return on average common equity: A/C	14.08 %	12.77 %	12.34 %
Return on average tangible common equity: B/(C-D)	20.82	19.37	19.80
(A) Net income available to common stockholders	\$ 177,146	\$ 138,199	\$ 113,063
(B) Earnings available to common stockholders excluding intangible amortization	179,049	140,678	115,877
(C) Average common equity	1,257,926	1,082,585	916,287
(D) Average goodwill, core deposits and other intangible assets	397,809	356,385	330,911

Table 37: Tangible Common Equity to Tangible Assets

	Years Ended December 31,		
	2016	2015	2014
	(Dollars in thousands)		
Equity to assets: B/A	13.53 %	12.92 %	13.71 %
Tangible equity to tangible assets: (B-C-D)/(A-C-D)	9.89	9.00	9.48
(A) Total assets	\$ 9,808,465	\$ 9,289,122	\$ 7,403,272
(B) Total equity	1,327,490	1,199,757	1,015,292
(C) Goodwill	377,983	377,983	325,423
(D) Core deposit and other intangibles	18,311	21,443	20,925

The efficiency ratio is a standard measure used in the banking industry and is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income. The core efficiency ratio is a meaningful non-GAAP measure for management, as it excludes non-fundamental items and is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income excluding non-fundamental items such as merger expenses, FDIC loss share buy-out expense and/or gains and losses. In Table 38 below, we have provided a reconciliation of the non-GAAP calculation of the financial measure for the periods indicated.

Table 38: Efficiency Ratio

	Years Ended December 31,	
	2016	2015
	(Dollars in thousands)	
Net interest income (A)	\$ 405,958	\$ 355,712
Non-interest income (B)	87,051	65,498
Non-interest expense (C)	191,755	177,555
FTE Adjustment (D)	7,924	7,710
Amortization of intangibles (E)	3,132	4,079
Non-fundamental items:		
Non-interest income:		
Gain on acquisitions	\$ -	\$ 1,635
Gain (loss) on OREO, net	(554)	(317)
Gain on sale of SBA loans	1,088	541
Gain (loss) on sale of branches, equipment and other assets, net	700	(214)
Gain (loss) on securities, net	669	4
Other income ⁽¹⁾	925	-
Total non-fundamental non-interest income (F)	\$ 2,828	\$ 1,649
Non-interest expense:		
Merger expenses	\$ 433	\$ 4,800
FDIC loss share buy-out expense	3,849	-
Other expense ⁽²⁾	2,283	-
Total non-fundamental non-interest expense (G)	\$ 6,565	\$ 4,800
Efficiency ratio (reported): ((C-E)/(A+B+D))	37.65 %	40.44 %
Core efficiency ratio (non-GAAP): ((C-E-G)/(A+B+D-F))	36.55	39.48

(1) Amount includes recoveries on historical losses.

(2) Amount includes vacant properties write-downs.

Table 39 presents selected unaudited quarterly financial information for 2016 and 2015. All per share data has been restated to reflect the retroactive effect of the 2-for-1 stock split which occurred during June 2016.

Table 39: Quarterly Results

	2016 Quarters				
	First	Second	Third	Fourth	Total
	(In thousands, except per share data)				
Income statement data:					
Total interest income	\$ 105,284	\$ 108,490	\$ 111,375	\$ 111,388	\$ 436,537
Total interest expense	7,227	7,449	7,722	8,181	30,579
Net interest income	98,057	101,041	103,653	103,207	405,958
Provision for loan losses	5,677	5,692	5,536	1,703	18,608
Net interest income after provision for loan losses	92,380	95,349	98,117	101,504	387,350
Total non-interest income	19,437	21,772	22,014	23,828	87,051
Total non-interest expense	45,648	47,587	51,026	47,494	191,755
Income before income taxes	66,169	69,534	69,105	77,838	282,646
Income tax expense	24,742	26,025	25,485	29,248	105,500
Net income	<u>\$ 41,427</u>	<u>\$ 43,509</u>	<u>\$ 43,620</u>	<u>\$ 48,590</u>	<u>\$ 177,146</u>
Per share data:					
Basic earnings per common share	\$ 0.30	\$ 0.31	\$ 0.31	\$ 0.35	\$ 1.26
Diluted earnings per common share	0.29	0.31	0.31	0.35	1.26
Diluted earnings per common share excluding intangible amortization	0.30	0.31	0.31	0.35	1.27
	2015 Quarters				
	First	Second	Third	Fourth	Total
	(In thousands, except per share data)				
Income statement data:					
Total interest income	\$ 83,881	\$ 90,311	\$ 96,653	\$ 106,591	\$ 377,436
Total interest expense	4,810	4,862	5,562	6,490	21,724
Net interest income	79,071	85,449	91,091	100,101	355,712
Provision for loan losses	3,787	5,381	7,106	8,890	25,164
Net interest income after provision for loan losses	75,284	80,068	83,985	91,211	330,548
Total non-interest income	14,670	17,027	16,545	17,256	65,498
Total non-interest expense	40,713	43,250	44,593	48,999	177,555
Income before income taxes	49,241	53,845	55,937	59,468	218,491
Income tax expense	18,122	19,939	20,196	22,035	80,292
Net income	<u>\$ 31,119</u>	<u>\$ 33,906</u>	<u>\$ 35,741</u>	<u>\$ 37,433</u>	<u>\$ 138,199</u>
Per share data:					
Basic earnings per common share	\$ 0.23	\$ 0.25	\$ 0.27	\$ 0.27	\$ 1.01
Diluted earnings per common share	0.23	0.25	0.26	0.27	1.01
Diluted earnings per common share excluding intangible amortization	0.24	0.26	0.27	0.27	1.03

Recent Accounting Pronouncements

See Note 25 to the Notes to Consolidated Financial Statements for a discussion of certain recent accounting pronouncements.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Liquidity and Market Risk Management

Liquidity Management. Liquidity refers to the ability or the financial flexibility to manage future cash flows to meet the needs of depositors and borrowers and fund operations. Maintaining appropriate levels of liquidity allows us to have sufficient funds available for reserve requirements, customer demand for loans, withdrawal of deposit balances and maturities of deposits and other liabilities. Our primary source of liquidity 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 December 31, 2016, our cash and cash equivalents were \$216.6 million, or 2.2% of total assets, compared to \$255.8 million, or 2.8% of total assets, as of December 31, 2015. Our available-for-sale investment securities and federal funds sold were \$1.07 billion as of December 31, 2016 and \$1.21 billion as of December 31, 2015.

As of December 31, 2016, our investment portfolio was comprised of approximately 78.5% or \$1.07 billion of securities which mature in less than five years. As of December 31, 2016 and 2015, \$1.07 billion and \$1.25 billion, respectively, of securities were pledged as collateral for various public fund deposits and securities sold under agreements to repurchase.

Our commercial and real estate lending activities are concentrated in loans with maturities of less than five years. As of December 31, 2016, approximately \$3.87 billion, or 52.4% of our total loans matured within one year and/or had adjustable interest rates. A loan is considered fixed rate if the loan is currently at its adjustable floor or ceiling. Additionally, we maintain loan participation agreements with other financial institutions in which we could participate out loans for additional liquidity should the need arise.

On the liability side, our principal sources of liquidity are deposits, borrowed funds, and access to capital markets. Customer deposits are our largest sources of funds. As of December 31, 2016, our total deposits were \$6.94 billion, or 70.8% of total assets, compared to \$6.44 billion, or 69.3% of total assets, as of December 31, 2015. We attract our deposits primarily from individuals, business, and municipalities located in our market areas.

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

As of December 31, 2016 and 2015, we could have borrowed up to \$104.6 million and \$115.8 million, respectively, on a secured basis with the Federal Reserve, up to \$30.0 million with Bankers’ Bank on an unsecured basis, and up to \$30.0 million in the aggregate, with other financial institutions on an unsecured basis. The unsecured lines may be terminated by the respective institutions at any time.

The lines of credit we maintain with the FHLB can provide us with both short-term and long-term forms of liquidity on a secured basis. FHLB borrowed funds were \$1.31 billion and \$1.41 billion at December 31, 2016 and 2015, respectively. At December 31, 2016, \$40.0 million and \$1.27 billion of the outstanding balance were issued as short-term and long-term advances, respectively. At December 31, 2015, all of the outstanding balance was issued as long-term advances. Our FHLB borrowing capacity was \$718.2 million and \$581.9 million as of December 31, 2016 and 2015, respectively.

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

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

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

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

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

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

For the rising and falling interest rate scenarios, the base market interest rate forecast was increased and decreased over twelve months by 200 and 100 basis points, respectively. At December 31, 2016, our net interest margin exposure related to these hypothetical changes in market interest rates was within the current guidelines established by us.

Table 40 presents our sensitivity to net interest income as of December 31, 2016.

Table 40: Sensitivity of Net Interest Income

Interest Rate Scenario	Percentage Change from Base
Up 200 basis points	8.74 %
Up 100 basis points	4.54
Down 100 basis points	(4.78)
Down 200 basis points	(9.76)

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

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

Gap analysis attempts to capture the amounts and timing of balances exposed to changes in interest rates at a given point in time. As of December 31, 2016, our gap position was asset sensitive with a one-year cumulative repricing gap as a percentage of total earning assets of 6.2%. During this period, the amount of change our asset base realizes in relation to the total change in market interest rates is higher than that of the liability base. As a result, our net interest income will have a positive effect in an environment of modestly rising rates.

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

Table 41 presents a summary of the repricing schedule of our interest-earning assets and interest-bearing liabilities (gap) as of December 31, 2016.

Table 41: Interest Rate Sensitivity

	Interest Rate Sensitivity Period							Total
	0-30 Days	31-90 Days	91-180 Days	181-365 Days	1-2 Years	2-5 Years	Over 5 Years	
	(Dollars in thousands)							
Earning assets								
Interest-bearing deposits due from banks	\$ 92,891	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 92,891
Federal funds sold	1,550	-	-	-	-	-	-	1,550
Investment securities	226,874	62,820	55,083	110,301	196,529	284,239	421,250	1,357,096
Loans receivable	2,140,262	465,611	551,388	952,681	1,077,872	1,865,361	334,524	7,387,699
Total earning assets	2,461,577	528,431	606,471	1,062,982	1,274,401	2,149,600	755,774	8,839,236
Interest-bearing liabilities								
Savings and interest-bearing transaction accounts	412,141	320,663	480,995	961,989	610,090	592,421	584,942	3,963,241
Time deposits	138,868	134,551	224,350	429,081	221,046	136,106	-	1,284,002
Federal funds purchased	-	-	-	-	-	-	-	-
Securities sold under repurchase agreements	121,290	-	-	-	-	-	-	121,290
FHLB borrowed funds	755,094	188	272	75,122	184,648	289,874	-	1,305,198
Subordinated debentures	60,826	-	-	-	-	-	-	60,826
Total interest-bearing liabilities	1,488,219	455,402	705,617	1,466,192	1,015,784	1,018,401	584,942	6,734,557
Interest rate sensitivity gap	\$ 973,358	\$ 73,029	\$ (99,146)	\$ (403,210)	\$ 258,617	\$ 1,131,199	\$ 170,832	\$ 2,104,679
Cumulative interest rate sensitivity gap	\$ 973,358	\$ 1,046,387	\$ 947,241	\$ 544,031	\$ 802,648	\$ 1,933,847	\$ 2,104,679	
Cumulative rate sensitive assets to rate sensitive liabilities	165.4%	153.8%	135.8%	113.2%	115.6%	131.4%	131.3%	
Cumulative gap as a % of total earning assets	11.0%	11.8%	10.7%	6.2%	9.1%	21.9%	23.8%	

Item 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Report on Internal Control Over Financial Reporting

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

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria set forth in *Internal Control – Integrated Framework* (2013 edition) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2016 is effective based on the specified criteria.

BKD, LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. The report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2016, is included herein.

Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders
Home BancShares, Inc.
Conway, Arkansas

We have audited the accompanying consolidated balance sheets of Home BancShares, Inc. (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2016. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Home BancShares, Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Home BancShares, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework* (2013 edition) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 28, 2017, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ **BKD, LLP**

Little Rock, Arkansas
February 28, 2017

Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders
Home BancShares, Inc.
Conway, Arkansas

We have audited Home BancShares, Inc.'s (the Company) internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework* (2013 edition) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, Home BancShares, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework* (2013 edition) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Home BancShares, Inc. and our report dated February 28, 2017, expressed an unqualified opinion thereon.

/s/ **BKD, LLP**

Little Rock, Arkansas
February 28, 2017

Home BancShares, Inc.
Consolidated Balance Sheets

(In thousands, except share data)	December 31,	
	2016	2015
Assets		
Cash and due from banks	\$ 123,758	\$ 111,258
Interest-bearing deposits with other banks	92,891	144,565
Cash and cash equivalents	216,649	255,823
Federal funds sold	1,550	1,550
Investment securities – available-for-sale	1,072,920	1,206,580
Investment securities – held-to-maturity	284,176	309,042
Loans receivable	7,387,699	6,641,571
Allowance for loan losses	(80,002)	(69,224)
Loans receivable, net	7,307,697	6,572,347
Bank premises and equipment, net	205,301	212,163
Foreclosed assets held for sale	15,951	19,140
Cash value of life insurance	86,491	85,146
Accrued interest receivable	30,838	29,132
Deferred tax asset, net	61,298	71,565
Goodwill	377,983	377,983
Core deposit and other intangibles	18,311	21,443
Other assets	129,300	127,208
Total assets	\$ 9,808,465	\$ 9,289,122
Liabilities and Stockholders' Equity		
Deposits:		
Demand and non-interest-bearing	\$ 1,695,184	\$ 1,456,624
Savings and interest-bearing transaction accounts	3,963,241	3,551,684
Time deposits	1,284,002	1,430,201
Total deposits	6,942,427	6,438,509
Securities sold under agreements to repurchase	121,290	128,389
FHLB and other borrowed funds	1,305,198	1,405,945
Accrued interest payable and other liabilities	51,234	55,696
Subordinated debentures	60,826	60,826
Total liabilities	8,480,975	8,089,365
Stockholders' equity:		
Common stock, par value \$0.01; shares authorized 200,000,000 in 2016 and 100,000,000 in 2015; shares issued and outstanding 140,472,205 in 2016 and 140,241,004 (split adjusted) in 2015	1,405	701
Capital surplus	869,737	867,981
Retained earnings	455,948	326,898
Accumulated other comprehensive income	400	4,177
Total stockholders' equity	1,327,490	1,199,757
Total liabilities and stockholders' equity	\$ 9,808,465	\$ 9,289,122

Home BancShares, Inc.
Consolidated Statements of Income

(In thousands, except per share data)	Year Ended December 31,		
	2016	2015	2014
Interest income:			
Loans	\$ 403,394	\$ 344,290	\$ 306,345
Investment securities			
Taxable	21,246	21,695	19,305
Tax-exempt	11,417	11,194	10,091
Deposits – other banks	471	233	97
Federal funds sold	9	24	50
Total interest income	436,537	377,436	335,888
Interest expense:			
Interest on deposits	15,926	12,971	12,796
Federal funds purchased	2	4	3
FHLB borrowed funds	12,484	6,774	4,041
Securities sold under agreements to repurchase	574	621	717
Subordinated debentures	1,593	1,354	1,313
Total interest expense	30,579	21,724	18,870
Net interest income	405,958	355,712	317,018
Provision for loan losses	18,608	25,164	22,664
Net interest income after provision for loan losses	387,350	330,548	294,354
Non-interest income:			
Service charges on deposit accounts	25,049	24,252	24,522
Other service charges and fees	30,200	26,186	23,914
Trust fees	1,457	2,381	1,378
Mortgage lending income	14,399	10,423	7,556
Insurance commissions	2,296	2,268	4,311
Increase in cash value of life insurance	1,412	1,199	1,210
Dividends from FHLB, FRB, Bankers' bank & other	3,091	1,698	1,611
Gain on acquisitions	-	1,635	-
Gain on sale of SBA loans	1,088	541	183
Gain (loss) on sale of branches, equipment and other assets, net	700	(214)	322
Gain (loss) on OREO, net	(554)	(317)	2,191
Gain (loss) on securities, net	669	4	-
FDIC indemnification accretion/(amortization), net	(772)	(9,391)	(25,752)
Other income	8,016	4,833	3,316
Total non-interest income	87,051	65,498	44,762
Non-interest expense:			
Salaries and employee benefits	101,962	87,512	77,025
Occupancy and equipment	26,129	25,967	25,031
Data processing expense	10,499	10,774	7,229
Other operating expenses	53,165	53,302	52,658
Total non-interest expense	191,755	177,555	161,943
Income before income taxes	282,646	218,491	177,173
Income tax expense	105,500	80,292	64,110
Net income	\$ 177,146	\$ 138,199	\$ 113,063
Basic earnings per common share	\$ 1.26	\$ 1.01	\$ 0.86
Diluted earnings per common share	\$ 1.26	\$ 1.01	\$ 0.85

(1) All per share amounts have been restated to reflect the effect of the 2-for-1 stock split during June 2016.

Home BancShares, Inc.
Consolidated Statements of Comprehensive Income

(In thousands)	Year Ended December 31,		
	2016	2015	2014
Net income available to all stockholders	\$ 177,146	\$ 138,199	\$ 113,063
Net unrealized gain (loss) on available-for-sale securities	(5,546)	(4,656)	18,346
Less: reclassification adjustment for realized (gains) losses included in income	(669)	(4)	-
Other comprehensive income (loss), before tax effect	(6,215)	(4,660)	18,346
Tax effect	2,438	1,828	(7,197)
Other comprehensive income (loss)	(3,777)	(2,832)	11,149
Comprehensive income	\$ 173,369	\$ 135,367	\$ 124,212

Home BancShares, Inc.
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2016, 2015 and 2014

(In thousands, except share data)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances at January 1, 2014	\$ 651	\$ 708,508	\$ 136,386	\$ (4,140)	\$ 840,955
Comprehensive income:					
Net income	-	-	113,063	-	113,063
Other comprehensive income (loss)	-	-	-	11,149	11,149
Net issuance of 240,722 shares of common stock from exercise of stock options	1	573	-	-	574
Issuance of 2,632,144 shares of common stock from acquisition of Traditions, net of issuance costs of approximately \$215	13	39,254	-	-	39,267
Issuance of 2,041,648 shares of common stock from acquisition of Broward, net of issuance costs of approximately \$116	10	30,121	-	-	30,131
Disorgement of profits	-	25	-	-	25
Tax benefit from stock options exercised	-	1,225	-	-	1,225
Share-based compensation net issuance of 63,000 shares of restricted common stock	1	2,072	-	-	2,073
Cash dividends - Common Stock, \$0.1750 per share	-	-	(23,170)	-	(23,170)
Balances at December 31, 2014	676	781,328	226,279	7,009	1,015,292
Comprehensive income:					
Net income	-	-	138,199	-	138,199
Other comprehensive income (loss)	-	-	-	(2,832)	(2,832)
Net issuance of 409,072 shares of common stock from exercise of stock options	2	387	-	-	389
Issuance of 4,159,708 shares of common stock from acquisition of FBBI, net of issuance costs of approximately \$60	21	83,753	-	-	83,774
Repurchase of 134,664 shares of common stock	(1)	(2,014)	-	-	(2,015)
Tax benefit from stock options exercised	-	605	-	-	605
Share-based compensation net issuance of 665,668 shares of restricted common stock	3	3,922	-	-	3,925
Cash dividends - Common Stock, \$0.2750 per share	-	-	(37,580)	-	(37,580)
Balances at December 31, 2015	701	867,981	326,898	4,177	1,199,757
Comprehensive income:					
Net income	-	-	177,146	-	177,146
Other comprehensive income (loss)	-	-	-	(3,777)	(3,777)
Net issuance of 492,739 shares of common stock from exercise of stock options plus issuance of 10,000 bonus shares of unrestricted common stock	3	1,492	-	-	1,495
Issuance of common stock - 2-for-1 stock split	702	(702)	-	-	-
Repurchase of 510,608 shares of common stock	(3)	(9,814)	-	-	(9,817)
Tax benefit from stock options exercised	-	4,154	-	-	4,154
Share-based compensation net issuance of 243,734 shares of restricted common stock	2	6,626	-	-	6,628
Cash dividends - Common Stock, \$0.3425 per share	-	-	(48,096)	-	(48,096)
Balances at December 31, 2016	\$ 1,405	\$ 869,737	\$ 455,948	\$ 400	\$ 1,327,490

(1) All share and per share amounts have been restated to reflect the effect of the 2-for-1 stock split during June 2016.

Home BancShares, Inc.
Consolidated Statements of Cash Flows

(In thousands)	Year Ended December 31,		
	2016	2015	2014
Operating Activities			
Net income	\$ 177,146	\$ 138,199	\$ 113,063
Adjustments to reconcile net income to net cash provided by (used in)			
operating activities:			
Depreciation	10,644	10,296	10,116
Amortization/(accretion)	15,495	21,783	35,648
Share-based compensation	6,628	3,925	2,073
Tax benefits from stock options exercised	(4,154)	(605)	(1,225)
(Gain) loss on assets	1,978	(6)	(2,696)
Gain on acquisitions	-	(1,635)	-
Provision for loan losses	18,608	25,164	22,664
Deferred income tax effect	12,705	7,168	18,698
Increase in cash value of life insurance	(1,412)	(1,199)	(1,210)
Originations of mortgage loans held for sale	(354,481)	(280,858)	(228,119)
Proceeds from sales of mortgage loans held for sale	337,128	272,107	225,499
Changes in assets and liabilities:			
Accrued interest receivable	(1,706)	(3,615)	153
Indemnification and other assets	(11,520)	(10,312)	28,073
Accrued interest payable and other liabilities	10,985	24,651	22,658
Net cash provided by (used in) operating activities	<u>218,044</u>	<u>205,063</u>	<u>245,395</u>
Investing Activities			
Net (increase) decrease in federal funds sold	-	(1,300)	4,419
Net (increase) decrease in loans, excluding loans acquired	(764,665)	(874,092)	(245,656)
Purchases of investment securities – available-for-sale	(253,458)	(382,631)	(75,456)
Proceeds from maturities of investment securities – available-for-sale	284,392	290,506	253,551
Proceeds from sale of investment securities – available-for-sale	87,157	4,034	-
Purchases of investment securities – held-to-maturity	(25,933)	(6,563)	(265,704)
Proceeds from maturities of investment securities – held-to-maturity	49,231	52,127	22,474
Proceeds from foreclosed assets held for sale	13,978	20,928	46,029
Proceeds from sale of SBA loans	17,910	8,256	1,488
Proceeds from sale of insurance book of business	-	2,938	-
Purchases of premises and equipment, net	(3,082)	(10,536)	(67)
Return of investment on cash value of life insurance	57	27	-
Net cash proceeds (paid) received – market acquisitions	-	144,097	11,720
Cash (paid) on FDIC loss share buy-out	(6,613)	-	-
Net cash provided by (used in) investing activities	<u>(601,026)</u>	<u>(752,209)</u>	<u>(247,202)</u>
Financing Activities			
Net increase (decrease) in deposits, excluding deposits acquired	503,918	74,992	(370,656)
Net increase (decrease) in securities sold under agreements to repurchase	(7,099)	(48,076)	15,481
Net increase (decrease) in FHLB borrowed funds	(100,747)	702,186	325,653
Proceeds from exercise of stock options	1,495	389	574
Repurchase of common stock	(9,817)	(2,015)	-
Disgorgement of profits	-	-	25
Common stock issuance costs – market acquisitions	-	(60)	(331)
Tax benefits from stock options exercised	4,154	605	1,225
Dividends paid on common stock	(48,096)	(37,580)	(23,170)
Net cash provided by (used in) financing activities	<u>343,808</u>	<u>690,441</u>	<u>(51,199)</u>
Net change in cash and cash equivalents	<u>(39,174)</u>	<u>143,295</u>	<u>(53,006)</u>
Cash and cash equivalents – beginning of year	<u>255,823</u>	<u>112,528</u>	<u>165,534</u>
Cash and cash equivalents – end of year	<u>\$ 216,649</u>	<u>\$ 255,823</u>	<u>\$ 112,528</u>

See accompanying notes.

Home BancShares, Inc.

Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

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

Operating Segments

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

Use of Estimates

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

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

Principles of Consolidation

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

Reclassifications

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

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits with banks and interest-bearing deposits with other banks.

Investment Securities

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

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

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

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

Loans Receivable and Allowance for Loan Losses

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

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

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

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

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

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

Acquisition Accounting and Acquired Loans

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

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

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

Foreclosed Assets Held for Sale

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

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

Bank Premises and Equipment

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

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

Cash value of life insurance

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

Intangible Assets

Intangible assets consist of goodwill and core deposit intangibles. Goodwill represents the excess purchase price over the fair value of net assets acquired in business acquisitions. The core deposit intangible represents the excess intangible value of acquired deposit customer relationships as determined by valuation specialists. The core deposit intangibles are being amortized over 48 to 121 months on a straight-line basis. Goodwill is not amortized but rather is evaluated for impairment on at least an annual basis. The Company performed its annual impairment test of goodwill and core deposit intangibles during 2016, 2015 and 2014, as required by FASB ASC 350, *Intangibles - Goodwill and Other*. The 2016, 2015 and 2014 tests indicated no impairment of the Company's goodwill or core deposit intangibles.

Securities Sold Under Agreements to Repurchase

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

Derivative Financial Instruments

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

As of December 31, 2016, the Company had no derivative contracts outstanding except for commitments associated with the mortgage loans held for sale portfolio. As of December 31, 2015, the Company had no derivative contracts outstanding except for commitments associated with the mortgage loans held for sale portfolio which changed from best effort basis to mandatory commitments during the fourth quarter of 2015.

Stock Options

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

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," which simplifies several aspects of the accounting for share-based payment awards to employees, including the accounting for income taxes, forfeitures, statutory tax withholding requirements and classification in the statement of cash flows. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted in any annual or interim period for which financial statements have not yet been issued, and all amendments in the ASU that apply must be adopted in the same period. The Company will adopt the new guidance in the first quarter of 2017. Under the new guidance, excess tax benefits related to equity compensation will be recognized in the income tax expense in the consolidated statements of income rather than in capital surplus in the consolidated balance sheets and will be applied on a prospective basis. Changes to the statements of cash flows related to the classification of excess tax benefits and employee taxes paid for share-based payment arrangements will be implemented on a retrospective basis. The Company does not expect further impacts from the guidance.

Income Taxes

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

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

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

Earnings per Share

Basic earnings per share is computed based on the weighted-average number of shares outstanding during each year, which have been restated to reflect the effect of the 2-for-1 stock split during June 2016. Diluted earnings per share are computed using the weighted average common shares and all potential dilutive common shares outstanding during the period. The following table sets forth the computation of basic and diluted earnings per share (EPS) for the years ended December 31:

	2016	2015	2014
	(In thousands, except per share data)		
Net income	\$ 177,146	\$ 138,199	\$ 113,063
Average common shares outstanding	140,418	136,615	131,902
Effect of common stock options	295	515	760
Diluted common shares outstanding	<u>140,713</u>	<u>137,130</u>	<u>132,662</u>
Basic earnings per common share	\$ 1.26	\$ 1.01	\$ 0.86
Diluted earnings per common share	\$ 1.26	\$ 1.01	\$ 0.85

2. Business Combinations

Acquisition of Florida Business BancGroup, Inc.

On October 1, 2015, the Company completed its acquisition of Florida Business BancGroup, Inc. ("FBBI"), parent company of Bay Cities Bank ("Bay Cities"). The Company paid a purchase price to the FBBI shareholders of \$104.1 million for the FBBI acquisition. Under the terms of the agreement, shareholders of FBBI received 4,159,708 shares (split adjusted) of its common stock valued at approximately \$83.8 million as of October 1, 2015, plus approximately \$20.3 million in cash in exchange for all outstanding shares of FBBI common stock. A portion of the cash consideration, \$2.0 million, has been placed into escrow, and FBBI shareholders will have a contingent right to receive their pro-rata portions of such amount. The amount, if any, of such escrowed funds to be released to FBBI shareholders will depend upon the amount of losses that HBI incurs in the two years following the completion of the merger related to two class action lawsuits that are pending against Bay Cities.

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

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

	Florida Business BancGroup, Inc.		
	Acquired from FBBI	Fair Value Adjustments	As Recorded by HBI
	(Dollars in thousands)		
Assets			
Cash and due from banks	\$ 23,597	\$ (20,320)	\$ 3,277
Investment securities	61,384	611	61,995
Loans	422,363	(14,096)	408,267
Allowance for loan losses	(5,714)	5,714	-
Total loans receivable	416,649	(8,382)	408,267
Bank premises and equipment, net	6,922	(1,697)	5,225
Foreclosed assets held for sale	205	(43)	162
Cash value of life insurance	9,540	-	9,540
Accrued interest receivable	1,442	-	1,442
Deferred tax asset	10,608	1,070	11,678
Goodwill	-	55,255	55,255
Core deposit intangible	-	3,477	3,477
Other assets	1,289	2,890	4,179
Total assets acquired	\$ 531,636	\$ 32,861	\$ 564,497
Liabilities			
Deposits			
Demand and non-interest-bearing	\$ 150,625	\$ -	\$ 150,625
Savings and interest-bearing transaction accounts	166,990	-	166,990
Time deposits	153,230	1,127	154,357
Total deposits	470,845	1,127	471,972
FHLB borrowed funds	5,000	802	5,802
Accrued interest payable and other liabilities	3,208	(319)	2,889
Total liabilities assumed	479,053	1,610	480,663
Equity			
Common stock	78	(57)	21
Capital surplus	57,169	26,644	83,813
Retained earnings	(4,664)	4,664	-
Total equity assumed	52,583	31,251	83,834
Total liabilities and equity assumed	\$ 531,636	\$ 32,861	\$ 564,497

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

Cash and due from banks – The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets. The \$20.3 million adjustment primarily consists of the cash settlement paid to FBBI shareholders on the closing date and cash-in-lieu of fractional shares.

Investment securities – Investment securities were acquired from FBBI with a \$611,000 adjustment to market value based upon quoted market prices.

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

The Company evaluated \$390.9 million of the loans purchased in conjunction with the acquisition in accordance with the provisions of FASB ASC Topic 310-20, *Nonrefundable Fees and Other Costs*, which were recorded with a \$7.0 million discount. As a result, the fair value discount on these loans is being accreted into interest income over the weighted average life of the loans using a constant yield method. The remaining \$31.5 million of loans evaluated were considered purchased credit impaired loans within the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, and were recorded with a \$7.1 million discount. These purchase credit impaired loans will recognize interest income through accretion of the difference between the carrying amount of the loans and the expected cash flows.

Bank premises and equipment – Bank premises and equipment were acquired from FBBI with a \$1.7 million adjustment to market value. This represents the difference between current appraisals completed in connection with the acquisition and book value acquired.

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

Cash value of life insurance – Cash value of life insurance was acquired from FBBI at market value.

Accrued interest receivable – Accrued interest receivable was acquired from FBBI at market value.

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

Goodwill – The consideration paid as a result of the acquisition exceeded the fair value of the assets acquired; therefore, the Company recorded \$55.3 million of goodwill.

Core deposit intangible – This intangible asset represents the value of the relationships that FBBI had with its deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the deposit base, and the net maintenance cost attributable to customer deposits. The Company recorded \$3.5 million of core deposit intangible.

Deposits – The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition equal the amount payable on demand at the acquisition date. The \$1.1 million fair value adjustment applied for time deposits was because the weighted average interest rate of FBBI's certificates of deposits were estimated to be above the current market rates.

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

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

The Company's operating results for the period ended December 31, 2015, include the operating results of the acquired assets and assumed liabilities subsequent to the acquisition date. Due to the fair value adjustments recorded and the fact FBBI total assets acquired are less than 5% of total assets as of December 31, 2015 excluding FBBI as recorded by HBI as of acquisition date, historical results are not believed to be material to the Company's results, and thus no pro-forma information is presented.

Acquisition of Pool of National Commercial Real Estate Loans

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

In connection with this acquisition of loans, the Company opened a loan production office on April 23, 2015 in New York City, which became a branch on September 1, 2016. Through this branch office, Centennial CFG is building out a national lending platform focusing on commercial real estate plus commercial and industrial loans.

Acquisition of Doral Bank's Florida Panhandle operations

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

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

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

	Doral Bank's Florida Panhandle operations		
	Acquired from FDIC	Fair Value Adjustments	As Recorded by HBI
	(Dollars in thousands)		
Assets			
Cash and due from banks	\$ 1,688	\$ 428,214	\$ 429,902
Loans receivable	42,244	(4,300)	37,944
Total loans receivable	42,244	(4,300)	37,944
Core deposit intangible	-	1,363	1,363
Total assets acquired	\$ 43,932	\$ 425,277	\$ 469,209
Liabilities			
Deposits			
Demand and non-interest-bearing	\$ 3,130	\$ -	\$ 3,130
Savings and interest-bearing transaction accounts	119,865	-	119,865
Time deposits	343,271	1,308	344,579
Total deposits	466,266	1,308	467,574
Total liabilities assumed	\$ 466,266	\$ 1,308	\$ 467,574
Pre-tax gain on acquisition			\$ 1,635

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

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

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

The Company evaluated \$36.9 million of the loans purchased in conjunction with the acquisition in accordance with the provisions of FASB ASC Topic 310-20, *Nonrefundable Fees and Other Costs*, and were recorded with a \$3.4 million discount. As a result, the fair value discount on these loans is being accreted into interest income over the weighted-average life of the loans using a constant yield method. The remaining approximately \$5.3 million of loans evaluated were considered purchased credit impaired loans with in the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, and were recorded with a \$950,000 discount. These purchased credit impaired loans will recognize interest income through accretion of the difference between the carrying amount of the loans and the expected cash flows.

Core deposit intangible – This intangible asset represents the value of the relationships that Doral Florida had with its deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the deposit base, and the net maintenance cost attributable to customer deposits. The Company recorded \$1.4 million of core deposit intangible.

Deposits – The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition, equal the amount payable on demand at the acquisition date. The Bank was able to reset deposit rates. However, the Bank did not lower the deposit rates as low as the market rates currently offered. As a result, a \$1.3 million fair value adjustment was applied for time deposits because the estimated weighted-average interest rate of Doral Florida's certificates of deposits were still estimated to be above the current market rates after the rate reset.

The Company's operating results for the period ended December 31, 2015, include the operating results of the acquired assets and assumed liabilities subsequent to the acquisition date. Due to the fair value adjustments recorded and the fact Doral Florida total assets acquired excluding the cash settlement received is less than 1% of total assets as of acquisition date, historical results are not believed to be material to the Company's results, and thus no pro-forma information is presented.

Acquisition of Broward Financial Holdings, Inc.

On October 23, 2014, the Company completed its acquisition of Broward Financial Holdings, Inc. ("Broward"), parent company of Broward Bank of Commerce, pursuant to a definitive agreement and plan of merger whereby a wholly-owned acquisition subsidiary ("Acquisition Sub II") of HBI merged with and into Broward, resulting in Broward becoming a wholly-owned subsidiary of HBI. Immediately thereafter, Broward Bank of Commerce was merged into Centennial. Under the terms of the Agreement and Plan of Merger dated July 30, 2014 by and among HBI, Centennial, Broward, Broward Bank of Commerce and Acquisition Sub II, HBI issued 2,041,648 shares (split adjusted) of its common stock valued at approximately \$30.2 million as of October 23, 2014, plus \$3.3 million in cash in exchange for all outstanding shares of Broward common stock. HBI also agreed to pay the Broward shareholders at an undetermined date up to approximately \$751,000 in additional consideration. The amount and timing of the additional payment, if any, was contingent upon future payments received or losses incurred by Centennial Bank from certain current Broward Bank loans. During the first quarter of 2016, HBI determined and reached an agreement with the Broward shareholders that no additional consideration is owed or will be paid to the shareholders of Broward.

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

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

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

Broward Bank of Commerce			
	Acquired from Broward	Fair Value Adjustments	As Recorded by HBI
	(Dollars in thousands)		
Assets			
Cash and due from banks	\$ 288	\$ (3,308)	\$ (3,020)
Interest-bearing deposits with other banks	1,425	-	1,425
Federal funds sold	124	-	124
Investment securities	42,473	423	42,896
Loans receivable	124,109	(3,000)	121,109
Allowance for loan losses	(2,723)	2,723	-
Total loans receivable	121,386	(277)	121,109
Bank premises and equipment, net	1,520	-	1,520
Cash value of life insurance	3,213	-	3,213
Accrued interest receivable	573	-	573
Deferred tax asset	1,725	(543)	1,182
Goodwill	-	12,103	12,103
Core deposit intangible	-	1,084	1,084
Other assets	1,852	358	2,210
Total assets acquired	<u>\$ 174,579</u>	<u>\$ 9,840</u>	<u>\$ 184,419</u>
Liabilities			
Deposits			
Demand and non-interest-bearing	\$ 29,399	\$ -	\$ 29,399
Savings and interest-bearing transaction accounts	64,429	-	64,429
Time deposits	40,405	-	40,405
Total deposits	134,233	-	134,233
FHLB borrowed funds	19,000	-	19,000
Accrued interest payable and other liabilities	939	-	939
Total liabilities assumed	<u>154,172</u>	<u>-</u>	<u>154,172</u>
Equity			
Common stock	1,950	(1,940)	10
Capital surplus	18,800	11,437	30,237
Retained earnings	(242)	242	-
Accumulated other comprehensive income	(101)	101	-
Total equity assumed	<u>20,407</u>	<u>9,840</u>	<u>30,247</u>
Total liabilities and equity assumed	<u>\$ 174,579</u>	<u>\$ 9,840</u>	<u>\$ 184,419</u>

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

Cash and due from banks, interest-bearing deposits with other banks and federal funds sold– The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets. The \$3.3 million adjustment primarily consists of the cash settlement paid to Broward shareholders on the closing date and cash-in-lieu of fractional shares.

Investment securities – Investment securities were acquired from Broward with a \$423,000 adjustment to market value based upon quoted market prices.

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

The Company evaluated \$121.3 million of the loans purchased in conjunction with the acquisition in accordance with the provisions of FASB ASC Topic 310-20, *Nonrefundable Fees and Other Costs*, and were recorded with a \$1.7 million discount. As a result, the fair value discount on these loans is being accreted into interest income over the weighted average life of the loans using a constant yield method. The remaining \$2.8 million of loans evaluated were considered purchased credit impaired loans within the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, and were recorded with a \$1.3 million discount. These purchase credit impaired loans will recognize interest income through accretion of the difference between the carrying amount of the loans and the expected cash flows.

Bank premises and equipment – Bank premises and equipment were acquired from Broward at market value.

Cash value of life insurance – Cash value of life insurance was acquired from Broward at market value.

Accrued interest receivable – Accrued interest receivable was acquired from Broward at market value.

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

Goodwill – The consideration paid as a result of the acquisition exceeded the fair value of the assets acquired; therefore, the Company recorded \$12.1 million of goodwill.

Core deposit intangible – This intangible asset represents the value of the relationships that Broward had with its deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the deposit base, and the net maintenance cost attributable to customer deposits. The Company recorded \$1.1 million of core deposit intangible.

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

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

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

The Company's operating results for the period ended December 31, 2014, include the operating results of the acquired assets and assumed liabilities subsequent to the acquisition date. Due to the fair value adjustments recorded and the fact Broward total assets acquired are less than 5% of total assets as of December 31, 2014 excluding Broward as recorded by HBI as of acquisition date, historical results are not believed to be material to the Company's results, and thus no pro-forma information is presented.

Acquisition of Florida Traditions Bank

On July 17, 2014, the Company completed the acquisition of all of the issued and outstanding shares of common stock of Florida Traditions Bank ("Traditions") and merged Traditions into Centennial Bank. Under the terms of the agreement and plan of merger with Traditions, the shareholders of Traditions received approximately \$39.5 million of the Company's common stock valued at the time of closing, in exchange for all outstanding shares of Traditions common stock.

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

The transaction was accretive to the Company's book value per common share and tangible book value per common share by \$0.16 per share (split adjusted) and \$0.11 per share (split adjusted), respectively.

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

	Florida Traditions Bank		
	Acquired from Traditions	Fair Value Adjustments	As Recorded by HBI
	(Dollars in thousands)		
Assets			
Cash and due from banks	\$ 5,169	\$ (5)	\$ 5,164
Interest-bearing deposits with other banks	8,151	-	8,151
Federal funds sold	270	-	270
Investment securities	12,942	(81)	12,861
Loans receivable	250,129	(8,500)	241,629
Allowance for loan losses	(4,532)	4,532	-
Total loans receivable	245,597	(3,968)	241,629
Bank premises and equipment, net	15,791	2,104	17,895
Foreclosed assets held for sale not covered by loss share	100	-	100
Cash value of life insurance	6,535	-	6,535
Accrued interest receivable	711	-	711
Deferred tax asset	1,206	(678)	528
Goodwill	-	11,584	11,584
Core deposit intangible	-	2,173	2,173
Other assets	1,157	1,715	2,872
Total assets acquired	\$ 297,629	\$ 12,844	\$ 310,473
Liabilities			
Deposits			
Demand and non-interest-bearing	\$ 50,503	\$ -	\$ 50,503
Savings and interest-bearing transaction accounts	147,814	-	147,814
Time deposits	69,031	-	69,031
Total deposits	267,348	-	267,348
FHLB borrowed funds	2,643	-	2,643
Accrued interest payable and other liabilities	1,155	(155)	1,000
Total liabilities assumed	271,146	(155)	270,991
Equity			
Common stock	26	(13)	13
Capital surplus	25,799	13,670	39,469
Retained earnings	632	(632)	-
Accumulated other comprehensive income	26	(26)	-
Total equity assumed	26,483	12,999	39,482
Total liabilities and equity assumed	\$ 297,629	\$ 12,844	\$ 310,473

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company's operating results for the period ended December 31, 2014, include the operating results of the acquired assets and assumed liabilities subsequent to the acquisition date. Due to the fair value adjustments recorded and the fact Traditions total assets acquired are less than 5% of total assets as of December 31, 2014 excluding Traditions as recorded by HBI as of acquisition date, historical results are not believed to be material to the Company's results, and thus no pro-forma information is presented.

3. Investment Securities

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

	December 31, 2016			
	Available-for-Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	\$ 237,439	\$ 963	\$ (1,641)	\$ 236,761
Residential mortgage-backed securities	259,037	1,226	(1,627)	258,636
Commercial mortgage-backed securities	322,316	845	(2,342)	320,819
State and political subdivisions	215,209	3,471	(2,181)	216,499
Other securities	38,261	2,603	(659)	40,205
Total	<u>\$ 1,072,262</u>	<u>\$ 9,108</u>	<u>\$ (8,450)</u>	<u>\$ 1,072,920</u>
	Held-to-Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	\$ 6,637	\$ 23	\$ (32)	\$ 6,628
Residential mortgage-backed securities	71,956	267	(301)	71,922
Commercial mortgage-backed securities	35,863	107	(133)	35,837
State and political subdivisions	169,720	3,100	(169)	172,651
Total	<u>\$ 284,176</u>	<u>\$ 3,497</u>	<u>\$ (635)</u>	<u>\$ 287,038</u>

	December 31, 2015			
	Available-for-Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	\$ 367,911	\$ 1,875	\$ (1,246)	\$ 368,540
Residential mortgage-backed securities	254,531	1,580	(1,356)	254,755
Commercial mortgage-backed securities	311,279	994	(1,713)	310,560
State and political subdivisions	211,546	7,723	(151)	219,118
Other securities	54,440	191	(1,024)	53,607
Total	\$ 1,199,707	\$ 12,363	\$ (5,490)	\$ 1,206,580

	Held-to-Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	\$ 7,395	\$ 37	\$ (17)	\$ 7,415
Residential mortgage-backed securities	92,585	250	(282)	92,553
Commercial mortgage-backed securities	41,579	155	(42)	41,692
State and political subdivisions	167,483	4,870	(69)	172,284
Total	\$ 309,042	\$ 5,312	\$ (410)	\$ 313,944

Assets, principally investment securities, having an amortized cost of approximately \$1.07 billion and \$1.25 billion at December 31, 2016 and 2015, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. Also, investment securities pledged as collateral for repurchase agreements totaled approximately \$121.3 million and \$128.4 million at December 31, 2016 and 2015, respectively.

The amortized cost and estimated fair value of securities classified as available-for-sale and held-to-maturity at December 31, 2016, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In thousands)			
Due in one year or less	\$ 179,712	\$ 181,631	\$ 85,376	\$ 86,440
Due after one year through five years	676,001	676,923	121,884	123,715
Due after five years through ten years	149,823	148,187	19,540	19,553
Due after ten years	66,726	66,179	57,376	57,330
Total	\$ 1,072,262	\$ 1,072,920	\$ 284,176	\$ 287,038

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

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

During the year ended December 31, 2015, approximately \$4.0 million, in available-for-sale securities were sold. The gross realized gains on these sales totaled approximately \$4,000. There were no losses on the available-for-sale securities sold. The income tax expense/benefit to net security gains and losses was 39.225% of the gross amounts.

During the year ended December 31, 2014, no available-for-sale securities were sold.

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

For the year ended December 31, 2016, the Company had approximately \$1.6 million in unrealized losses, which were in continuous loss positions for more than twelve months. Excluding impairment write downs taken in prior periods, the Company's assessments indicated that the cause of the market depreciation was primarily the change in interest rates and not the issuer's financial condition, or downgrades by rating agencies. In addition, approximately 78.5% of the Company's investment portfolio matures in five years or less. As a result, the Company has the ability and intent to hold such securities until maturity.

For the year ended December 31, 2015, the Company had approximately \$1.2 million in unrealized losses, which were in continuous loss positions for more than twelve months. Excluding impairment write downs taken in prior periods, the Company's assessments indicated that the cause of the market depreciation was primarily the change in interest rates and not the issuer's financial condition, or downgrades by rating agencies. In addition, approximately 77.6% of the Company's investment portfolio matures in five years or less. As a result, the Company has the ability and intent to hold such securities until maturity.

The following shows gross unrealized losses and estimated fair value of investment securities classified as available-for-sale and held-to-maturity with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position as of December 31, 2016 and 2015:

	December 31, 2016					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. government-sponsored enterprises	\$ 98,180	\$ (1,031)	\$ 75,044	\$ (642)	\$ 173,224	\$ (1,673)
Residential mortgage-backed securities	188,117	(1,742)	8,902	(186)	197,019	(1,928)
Commercial mortgage-backed securities	202,289	(2,220)	21,020	(255)	223,309	(2,475)
State and political subdivisions	94,309	(2,348)	500	(2)	94,809	(2,350)
Other securities	1,540	(125)	12,687	(534)	14,227	(659)
Total	<u>\$ 584,435</u>	<u>\$ (7,466)</u>	<u>\$ 118,153</u>	<u>\$ (1,619)</u>	<u>\$ 702,588</u>	<u>\$ (9,085)</u>

	December 31, 2015					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. government-sponsored enterprises	\$ 135,128	\$ (1,240)	\$ 4,751	\$ (24)	\$ 139,879	\$ (1,264)
Residential mortgage-backed securities	200,256	(1,445)	10,511	(193)	210,767	(1,638)
Commercial mortgage-backed securities	192,644	(1,449)	23,592	(305)	216,236	(1,754)
State and political subdivisions	27,334	(202)	4,400	(18)	31,734	(220)
Other securities	21,866	(339)	15,803	(685)	37,669	(1,024)
Total	<u>\$ 577,228</u>	<u>\$ (4,675)</u>	<u>\$ 59,057</u>	<u>\$ (1,225)</u>	<u>\$ 636,285</u>	<u>\$ (5,900)</u>

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

	December 31,		
	2016	2015	2014
	(In thousands)		
Taxable:			
Available-for-sale	\$ 17,880	\$ 17,881	\$ 17,472
Held-to-maturity	3,366	3,814	1,833
Tax-exempt:			
Available-for-sale	6,238	5,767	5,736
Held-to-maturity	5,179	5,427	4,355
Total	<u>\$ 32,663</u>	<u>\$ 32,889</u>	<u>\$ 29,396</u>

4. Loans Receivable

The various categories of loans receivable are summarized as follows:

	December 31,	
	2016	2015
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	\$ 3,153,121	\$ 2,968,335
Construction/land development	1,135,843	944,787
Agricultural	77,736	75,027
Residential real estate loans		
Residential 1-4 family	1,356,136	1,190,279
Multifamily residential	340,926	430,256
Total real estate	<u>6,063,762</u>	<u>5,608,684</u>
Consumer	41,745	52,258
Commercial and industrial	1,123,213	850,587
Agricultural	74,673	67,109
Other	84,306	62,933
Loans receivable	<u>\$ 7,387,699</u>	<u>\$ 6,641,571</u>

During the year ended December 31, 2016, the Company sold \$16.8 million of the guaranteed portion of certain SBA loans, which resulted in a gain of approximately \$1.1 million. During the year ended December 31, 2015, the Company sold \$7.7 million of the guaranteed portion of certain SBA loans, which resulted in a gain of approximately \$541,000. During the year ended December 31, 2014, the Company sold \$1.3 million of the guaranteed portion of certain SBA loans, which resulted in a gain of approximately \$183,000.

Mortgage loans held for resale of approximately \$56.2 million and \$38.9 million at December 31, 2016 and 2015, respectively, are included in residential 1-4 family loans. Mortgage loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis. Gains and losses resulting from sales of mortgage loans are recognized when the respective loans are sold to investors. Gains and losses are determined by the difference between the selling price and the carrying amount of the loans sold, net of discounts collected or paid. The Company obtains forward commitments to sell mortgage loans to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. The forward commitments acquired by the Company for mortgage loans in process of origination are considered mandatory forward commitments. Because these commitments are structured on a mandatory basis, the Company is required to substitute another loan or to buy back the commitment if the original loan does not fund. These commitments are derivative instruments and their fair values at December 31, 2016 and 2015 were not material.

5. Allowance for Loan Losses, Credit Quality and Other

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

	December 31, 2016
	(In thousands)
Allowance for loan losses:	
Beginning balance	\$ 69,224
Loans charged off	(17,501)
Recoveries of loans previously charged off	9,671
Net loans recovered (charged off)	(7,830)
Provision for loan losses	18,608
Balance, December 31, 2016	<u>\$ 80,002</u>

The following tables present the balance in the allowance for loan losses for the year ended December 31, 2016, and the allowance for loan losses and recorded investment in loans based on portfolio segment by impairment method as of December 31, 2016. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories. Additionally, the Company's discounts for credit losses on purchased loans were \$100.1 million, \$149.4 million and \$185.0 million at December 31, 2016, 2015 and 2014, respectively.

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

	As of December 31, 2016						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
Allowance for loan losses:	(In thousands)						
Period end amount allocated to:							
Loans individually evaluated for impairment	\$ 15	\$ 1,416	\$ 103	\$ 95	\$ -	\$ -	\$ 1,629
Loans collectively evaluated for impairment	11,463	25,641	15,796	12,596	4,176	6,831	76,503
Loans evaluated for impairment balance, December 31	<u>11,478</u>	<u>27,057</u>	<u>15,899</u>	<u>12,691</u>	<u>4,176</u>	<u>6,831</u>	<u>78,132</u>
Purchased credit impaired loans acquired	44	1,131	618	65	12	-	1,870
Balance, December 31	<u>\$ 11,522</u>	<u>\$ 28,188</u>	<u>\$ 16,517</u>	<u>\$ 12,756</u>	<u>\$ 4,188</u>	<u>\$ 6,831</u>	<u>\$ 80,002</u>

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

The following tables present the balance in the allowance for loan losses for the loan portfolio for the year ended December 31, 2015, and the allowance for loan losses and recorded investment in loans based on portfolio segment by impairment method as of December 31, 2015. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories.

Year Ended December 31, 2015							
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
Allowance for loan losses:	(In thousands)						
Beginning balance	\$ 8,548	\$ 18,157	\$ 14,607	\$ 5,966	\$ 5,799	\$ 1,934	\$ 55,011
Loans charged off	(644)	(4,878)	(4,717)	(2,638)	(3,075)	-	(15,952)
Recoveries of loans previously charged off	236	762	915	802	827	-	3,542
Net loans recovered (charged off)	(408)	(4,116)	(3,802)	(1,836)	(2,248)	-	(12,410)
Provision for loan losses	2,273	11,862	3,818	5,204	1,455	552	25,164
Increase in FDIC indemnification asset	369	895	195	(10)	10	-	1,459
Balance, December 31	<u>\$ 10,782</u>	<u>\$ 26,798</u>	<u>\$ 14,818</u>	<u>\$ 9,324</u>	<u>\$ 5,016</u>	<u>\$ 2,486</u>	<u>\$ 69,224</u>

As of December 31, 2015							
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
Allowance for loan losses:	(In thousands)						
Period end amount allocated to:							
Loans individually evaluated for impairment	\$ 1,149	\$ 2,115	\$ 186	\$ 921	\$ -	\$ -	\$ 4,371
Loans collectively evaluated for impairment	9,506	24,511	12,157	8,383	5,006	2,486	62,049
Loans evaluated for impairment balance, December 31	<u>10,655</u>	<u>26,626</u>	<u>12,343</u>	<u>9,304</u>	<u>5,006</u>	<u>2,486</u>	<u>66,420</u>
Purchased credit impaired loans acquired	127	172	2,475	20	10	-	2,804
Balance, December 31	<u>\$ 10,782</u>	<u>\$ 26,798</u>	<u>\$ 14,818</u>	<u>\$ 9,324</u>	<u>\$ 5,016</u>	<u>\$ 2,486</u>	<u>\$ 69,224</u>

Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	\$ 21,215	\$ 55,858	\$ 18,240	\$ 6,290	\$ 1,053	\$ -	\$ 102,656
Loans collectively evaluated for impairment	901,147	2,887,880	1,490,866	825,640	179,391	-	6,284,924
Loans evaluated for impairment balance, December 31	<u>922,362</u>	<u>2,943,738</u>	<u>1,509,106</u>	<u>831,930</u>	<u>180,444</u>	<u>-</u>	<u>6,387,580</u>
Purchased credit impaired loans acquired	22,425	99,624	111,429	18,657	1,856	-	253,991
Balance, December 31	<u>\$ 944,787</u>	<u>\$ 3,043,362</u>	<u>\$ 1,620,535</u>	<u>\$ 850,587</u>	<u>\$ 182,300</u>	<u>\$ -</u>	<u>\$ 6,641,571</u>

The following tables present the balance in the allowance for loan losses for the loan portfolio for the year ended December 31, 2014, and the allowance for loan losses and recorded investment in loans based on portfolio segment by impairment method as of December 31, 2014. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories.

Year Ended December 31, 2014							
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
Allowance for loan losses:	(In thousands)						
Beginning balance	\$ 7,989	\$ 15,938	\$ 11,002	\$ 2,068	\$ 2,563	\$ 4,255	\$ 43,815
Loans charged off	(1,099)	(4,376)	(3,484)	(2,323)	(2,795)	-	(14,077)
Recoveries of loans previously charged off	474	279	1,510	306	1,159	-	3,728
Net loans recovered (charged off)	(625)	(4,097)	(1,974)	(2,017)	(1,636)	-	(10,349)
Provision for loan losses	2,826	4,691	6,715	5,878	4,875	(2,321)	22,664
Increase in FDIC indemnification asset	(1,642)	1,625	(1,136)	37	(3)	-	(1,119)
Balance, December 31	<u>\$ 8,548</u>	<u>\$ 18,157</u>	<u>\$ 14,607</u>	<u>\$ 5,966</u>	<u>\$ 5,799</u>	<u>\$ 1,934</u>	<u>\$ 55,011</u>

As of December 31, 2014							
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
Allowance for loan losses:	(In thousands)						
Period end amount allocated to:							
Loans individually evaluated for impairment	\$ 1,477	\$ 3,080	\$ 2,183	\$ 6	\$ -	\$ -	\$ 6,746
Loans collectively evaluated for impairment	6,624	12,447	10,827	5,880	5,798	1,934	43,510
Loans evaluated for impairment balance, December 31	<u>8,101</u>	<u>15,527</u>	<u>13,010</u>	<u>5,886</u>	<u>5,798</u>	<u>1,934</u>	<u>50,256</u>
Purchased credit impaired loans acquired	447	2,630	1,597	80	1	-	4,755
Balance, December 31	<u>\$ 8,548</u>	<u>\$ 18,157</u>	<u>\$ 14,607</u>	<u>\$ 5,966</u>	<u>\$ 5,799</u>	<u>\$ 1,934</u>	<u>\$ 55,011</u>

Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	\$ 19,037	\$ 48,065	\$ 21,734	\$ 4,084	\$ 484	\$ -	\$ 93,404
Loans collectively evaluated for impairment	659,465	1,900,472	1,131,021	650,163	169,815	-	4,510,936
Loans evaluated for impairment balance, December 31	<u>678,502</u>	<u>1,948,537</u>	<u>1,152,755</u>	<u>654,247</u>	<u>170,299</u>	<u>-</u>	<u>4,604,340</u>
Purchased credit impaired loans acquired	61,583	206,486	157,383	24,528	3,182	-	453,162
Balance, December 31	<u>\$ 740,085</u>	<u>\$ 2,155,023</u>	<u>\$ 1,310,138</u>	<u>\$ 678,775</u>	<u>\$ 173,481</u>	<u>\$ -</u>	<u>\$ 5,057,502</u>

The following is an aging analysis for loans receivable for the years ended December 31, 2016 and 2015:

December 31, 2016

	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due	Current Loans	Total Loans Receivable	Accruing Loans Past Due 90 Days or More
	(In thousands)						
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	\$ 2,036	\$ 686	\$ 27,518	\$ 30,240	\$ 3,122,881	\$ 3,153,121	\$ 9,530
Construction/land development	685	16	7,042	7,743	1,128,100	1,135,843	3,086
Agricultural	-	-	435	435	77,301	77,736	-
Residential real estate loans							
Residential 1-4 family	6,972	1,287	23,307	31,566	1,324,570	1,356,136	2,996
Multifamily residential	-	-	262	262	340,664	340,926	-
Total real estate	9,693	1,989	58,564	70,246	5,993,516	6,063,762	15,612
Consumer	117	66	161	344	41,401	41,745	21
Commercial and industrial	984	582	3,464	5,030	1,118,183	1,123,213	309
Agricultural and other	782	10	935	1,727	157,252	158,979	-
Total	<u>\$ 11,576</u>	<u>\$ 2,647</u>	<u>\$ 63,124</u>	<u>\$ 77,347</u>	<u>\$ 7,310,352</u>	<u>\$ 7,387,699</u>	<u>\$ 15,942</u>

December 31, 2015

	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due	Current Loans	Total Loans Receivable	Accruing Loans Past Due 90 Days or More
	(In thousands)						
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	\$ 1,494	\$ 292	\$ 25,058	\$ 26,844	\$ 2,941,491	\$ 2,968,335	\$ 9,247
Construction/land development	897	343	7,128	8,368	936,419	944,787	4,176
Agricultural	177	-	561	738	74,289	75,027	30
Residential real estate loans							
Residential 1-4 family	4,831	3,694	19,781	28,306	1,161,973	1,190,279	7,207
Multifamily residential	1,330	-	871	2,201	428,055	430,256	1
Total real estate	8,729	4,329	53,399	66,457	5,542,227	5,608,684	20,661
Consumer	133	66	285	484	51,774	52,258	46
Commercial and industrial	679	781	8,793	10,253	840,334	850,587	6,430
Agricultural and other	347	164	1,034	1,545	128,497	130,042	-
Total	<u>\$ 9,888</u>	<u>\$ 5,340</u>	<u>\$ 63,511</u>	<u>\$ 78,739</u>	<u>\$ 6,562,832</u>	<u>\$ 6,641,571</u>	<u>\$ 27,137</u>

Non-accruing loans at December 31, 2016 and 2015 were \$47.2 million and \$36.4 million, respectively.

The following is a summary of the impaired loans as of December 31, 2016, 2015 and 2014:

	December 31, 2016				
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses (In thousands)	Year Ended	
				Average Recorded Investment	Interest Recognized
Loans without a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	\$ 29	\$ 29	\$ -	\$ 23	\$ 2
Construction/land development	-	-	-	6	-
Agricultural	40	-	-	-	2
Residential real estate loans					
Residential 1-4 family	231	231	-	119	15
Multifamily residential	-	-	-	19	-
Total real estate	300	260	-	167	19
Consumer	-	-	-	-	-
Commercial and industrial	124	124	-	64	8
Agricultural and other	-	-	-	-	-
Total loans without a specific valuation allowance	424	384	-	231	27
Loans with a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	52,477	50,355	1,414	42,979	1,335
Construction/land development	8,313	7,595	15	12,878	334
Agricultural	395	438	2	469	-
Residential real estate loans					
Residential 1-4 family	26,681	25,675	95	20,239	293
Multifamily residential	552	552	8	922	9
Total real estate	88,418	84,615	1,534	77,487	1,971
Consumer	165	161	-	223	3
Commercial and industrial	7,160	7,032	95	10,630	255
Agricultural and other	935	935	-	1,037	-
Total loans with a specific valuation allowance	96,678	92,743	1,629	89,377	2,229
Total impaired loans					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	52,506	50,384	1,414	43,002	1,337
Construction/land development	8,313	7,595	15	12,884	334
Agricultural	435	438	2	469	2
Residential real estate loans					
Residential 1-4 family	26,912	25,906	95	20,358	308
Multifamily residential	552	552	8	941	9
Total real estate	88,718	84,875	1,534	77,654	1,990
Consumer	165	161	-	223	3
Commercial and industrial	7,284	7,156	95	10,694	263
Agricultural and other	935	935	-	1,037	-
Total impaired loans	<u>\$ 97,102</u>	<u>\$ 93,127</u>	<u>\$ 1,629</u>	<u>\$ 89,608</u>	<u>\$ 2,256</u>

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

December 31, 2015					
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses (In thousands)	Year Ended	
				Average Recorded Investment	Interest Recognized
Loans without a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	\$ 29	\$ 29	\$ -	\$ 6	\$ 2
Construction/land development	-	-	-	-	-
Agricultural	-	-	-	-	-
Residential real estate loans					
Residential 1-4 family	80	80	-	21	6
Multifamily residential	-	-	-	-	-
Total real estate	109	109	-	27	8
Consumer	-	-	-	-	-
Commercial and industrial	12	12	-	2	1
Agricultural and other	-	-	-	-	-
Total loans without a specific valuation allowance	121	121	-	29	8
Loans with a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	47,861	44,872	2,115	43,900	1,139
Construction/land development	17,025	15,077	1,149	16,026	303
Agricultural	583	561	-	153	-
Residential real estate loans					
Residential 1-4 family	18,454	17,373	168	16,947	390
Multifamily residential	1,160	1,160	18	3,281	34
Total real estate	85,083	79,043	3,450	80,307	1,866
Consumer	306	286	-	570	7
Commercial and industrial	13,385	11,169	921	6,542	191
Agricultural and other	1,034	1,034	-	614	4
Total loans with a specific valuation allowance	99,808	91,532	4,371	88,033	2,069
Total impaired loans					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	47,890	44,887	2,115	43,906	1,141
Construction/land development	17,025	15,077	1,149	16,026	303
Agricultural	583	561	-	153	-
Residential real estate loans					
Residential 1-4 family	18,534	17,413	168	16,968	396
Multifamily residential	1,160	1,160	18	3,281	34
Total real estate	85,192	79,098	3,450	80,334	1,874
Consumer	306	286	-	570	7
Commercial and industrial	13,397	11,175	921	6,544	192
Agricultural and other	1,034	1,034	-	614	4
Total impaired loans	\$ 99,929	\$ 91,593	\$ 4,371	\$ 88,062	\$ 2,077

Note: Purchased credit impaired loans are accounted for on a pooled basis under ASC 310-30. All of these pools are currently considered to be performing resulting in none of the purchased credit impaired loans being classified as impaired loans as of December 31, 2015.

December 31, 2014					
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses (In thousands)	Year Ended	
				Average Recorded Investment	Interest Recognized
Loans without a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	\$ -	\$ -	\$ -	\$ 676	\$ 14
Construction/land development	-	-	-	-	-
Agricultural	-	-	-	-	-
Residential real estate loans					
Residential 1-4 family	-	-	-	25	2
Multifamily residential	-	-	-	-	-
Total real estate	-	-	-	701	16
Consumer	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Agricultural and other	-	-	-	-	-
Total loans without a specific valuation allowance	-	-	-	701	16
Loans with a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	44,242	41,670	3,080	43,556	1,379
Construction/land development	18,369	18,075	1,477	21,142	656
Agricultural	53	33	-	60	1
Residential real estate loans					
Residential 1-4 family	18,052	16,051	1,065	16,701	407
Multifamily residential	4,614	4,327	1,118	4,037	120
Total real estate	85,330	80,156	6,740	85,496	2,563
Consumer	890	857	-	407	14
Commercial and industrial	5,916	4,246	6	5,059	151
Agricultural and other	185	185	-	114	-
Total loans with a specific valuation allowance	92,321	85,444	6,746	91,076	2,728
Total impaired loans					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	44,242	41,670	3,080	44,232	1,393
Construction/land development	18,369	18,075	1,477	21,142	656
Agricultural	53	33	-	60	1
Residential real estate loans					
Residential 1-4 family	18,052	16,051	1,065	16,726	409
Multifamily residential	4,614	4,327	1,118	4,037	120
Total real estate	85,330	80,156	6,740	86,197	2,579
Consumer	890	857	-	407	14
Commercial and industrial	5,916	4,246	6	5,059	151
Agricultural and other	185	185	-	114	-
Total impaired loans	\$ 92,321	\$ 85,444	\$ 6,746	\$ 91,777	\$ 2,744

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

Interest recognized on impaired loans during the years ended December 31, 2016, 2015 and 2014 was approximately \$2.3 million, \$2.1 million and \$2.7 million, respectively. The amount of interest recognized on impaired loans on the cash basis is not materially different than the accrual basis.

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

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

- *Risk rating 1 – Excellent.* Loans in this category are to persons or entities of unquestionable financial strength, a highly liquid financial position, with collateral that is liquid and well margined. These borrowers have performed without question on past obligations, and the Bank expects their performance to continue. Internally generated cash flow covers current maturities of long-term debt by a substantial margin. Loans secured by bank certificates of deposit and savings accounts, with appropriate holds placed on the accounts, are to be rated in this category.
- *Risk rating 2 – Good.* These are loans to persons or entities with strong financial condition and above-average liquidity that have previously satisfactorily handled their obligations with the Bank. Collateral securing the Bank's debt is margined in accordance with policy guidelines. Internally generated cash flow covers current maturities of long-term debt more than adequately. Unsecured loans to individuals supported by strong financial statements and on which repayment is satisfactory may be included in this classification.
- *Risk rating 3 – Satisfactory.* Loans to persons or entities with an average financial condition, adequate collateral margins, adequate cash flow to service long-term debt, and net worth comprised mainly of fixed assets are included in this category. These entities are minimally profitable now, with projections indicating continued profitability into the foreseeable future. Closely held corporations or businesses where a majority of the profits are withdrawn by the owners or paid in dividends are included in this rating category. Overall, these loans are basically sound.
- *Risk rating 4 – Watch.* Borrowers who have marginal cash flow, marginal profitability or have experienced an unprofitable year and a declining financial condition characterize these loans. The borrower has in the past satisfactorily handled debts with the Bank, but in recent months has either been late, delinquent in making payments, or made sporadic payments. While the Bank continues to be adequately secured, margins have decreased or are decreasing, despite the borrower's continued satisfactory condition. Other characteristics of borrowers in this class include inadequate credit information, weakness of financial statement and repayment capacity, but with collateral that appears to limit exposure. Included in this category are loans to borrowers in industries that are experiencing elevated risk.
- *Risk rating 5 – Other Loans Especially Mentioned ("OLEM").* A loan criticized as OLEM has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. OLEM assets are not adversely classified and do not expose the institution to sufficient risk to warrant adverse classification.
- *Risk rating 6 – Substandard.* A loan classified as substandard is inadequately protected by the sound worth and paying capacity of the borrower or the collateral pledged. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual assets.

- *Risk rating 7 – Doubtful.* A loan classified as doubtful has all the weaknesses inherent in a loan classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. These are poor quality loans in which neither the collateral, if any, nor the financial condition of the borrower presently ensure collectability in full in a reasonable period of time; in fact, there is permanent impairment in the collateral securing the loan.
- *Risk rating 8 – Loss.* Assets classified as loss are considered uncollectible and of such little value that the continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather, it is not practical or desirable to defer writing off this basically worthless asset, even though partial recovery may occur in the future. This classification is based upon current facts, not probabilities. Assets classified as loss should be charged-off in the period in which they became uncollectible.

The Company's classified loans include loans in risk ratings 6, 7 and 8. The following is a presentation of classified loans (excluding loans accounted for under ASC Topic 310-30) by class as of December 31, 2016 and 2015:

December 31, 2016				
	<u>Risk Rated 6</u>	<u>Risk Rated 7</u>	<u>Risk Rated 8</u>	<u>Classified Total</u>
Real estate:	(In thousands)			
Commercial real estate loans				
Non-farm/non-residential	\$ 43,657	\$ 462	\$ -	\$ 44,119
Construction/land development	8,619	33	-	8,652
Agricultural	759	-	-	759
Residential real estate loans				
Residential 1-4 family	28,846	445	-	29,291
Multifamily residential	1,391	-	-	1,391
Total real estate	83,272	940	-	84,212
Consumer	211	2	-	213
Commercial and industrial	16,991	170	-	17,161
Agricultural and other	935	-	-	935
Total	<u>\$ 101,409</u>	<u>\$ 1,112</u>	<u>\$ -</u>	<u>\$ 102,521</u>

December 31, 2015				
	<u>Risk Rated 6</u>	<u>Risk Rated 7</u>	<u>Risk Rated 8</u>	<u>Classified Total</u>
Real estate:	(In thousands)			
Commercial real estate loans				
Non-farm/non-residential	\$ 42,077	\$ 706	\$ -	\$ 42,783
Construction/land development	17,821	1	-	17,822
Agricultural	534	-	-	534
Residential real estate loans				
Residential 1-4 family	18,497	276	-	18,773
Multifamily residential	2,075	30	-	2,105
Total real estate	81,004	1,013	-	82,017
Consumer	320	18	-	338
Commercial and industrial	5,869	29	-	5,898
Agricultural and other	1,582	90	-	1,672
Total	<u>\$ 88,775</u>	<u>\$ 1,150</u>	<u>\$ -</u>	<u>\$ 89,925</u>

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

The following is a presentation of loans receivable by class and risk rating as of December 31, 2016 and 2015:

December 31, 2016							
	Risk Rated 1	Risk Rated 2	Risk Rated 3	Risk Rated 4	Risk Rated 5	Classified Total	Total
(In thousands)							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	\$ 1,047	\$ 4,762	\$1,568,385	\$1,425,316	\$ 33,559	\$ 44,119	\$ 3,077,188
Construction/land development	400	981	180,094	921,081	7,087	8,652	1,118,295
Agricultural	-	157	53,753	22,238	829	759	77,736
Residential real estate loans							
Residential 1-4 family	2,336	1,683	941,760	324,045	10,360	29,291	1,309,475
Multifamily residential	-	-	278,514	45,742	8,870	1,391	334,517
Total real estate	3,783	7,583	3,022,506	2,738,422	60,705	84,212	5,917,211
Consumer	15,080	231	15,330	9,645	81	213	40,580
Commercial and industrial	13,117	3,644	500,220	558,413	19,209	17,161	1,111,764
Agricultural and other	3,379	976	82,641	70,649	-	935	158,580
Total risk rated loans	<u>\$ 35,359</u>	<u>\$ 12,434</u>	<u>\$3,620,697</u>	<u>\$3,377,129</u>	<u>\$ 79,995</u>	<u>\$ 102,521</u>	<u>7,228,135</u>
Purchased credit impaired loans							159,564
Total loans receivable							<u>\$ 7,387,699</u>

December 31, 2015							
	Risk Rated 1	Risk Rated 2	Risk Rated 3	Risk Rated 4	Risk Rated 5	Classified Total	Total
(In thousands)							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	\$ 1,064	\$ 5,950	\$1,603,950	\$1,183,898	\$ 31,405	\$ 42,783	\$ 2,869,050
Construction/land development	61	696	254,907	645,249	3,627	17,822	922,362
Agricultural	-	298	47,413	26,262	181	534	74,688
Residential real estate loans							
Residential 1-4 family	1,193	1,838	850,744	198,304	15,015	18,773	1,085,867
Multifamily residential	-	155	301,113	63,640	56,226	2,105	423,239
Total real estate	2,318	8,937	3,058,127	2,117,353	106,454	82,017	5,375,206
Consumer	16,367	318	23,768	10,266	109	338	51,166
Commercial and industrial	10,885	6,729	495,064	307,818	5,536	5,898	831,930
Agricultural and other	4,572	926	73,447	48,386	275	1,672	129,278
Total risk rated loans	<u>\$ 34,142</u>	<u>\$ 16,910</u>	<u>\$3,650,406</u>	<u>\$2,483,823</u>	<u>\$ 112,374</u>	<u>\$ 89,925</u>	<u>6,387,580</u>
Purchased credit impaired loans							253,991
Total loans receivable							<u>\$ 6,641,571</u>

The following is a presentation of troubled debt restructurings (“TDRs”) by class as of December 31, 2016 and 2015:

December 31, 2016						
	Number of Loans	Pre- Modification Outstanding Balance	Rate Modification	Term Modification	Rate & Term Modification	Post- Modification Outstanding Balance
			(Dollars in thousands)			
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	17	\$ 21,344	\$ 14,600	\$ 263	\$ 5,542	\$ 20,405
Construction/land development	1	560	556	-	-	556
Agricultural	2	146	-	43	80	123
Residential real estate loans						
Residential 1-4 family	21	5,179	2,639	124	1,017	3,780
Multifamily residential	1	295	-	-	290	290
Total real estate	42	27,524	17,795	430	6,929	25,154
Commercial and industrial	6	395	237	115	10	362
Total	48	\$ 27,919	\$ 18,032	\$ 545	\$ 6,939	\$ 25,516
December 31, 2015						
	Number of Loans	Pre- Modification Outstanding Balance	Rate Modification	Term Modification	Rate & Term Modification	Post- Modification Outstanding Balance
			(Dollars in thousands)			
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	13	\$ 14,422	\$ 9,189	\$ 273	\$ 4,626	\$ 14,088
Construction/land development	2	1,026	1,018	-	-	1,018
Residential real estate loans						
Residential 1-4 family	8	2,813	811	1,925	-	2,736
Multifamily residential	1	295	-	-	290	290
Total real estate	24	18,556	11,018	2,198	4,916	18,132
Commercial and industrial	2	69	-	69	-	69
Total	26	\$ 18,625	\$ 11,018	\$ 2,267	\$ 4,916	\$ 18,201
December 31, 2014						
	Number of Loans	Pre- Modification Outstanding Balance	Rate Modification	Term Modification	Rate & Term Modification	Post- Modification Outstanding Balance
			(Dollars in thousands)			
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	7	\$ 17,340	\$ 2,596	\$ 8,647	\$ 5,644	\$ 16,887
Construction/land development	2	8,213	5,671	1,668	-	7,339
Residential real estate loans						
Residential 1-4 family	1	61	-	58	-	58
Multifamily residential	2	3,183	2,002	-	291	2,293
Total real estate	12	28,797	10,269	10,373	5,935	26,577
Commercial and industrial	1	380	-	-	315	315
Total	13	\$ 29,177	\$ 10,269	\$ 10,373	\$ 6,250	\$ 26,892

The following is a presentation of TDRs on non-accrual status as of December 31, 2016 and 2015 because they are not in compliance with the modified terms:

	December 31, 2016		December 31, 2015		December 31, 2014	
	Number of Loans	Recorded Balance	Number of Loans	Recorded Balance	Number of Loans	Recorded Balance
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	2	\$ 696	3	\$ 1,604	-	\$ -
Agricultural	2	123	-	-	-	-
Residential real estate loans						
Residential 1-4 family	13	2,240	2	1,812	-	-
Total real estate	17	3,059	5	3,416	-	-
Total	17	\$ 3,059	5	\$ 3,416	-	\$ -

The following is a presentation of total foreclosed assets as of December 31, 2016 and 2015:

	December 31, 2016	December 31, 2015
	(In thousands)	
Commercial real estate loans		
Non-farm/non-residential	\$ 9,423	\$ 9,787
Construction/land development	4,009	5,286
Agricultural	-	-
Residential real estate loans		
Residential 1-4 family	2,076	3,847
Multifamily residential	443	220
Total foreclosed assets held for sale	\$ 15,951	\$ 19,140

Changes in the carrying amount of the accretible yield for purchased credit impaired loans acquired were as follows for the year ended December 31, 2016 for the Company's acquisitions:

	Accretible Yield	Carrying Amount of Loans
	(In thousands)	
Balance at beginning of period	\$ 68,980	\$ 253,991
Reforecasted future interest payments for loan pools	6,048	-
Accretion recorded to interest income	(27,043)	27,043
Adjustment to yield	11,768	-
Reclassification out of purchased credit impaired loans ⁽¹⁾	(21,541)	(57,440)
Transfers to foreclosed assets held for sale	-	(1,449)
Payments received, net	-	(62,581)
Balance at end of period	\$ 38,212	\$ 159,564

- (1) At acquisition, 100% of the loans acquired from Old Southern, Key West, Coastal, Bayside, Wakulla and Gulf State were recorded for as purchased credit impaired loans on a pool by pool basis during 2010. In July 2016, the Company reached an agreement with the FDIC terminating our remaining loss-share agreements. As a result, the pools associated with the terminated loss-share agreements have been reevaluated and are no longer deemed to have a material projected credit impairment. As such, the remaining loans in these pools are performing and have been reclassified out of purchased credit impaired loans.

The loan pools were evaluated by the Company and are currently forecasted to have a slower run-off than originally expected. As a result, the Company has reforecast the total accretable yield expectations for those loan pools by \$6.0 million. This updated forecast does not change the expected weighted average yields on the loan pools.

During the 2016 impairment tests on the estimated cash flows of loans, the Company established that several loan pools were determined to have a materially projected credit improvement. As a result of this improvement, the Company will recognize approximately \$11.8 million as an additional adjustment to yield over the weighted average life of the loans.

6. Goodwill and Core Deposits and Other Intangibles

Changes in the carrying amount and accumulated amortization of the Company's goodwill and core deposits and other intangibles at December 31, 2016 and 2015, were as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
<u>Goodwill</u>	(In thousands)	
Balance, beginning of period	\$ 377,983	\$ 325,423
Sale of insurance book of business	-	(2,695)
Acquisitions	-	55,255
Balance, end of period	<u>\$ 377,983</u>	<u>\$ 377,983</u>

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
<u>Core Deposit and Other Intangibles</u>	(In thousands)	
Balance, beginning of period	\$ 21,443	\$ 20,925
Acquisitions	-	4,840
Sale of insurance book of business	-	(243)
Amortization expense	(3,132)	(4,079)
Balance, end of year	<u>\$ 18,311</u>	<u>\$ 21,443</u>

The carrying basis and accumulated amortization of core deposits and other intangibles at December 31, 2016 and 2015 were:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	(In thousands)	
Gross carrying amount	\$ 51,378	\$ 51,378
Accumulated amortization	(33,067)	(29,935)
Net carrying amount	<u>\$ 18,311</u>	<u>\$ 21,443</u>

Core deposit and other intangible amortization expense for the years ended December 31, 2016, 2015 and 2014 was approximately \$3.1 million, \$4.1 million and \$4.6 million, respectively. Core deposit and other intangibles are tested annually for impairment during the fourth quarter. During the 2016 review, no impairment was found. Including all of the mergers completed as of December 31, 2016, HBI's estimated amortization expense of core deposits and other intangibles for each of the years 2017 through 2021 is approximately: 2017 - \$3.0 million; 2018 - \$2.9 million; 2019 - \$2.8 million; 2020 - \$2.3 million; 2021 - \$2.2 million.

The carrying amount of the Company's goodwill was \$378.0 million at both December 31, 2016 and 2015. Goodwill is tested annually for impairment during the fourth quarter. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

7. Other Assets

Other assets consists primarily of equity securities without a readily determinable fair value and other miscellaneous assets. As of December 31, 2016 and 2015 other assets were \$129.3 million and \$127.2 million, respectively.

An indemnification asset was created when the Company acquired FDIC covered loans (loans previously covered by FDIC loss share agreements). Effective July 27, 2016, the Company reached an agreement with the FDIC terminating the remaining loss-share agreements. The indemnification asset represented the carrying amount of the right to receive payments from the FDIC for losses incurred on specified assets acquired from failed insured depository institutions or otherwise purchased from the FDIC that were covered by loss sharing agreements with the FDIC. When the Company experienced a loss on the covered loans and subsequently requested reimbursement of the loss from the FDIC, the indemnification asset was reduced by the FDIC reimbursable amount. A corresponding claim receivable was consequently recorded in other assets until the cash was received from the FDIC. Under the terms of the agreement, Centennial made a net payment of \$6.6 million to the FDIC as consideration for the early termination of the loss share agreements, and all rights and obligations of Centennial and the FDIC under the loss share agreements, including the clawback provisions and the settlement of loss share and expense reimbursement claims, have been resolved and terminated. This transaction with the FDIC created a one-time acceleration of the indemnification asset plus the negotiated settlement for the true-up liability, and resulted in a negative \$3.8 million pre-tax financial impact to the third quarter of 2016. It will, however, create a positive financial impact to earnings of approximately \$1.5 million annually on a pre-tax basis through the year 2020 as a result of the one-time acceleration of the indemnification asset amortization. The FDIC indemnification asset was zero and approximately \$9.3 million at December 31, 2016 and 2015, respectively. The FDIC claims receivable was zero and approximately \$3.2 million at December 31, 2016 and 2015, respectively.

The Company has equity securities without readily determinable fair values. These equity securities are outside the scope of ASC Topic 320, *Investments-Debt and Equity Securities*. They include items such as stock holdings in Federal Home Loan Bank (“FHLB”), Federal Reserve Bank (“Federal Reserve”), Bankers’ Bank and other miscellaneous holdings. The equity securities without a readily determinable fair value were \$112.4 million and \$97.5 million at December 31, 2015 and 2016, respectively, and are accounted for at cost.

8. Deposits

The aggregate amount of time deposits with a minimum denomination of \$250,000 was \$569.1 million and \$503.3 million at December 31, 2016 and 2015, respectively. The aggregate amount of time deposits with a minimum denomination of \$100,000 was \$842.9 million and \$885.3 million at December 31, 2016 and 2015, respectively. Interest expense applicable to certificates in excess of \$100,000 totaled \$4.4 million, \$5.0 million and \$7.5 million for the years ended December 31, 2016, 2015 and 2014, respectively. As of December 31, 2016 and 2015, brokered deposits were \$502.5 million and \$199.3 million, respectively.

The following is a summary of the scheduled maturities of all time deposits at December 31, 2016 (in thousands):

One month or less	\$ 138,868
Over 1 month to 3 months	134,551
Over 3 months to 6 months	224,349
Over 6 months to 12 months	429,081
Over 12 months to 2 years	221,046
Over 2 years to 3 years	76,171
Over 3 years to 5 years	59,935
Over 5 years	-
Total time deposits	<u>\$ 1,284,002</u>

Deposits totaling approximately \$1.23 billion and \$1.25 billion at December 31, 2016 and 2015, respectively, were public funds obtained primarily from state and political subdivisions in the United States.

9. Securities Sold Under Agreements to Repurchase

At December 31, 2016 and 2015, securities sold under agreements to repurchase totaled \$121.3 million and \$128.4 million, respectively. For the years ended December 31, 2016 and 2015, securities sold under agreements to repurchase daily weighted-average totaled \$120.6 million and \$156.5 million, respectively.

The gross amount of recognized liabilities for securities sold under agreements to repurchase was \$121.3 million and \$128.4 million at December 31, 2016 and 2015, respectively. The remaining contractual maturity of securities sold under agreements to repurchase in the consolidated balance sheets as of December 31, 2016 and 2015 is presented in the following tables:

December 31, 2016					
	Overnight and Continuous	Up to 30 Days	30-90 Days (In thousands)	Greater than 90 Days	Total
Securities sold under agreements to repurchase:					
U.S. government-sponsored enterprises	\$ 1,918	\$ -	\$ -	\$ -	\$ 1,918
Mortgage-backed securities	22,691	-	-	-	22,691
State and political subdivisions	74,559	-	-	-	74,559
Other securities	22,122	-	-	-	22,122
Total borrowings	<u>\$ 121,290</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 121,290</u>

December 31, 2015					
	Overnight and Continuous	Up to 30 Days	30-90 Days (In thousands)	Greater than 90 Days	Total
Securities sold under agreements to repurchase:					
U.S. government-sponsored enterprises	\$ 7,216	\$ -	\$ -	\$ -	\$ 7,216
Mortgage-backed securities	54,512	-	-	-	54,512
State and political subdivisions	65,294	-	-	-	65,294
Other securities	1,367	-	-	-	1,367
Total borrowings	<u>\$ 128,389</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 128,389</u>

10. FHLB Borrowed Funds

The Company's FHLB borrowed funds, which are secured by our loan portfolio, were \$1.31 billion and \$1.41 billion at December 31, 2016 and 2015, respectively. At December 31, 2016, \$40.0 million and \$1.27 billion of the outstanding balance were issued as short-term and long-term advances, respectively. At December 31, 2015, all \$1.41 billion of the outstanding balance were issued as long-term advances. The FHLB advances mature from the current year to 2025 with fixed interest rates ranging from 0.36% to 5.96% and are secured by loans and investments securities. Expected maturities will differ from contractual maturities because FHLB may have the right to call or HBI the right to prepay certain obligations.

Additionally, the Company had \$516.2 million and \$261.1 million at December 31, 2016 and 2015, respectively, in letters of credit under a FHLB blanket borrowing line of credit, which are used to collateralize public deposits at December 31, 2016 and 2015, respectively.

Maturities of borrowings with original maturities exceeding one year at December 31, 2016, are as follows (in thousands):

	By Contractual Maturity	By Call Date
2017	\$ 556,011	\$ 650,011
2018	459,190	365,190
2019	143,116	143,116
2020	146,428	146,428
2021	-	-
Thereafter	453	453
	<u>\$ 1,305,198</u>	<u>\$ 1,305,198</u>

11. Subordinated Debentures

Subordinated debentures at December 31, 2016 and 2015 consisted of guaranteed payments on trust preferred securities with the following components:

	As of December 31, 2016	As of December 31, 2015
	(In thousands)	
Subordinated debentures, issued in 2006, due 2036, fixed rate of 6.75% during the first five years and at a floating rate of 1.85% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	\$ 3,093	\$ 3,093
Subordinated debentures, issued in 2004, due 2034, fixed rate of 6.00% during the first five years and at a floating rate of 2.00% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	15,464	15,464
Subordinated debentures, issued in 2005, due 2035, fixed rate of 5.84% during the first five years and at a floating rate of 1.45% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	25,774	25,774
Subordinated debentures, issued in 2004, due 2034, fixed rate of 4.29% during the first five years and at a floating rate of 2.50% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	16,495	16,495
Total	<u>\$ 60,826</u>	<u>\$ 60,826</u>

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

12. Other Borrowings

The Company had zero other borrowings at December 31, 2016. Additionally, the Company took out a \$20.0 million line of credit for general corporate purposes during 2015. The balance on this line of credit at December 31, 2016 and December 31, 2015 was zero.

13. Income Taxes

The following is a summary of the components of the provision (benefit) for income taxes for the years ended December 31, 2016, 2015 and 2014:

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
Current:			
Federal	\$ 77,418	\$ 61,007	\$ 37,887
State	15,377	12,117	7,525
Total current	<u>92,795</u>	<u>73,124</u>	<u>45,412</u>
Deferred:			
Federal	10,600	5,980	15,600
State	2,105	1,188	3,098
Total deferred	<u>12,705</u>	<u>7,168</u>	<u>18,698</u>
Provision for income taxes	<u>\$ 105,500</u>	<u>\$ 80,292</u>	<u>\$ 64,110</u>

The reconciliation between the statutory federal income tax rate and effective income tax rate is as follows for the years ended December 31, 2016, 2015 and 2014:

	Year Ended December 31,		
	2016	2015	2014
Statutory federal income tax rate	35.00 %	35.00 %	35.00 %
Effect of nontaxable interest income	(1.52)	(1.91)	(2.10)
Cash value of life insurance	(0.17)	(0.19)	(0.24)
State income taxes, net of federal benefit	4.08	4.02	3.93
Other	(0.06)	(0.17)	(0.41)
Effective income tax rate	<u>37.33 %</u>	<u>36.75 %</u>	<u>36.18 %</u>

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	<u>(In thousands)</u>	
Deferred tax assets:		
Allowance for loan losses	\$ 31,381	\$ 27,153
Deferred compensation	3,925	3,505
Stock options	669	1,800
Real estate owned	2,296	1,988
Loan discounts	9,157	21,298
Tax basis premium/discount on acquisitions	14,757	15,772
Investments	1,957	2,637
Other	8,361	13,667
Gross deferred tax assets	<u>72,503</u>	<u>87,820</u>
Deferred tax liabilities:		
Accelerated depreciation on premises and equipment	2,154	3,946
Unrealized gain on securities available-for-sale	258	2,696
Core deposit intangibles	4,950	5,930
Indemnification asset	-	678
FHLB dividends	1,926	1,689
Other	1,917	1,316
Gross deferred tax liabilities	<u>11,205</u>	<u>16,255</u>
Net deferred tax assets	<u>\$ 61,298</u>	<u>\$ 71,565</u>

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and the states of Arkansas, Alabama, Florida and New York. The Company is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2012.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties in income tax expense. During the years ended December 31, 2016, 2015 and 2014, the Company did not recognize any significant interest or penalties. The Company did not have any interest or penalties accrued at December 31, 2016, 2015 and 2014.

14. Common Stock, Compensation Plans and Other

Common Stock

On April 21, 2016 at the Annual Meeting of Shareholders of the Company, the shareholders approved, as proposed in the Proxy Statement, an amendment to the Company's Restated Articles of Incorporation to increase the number of authorized shares of common stock from 100,000,000 to 200,000,000.

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

On April 21, 2016, the Company's Board of Directors declared a two-for-one stock split to be paid in the form of a 100% stock dividend on June 8, 2016 (the "Payment Date") to shareholders of record at the close of business on May 18, 2016. The additional shares were distributed by the Company's transfer agent, Computershare, and the Company's common stock began trading on a split-adjusted basis on the NASDAQ Global Select Market on or about June 9, 2016. The stock split increased the Company's total shares of common stock outstanding as of June 8, 2016 from 70,191,253 shares to 140,382,506 shares. All previously reported share and per share data included in filings subsequent to the Payment Date are restated to reflect the retroactive effect of this two-for-one stock split.

Stock Repurchases

During 2016, the Company utilized a portion of its previously approved stock repurchase program. This program authorized the repurchase of 4,752,000 shares (split adjusted) of the Company's common stock. During 2016, the Company repurchased a total of 510,608 shares (split adjusted) with a weighted-average stock price of \$19.23 per share (split adjusted). The 2016 earnings were used to fund the repurchases during the year. Shares repurchased to date under the program total 3,667,064 shares (split adjusted). The remaining balance available for repurchase is 1,084,936 shares (split adjusted) at December 31, 2016.

Stock Compensation Plans

The Company has a stock option and performance incentive plan known as the Amended and Restated 2006 Stock Option and Performance Incentive Plan (the "Plan"). The purpose of the Plan is to attract and retain highly qualified officers, directors, key employees, and other persons, and to motivate those persons to improve the Company's business results. On April 21, 2016 at the Annual Meeting of Shareholders of the Company, the shareholders approved, as proposed in the Proxy Statement, an amendment to the Plan to increase the number of shares of the Company's common stock available for issuance under the Plan by 2,000,000 shares (split adjusted) to 11,288,000 shares (split adjusted). The Plan provides for the granting of incentive and non-qualified stock options and other equity awards, including the issuance of restricted shares. As of December 31, 2016, the maximum total number of shares of the Company's common stock available for issuance under the Plan was 11,288,000 (split adjusted). At December 31, 2016, the Company had approximately 2,613,000 shares of common stock remaining available for future grants and approximately 5,010,000 shares of common stock reserved for issuance pursuant to outstanding awards under the Plan.

The intrinsic value of the stock options outstanding at December 31, 2016, 2015, and 2014 was \$30.2 million, \$21.1 million and \$18.6 million, respectively. The intrinsic value of the stock options vested at December 31, 2016, 2015 and 2014 was \$12.1 million, \$14.5 million and \$15.9 million, respectively.

The intrinsic value of the stock options exercised during 2016, 2015 and 2014 was \$8.0 million, \$7.2 million, and \$3.2 million, respectively.

Total unrecognized compensation cost, net of income tax benefit, related to non-vested awards, which are expected to be recognized over the vesting periods, was approximately \$6.6 million as of December 31, 2016.

The table below summarized the stock option transactions under the Plan at December 31, 2016, 2015 and 2014 and changes during the years then ended (split adjusted):

	2016		2015		2014	
	Shares (000)	Weighted Average Exercisable Price	Shares (000)	Weighted Average Exercisable Price	Shares (000)	Weighted Average Exercisable Price
Outstanding, beginning of year	2,794	\$ 12.71	1,810	\$ 5.90	1,932	\$ 4.79
Granted	140	21.25	1,486	18.15	140	16.77
Forfeited	(14)	17.28	(40)	20.16	(22)	15.45
Exercised	(523)	3.50	(462)	2.90	(240)	2.39
Outstanding, end of year	<u>2,397</u>	15.19	<u>2,794</u>	12.71	<u>1,810</u>	5.90
Exercisable, end of year	<u>639</u>	\$ 8.88	<u>960</u>	\$ 5.13	<u>1,290</u>	\$ 3.76

Stock-based compensation expense for stock-based compensation awards granted is based on the grant-date fair value. For stock option awards, the fair value is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. Additionally, there may be other factors that would otherwise have a significant effect on the value of employee stock options granted but are not considered by the model. Accordingly, while management believes that the Black-Scholes option-pricing model provides a reasonable estimate of fair value, the model does not necessarily provide the best single measure of fair value for the Company's employee stock options. The weighted-average fair value of options granted during the year ended December 31, 2016 was \$5.08 per share (split adjusted). The weighted-average fair value of options granted during the year ended December 31, 2015 was \$4.28 per share (split adjusted). The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model based on the weighted-average assumptions for expected dividend yield, expected stock price volatility, risk-free interest rate, and expected life of options granted.

The assumptions used in determining the fair value of 2016, 2015 and 2014 stock option grants were as follows:

	For the Years Ended December 31,		
	2016	2015	2014
Expected dividend yield	1.65 %	1.60 %	0.89 %
Expected stock price volatility	26.66 %	25.91 %	30.94 %
Risk-free interest rate	1.65 %	1.74 %	2.31 %
Expected life of options	6.5 years	6.5 years	6.5 years

The following is a summary of currently outstanding and exercisable options at December 31, 2016 (split adjusted):

Options Outstanding			Options Exercisable		
Exercise Prices	Options Outstanding Shares (000)	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Options Exercisable Shares (000)	Weighted-Average Exercise Price
\$1.96 to \$2.66	27	1.85	\$ 2.50	27	\$ 2.50
\$4.27 to \$4.62	99	1.02	4.29	99	4.29
\$5.08 to \$6.56	236	2.83	5.91	200	5.79
\$8.62 to \$9.54	284	6.17	9.09	164	9.07
\$14.71 to \$16.86	262	7.75	16.00	70	16.19
\$17.12 to \$17.40	219	7.94	17.19	65	17.26
\$18.46 to \$18.46	1,050	8.65	18.46	-	-
\$20.16 to \$20.58	80	8.76	20.37	14	20.34
\$21.25 to \$21.25	140	9.31	21.25	-	-
	<u>2,397</u>			<u>639</u>	

The table below summarizes the activity for the Company's restricted stock issued and outstanding at December 31, 2016, 2015 and 2014 and changes during the years then ended (split adjusted):

	2016	2015	2014
	(In thousands)		
Beginning of year	975	514	512
Issued	244	704	86
Vested	(256)	(204)	(60)
Forfeited	(5)	(39)	(24)
End of year	<u>958</u>	<u>975</u>	<u>514</u>
Amount of expense for twelve months ended	<u>\$ 4,049</u>	<u>\$ 2,511</u>	<u>\$ 1,524</u>

Total unrecognized compensation cost, net of income tax benefit, related to non-vested restricted stock awards, which are expected to be recognized over the vesting periods, was approximately \$11.7 million as of December 31, 2016.

15. Non-Interest Expense

The table below shows the components of non-interest expense for years ended December 31:

	2016	2015	2014
		(In thousands)	
Salaries and employee benefits	\$ 101,962	\$ 87,512	\$ 77,025
Occupancy and equipment	26,129	25,967	25,031
Data processing expense	10,499	10,774	7,229
Other operating expenses:			
Advertising	3,332	2,986	2,568
Merger and acquisition expenses	433	4,800	6,438
FDIC loss share buy-out expense	3,849	-	-
Amortization of intangibles	3,132	4,079	4,630
Electronic banking expense	5,742	5,166	5,308
Directors' fees	1,150	1,071	912
Due from bank service charges	1,354	1,096	803
FDIC and state assessment	5,491	5,287	4,288
Insurance	2,193	2,542	2,538
Legal and accounting	2,206	2,028	2,012
Other professional fees	4,049	3,226	2,200
Operating supplies	1,758	1,880	1,928
Postage	1,084	1,196	1,331
Telephone	1,751	1,917	1,968
Other expense	15,641	16,028	15,734
Total other operating expenses	53,165	53,302	52,658
Total non-interest expense	<u>\$ 191,755</u>	<u>\$ 177,555</u>	<u>\$ 161,943</u>

16. Employee Benefit Plans

401(k) Plan

The Company has a retirement savings 401(k) plan in which substantially all employees may participate. The Company matches employees' contributions based on a percentage of salary contributed by participants. While the plan also allows for discretionary employer contributions, no discretionary contributions were made for the years ended 2016, 2015 and 2014. The Company's expense for the plan was approximately \$1.4 million, \$1.2 million and \$1.0 million in 2016, 2015 and 2014, respectively, which is included in salaries and employee benefits expense.

Chairman's Retirement Plan

On April 20, 2007, the Company's Board of Directors approved a Chairman's Retirement Plan for John W. Allison, the Company's Chairman. The Chairman's Retirement Plan provides a supplemental retirement benefit of \$250,000 a year for 10 consecutive years or until Mr. Allison's death, whichever occurs later. During 2011, Mr. Allison reached the age of 65 and became 100% vested in the plan. Therefore, he began receiving the supplemental retirement benefit due to him. He received \$250,000 of this benefit during 2016, 2015 and 2014, respectively. An expense of approximately \$155,000, \$163,000 and \$169,000 was accrued for 2016, 2015 and 2014 for this plan, respectively.

17. Related Party Transactions

In the ordinary course of business, loans may be made to officers and directors and their affiliated companies at substantially the same terms as comparable transactions with other borrowers. At December 31, 2016 and 2015, related party loans were approximately \$51.6 million and \$51.2 million, respectively. New loans and advances on prior commitments made to the related parties were \$5.0 million and \$26.9 million for the years ended December 31, 2016 and 2015, respectively. Repayments of loans made by the related parties were \$4.7 million and \$3.7 million for the years ended December 31, 2016 and 2015, respectively.

At December 31, 2016 and 2015, directors, officers, and other related interest parties had demand, non-interest-bearing deposits of approximately \$849,000 and \$590,000, respectively, savings and interest-bearing transaction accounts of approximately \$25.9 million and \$11.0 million, respectively, and time certificates of deposit of approximately \$957,000 and \$6.4 million, respectively.

During 2016, 2015 and 2014, rent expense totaling approximately \$100,000, \$100,000 and \$104,000, respectively, was paid to related parties.

18. Leases

The Company leases certain premises and equipment under noncancelable operating leases with terms up to 15 years which are charged to expense over the lease term as it becomes payable. The Company's leases do not have rent holidays. In addition, any rent escalations are tied to the consumer price index or contain nominal increases and are not included in the calculation of current lease expense due to the immaterial amount. At December 31, 2016, the minimum rental commitments under these noncancelable operating leases are as follows (in thousands):

2017	\$	4,464
2018		4,061
2019		3,693
2020		3,025
2021		2,441
Thereafter		16,186
	\$	<u>33,870</u>

19. Significant Estimates and Concentrations of Credit Risks

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

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

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

Although the Company has a diversified loan portfolio, at December 31, 2016 and 2015, commercial real estate loans represented 59.1% and 60.0% of total loans receivable, respectively, and 328.9% and 332.4% of total stockholders' equity, respectively. Residential real estate loans represented 23.0% and 24.4% of total loans receivable and 127.8% and 135.1% of total stockholders' equity at December 31, 2016 and 2015, respectively.

Approximately 84.1% of the Company's total loans and 85.7% of the Company's real estate loans as of December 31, 2016, are to borrowers whose collateral is located in Alabama, Arkansas, Florida and New York, the states in which the Company has its branch locations.

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

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

20. Commitments and Contingencies

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

At December 31, 2016 and 2015, commitments to extend credit of \$1.82 billion and \$1.43 billion, respectively, were outstanding. A percentage of these balances are participated out to other banks; therefore, the Company can call on the participating banks to fund future draws. Since some of these commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

Outstanding standby letters of credit are contingent commitments issued by the Company, generally to guarantee the performance of a customer in third-party borrowing arrangements. The term of the guarantee is dependent upon the creditworthiness of the borrower, some of which are long-term. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments. The maximum amount of future payments the Company could be required to make under these guarantees at December 31, 2016 and 2015, is \$41.1 million and \$24.3 million, respectively.

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

21. Financial Instruments

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

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

Available-for-sale securities are the only material instruments valued on a recurring basis which are held by the Company at fair value. The Company does not have any Level 1 securities. Primarily all of the Company's securities are considered to be Level 2 securities. These Level 2 securities consist primarily of U.S. government-sponsored enterprises, mortgage-backed securities plus state and political subdivisions. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. As of December 31, 2016 and 2015, Level 3 securities were immaterial. In addition, there were no material transfers between hierarchy levels during 2016, 2015 and 2014.

The Company reviews the prices supplied by the independent pricing service, as well as their underlying pricing methodologies, for reasonableness and to ensure such prices are aligned with traditional pricing matrices. In general, the Company does not purchase investment portfolio securities with complicated structures. Pricing for the Company's investment securities is fairly generic and is easily obtained. Starting in 2016, the Company began using a third party comparison pricing vendor in order to reflect consistency in the fair values of the investment securities sampled by the Company each quarter.

Impaired loans that are collateral dependent are the only material financial assets valued on a non-recurring basis which are held by the Company at fair value. Loan impairment is reported when full payment under the loan terms is not expected. Impaired loans are carried at the net realizable value of the collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require an increase, such increase is reported as a component of the provision for loan losses. The fair value of loans with specific allocated losses was \$91.5 million and \$87.2 million as of December 31, 2016 and 2015, respectively. This valuation is considered Level 3, consisting of appraisals of underlying collateral. The Company reversed approximately \$954,000 and \$684,000 of accrued interest receivable when impaired loans were put on non-accrual status during the years ended December 31, 2016 and 2015, respectively.

Foreclosed assets held for sale are the only material non-financial assets valued on a non-recurring basis which are held by the Company at fair value, less estimated costs to sell. At foreclosure, if the fair value, less estimated costs to sell, of the real estate acquired is less than the Company's recorded investment in the related loan, a write-down is recognized through a charge to the allowance for loan losses. Additionally, valuations are periodically performed by management and any subsequent reduction in value is recognized by a charge to income. The fair value of foreclosed assets held for sale is estimated using Level 3 inputs based on appraisals of underlying collateral. As of December 31, 2016 and 2015, the fair value of foreclosed assets held for sale, less estimated costs to sell, was \$16.0 million and \$19.1 million, respectively.

Foreclosed assets held for sale with a carrying value of approximately \$3.8 million were remeasured during year ended December 31, 2016, resulting in a write-down of approximately \$1.4 million.

Regulatory guidelines require us to reevaluate the fair value of foreclosed assets held for sale on at least an annual basis. Our policy is to comply with the regulatory guidelines.

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

Fair Values of Financial Instruments

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

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

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

Loans receivable, net of impaired loans and allowance — For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are assumed to approximate the carrying amounts. The fair values for fixed-rate loans are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. Fair values for acquired loans are based on a discounted cash flow methodology that considers factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan, current discount rates and whether or not the loan is amortizing. Loans are grouped together according to similar characteristics and are treated in the aggregate when applying various valuation techniques. The discount rates used for loans are based on current market rates for new originations of comparable loans and include adjustments for liquidity concerns. The discount rate does not include a factor for credit losses as that has been included in the estimated cash flows.

FDIC indemnification asset — Although this asset is a contractual receivable from the FDIC, there is no effective interest rate. The Bank will collect this asset over the next several years. The amount ultimately collected will depend on the timing and amount of collections and charge-offs on the acquired assets covered by the loss sharing agreement.

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

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

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

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

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

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

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

	December 31, 2016				
	Carrying		Fair Value	Level	
	Amount				
	(In thousands)				
Financial assets:					
Cash and cash equivalents	\$	216,649	\$	216,649	1
Federal funds sold		1,550		1,550	1
Investment securities – held-to-maturity		284,176		287,038	2
Loans receivable, net of impaired loans and allowance		7,216,199		7,131,199	3
Accrued interest receivable		30,838		30,838	1
Financial liabilities:					
Deposits:					
Demand and non-interest bearing	\$	1,695,184	\$	1,695,184	1
Savings and interest-bearing transaction accounts		3,963,241		3,963,241	1
Time deposits		1,284,002		1,275,634	3
Securities sold under agreements to repurchase		121,290		121,290	1
FHLB and other borrowed funds		1,305,198		1,311,280	2
Accrued interest payable		1,920		1,920	1
Subordinated debentures		60,826		60,826	3

December 31, 2015			
	Carrying Amount	Fair Value	Level
	(In thousands)		
Financial assets:			
Cash and cash equivalents	\$ 255,823	\$ 255,823	1
Federal funds sold	1,550	1,550	1
Investment securities – held-to-maturity	309,042	313,944	2
Loans receivable, net of impaired loans and allowance	6,485,125	6,440,509	3
FDIC indemnification asset	9,284	9,284	3
Accrued interest receivable	29,132	29,132	1
Financial liabilities:			
Deposits:			
Demand and non-interest bearing	\$ 1,456,624	\$ 1,456,624	1
Savings and interest-bearing transaction accounts	3,551,684	3,551,684	1
Time deposits	1,430,201	1,418,462	3
Securities sold under agreements to repurchase	128,389	128,389	1
FHLB and other borrowed funds	1,405,945	1,410,019	2
Accrued interest payable	1,804	1,804	1
Subordinated debentures	60,826	60,826	3

22. Regulatory Matters

The Bank is subject to a legal limitation on dividends that can be paid to the parent company without prior approval of the applicable regulatory agencies. Arkansas bank regulators have specified that the maximum dividend limit state banks may pay to the parent company without prior approval is 75% of the current year earnings plus 75% of the retained net earnings of the preceding year. Since the Bank is also under supervision of the Federal Reserve, it is further limited if the total of all dividends declared in any calendar year by the Bank exceeds the Bank's net profits to date for that year combined with its retained net profits for the preceding two years. During 2016, the Company requested approximately \$44.6 million in regular dividends from its banking subsidiary. This dividend is equal to approximately 24.2% of the Company's banking subsidiary's 2016 earnings.

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total, common Tier 1 equity and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes that, as of December 31, 2016, the Company meets all capital adequacy requirements to which it is subject.

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

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

The Federal Reserve Board’s risk-based capital guidelines include the definitions for (1) a well-capitalized institution, (2) an adequately-capitalized institution, and (3) an undercapitalized institution. Under Basel III, the criteria for a well-capitalized institution are now: a 6.5% “common equity Tier 1 risk-based capital” ratio, a 5% “Tier 1 leverage capital” ratio, an 8% “Tier 1 risk-based capital” ratio, and a 10% “total risk-based capital” ratio. As of December 31, 2016, the Bank met the capital standards for a well-capitalized institution. The Company’s “common equity Tier 1 risk-based capital” ratio, “Tier 1 leverage capital” ratio, “Tier 1 risk-based capital” ratio, and “total risk-based capital” ratio were 11.30%, 10.63%, 12.01%, and 12.97%, respectively, as of December 31, 2016.

The Company's actual capital amounts and ratios along with the Company's bank subsidiary are presented in the following table.

	Actual		Minimum Capital Requirement – Basel III Phase-In Schedule		Minimum Capital Requirement – Basel III Fully Phased-In		Minimum To Be Well-Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)								
As of December 31, 2016								
Common equity Tier 1 capital								
Home BancShares	\$ 938,754	11.30 %	\$ 425,762	5.125 %	\$ 581,529	7.00 %	\$ N/A	N/A %
Centennial Bank	920,232	11.10	424,882	5.125	580,326	7.00	538,875	6.50
Leverage ratios:								
Home BancShares	\$ 997,754	10.63 %	\$ 375,448	4.000 %	\$ 375,448	4.00 %	\$ N/A	N/A %
Centennial Bank	920,232	9.81	375,222	4.000	375,222	4.00	469,028	5.00
Tier 1 capital ratios:								
Home BancShares	\$ 997,754	12.01 %	\$ 550,385	6.625 %	\$ 706,154	8.50 %	\$ N/A	N/A %
Centennial Bank	920,232	11.10	549,238	6.625	704,682	8.50	663,230	8.00
Total risk-based capital ratios:								
Home BancShares	\$1,077,756	12.97 %	\$ 716,704	8.625 %	\$ 872,509	10.50 %	\$ N/A	N/A %
Centennial Bank	1,000,234	12.07	714,749	8.625	870,129	10.50	828,694	10.00
As of December 31, 2015								
Common equity Tier 1 capital								
Home BancShares	\$ 809,515	10.50 %	\$ 346,935	4.50 %	\$ 539,677	7.00 %	\$ N/A	N/A %
Centennial Bank	782,100	10.18	345,722	4.50	537,790	7.00	499,376	6.50
Leverage ratios:								
Home BancShares	\$ 868,515	9.91 %	\$ 350,561	4.00 %	\$ 350,561	4.00 %	\$ N/A	N/A %
Centennial Bank	782,100	8.93	350,325	4.00	350,325	4.00	437,906	5.00
Tier 1 capital ratios:								
Home BancShares	\$ 868,515	11.26 %	\$ 462,797	6.00 %	\$ 655,629	8.50 %	\$ N/A	N/A %
Centennial Bank	782,100	10.18	460,963	6.00	653,030	8.50	614,617	8.00
Total risk-based capital ratios:								
Home BancShares	\$ 937,739	12.16 %	\$ 616,934	8.00 %	\$ 809,725	10.50 %	\$ N/A	N/A %
Centennial Bank	851,324	11.08	614,674	8.00	806,760	10.50	768,343	10.00

23. Additional Cash Flow Information

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

In connection with the FBBI acquisition, accounted for using the purchase method, the Company acquired approximately \$564.5 million in assets, assumed \$480.7 million in liabilities, issued 2,079,854 shares of its common stock valued at approximately \$83.8 million as of October 1, 2015 to the shareholders of FBBI, plus approximately \$20.3 million in cash in exchange for all outstanding shares of FBBI common stock.

The following is summary of the Company's additional cash flow information during the years ended December 31:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(In thousands)		
Interest paid	\$ 30,463	\$ 21,040	\$ 19,002
Income taxes paid	81,900	79,740	25,612
Assets acquired by foreclosure	10,957	19,874	17,383

24. Condensed Financial Information (Parent Company Only)

Condensed Balance Sheets

(In thousands)	December 31,	
	2016	2015
Assets		
Cash and cash equivalents	\$ 53,589	\$ 68,674
Investment securities	7,873	6,888
Investments in wholly-owned subsidiaries	1,307,811	1,172,723
Investments in unconsolidated subsidiaries	1,826	1,826
Premises and equipment	7,126	5,927
Other assets	12,107	6,878
Total assets	<u>\$ 1,390,332</u>	<u>\$ 1,262,916</u>
Liabilities		
Subordinated debentures	\$ 60,826	\$ 60,826
Other liabilities	2,016	2,333
Total liabilities	<u>62,842</u>	<u>63,159</u>
Stockholders' Equity		
Common stock	1,405	701
Capital surplus	869,737	867,981
Retained earnings	455,948	326,898
Accumulated other comprehensive income (loss)	400	4,177
Total stockholders' equity	<u>1,327,490</u>	<u>1,199,757</u>
Total liabilities and stockholders' equity	<u>\$ 1,390,332</u>	<u>\$ 1,262,916</u>

Condensed Statements of Income

(In thousands)	Years Ended December 31,		
	2016	2015	2014
Income			
Dividends from banking subsidiary	\$ 44,623	\$ 76,168	\$ 84,436
Other income	608	51	50
Total income	45,231	76,219	84,486
Expenses	12,514	8,387	5,938
Income before income taxes and equity in undistributed net income of subsidiaries	32,717	67,832	78,548
Tax benefit for income taxes	4,787	3,048	2,363
Income before equity in undistributed net income of subsidiaries	37,504	70,880	80,911
Equity in undistributed net income of subsidiaries	139,642	67,319	32,152
Net income	<u>\$ 177,146</u>	<u>\$ 138,199</u>	<u>\$ 113,063</u>

Condensed Statements of Cash Flows

(In thousands)	Years Ended December 31,		
	2016	2015	2014
Cash flows from operating activities			
Net income	\$ 177,146	\$ 138,199	\$ 113,063
Items not requiring (providing) cash			
Depreciation	141	-	-
Amortization/(accretion)	176	-	-
Share-based compensation	6,628	3,925	2,073
Tax benefit from stock options exercised	(4,154)	(605)	(1,225)
(Gain) loss on assets	(410)		
Equity in undistributed income of subsidiaries	(139,642)	(67,319)	(32,152)
Changes in other assets	5,888	5,308	(6,489)
Changes in other liabilities	(6,694)	(576)	1,955
Net cash provided by (used in) operating activities	<u>39,079</u>	<u>78,932</u>	<u>77,225</u>
Cash flows from investing activities			
Purchases of premises and equipment, net	(7,273)	(5,927)	-
Proceeds from sale of premises and equipment, net	3,293	-	-
Capital contribution to subsidiary	(24)	-	-
Centennial Trust merger	-	-	366
Purchase of Florida Traditions Bank	-	-	(5)
Purchase of Broward Financial Holdings, Inc.	-	-	(3,188)
Purchase of Florida Business BancGroup, Inc.	-	(17,445)	-
Proceeds from sale of investment securities	2,104	-	-
Purchase of investment securities	-	(6,946)	-
Net cash provided by (used in) investing activities	<u>(1,900)</u>	<u>(30,318)</u>	<u>(2,827)</u>
Cash flows from financing activities			
Proceeds from exercise of stock options	1,495	389	574
Common stock issuance costs – market acquisitions	-	(60)	(331)
Tax benefit from stock options exercised	4,154	605	1,225
Repurchase of common stock	(9,817)	(2,015)	-
Disgorgement of profits	-	-	25
Dividends paid	(48,096)	(37,580)	(23,170)
Net cash provided by (used in) financing activities	<u>(52,264)</u>	<u>(38,661)</u>	<u>(21,677)</u>
Increase (decrease) in cash and cash equivalents	<u>(15,085)</u>	<u>9,953</u>	<u>52,721</u>
Cash and cash equivalents, beginning of year	<u>68,674</u>	<u>58,721</u>	<u>6,000</u>
Cash and cash equivalents, end of year	<u>\$ 53,589</u>	<u>\$ 68,674</u>	<u>\$ 58,721</u>

25. Recent Accounting Pronouncements

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

The guidance issued in ASU 2014-09, ASU 2015-14, ASU 2016-10 and ASU 2016-12 permit two implementation approaches, one requiring retrospective application of the new standard with restatement of prior years and one requiring prospective application of the new standard with disclosure of results under old standards. The Company plans to adopt the new standard effective January 1, 2018 and apply it prospectively. We are currently evaluating the impact this guidance will have on our consolidated financial statements. Only a portion of our revenues are impacted by this guidance because the guidance does not apply to revenue on contracts accounted for under the financial instruments or insurance contracts standards. Our evaluation process includes, but is not limited to, identifying contracts within the scope of the guidance, reviewing and documenting our accounting for these contracts, and identifying and determining the accounting for any related contract costs. We are also identifying and implementing changes to the Company's business processes, systems and controls to support adoption of the new standard in 2018.

In June 2014, the FASB issued ASU 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*, impacting FASB ASC 860, *Transfers and Servicing*. Generally, an award with a performance target requires an employee also render service once the performance target is achieved. In some cases, however, the terms of an award may provide that the performance target could be achieved after an employee completes the requisite service period. The amendments in this update require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. An entity should apply this guidance as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period for which the service has already been rendered. The amendments in this update became effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. The Company adopted the new guidance on the consolidated financial statements, effective January 1, 2016, which made no impact to the Company's financial position, results of operations or its financial statement disclosures.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, which amends the consolidation requirements of ASU 810 by changing the consolidation analysis required under GAAP. The revised guidance amends the consolidation analysis based on certain fee arrangements or relationships to the reporting entity and, for limited partnerships, requires entities to consider the limited partner's rights relative to the general partner. ASU 2015-02 became effective for annual and interim periods beginning after December 15, 2015. The Company adopted the new guidance on the consolidated financial statements, effective January 1, 2016, which made no impact to the Company's financial position, results of operations or its financial statement disclosures.

In September 2015, the FASB issued ASU 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*. ASU 2015-16 requires entities to recognize measurement period adjustments during the reporting period in which the adjustments are determined. The income effects, if any, of a measurement period adjustment are cumulative and are to be reported in the period in which the adjustment to a provisional amount is determined. Also, ASU 2015-16 requires presentation on the face of the income statement or in the notes, the effect of the measurement period adjustment as if the adjustment had been recognized at acquisition date. ASU 2015-16 is effective for fiscal periods beginning after December 15, 2015 for public business entities and should be applied prospectively to measurement period adjustments that occur after the effective date. The Company adopted the new guidance on the consolidated financial statements, effective January 1, 2016, which made no impact to the Company's financial position, results of operations or its financial statement disclosures.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. Changes to the current GAAP model primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, ASU 2016-01 clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale securities. The new guidance is effective for annual reporting period and interim reporting periods within those annual periods, beginning after December 15, 2017. Management is currently evaluating the impact of the adoption of this guidance to the Company's financial statements, but does not anticipate the guidance to have a material effect on the Company's financial position or results of operations as the Company's equity investments are immaterial. However, the amendments will have an impact on certain items that are disclosed at fair value that are not currently utilizing the exit price notion when measuring fair value. At this time, the Company cannot quantify the change in the fair value of such disclosures since the Company is currently evaluating the full impact of the standards and is in the planning stages of developing appropriate procedures and processes to comply with the disclosure requirements of such amendments. The current accounting policies and procedures will be adjusted after the Company has fully evaluated the standard to comply with the accounting changes mentioned above. For additional information on fair value of assets and liabilities, see Note 21.

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

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company adopted the amendments effective January 1, 2017. The Company has a stock-based compensation plan for which the ASU 2016-09 guidance results in the associated excess tax benefits or deficiencies being recognized as tax expense or benefit in the income statement instead of the previous accounting treatment, which requires excess tax benefits to be recognized as an adjustment to additional paid-in capital and excess tax deficiencies to be recognized as either an offset to accumulated excess tax benefits, if any, or to the income statement. In addition, such amounts are now classified as an operating activity in the statement of cash flows instead of the current accounting treatment, which required it to be classified as both an operating and a financing activity. The Company's stock-based compensation plan has not historically generated material amounts of excess tax benefits or deficiencies and, therefore, the Company does not anticipate a material change in the Company's financial position or results of operation as a result of the adoption of ASU 2016-09. The Company has implemented the new processes which did not result in a significant change. For additional information on the stock-based compensation plan, see Note 14.

In May 2016, the FASB issued ASU 2016-11, *Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting (SEC Update)*, which rescinds certain SEC guidance from the FASB Accounting Standards Codification in response to announcements made by the SEC staff at the Emerging Issues Task Force's ("EITF") March 3, 2016, meeting. ASU 2016-11 is effective at the same time as ASU 2014-09 and ASU 2014-16. The Company is currently evaluating the impact, if any, ASU 2016-11 will have on its financial position, results of operations, and its financial statement disclosures. Our evaluation process includes, but is not limited to, identifying transactions and accounts within the scope of the guidance, reviewing our accounting and disclosures for these transactions and accounts, and identifying and implementing any necessary changes to our accounting and disclosures as a result of the guidance. We are also identifying and implementing changes to the Company's business processes, systems and controls to support adoption of the new standard.

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

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, which amends the guidance in ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of ASU 2016-15 is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. ASU 2016-15's amendments add or clarify guidance on eight cash flow issues including debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies; including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted and the guidance must be applied retrospectively to all periods presented but may be applied prospectively from the earliest date practicable if retrospective application would be impracticable. The Company is currently evaluating the impact, if any, ASU 2016-15 will have on its financial position, results of operations, and its financial statement disclosures. Our evaluation process includes, but is not limited to, identifying transactions and accounts within the scope of the guidance, reviewing our accounting and disclosures for these transactions and accounts, and identifying and implementing any necessary changes to our accounting and disclosures as a result of the guidance. We are also identifying and implementing changes to the Company's business processes, systems and controls to support adoption of the new standard.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*, which requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings at the beginning period of adoption. Early adoption is permitted in the first interim period of an annual reporting period for which financial statements have not been issued. The Company is currently evaluating the impact, if any, ASU 2016-16 will have on its financial position, results of operations, and its financial statement disclosure. Our evaluation process includes, but is not limited to, identifying transactions and accounts within the scope of the guidance, reviewing our accounting and disclosures for these transactions and accounts, and identifying and implementing any necessary changes to our accounting and disclosures as a result of the guidance. We are also identifying and implementing changes to the Company's business processes, systems and controls to support adoption of the new standard.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows, and, as a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. An entity with a material balance of restricted cash and restricted cash equivalents must disclose information about the nature of the restrictions. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted and the new guidance must be applied retrospectively to all periods presented. The Company is currently evaluating the impact, if any, ASU 2016-18 will have on its financial position, results of operations, and its financial statement disclosure. Our evaluation process includes, but is not limited to, identifying transactions and accounts within the scope of the guidance, reviewing our accounting and disclosures for these transactions and accounts, and identifying and implementing any necessary changes to our accounting and disclosures as a result of the guidance. We are also identifying and implementing changes to the Company's business processes, systems and controls to support adoption of the new standard.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which provides guidance to entities to assist with evaluating when a set of transferred assets and activities (collectively, the "set") is a business and provides a screen to determine when a set is not a business. Under the new guidance, when substantially all of the fair value of gross assets acquired (or disposed of) is concentrated in a single identifiable asset, or group of similar assets, the assets acquired would not represent a business. Also, to be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to produce outputs. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and should be applied on a prospective basis to any transactions occurring within the period of adoption. Early adoption is permitted for interim or annual periods in which the financial statements have not been issued. The Company is currently evaluating the impact, if any, ASU 2017-01 will have on its financial position, results of operations, and its financial statement disclosure. Our evaluation process includes, but is not limited to, identifying transactions and accounts within the scope of the guidance, reviewing our accounting and disclosures for these transactions and accounts, and identifying and implementing any necessary changes to our accounting and disclosures as a result of the guidance. We are also identifying and implementing changes to the Company's business processes, systems and controls to support adoption of the new standard.

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

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminates the requirement to determine the fair value of individual assets and liabilities of a reporting unit to measure goodwill impairment. Under the amendments in the new ASU, goodwill impairment testing will be performed by comparing the fair value of the reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss should not exceed the total amount of goodwill allocated to that reporting unit. The new standard is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and should be applied on a prospective basis. Early adoption is permitted for annual or interim goodwill impairment testing performed after January 1, 2017. The Company has goodwill from prior business combinations and performs an annual impairment test or more frequently if changes or circumstances occur that would more-likely-than-not reduce the fair value of the reporting unit below its carrying value. During 2016, the Company performed its impairment assessment and determined the fair value of the aggregated reporting units exceed the carrying value, such that the Company's goodwill was not considered impaired. Although the Company cannot anticipate future goodwill impairment assessments, based on the most recent assessment it is unlikely that an impairment amount would need to be calculated and, therefore, does not anticipate a material impact from these amendments to the Company's financial position and results of operations. The current accounting policies and processes are not anticipated to change, except for the elimination of the Step 2 analysis.

26. Subsequent Events

Business Combination – Giant Holdings, Inc. – On February 23, 2017, the Company completed its acquisition of Giant Holdings, Inc. (“GHI”), parent company of Landmark Bank, N.A. (“Landmark”), pursuant to a previously announced definitive agreement and plan of merger whereby GHI merged with and into HBI and, immediately thereafter, Landmark merged with and into Centennial. The Company paid a purchase price to the GHI shareholders of approximately \$96.0 million for the GHI acquisition. Under the terms of the agreement, shareholders of GHI received approximately 2,738,000 shares of its common stock valued at approximately \$77.5 million as of February 23, 2017, plus approximately \$18.5 million in cash in exchange for all outstanding shares of GHI common stock.

GHI formerly operated six branch locations in the Ft. Lauderdale, Florida area. Excluding the effects of any purchase accounting adjustments, as of January 31, 2017, GHI had approximately \$396.9 million in total assets, \$329.4 million in loans, and \$302.6 million in deposits. Upon completion of the acquisition, the Company will have approximately \$10.21 billion in total assets.

Certain fair value measurements and the purchase price allocation have not been completed due to the timing of the acquisition and the number of assets acquired and liabilities assumed. We will continue to review the estimated fair values of property and equipment, intangible assets, and other assets and liabilities, and to evaluate the assumed tax positions and contingencies.

Business Combination – The Bank of Commerce – On December 1, 2016, the Company entered into an acquisition agreement with Bank of Commerce Holdings, Inc. (“BOCH”), a Florida corporation and bank holding company. Under the terms and conditions set forth in the acquisition agreement, HBI has agreed to purchase all of the issued and outstanding shares of common stock of BOCH’s wholly-owned subsidiary, The Bank of Commerce (“BOC”), a Florida state-chartered bank that operates in the Sarasota, Florida area, for a cash purchase price of \$3,750,000 plus up to an additional \$400,000 in expense reimbursement for approved administrative claims. The purchase price includes the discounted purchase of certain subordinated debentures issued by BOC, which HBI or Centennial will acquire from the existing holders of the subordinated debentures as a condition to the closing of the acquisition. Immediately following the closing of the acquisition, HBI intends to merge BOC with and into Centennial.

As of December 31, 2016, BOC had approximately \$182.6 million in total assets, \$126.1 million in loans and \$142.2 million in customer deposits. BOC is conducting banking business from three locations in Sarasota (two) and Lakewood Ranch (one), Florida.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No items are reportable.

Item 9A. CONTROLS AND PROCEDURES**Evaluation of Disclosure Controls and Procedures.**

An evaluation as of the end of the period covered by this annual report was carried out under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our “disclosure controls and procedures,” which are defined under SEC rules as controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods and that such information is accumulated and communicated to the company’s management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective. As a result of this evaluation, there were no significant changes in the Company’s disclosure controls or in other factors that could significantly affect those controls subsequent to the date of evaluation.

Management’s Report on Internal Control Over Financial Reporting

The information required by Item 308(a) and 308(b) of Regulation S-K regarding management’s annual report on internal control over financial reporting and the audit report of the independent registered public accounting firm is contained in “Item 8. Financial Statements and Supplementary Data” and is incorporated herein by this reference.

Changes in Internal Control Over Financial Reporting

The Company's management, including the Company's Chief Executive Officer and its Chief Financial Officer regularly review our internal controls and procedures and make changes intended to ensure the quality of our financial reporting. There were no changes in our internal control over financial reporting during the Company's fourth quarter of 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. OTHER INFORMATION

No items are reportable.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held April 20, 2017, to be filed pursuant to Regulation 14A.

Item 11. EXECUTIVE COMPENSATION

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held April 20, 2017, to be filed pursuant to Regulation 14A.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held April 20, 2017, to be filed pursuant to Regulation 14A.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held April 20, 2017, to be filed pursuant to Regulation 14A.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held April 20, 2017, to be filed pursuant to Regulation 14A.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this report:

- (a) 1 and 2. Financial Statements and any Financial Statement Schedules

The financial statements and financial statement schedules listed in the accompanying index to the consolidated financial statements and financial statement schedules are filed as part of this report.

- (b) Listing of Exhibits.

Exhibit No.	
2.1	Agreement and Plan of Merger among Home Bancshares, Inc., Centennial Bank, Liberty Bancshares, Inc., Liberty Bank of Arkansas and Acquisition Sub dated June 25, 2013 (incorporated by reference to Exhibit 2.1 of Home BancShares's Current Report on Form 8-K/A filed on June 27, 2013)
2.2	First Amendment to Agreement and Plan of Merger among Home Bancshares, Inc., Centennial Bank, Liberty Bancshares, Inc., Liberty Bank of Arkansas and Acquisition Sub dated July 31, 2013 (incorporated by reference to Exhibit 2.1 of Home BancShares's Current Report on Form 8-K filed on August 2, 2013)
2.3	Agreement and Plan of Merger among Home Bancshares, Inc., Centennial Bank, and Florida Traditions Bank dated April 25, 2014 (incorporated by reference to Exhibit 2.1 of Home BancShares's Current Report on Form 8-K filed on April 28, 2014)
2.4	Agreement and Plan of Merger among Home Bancshares, Inc., Centennial Bank, Broward Financial Holdings, Inc., Broward Bank of Commerce and HOMB Acquisition Sub II, Inc. dated July 30, 2014 (incorporated by reference to Exhibit 2.1 of Home BancShares's Current Report on Form 8-K filed on July 31, 2014)
2.5	Purchase and Assumption Agreement Between Banco Popular de Puerto Rico and Centennial Bank, dated as of February 18, 2015 (incorporated by reference to Exhibit 2.1 of Home BancShares's Current Report on Form 8-K/A filed on March 4, 2015)
2.6	Purchase and Assumption Agreement all Deposits among Federal Deposit Insurance Corporation, Receiver of Doral Bank. San Juan Puerto Rico, Puerto Rico Federal Deposit Insurance Corporation and Banco Popular de Puerto Rico, dated as of February 27, 2015 (incorporated by reference to Exhibit 10.25 to Banco Popular de Puerto Rico's Annual Report on Form 10-K for the year ended December 31, 2014, filed by Banco Popular de Puerto Rico on March 2, 2015 (Commission File No. 001-34084))
2.7	Agreement and Plan of Merger among Home Bancshares, Inc., Centennial Bank, Florida Business BancGroup, Inc. and Bay Cities Bank (incorporated by reference to Exhibit 2.1 of Home BancShares's Current Report on Form 8-K filed on June 22, 2015)
2.8	Agreement and Plan of Merger by and among Home BancShares, Inc., Centennial Bank, Giant Holdings, Inc., and Landmark Bank, N.A., dated November 7, 2016. (incorporated by reference to Exhibit 2.1 of Home BancShares's Current Report on Form 8-K/A filed on November 10, 2016)
2.9	Amendment to Agreement and Plan of Merger by and among Home BancShares, Inc., Centennial Bank, Giant Holdings, Inc., and Landmark Bank, N.A., dated December 7, 2016. (incorporated by reference to Appendix A of Home BancShares's registration statement on Form S-4 (File No. 333-214957), as amended)
2.10	Acquisition Agreement By and Between Home BancShares, Inc. and Bank of Commerce Holdings, Inc., dated December 1, 2016 (incorporated by reference to Exhibit 2.1 of Home BancShares's Current Report on Form 8-K filed on December 7, 2016)
3.3	Second Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.3 of Home BancShares's registration statement on Form S-1 (File No. 333-132427), as amended)
3.4	Third Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.4 of Home BancShares's registration statement on Form S-1 (File No. 333-132427), as amended)

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ C. Randall Sims
C. Randall Sims
Chief Executive Officer

Date: February 28, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities indicated as of February 28, 2017.

<u>/s/ John W. Allison</u> John W. Allison Chairman of the Board of Directors	<u>/s/ C. Randall Sims</u> C. Randall Sims Chief Executive Officer , President and Director (Principal Executive Officer)	<u>/s/ Brian S. Davis</u> Brian S. Davis Chief Financial Officer, Treasurer and Director (Principal Financial Officer)
<u>/s/ Milburn Adams</u> Milburn Adams Director	<u>/s/ Robert H. Adcock, Jr.</u> Robert H. Adcock, Jr. Vice Chairman of the Board of Directors	<u>/s/ Richard H. Ashley</u> Richard H. Ashley Director
<u>/s/ Mike Beebe</u> Mike Beebe Director	<u>/s/ Dale A. Bruns</u> Dale A. Bruns Director	<u>/s/ Jack E. Engelkes</u> Jack E. Engelkes Director
<u>/s/ Tracy M. French</u> Tracy M. French Director	<u>/s/ James G. Hinkle</u> James G. Hinkle Director	<u>/s/ Alex R. Lieblong</u> Alex R. Lieblong Director
<u>/s/ Thomas J. Longe</u> Thomas J. Longe Director	<u>/s/ Jennifer C. Floyd</u> Jennifer C. Floyd Chief Accounting Officer and Investor Relations Officer (Principal Accounting Officer)	

Home BancShares, Inc.
Computation of Ratios of Earnings to Fixed Charges

Exhibit 12.1

Exhibit	Year Ended December 31,				
	2016	2015	2014	2013	2012
<i>(Dollars in thousands)</i>					
<u>Fixed Charges and Preferred Dividends</u>					
Interest expense	\$ 28,986	\$ 20,370	\$ 17,557	\$ 14,013	\$ 19,761
Capital debt expense Trust Preferred	1,593	1,354	1,313	518	1,774
Estimated interest in rent	784	779	751	515	435
Preferred dividends (E)	-	-	-	-	-
Combined fixed charges and preferred dividends (B)	31,363	22,503	19,621	15,046	21,970
Less: interest on deposits	15,926	12,971	12,796	9,744	14,989
Combined fixed charges and preferred dividends excluding interest on deposits (D)	<u>\$ 15,437</u>	<u>\$ 9,532</u>	<u>\$ 6,825</u>	<u>\$ 5,302</u>	<u>\$ 6,981</u>
<u>Earnings</u>					
Pre-tax income from continuing operations	\$ 282,646	\$ 218,491	\$ 177,173	\$ 104,473	\$ 98,451
Fixed charges and preferred dividends	31,363	22,503	19,621	15,046	21,970
Total earnings (A)	314,009	240,994	196,794	119,519	120,421
Less: interest on deposits	15,926	12,971	12,796	9,744	14,989
Total earnings excluding interest on deposits (C)	<u>\$ 298,083</u>	<u>\$ 228,023</u>	<u>\$ 183,998</u>	<u>\$ 109,775</u>	<u>\$ 105,432</u>
<u>Ratio of earnings to fixed charges</u>					
Ratio, including interest on deposits (A/(B-E))	10.01 x	10.71 x	10.03 x	7.94 x	5.48 x
Ratio, excluding interest on deposits (C/(D-E))	19.31 x	23.92 x	26.96 x	20.70 x	15.10 x
<u>Ratio of earnings to fixed charges & preferred dividends</u>					
Ratio, including interest on deposits (A/B)	10.01 x	10.71 x	10.03 x	7.94 x	5.48 x
Ratio, excluding interest on deposits (C/D)	19.31 x	23.92 x	26.96 x	20.70 x	15.10 x

Consent of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders
Home BancShares, Inc.
Conway, Arkansas

We consent to the incorporation by reference in the registration statement of Home BancShares, Inc. on Forms S-8 (Nos. 333-136645, 333-148763, 333-151843, 333-188591 and 333-211116) and Form S-3 (No. 333-208307) of our reports dated February 28, 2017, on our audits of the consolidated financial statements of Home BancShares, Inc. as of December 31, 2016 and 2015, and for the years ended December 31, 2016, 2015 and 2014, which is included in the Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 28, 2017, on our audit of the internal control over financial reporting of Home BancShares, Inc. as of December 31, 2016, which is included in the Annual Report on Form 10-K.

/s/ **BKD, LLP**

Little Rock, Arkansas
February 28, 2017

I, C. Randall Sims, certify that:

1. I have reviewed this annual report on Form 10-K of Home BancShares, Inc. for the period ended December 31, 2016;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
 - d) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2017

/s/C. Randall Sims

C. Randall Sims
Chief Executive Officer

I, Brian S. Davis, certify that:

1. I have reviewed this annual report on Form 10-K of Home BancShares, Inc. for the period ended December 31, 2016;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
 - d) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2017

/s/ Brian S. Davis

Brian S. Davis
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Annual Report of Home BancShares, Inc. (the Company) on Form 10-K for the period ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, C. Randall Sims, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2017

/s/ C. Randall Sims

C. Randall Sims
Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Annual Report of Home BancShares, Inc. (the Company) on Form 10-K for the period ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Brian S. Davis, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2017

/s/ Brian S. Davis

Brian S. Davis

Chief Financial Officer

Centennial Bank Regional Boards

CENTENNIAL BANK BOARD OF DIRECTORS

Milburn Adams
Robert H. Adcock, Jr.
John W. Allison**
Richard H. Ashley
Dale A. Bruns
Brian S. Davis
Jack E. Engelkes
Bill Farris
Tracy M. French
Kevin D. Hester
Alex R. Lieblong°
Jim Rankin
Randy Sims

MOUNTAIN VIEW

James G. Hinkle*
Stotts Isbell
Eddie Jack Mitchell
Kenneth Sutton
Kenny J. Wyatt

TALLAHASSEE

Michael "Darrah" Bryant, DMD
Joseph L. Camps Jr., MD*
Peter "Trey" Desantis
Chase McNeill
Erin Ennis

LITTLE ROCK

Blair Allen
John W. Allison
W. W. "Bill" Arnold
Richard H. Ashley*
John S. Bailey
Bob Birch
Dale A. Bruns
Sharon Davis
Rick Ferguson
Dr. Agustin Fernandez
Barbara Graves
Stuart W. Hankins
Jim Kincannon
Tom Prince
Larry Ross
Randy Sims

SOUTH FLORIDA

John W. Allison
Dale A. Bruns
Teresa J. Condas
Thomas J. Longe
Gerald E. Mayette
Scott G. Oropeza*
Joseph H. Roth, III
Ed Wotitzky

NORTH ARKANSAS

Brandon Adams
Sonny Campbell
Davy Carter*
Susan Cathcart
Doug Falls
Danny Ford
Stacy Greene
Scott Hancock
Ted Herget
Mike Langford
Charles Luter
Bobby McDaniel
Terry Mohajir
Deana Osment
Randy Woodard

CABOT

John W. Allison
Richard H. Ashley
Cathy Eoff
Will Feland
Tracy M. French
John P. Hayes
Jerry Jones
Mark Lowman
Randy Sims
Stephen P. Tipton
Jerry Waymack*
Larry Wood
Joan Zumwalt

SOUTHEAST FLORIDA

John H. Baker
David A. Druey
Stephen Greep Jr.
Bryan J. Haagenon
Karen Marsal
Paul M. Sallarulo
Gregory C. Sandefur
John P. "Jack" Seiler*
E. Clay Shaw, III

CENTRAL FLORIDA

Allen Altman
Len Johnson
Dale Maggard
Bill Nye
Ronnie Oakley
Randall Phillips
Charles Waller
James S. "Bud" Stalnaker Jr.*

* Regional Board Chairman

** Board Chairman

° Advisory Director

Corporate Information

CORPORATE HEADQUARTERS

Home BancShares, Inc.
719 Harkrider St., Suite 100 • P.O. Box 966
Conway, Arkansas 72033

STOCK LISTING

Home BancShares, Inc. is listed and trades on the NASDAQ Global Select Market under the symbol HOMB.

SHAREHOLDERS' MEETING

Thursday, April 20, 2017, 6:30 p.m.
Centennial Valley Event Center
1600 Centennial Club Drive
Conway, AR 72034

WEBSITE

www.homebancshares.com

FINANCIAL INFORMATION

Analysts and investors seeking financial information about Home BancShares, Inc. should contact:

Jennifer C. Floyd, Chief Accounting
Officer and Investor Relations Officer
(501) 339-2929
JFloyd@homebancshares.com

PUBLIC ACCOUNTING FIRM

BKD, LLP
Little Rock, Arkansas

LEGAL COUNSEL

Mitchell, Williams, Selig, Gates & Woodyard,
PLLC
Little Rock, Arkansas

TRANSFER AGENT & REGISTRAR

Shareholder correspondence should be mailed to:

Computershare
P.O. BOX 30170
College Station, TX 77842-3170

Overnight correspondence should be sent to:

Computershare
211 Quality Circle, Suite 210
College Station, TX 77845

Shareholder Website:

www.computershare.com/investor

Shareholder Online Inquiries:

<https://www-us.computershare.com/investor/Contact>