HOME BANCSHARES INC
Form 10-Q
November 06, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended September 30, 2014

or

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

Commission File Number: 000-51904

HOME BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

(501) 328-4770

(Registrant s telephone number, including area code)

Not Applicable

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

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

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

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

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

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

Common Stock Issued and Outstanding: 67,530,400 shares as of October 31, 2014.

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FORM 10-Q

September 30, 2014

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this Cautionary Note. Our actual results may differ significantly from those we discuss in these forward-looking statements. For other factors, risks and uncertainties that could cause our actual results to differ materially from estimates and projections contained in these forward-looking statements, see the Risk Factors section of our Form 10-K filed with the Securities and Exchange Commission on February 28, 2014.

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PART I: FINANCIAL INFORMATION

Item 1: Financial Statements

Home BancShares, Inc.

Consolidated Balance Sheets

(In thousands, except share data)	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Cash and due from banks	$ 109,067	$ 104,005
Interest-bearing deposits with other banks	28,416	61,529
Cash and cash equivalents	137,483	165,534
Federal funds sold	44,275	4,275
Investment securities available-for-sale	1,067,617	1,175,484
Investment securities held-to-maturity	296,036	114,621
Loans receivable not covered by loss share	4,583,015	4,194,437
Loans receivable covered by FDIC loss share	250,970	282,516
Allowance for loan losses	(52,844)	(43,815)
Loans receivable, net	4,781,141	4,433,138
Bank premises and equipment, net	211,726	197,224
Foreclosed assets held for sale not covered by loss share	19,367	29,869
Foreclosed assets held for sale covered by FDIC loss share	13,513	20,999
FDIC indemnification asset	42,104	89,611
Cash value of life insurance	70,913	63,501
Accrued interest receivable	23,366	22,944
Deferred tax asset, net	68,070	89,412
Goodwill	313,320	301,736
Core deposit and other intangibles	21,004	22,298
Other assets	86,436	81,215
Total assets	$ 7,196,371	$ 6,811,861
Liabilities and Stockholders Equity		
Deposits:		
Demand and non-interest-bearing	$ 1,170,441	$ 991,161
Savings and interest-bearing transaction accounts	2,830,829	2,792,423
Time deposits	1,276,001	1,609,462
Total deposits	5,277,271	5,393,046
Securities sold under agreements to repurchase	160,895	160,984
FHLB borrowed funds	713,553	350,661

Accrued interest payable and other liabilities		25,145		5,389
Subordinated debentures		60,826		60,826
Total liabilities		6,237,690		5,970,906
Stockholders equity:				
Common stock, par value $0.01; shares authorized 100,000,000 in 2014 and 2013; shares issued and outstanding 66,483,123 in 2014 and 65,081,853 in 2013		665		651
Capital surplus		749,573		708,058
Retained earnings		203,107		136,386
Accumulated other comprehensive income (loss)		5,336		(4,140)
Total stockholders equity		958,681		840,955
Total liabilities and stockholders equity	$	7,196,371	$	6,811,861

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.

Consolidated Statements of Income

(In thousands, except per share data)	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
	(Unaudited)			
Interest income:				
Loans	$ 75,917	$ 45,003	$ 226,334	$ 133,198
Investment securities				
Taxable	4,905	2,645	14,137	7,538
Tax-exempt	2,552	1,507	7,248	4,455
Deposits other banks	20	19	73	203
Federal funds sold	7	2	35	15
Total interest income	83,401	49,176	247,827	145,409
Interest expense:				
Interest on deposits	3,243	1,810	9,722	6,424
Federal funds purchased	2	3	2	3
FHLB borrowed funds	1,035	910	2,933	2,926
Securities sold under agreements to repurchase	186	87	536	253
Subordinated debentures	330	16	986	263
Total interest expense	4,796	2,826	14,179	9,869
Net interest income	78,605	46,350	233,648	135,540
Provision for loan losses	4,241		17,294	850
Net interest income after provision for loan losses	74,364	46,350	216,354	134,690
Non-interest income:				
Service charges on deposit accounts	6,275	4,072	18,379	11,869
Other service charges and fees	5,977	3,671	17,641	10,587
Trust fees	306	15	1,065	51
Mortgage lending income	1,901	1,527	5,215	4,518
Insurance commissions	984	519	3,334	1,642
Income from title services	59	156	162	401
Increase in cash value of life insurance	322	203	891	601
Dividends from FHLB, FRB, Bankers bank & other	389	179	1,206	755
Gain on sale of SBA loans	183	79	183	135
Gain (loss) on sale of premises and equipment, net	(35)	303	419	712
Gain (loss) on OREO, net	529	777	1,927	1,304
Gain (loss) on securities, net				111

FDIC indemnification accretion/(amortization), net	(6,947)	(3,177)	(18,313)	(7,452)
Other income	888	994	2,442	2,914
Total non-interest income	10,831	9,318	34,551	28,148
Non-interest expense:				
Salaries and employee benefits	19,368	12,981	57,114	38,890
Occupancy and equipment	6,234	4,010	18,711	11,498
Data processing expense	1,801	1,114	5,387	3,855
Other operating expenses	15,414	8,610	39,582	24,190
Total non-interest expense	42,817	26,715	120,794	78,433
Income before income taxes	42,378	28,953	130,111	84,405
Income tax expense	15,007	10,590	46,974	30,835
Net income	$ 27,371	$ 18,363	$ 83,137	$ 53,570
Basic earnings per share	$ 0.41	$ 0.33	$ 1.27	$ 0.96
Diluted earnings per share	$ 0.41	$ 0.33	$ 1.26	$ 0.95

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.

Consolidated Statements of Comprehensive Income

(In thousands)	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
	(Unaudited)			
Net income	$ 27,371	$ 18,363	$ 83,137	$ 53,570
Net unrealized gain (loss) on available-for-sale securities	1,071	(5,505)	15,594	(21,882)
Less: reclassification adjustment for realized (gains) losses included in income				(111)
Other comprehensive income (loss), before tax effect	1,071	(5,505)	15,594	(21,993)
Tax effect	(421)	2,160	(6,118)	8,628
Other comprehensive income (loss)	650	(3,345)	9,476	(13,365)
Comprehensive income	$ 28,021	$ 15,018	$ 92,613	$ 40,205

Home BancShares, Inc.

Consolidated Statements of Stockholders Equity

Nine Months Ended September 30, 2014 and 2013

(In thousands, except share data)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2013	$ 281	$ 416,354	$ 86,837	$ 12,001	$ 515,473
Comprehensive income:					
Net income			53,570		53,570
Other comprehensive income (loss)				(13,365)	(13,365)
Net issuance of 46,225 shares of common stock from exercise of stock options	1	275			276
2-for-1 stock split during June 2013	281	(281)			
Tax benefit from stock options exercised		339			339
Share-based compensation		940			940
Cash dividends Common Stock, $0.215 per share			(12,091)		(12,091)

Balances at September 30, 2013 (unaudited)	563	417,627	128,316	(1,364)	545,142
Comprehensive income:					
Net income			12,950		12,950
Other comprehensive income (loss)				(2,776)	(2,776)
Net issuance of 39,976 shares of common stock from exercise of stock options		155			155
Issuance of 8,763,930 shares of common stock from acquisition of Liberty, net of issuance costs of approximately $577	88	289,421			289,509
Tax benefit from stock options exercised		497			497
Share-based compensation		358			358
Cash dividends Common Stock, $0.075 per share			(4,880)		(4,880)
Balances at December 31, 2013	651	708,058	136,386	(4,140)	840,955
Comprehensive income:					
Net income			83,137		83,137
Other comprehensive income (loss)				9,476	9,476
Net issuance of 43,698 shares of common stock from exercise of stock options	1	207			208
Issuance of 1,316,072 shares of common stock from acquisition of Traditions, net of issuance costs of approximately $215	13	39,254			39,267
Disgorgement of profits		25			25
Tax benefit from stock options exercised		410			410
Share-based compensation		1,619			1,619
Cash dividends Common Stock, $0.25 per share			(16,416)		(16,416)
Balances at September 30, 2014 (unaudited)	$ 665	$ 749,573	$ 203,107	$ 5,336	$ 958,681

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.

Consolidated Statements of Cash Flows

(In thousands)	Nine Months Ended September 30, 2014	2013
	(Unaudited)	
Operating Activities		
Net income	$ 83,137	$ 53,570
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	7,492	4,908
Amortization/(accretion)	25,647	(732)
Share-based compensation	1,619	940
Tax benefits from stock options exercised	(410)	(339)
(Gain) loss on assets	(2,529)	(2,588)
Provision for loan losses	17,294	850
Deferred income tax effect	15,752	9,581
Increase in cash value of life insurance	(891)	(601)
Originations of mortgage loans held for sale	(169,905)	(167,903)
Proceeds from sales of mortgage loans held for sale	163,228	162,917
Changes in assets and liabilities:		
Accrued interest receivable	289	2,030
Indemnification and other assets	26,959	54,427
Accrued interest payable and other liabilities	19,166	5,381
Net cash provided by (used in) operating activities	186,848	122,441
Investing Activities		
Net (increase) decrease in federal funds sold	(39,730)	6,448
Net (increase) decrease in loans, excluding loans acquired	(131,200)	6,868
Purchases of investment securities available-for-sale	(79,543)	(299,305)
Proceeds from maturities of investment securities available-for-sale	212,629	159,613
Proceeds from sale of investment securities available-for-sale		167
Purchases of investment securities held-to-maturity	(194,240)	(9,536)
Proceeds from maturities of investment securities held-to-maturity	12,194	
Proceeds from foreclosed assets held for sale	34,307	27,352
Proceeds from sale of SBA loans		2,085
Purchases of premises and equipment, net	(3,680)	(9,950)
Death benefits received		540
Net cash proceeds (paid) received market acquisitions	13,315	
Net cash provided by (used in) investing activities	(175,948)	(115,718)
Financing Activities		

Net increase (decrease) in deposits, excluding deposits acquired	(383,123)	(234,634)
Net increase (decrease) in securities sold under agreements to repurchase	(89)	5,029
Net increase (decrease) in FHLB borrowed funds	360,249	139,844
Retirement of subordinated debentures		(25,000)
Proceeds from exercise of stock options	208	276
Disgorgement of profits	25	
Common stock issuance costs market acquisitions	(215)	
Tax benefits from stock options exercised	410	339
Dividends paid on common stock	(16,416)	(12,091)
Net cash provided by (used in) financing activities	(38,951)	(126,237)
Net change in cash and cash equivalents	(28,051)	(119,514)
Cash and cash equivalents beginning of year	165,534	231,855
Cash and cash equivalents end of period	$ 137,483	$ 112,341

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.

Condensed Notes to Consolidated Financial Statements

(Unaudited)

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Home BancShares, Inc. (the Company or HBI) is a bank holding company headquartered in Conway, Arkansas. The Company is primarily engaged in providing a full range of banking services to individual and corporate customers through its wholly owned community bank subsidiary Centennial Bank (the Bank). The Bank has locations in Arkansas, Florida and South Alabama. 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, the valuations of assets acquired and liabilities assumed in business combinations, covered loans and the related indemnification asset. In connection with the determination of the allowance for loan losses and the valuation of foreclosed assets, management obtains independent appraisals for significant properties.

Principles of Consolidation

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

Reclassifications

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

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Interim financial information

The accompanying unaudited consolidated financial statements as of September 30, 2014 and 2013 have been prepared in condensed format, and therefore do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

The information furnished in these interim statements reflects all adjustments, which are, in the opinion of management, necessary for a fair statement of the results for each respective period presented. Such adjustments are of a normal recurring nature. The results of operations in the interim statements are not necessarily indicative of the results that may be expected for any other quarter or for the full year. The interim financial information should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s 2013 Form 10-K, filed with the Securities and Exchange Commission.

Earnings per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands, except per share data)			
Net income	$ 27,371	$ 18,363	$ 83,137	$ 53,570
Average shares outstanding	66,223	56,256	65,499	56,238
Effect of common stock options	393	364	390	339
Average diluted shares outstanding	66,616	56,620	65,889	56,577
Basic earnings per share	$ 0.41	$ 0.33	$ 1.27	$ 0.96
Diluted earnings per share	$ 0.41	$ 0.33	$ 1.26	$ 0.95

2. Business Combinations

Acquisition Florida Traditions Bank

On July 17, 2014, the Company completed its acquisition of Florida Traditions Bank (Traditions) pursuant to a previously announced definitive agreement and plan of merger whereby Traditions merged with and into Centennial Bank (Centennial). Under the terms of the Agreement and Plan of Merger dated April 25, 2014, by and among HBI, Centennial, and Traditions, HBI issued 1,316,072 shares of its common stock valued at approximately $39.5 million as of July 17, 2014, 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. As of acquisition date, Traditions had $297.6 million in total assets, $241.6 million in loans after $8.5 million of loan discounts, and $267.3 million in deposits.

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

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The Company has determined that the acquisition of the net assets of Traditions 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:

	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 not covered by loss share	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:

<u>Cash and due from banks, interest-bearing deposits with other banks and federal funds sold</u> 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.

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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 not covered by loss share 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 purchase price allocation and certain fair value measurements remain preliminary due to the timing of the acquisition. We will continue to review the estimated fair values of loans, deposits, property and equipment, intangible assets, and other assets and liabilities, and to evaluate the assumed tax positions and contingencies.

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The Company s operating results for the period ended September 30, 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 September 30, 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.

Acquisition Liberty Bancshares, Inc.

On October 24, 2013, Home BancShares, Inc. acquired Liberty Bancshares, Inc. (Liberty), parent company of Liberty Bank of Arkansas (Liberty Bank). HBI issued 8,763,930 shares of its common stock valued at approximately $290.1 million as of October 23, 2013, plus $30.0 million in cash in exchange for all outstanding shares of Liberty common stock. Additionally, the Company also repurchased all of Liberty s SBLF preferred stock held by the U.S. Treasury in connection with the closing.

Prior to the acquisition, Liberty Bank operated 46 banking offices located in northeast Arkansas, north central Arkansas and northwest Arkansas. Including the effects of the purchase accounting adjustments, the Company acquired approximately $2.82 billion in assets, approximately $1.73 billion in loans including loan discounts and approximately $2.13 billion of deposits. The merger significantly increased the Company s deposit market share in Arkansas.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2013 for an additional discussion of the acquisition of Liberty.

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:

	September 30, 2014 Available-for-Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 342,131	$ 1,921	$ (635)	$ 343,417
Mortgage-backed securities	493,996	3,567	(2,357)	495,206
State and political subdivisions	170,678	6,369	(346)	176,701
Other securities	52,031	640	(378)	52,293
Total	$ 1,058,836	$ 12,497	$ (3,716)	$ 1,067,617

	Held-to-Maturity			
	Amortized Cost	Gross Unrealized	Gross Unrealized	Estimated Fair

		Gains	(Losses)	Value
		(In thousands)		
Mortgage-backed securities	$ 117,850	$ 232	$ (225)	$ 117,857
State and political subdivisions	178,186	4,098	(118)	182,166
Total	$ 296,036	$ 4,330	$ (343)	$ 300,023

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	December 31, 2013			
	Available-for-Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 467,535	$ 1,330	$ (5,324)	$ 463,541
Mortgage-backed securities	462,510	3,343	(4,265)	461,588
State and political subdivisions	196,472	3,085	(4,045)	195,512
Other securities	55,780	216	(1,153)	54,843
Total	$ 1,182,297	$ 7,974	$ (14,787)	$ 1,175,484

	Held-to-Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
State and political subdivisions	$ 114,621	$ 361	$ (1,081)	$ 113,901
Total	$ 114,621	$ 361	$ (1,081)	$ 113,901

Assets, principally investment securities, having a carrying value of approximately $1.14 billion and $1.13 billion at September 30, 2014 and December 31, 2013, 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 $160.9 million and $161.0 million at September 30, 2014 and December 31, 2013, respectively.

The amortized cost and estimated fair value of securities classified as available-for-sale and held-to-maturity at September 30, 2014, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In thousands)			
Due in one year or less	$ 307,892	$ 309,364	$ 63,466	$ 64,341
Due after one year through five years	595,946	600,534	142,024	144,203
Due after five years through ten years	133,306	135,305	57,500	58,407
Due after ten years	21,692	22,414	33,046	33,072
Total	$ 1,058,836	$ 1,067,617	$ 296,036	$ 300,023

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

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

During the three-month period ended September 30, 2013, no available-for-sale securities were sold. During the nine-month period ended September 30, 2013, $167,000 in available-for-sale securities were sold. The gross realized gains on these sales totaled approximately $111,000. The income tax expense/benefit to net security gains and losses was 39.225% of the gross amounts.

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

During the nine-month period ended September 30, 2014, no securities were deemed to have other-than-temporary impairment besides securities for which impairment was taken in prior periods.

As of September 30, 2014, the Company had approximately $2.6 million in unrealized losses, which have been in continuous loss positions for more than twelve months. Excluding impairment write downs taken in prior periods, the Company s assessments indicated that the cause of the market depreciation was primarily the change in interest rates and not the issuer s financial condition, or downgrades by rating agencies. In addition, approximately 81.8% of the Company s investment portfolio matures in five years or less. As a result, the Company has the ability and intent to hold such securities until maturity.

The following shows gross unrealized losses and estimated fair value of investment securities classified as available-for-sale and held-to-maturity with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position as of September 30, 2014 and December 31, 2013:

	September 30, 2014					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. government-sponsored enterprises	$ 25,839	$ (70)	$ 27,305	$ (565)	$ 53,144	$ (635)
Mortgage-backed securities	245,228	(1,276)	75,480	(1,306)	320,708	(2,582)
State and political subdivisions	12,613	(121)	19,155	(343)	31,768	(464)
Other securities			14,228	(378)	14,228	(378)
Total	$ 283,680	$ (1,467)	$ 136,168	$ (2,592)	$ 419,848	$ (4,059)

	December 31, 2013					
	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	$ 312,674	$ (5,205)	$ 6,529	$ (119)	$ 319,203	$ (5,324)
Mortgage-backed securities	267,105	(3,968)	11,749	(297)	278,854	(4,265)
State and political subdivisions	130,718	(4,831)	4,042	(295)	134,760	(5,126)
Other securities	36,125	(1,153)			36,125	(1,153)
Total	$ 746,622	$ (15,157)	$ 22,320	$ (711)	$ 768,942	$ (15,868)

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Income earned on securities for the three and nine months ended September 30, 2014 and 2013, is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Taxable:				
Available-for-sale	$ 4,295	$ 2,644	$ 13,214	$ 7,537
Held-to-maturity	610	1	923	1
Non-taxable:				
Available-for-sale	1,391	1,479	4,330	4,427
Held-to-maturity	1,161	28	2,918	28
Total	$ 7,457	$ 4,152	$ 21,385	$ 11,993

4. Loans Receivable Not Covered by Loss Share

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

	September 30, 2014	December 31, 2013
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 1,918,827	$ 1,739,668
Construction/land development	660,107	562,667
Agricultural	78,243	81,618
Residential real estate loans		
Residential 1-4 family	935,547	913,332
Multifamily residential	251,726	213,232
Total real estate	3,844,450	3,510,517
Consumer	57,821	69,570
Commercial and industrial	547,706	511,421
Agricultural	64,875	37,129
Other	68,163	65,800
Loans receivable not covered by loss share	$ 4,583,015	$ 4,194,437

During the three and nine-month periods ended September 30, 2014, the Company sold $1.3 million of the guaranteed portion of SBA loans, which resulted in a gain of approximately $183,000.

During the three and nine-month periods ended September 30, 2013, the Company sold $1.4 million and $1.9 million, respectively, of the guaranteed portion of SBA loans, which resulted in a gain of approximately $79,000 and

$135,000, respectively.

Mortgage loans held for sale of approximately $37.2 million and $30.5 million at September 30, 2014 and December 31, 2013, respectively, are included in residential 1-4 family loans. Mortgage loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis. Gains and losses resulting from sales of mortgage loans are recognized when the respective loans are sold to investors. Gains and losses are determined by the difference between the selling price and the carrying amount of the loans sold, net of discounts collected or paid. The Company obtains forward commitments to sell mortgage loans to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. The forward commitments acquired by the Company for mortgage loans in process of origination are not mandatory forward commitments. These commitments are structured on a best efforts basis; therefore, the Company is not required to substitute another loan or to buy back the commitment if the original loan does not fund. Typically, the Company delivers the mortgage loans within a few days after the loans are funded. These commitments are derivative instruments and their fair values at September 30, 2014 and December 31, 2013 were not material.

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5. Loans Receivable Covered by FDIC Loss Share

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

The following table reflects the carrying value of all purchased FDIC covered impaired loans as of September 30, 2014 and December 31, 2013 for the Company:

	September 30, 2014	December 31, 2013
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 99,518	$ 117,164
Construction/land development	42,713	48,388
Agricultural	1,039	1,232
Residential real estate loans		
Residential 1-4 family	90,088	98,403
Multifamily residential	8,263	10,378
Total real estate	241,621	275,565
Consumer	22	20
Commercial and industrial	8,295	5,852
Other	1,032	1,079
Loans receivable covered by FDIC loss share	$ 250,970	$ 282,516

The acquired loans were grouped into pools based on common risk characteristics and were recorded at their estimated fair values, which incorporated estimated credit losses at the acquisition dates. These loan pools are systematically reviewed by the Company to determine material changes in cash flow estimates from those identified at the time of the acquisition. Techniques used in determining risk of loss are similar to the Centennial Bank non-covered loan portfolio, with most focus being placed on those loan pools which include the larger loan relationships and those loan pools which exhibit higher risk characteristics. As of September 30, 2014 and December 31, 2013, $29.0 million and $35.8 million, respectively, were accruing loans past due 90 days or more.

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6. Allowance for Loan Losses, Credit Quality and Other

The following table presents a summary of changes in the allowance for loan losses for the non-covered and covered loan portfolios for the nine months ended September 30, 2014:

	For Loans Not Covered by Loss Share	For Loans Covered by FDIC Loss Share (In thousands)	Total
Allowance for loan losses:			
Beginning balance	$ 39,022	$ 4,793	$ 43,815
Loans charged off	(7,494)	(1,914)	(9,408)
Recoveries of loans previously charged off	1,873	389	2,262
Net loans recovered (charged off)	(5,621)	(1,525)	(7,146)
Provision for loan losses for non-covered loans	17,294		17,294
Provision for loan losses forecasted outside of loss share		280	280
Provision for loan losses before benefit attributable to FDIC loss share agreements		(1,399)	(1,399)
Benefit attributable to FDIC loss share agreements		1,119	1,119
Net provision for loan losses for covered loans			
Increase in FDIC indemnification asset		(1,119)	(1,119)
Balance, September 30	$ 50,695	$ 2,149	$ 52,844

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

The following tables present the balance in the allowance for loan losses for the non-covered loan portfolio for the three and nine-month periods ended September 30, 2014 and the allowance for loan losses and recorded investment in loans not covered by loss share based on portfolio segment by impairment method as of September 30, 2014. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories. Additionally, the Company s discount for credit losses on non-covered loans acquired was $148.2 million, $174.6 million and $77.4 million at September 30, 2014, December 31, 2013 and September 30, 2013, respectively.

During the third quarter 2014 quarterly impairment testing on the estimated cash flows of the purchased credit impaired loans, the Company established two non-loss sharing pools evaluated from our Premier Bank acquisition during 2012 had experienced material projected credit deterioration and one non-covered loan pool evaluated from our Liberty acquisition during 2013 had experience a material projected credit improvement. As a result, the Company recorded a $2.9 million provision for loan losses to the allowance for loan losses related to the purchased credit impaired loans during the period ended September 30, 2014 and is recognizing $4.7 million of additional yield over the weighted average life of the loans.

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	Three Months Ended September 30, 2014						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Beginning balance	$ 6,657	$ 19,570	$ 10,016	$ 3,714	$ 3,864	$ 4,427	$ 48,248
Loans charged off	(386)	(480)	(562)	(416)	(700)		(2,544)
Recoveries of loans previously charged off	23	9	332	190	196		750
Net loans recovered (charged off)	(363)	(471)	(230)	(226)	(504)		(1,794)
Provision for loan losses	236	(800)	2,603	(137)	1,955	384	4,241
Balance, September 30	$ 6,530	$ 18,299	$ 12,389	$ 3,351	$ 5,315	$ 4,811	$ 50,695

	Nine Months Ended September 30, 2014						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Beginning balance	$ 6,282	$ 15,100	$ 8,889	$ 1,933	$ 2,563	$ 4,255	$ 39,022
Loans charged off	(553)	(1,148)	(2,045)	(1,600)	(2,148)		(7,494)
Recoveries of loans previously charged off	68	230	385	255	935		1,873
Net loans recovered (charged off)	(485)	(918)	(1,660)	(1,345)	(1,213)		(5,621)
Provision for loan losses	733	4,117	5,160	2,763	3,965	556	17,294
Balance, September 30	$ 6,530	$ 18,299	$ 12,389	$ 3,351	$ 5,315	$ 4,811	$ 50,695

	As of September 30, 2014						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							

Period end amount allocated to:							
Loans individually evaluated for impairment	$ 2,076	$ 7,487	$ 3,419	$ 9	$	$	$ 12,991
Loans collectively evaluated for impairment	4,394	8,435	8,842	2,981	5,315	4,811	34,778
Loans evaluated for impairment balance, September 30	6,470	15,922	12,261	2,990	5,315	4,811	47,769
Purchased credit impaired loans acquired	60	2,377	128	361			2,926
Balance, September 30	$ 6,530	$ 18,299	$ 12,389	$ 3,351	$ 5,315	$ 4,811	$ 50,695
Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 24,540	$ 54,385	$ 22,935	$ 4,084	$ 300	$	$ 106,244
Loans collectively evaluated for impairment	609,691	1,823,217	1,098,476	528,217	187,861		4,247,462
Loans evaluated for impairment balance, September 30	634,231	1,877,602	1,121,411	532,301	188,161		4,353,706
Purchased credit impaired loans acquired	25,876	119,468	65,862	15,405	2,698		229,309
Balance, September 30	$ 660,107	$ 1,997,070	$ 1,187,273	$ 547,706	$ 190,859	$	$ 4,583,015

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The following tables present the balances in the allowance for loan losses for the non-covered loan portfolio for the nine-month period ended September 30, 2013 and the year ended December 31, 2013, and the allowance for loan losses and recorded investment in loans not covered by loss share based on portfolio segment by impairment method as of December 31, 2013. 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, 2013						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Beginning balance	$ 5,816	$ 19,974	$ 13,813	$ 3,870	$ 1,288	$ 409	$ 45,170
Loans charged off	(560)	(3,844)	(5,004)	(619)	(1,753)		(11,780)
Recoveries of loans previously charged off	19	2,052	852	49	530		3,502
Net loans recovered (charged off)	(541)	(1,792)	(4,152)	(570)	(1,223)		(8,278)
Provision for loan losses	1,200	(1,424)	(1,598)	(1,110)	986	2,696	750
Balance, September 30	6,475	16,758	8,063	2,190	1,051	3,105	37,642
Loans charged off	(438)	(210)	(1,304)	82	(547)		(2,417)
Recoveries of loans previously charged off	15	19	130	23	171		358
Net loans recovered (charged off)	(423)	(191)	(1,174)	105	(376)		(2,059)
Provision for loan losses	230	(1,467)	2,000	(362)	1,888	1,150	3,439
Balance, December 31	$ 6,282	$ 15,100	$ 8,889	$ 1,933	$ 2,563	$ 4,255	$ 39,022

	As of December 31, 2013						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Period end amount allocated to:							
	$ 3,826	$ 8,359	$ 2,347	$ 5	$	$	$ 14,537

Loans individually evaluated for impairment							
Loans collectively evaluated for impairment	2,456	6,741	6,542	1,928	2,563	4,255	24,485
Loans evaluated for impairment balance, December 31	6,282	15,100	8,889	1,933	2,563	4,255	39,022
Purchased credit impaired loans acquired							
Balance, December 31	$ 6,282	$ 15,100	$ 8,889	$ 1,933	$ 2,563	$ 4,255	$ 39,022
Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 32,560	$ 76,559	$ 20,112	$ 5,563	$ 223	$	$ 135,017
Loans collectively evaluated for impairment	500,279	1,592,343	1,027,093	484,036	164,224		3,767,975
Loans evaluated for impairment balance, December 31	532,839	1,668,902	1,047,205	489,599	164,447		3,902,992
Purchased credit impaired loans acquired	29,828	152,384	79,359	21,822	8,052		291,445
Balance, December 31	$ 562,667	$ 1,821,286	$ 1,126,564	$ 511,421	$ 172,499	$	$ 4,194,437

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The following is an aging analysis for the non-covered loan portfolio as of September 30, 2014 and December 31, 2013:

	September 30, 2014						
	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due	Current Loans	Total Loans Receivable	Accruing Loans Past Due 90 Days or More
				(In thousands)			
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$ 418	$ 2,604	$ 14,059	$ 17,081	$ 1,901,746	$ 1,918,827	$ 6,720
Construction/land development	453	454	4,745	5,652	654,455	660,107	3,174
Agricultural			34	34	78,209	78,243	34
Residential real estate loans							
Residential 1-4 family	4,258	3,391	16,037	23,686	911,861	935,547	4,181
Multifamily residential	223	20	1,904	2,147	249,579	251,726	1,904
Total real estate	5,352	6,469	36,779	48,600	3,795,850	3,844,450	16,013
Consumer	457	77	300	834	56,987	57,821	50
Commercial and industrial	754	600	3,762	5,116	542,590	547,706	2,581
Agricultural and other	830	89	184	1,103	131,935	133,038	
Total	$ 7,393	$ 7,235	$ 41,025	$ 55,653	$ 4,527,362	$ 4,583,015	$ 18,644

	December 31, 2013						
	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	$ 4,849	$ 2,275	$ 13,007	$ 20,131	$ 1,719,537	$ 1,739,668	$ 7,914
Construction/land development	2,206	352	5,959	8,517	554,150	562,667	4,879
Agricultural	1,040	1,082	89	2,211	79,407	81,618	
Residential real estate loans							

Residential 1-4 family	7,936	2,676	13,775	24,387	888,945	913,332	6,492
Multifamily residential		1,437	2	1,439	211,793	213,232	1
Total real estate	16,031	7,822	32,832	56,685	3,453,832	3,510,517	19,286
Consumer	717	226	224	1,167	68,403	69,570	100
Commercial and industrial	4,363	405	5,218	9,986	501,435	511,421	3,755
Agricultural and other	778	110		888	102,041	102,929	
Total	$ 21,889	$ 8,563	$ 38,274	$ 68,726	$ 4,125,711	$ 4,194,437	$ 23,141

Non-accruing loans not covered by loss share at September 30, 2014 and December 31, 2013 were $22.4 million and $15.1 million, respectively.

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The following is a summary of the non-covered impaired loans as of September 30, 2014 and December 31, 2013:

	September 30, 2014						
				Three Months Ended		Nine Months Ended	
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
	(In thousands)						
Loans without a specific valuation allowance							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$	$	$	$	$	$ 845	$ 14
Construction/land development							
Agricultural							
Residential real estate loans							
Residential 1-4 family	6	6		6		32	2
Multifamily residential							
Total real estate	6	6		6		877	16
Consumer							
Commercial and industrial							
Agricultural and other							
Total loans without a specific valuation allowance	6	6		6		877	16
Loans with a specific valuation allowance							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	45,736	42,915	7,487	39,202	363	44,028	1,156
Construction/land development	17,030	15,335	2,076	21,758	148	21,909	563
Agricultural	52	33		50		67	
Residential real estate loans							
Residential 1-4 family	18,409	16,197	2,236	16,797	97	16,862	350
Multifamily residential	4,497	4,216	1,183	4,270	47	3,965	108
Total real estate	85,724	78,696	12,982	82,077	655	86,831	2,177
Consumer	335	300		336	1	295	5
Commercial and industrial	5,758	4,084	9	4,764	32	5,262	116
Agricultural and other	184	184		192		96	
	92,001	83,264	12,991	87,369	688	92,484	2,298

Total loans with a specific valuation allowance							
Total impaired loans							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	45,736	42,915	7,487	39,202	363	44,873	1,170
Construction/land development	17,030	15,335	2,076	21,758	148	21,909	563
Agricultural	52	33		50		67	
Residential real estate loans							
Residential 1-4 family	18,415	16,203	2,236	16,803	97	16,894	352
Multifamily residential	4,497	4,216	1,183	4,270	47	3,965	108
Total real estate	85,730	78,702	12,982	82,083	655	87,708	2,193
Consumer	335	300		336	1	295	5
Commercial and industrial	5,758	4,084	9	4,764	32	5,262	116
Agricultural and other	184	184		192		96	
Total impaired loans	$ 92,007	$ 83,270	$ 12,991	$ 87,375	$ 688	$ 93,361	$ 2,314

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

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	December 31, 2013			Year Ended	
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses	Average Recorded Investment	Interest Recognized
			(In thousands)		
Loans without a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	$ 1,449	$	$	$ 3,958	$ 177
Construction/land development				106	8
Agricultural					
Residential real estate loans					
Residential 1-4 family	6	6		1,016	34
Multifamily residential				534	1
Total real estate	1,455	6		5,614	220
Consumer					
Commercial and industrial				132	6
Agricultural and other					
Total loans without a specific valuation allowance	1,455	6		5,746	226
Loans with a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	56,465	54,707	8,359	55,361	2,205
Construction/land development	29,461	27,231	3,826	23,121	878
Agricultural	89	89		83	
Residential real estate loans					
Residential 1-4 family	19,188	16,599	1,265	13,248	373
Multifamily residential	2,065	2,065	1,082	3,683	100
Total real estate	107,268	100,691	14,532	95,496	3,556
Consumer	254	223		385	5
Commercial and industrial	7,059	5,563	5	2,503	67
Agricultural and other					
Total loans with a specific valuation allowance	114,581	106,477	14,537	98,384	3,628
Total impaired loans					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	57,914	54,707	8,359	59,319	2,382
Construction/land development	29,461	27,231	3,826	23,227	886
Agricultural	89	89		83	
Residential real estate loans					

Residential 1-4 family	19,194	16,605	1,265	14,264	407
Multifamily residential	2,065	2,065	1,082	4,217	101
Total real estate	108,723	100,697	14,532	101,110	3,776
Consumer	254	223		385	5
Commercial and industrial	7,059	5,563	5	2,635	73
Agricultural and other					
Total impaired loans	$ 116,036	$ 106,483	$ 14,537	$ 104,130	$ 3,854

Note: Purchased non-covered loans acquired with deteriorated credit quality are accounted for on a pooled basis under ASC 310-30. All of these pools are currently considered to be performing resulting in none of the purchased non-covered loans acquired with deteriorated credit quality being classified as non-covered impaired loans as of December 31, 2013.

Interest recognized on non-covered impaired loans during the three months ended September 30, 2014 and 2013 was approximately $688,000 and $896,000, respectively. Interest recognized on non-covered impaired loans during the nine months ended September 30, 2014 and 2013 was approximately $2.3 million and $2.8 million, respectively. The amount of interest recognized on non-covered impaired loans on the cash basis is not materially different than the accrual basis.

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

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

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

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

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

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

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

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

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

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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 non-covered loans (excluding loans accounted for under ASC Topic 310-30) by class as of September 30, 2014 and December 31, 2013:

	September 30, 2014			
	Risk Rated 6	Risk Rated 7	Risk Rated 8	Classified Total
	(In thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	$ 39,804	$ 26	$	$ 39,830
Construction/land development	18,482	3		18,485
Agricultural				
Residential real estate loans				
Residential 1-4 family	15,888	62		15,950
Multifamily residential	3,298			3,298
Total real estate	77,472	91		77,563
Consumer	346	18		364
Commercial and industrial	2,565	5		2,570
Agricultural and other	209			209
Total	$ 80,592	$ 114	$	$ 80,706

	December 31, 2013			
	Risk Rated 6	Risk Rated 7	Risk Rated 8	Classified Total
	(In thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	$ 55,874	$ 1	$	$ 55,875
Construction/land development	19,140			19,140
Agricultural	89			89
Residential real estate loans				
Residential 1-4 family	12,747	196		12,943
Multifamily residential	2,064			2,064
Total real estate	89,914	197		90,111
Consumer	454			454
Commercial and industrial	2,620	2		2,622

Agricultural and other	32			32
Total	$ 93,020	$ 199	$	$ 93,219

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 $1.0 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 non-covered loans by class and risk rating as of September 30, 2014 and December 31, 2013:

	September 30, 2014						
	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	$ 1,570	$ 2,227	$ 1,230,771	$ 499,456	$ 26,392	$ 39,830	$ 1,800,246
Construction/land development	15	119	220,666	383,392	11,554	18,485	634,231
Agricultural			54,128	22,349	879		77,356
Residential real estate loans							
Residential 1-4 family	272	71	703,844	144,436	14,007	15,950	878,580
Multifamily residential			192,310	44,883	2,340	3,298	242,831
Total real estate	1,857	2,417	2,401,719	1,094,516	55,172	77,563	3,633,244
Consumer	15,284	20	30,637	9,535	684	364	56,524
Commercial and industrial	15,977	6,519	331,797	172,281	3,157	2,570	532,301
Agricultural and other	686	935	85,033	44,152	622	209	131,637
Total risk rated loans	$ 33,804	$ 9,891	$ 2,849,186	$ 1,320,484	$ 59,635	$ 80,706	4,353,706
Purchased credit impaired loans acquired							229,309
Total non-covered loans							$ 4,583,015

	December 31, 2013						
	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	$ 3	$ 3,135	$ 1,039,110	$ 462,957	$ 28,380	$ 55,875	$ 1,589,460
Construction/land development	54	94	198,228	303,590	11,732	19,140	532,838
Agricultural	55		53,633	24,901	764	89	79,442
Residential real estate loans							
Residential 1-4 family	393	146	654,739	155,744	17,241	12,943	841,206
Multifamily residential			150,023	52,233	1,679	2,064	205,999

Total real estate	505	3,375	2,095,733	999,425	59,796	90,111	3,248,945
Consumer	15,566	32	42,647	7,244	848	454	66,791
Commercial and industrial	25,809	5,845	300,108	151,986	3,229	2,622	489,599
Agricultural and other	675	7,138	74,676	14,462	674	32	97,657
Total risk rated loans	$ 42,555	$ 16,390	$ 2,513,164	$ 1,173,117	$ 64,547	$ 93,219	$ 3,902,992
Purchased credit impaired loans acquired							291,445
Total non-covered loans							$ 4,194,437

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The following is a presentation of non-covered TDR s by class as of September 30, 2014 and December 31, 2013:

	September 30, 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	$ 2,616	$ 8,662	$ 5,672	$ 16,950
Construction/land development	3	8,324	5,691	1,794		7,485
Residential real estate loans						
Residential 1-4 family	5	1,051	319	246	162	727
Multifamily residential	2	3,182	2,018		294	2,312
Total real estate	17	29,897	10,644	10,702	6,128	27,474
Commercial and industrial	1	380			322	322
Total	18	$ 30,277	$ 10,644	$ 10,702	$ 6,450	$ 27,796

	December 31, 2013					
	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	14	$ 36,454	$ 13,029	$ 8,384	$ 10,554	$ 31,967
Construction/land development	3	8,324	5,811	1,794		7,605
Residential real estate loans						
Residential 1-4 family	8	1,646	589	727	170	1,486
Multifamily residential	1	2,887	2,063			2,063
Total real estate	26	49,311	21,492	10,905	10,724	43,121
Commercial and industrial	1	380			345	345
Total	27	$ 49,691	$ 21,492	$ 10,905	$ 11,069	$ 43,466

The following is a presentation of non-covered TDR s on non-accrual status as of September 30, 2014 and December 31, 2013 because they are not in compliance with the modified terms:

	September 30, 2014			December 31, 2013		
	Number of Loans		Recorded Balance	Number of Loans		Recorded Balance
	(Dollars in thousands)					
Real estate:						
Commercial real estate loans						
Construction/land development	1	$	107		$	
Residential real estate loans						
Residential 1-4 family	3		480	4		854
Total real estate	4		587	4		854
Total	4	$	587	4	$	854

Allowance for Loan Losses and Credit Quality for Covered Loans

During the 2014 quarterly impairment testing on the estimated cash flows of the covered loans, the Company established certain pools evaluated had experienced material projected credit improvement. The Company has not recorded any provision for loan losses to the allowance for loan losses related to the purchased impaired loans during the three or nine-month periods ended September 30, 2014 on a net basis. The Company, however, did record a $280,000 of provision for loan losses forecasted outside of loss share and a negative provision for loan loss of $1.4 million before benefit attributable to FDIC loss share agreements. Since these loans are covered by loss share with the FDIC, the Company was able to decrease the related indemnification asset by $1.1 million.

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The following tables present the balance in the allowance for loan losses for the covered loan portfolio for the three and nine-month periods ended September 30, 2014, and the allowance for loan losses and recorded investment in loans covered by FDIC loss share based on portfolio segment by impairment method as of September 30, 2014.

	Three Months Ended September 30, 2014						
	Construction Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Beginning balance	$ 324	$ 1,694	$ 891	$ 15	$ 1	$	$ 2,925
Loans charged off	(28)	(773)	(62)				(863)
Recoveries of loans previously charged off	63	6	18				87
Net loans recovered (charged off)	35	(767)	(44)				(776)
Provision for loan losses forecasted outside of loss share							
Provision for loan losses before benefit attributable to FDIC loss share agreements	(216)	(158)	373		1		
Benefit attributable to FDIC loss share agreements	216	158	(373)		(1)		
Net provision for loan losses							
Increase in FDIC indemnification asset	(216)	(158)	373		1		
Balance, September 30	$ 143	$ 769	$ 1,220	$ 15	$ 2	$	$ 2,149

	Nine Months Ended September 30, 2014						
	Construction Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Beginning balance	$ 1,707	$ 838	$ 2,113	$ 135	$	$	$ 4,793
Loans charged off	(126)	(1,569)	(62)	(157)			(1,914)
Recoveries of loans previously charged off	73	6	306		4		389

	Construction Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
Net loans recovered (charged off)	(53)	(1,563)	244	(157)	4		(1,525)
Provision for loan losses forecasted outside of loss share	11	106	148	15			280
Provision for loan losses before benefit attributable to FDIC loss share agreements	(1,522)	1,388	(1,285)	22	(2)		(1,399)
Benefit attributable to FDIC loss share agreements	1,511	(1,494)	1,137	(37)	2		1,119
Net provision for loan losses							
Increase in FDIC indemnification asset	(1,511)	1,494	(1,137)	37	(2)		(1,119)
Balance, September 30	$ 143	$ 769	$ 1,220	$ 15	$ 2	$	$ 2,149

	As of September 30, 2014						
	Construction Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$	$	$	$	$	$	$
Loans collectively evaluated for impairment							
Loans evaluated for impairment balance, September 30							
Purchased credit impaired loans acquired	143	769	1,220	15	2		2,149
Balance, September 30	$ 143	$ 769	$ 1,220	$ 15	$ 2	$	$ 2,149
Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$	$	$	$	$	$	$
Loans collectively evaluated for impairment							

Loans evaluated for impairment balance, June 30							
Purchased credit impaired loans acquired	42,713	100,557	98,351	8,295	1,054		250,970
Balance, September 30	$ 42,713	$ 100,557	$ 98,351	$ 8,295	$ 1,054	$	$ 250,970

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During the 2013 quarterly impairment testing on the estimated cash flows of the covered loans, the Company established that six pools evaluated had experienced material projected credit deterioration. As a result, the Company recorded a $4.4 million provision for loan losses to the allowance for loan losses related to the purchased impaired loans during the year ended December 31, 2013. Since these loans are covered by loss share with the FDIC, the Company was able to increase the related indemnification asset by $3.5 million resulting in a net provision for loan losses of $991,000.

The following tables present the balance in the allowance for loan losses for the covered loan portfolio for the nine-month period ended September 30, 2013 and the year ended December 31, 2013, and the allowance for loan losses and recorded investment in loans covered by FDIC loss share based on portfolio segment by impairment method as of December 31, 2013.

	Year Ended December 31, 2013						
	Construction Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Beginning balance	$ 1,169	$ 4,005	$ 228	$ 60	$	$	$ 5,462
Loans charged off	(720)	(3,426)	(724)	(157)			(5,027)
Recoveries of loans previously charged off	15	13	143				171
Net loans recovered (charged off)	(705)	(3,413)	(581)	(157)			(4,856)
Provision for loan losses before benefit attributable to FDIC loss share agreements	(323)	(30)	717	136			500
Benefit attributable to FDIC loss share agreements	258	24	(573)	(109)			(400)
Net provision for loan losses	(65)	(6)	144	27			100
Increase in FDIC indemnification asset	(258)	(24)	573	109			400
Balance, September 30	141	562	364	39			1,106
Loans charged off	(185)		(102)				(287)
Recoveries of loans previously charged off			29				29
Net loans recovered (charged off)	(185)		(73)				(258)
Provision for loan losses before benefit attributable to FDIC loss share agreements	1,751	276	1,822	96			3,945

Benefit attributable to FDIC loss share agreements	(1,376)	20	(1,592)	(106)			(3,054)
Net provision for loan losses	375	296	230	(10)			891
Increase in FDIC indemnification asset	1,376	(20)	1,592	106			3,054
Balance, December 31	$ 1,707	$ 838	$ 2,113	$ 135	$	$	$ 4,793

	As of December 31, 2013						
	Construction Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$	$	$	$	$	$	$
Loans collectively evaluated for impairment							
Loans evaluated for impairment balance, December 31							
Purchased credit impaired loans acquired	1,707	838	2,113	135			4,793
Balance, December 31	$ 1,707	$ 838	$ 2,113	$ 135	$	$	$ 4,793
Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$	$	$	$	$	$	$
Loans collectively evaluated for impairment							
Loans evaluated for impairment balance, December 31							
Purchased credit impaired loans acquired	48,388	118,396	108,781	5,852	1,099		282,516
Balance, December 31	$ 48,388	$ 118,396	$ 108,781	$ 5,852	$ 1,099	$	$ 282,516

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Changes in the carrying amount of the accretable yield for purchased credit impaired loans acquired were as follows for the nine-month period ended September 30, 2014 for the Company s covered and non-covered acquisitions:

	Accretable Yield	Carrying Amount of Loans
	(In thousands)	
Balance at beginning of period	$ 119,981	$ 573,961
Reforecasted future interest payments for loan pools	7,351	
Accretion recorded to interest income	(48,077)	48,077
Adjustment to yield	39,580	
Transfers to foreclosed assets held for sale		(11,518)
Payments received, net		(130,241)
Balance at end of period	$ 118,835	$ 480,279

The loan pools were evaluated by the Company and are currently forecasted to have a slower run-off than originally expected. As a result, the Company has reforecast the total accretable yield expectations for those loan pools by $7.4 million. This updated forecast does not change the expected weighted average yields on the loan pools.

During the third quarter 2014 impairment testing, there were non-loss sharing pools evaluated by the Company which were determined to have a material projected credit improvement. As a result of this improvement, the Company will recognize approximately $4.7 million as an adjustment to yield over the weighted average life of the loans ($1.1 million was recognized during the third quarter of 2014).

During the first nine months of 2014, there were FDIC loss-sharing pools evaluated by the Company which were determined to have a material projected credit improvement. As a result of this improvement, the Company will recognize approximately $34.9 million as an adjustment to yield over the weighted average life of the loans. Improvements in credit quality decrease the basis in the related indemnification assets. This positive event will reduce the indemnification asset by approximately $25.6 million and increase the FDIC true-up liability by $2.2 million. The $25.6 million will be amortized over the weighted average life of the loans or the life of the shared-loss agreements, whichever is shorter. The amortization will be shown as a reduction to FDIC indemnification non-interest income. The $2.2 million will be expensed over the remaining true-up measurement date as other non-interest expense. This will result in approximately $6.9 million of pre-tax net income being recognized going forward which may or may not be symmetrical depending on the weighted average life of the loans.

7. Goodwill and Core Deposits and Other Intangibles

Changes in the carrying amount and accumulated amortization of the Company s goodwill and core deposits and other intangibles at September 30, 2014 and December 31, 2013, were as follows:

	September 30, 2014	December 31, 2013
	(In thousands)	
Goodwill		

Balance, beginning of period	$ 301,736	$ 85,681
Liberty acquisition		216,055
Traditions acquisition	11,584	
Balance, end of period	$ 313,320	$ 301,736

	September 30, 2014	December 31, 2013
	(In thousands)	
Core Deposit and Other Intangibles		
Balance, beginning of period	$ 22,298	$ 12,061
Traditions acquisition	2,173	
Amortization expense	(3,467)	(2,406)
Balance, September 30	$ 21,004	9,655
Liberty acquisition		13,861
Amortization expense		(1,218)
Balance, end of year		$ 22,298

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The carrying basis and accumulated amortization of core deposits and other intangibles at September 30, 2014 and December 31, 2013 were:

	September 30, 2014	December 31, 2013
	(In thousands)	
Gross carrying basis	$ 45,697	$ 43,524
Accumulated amortization	(24,693)	(21,226)
Net carrying amount	$ 21,004	$ 22,298

Core deposit and other intangible amortization expense was approximately $1.2 million and $802,000 for the three-months ended September 30, 2014 and 2013, respectively. Core deposit and other intangible amortization expense was approximately $3.5 million and $2.4 million for the nine-months ended September 30, 2014 and 2013, respectively. Including all of the mergers completed as of September 30, 2014, HBI s estimated amortization expense of core deposits and other intangibles for each of the years 2014 through 2018 is approximately: 2014 $4.5 million; 2015 $3.8 million; 2016 $2.5 million; 2017 $2.4 million; 2018 $2.3 million.

The carrying amount of the Company s goodwill was $313.3 million and $301.7 million at September 30, 2014 and December 31, 2013, respectively. Goodwill is tested annually for impairment during the fourth quarter. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

8. Other Assets

Other assets consists primarily of FDIC claims receivable, equity securities without a readily determinable fair value and other miscellaneous assets. As of September 30, 2014 and December 31, 2013 other assets were $86.4 million and $81.2 million, respectively.

An indemnification asset was created when the Company acquired FDIC covered loans. The indemnification asset represents the carrying amount of the right to receive payments from the FDIC for losses incurred on specified assets acquired from failed insured depository institutions or otherwise purchased from the FDIC that are covered by loss sharing agreements with the FDIC. When the Company experiences a loss on the covered loans and subsequently requests reimbursement of the loss from the FDIC, the indemnification asset is reduced by the FDIC reimbursable amount. A corresponding claim receivable is consequently recorded in other assets until the cash is received from the FDIC. The FDIC claims receivable was $12.8 million and $19.1 million at September 30, 2014 and December 31, 2013, respectively.

The Company has equity securities without readily determinable fair values. These equity securities are outside the scope of ASC Topic 320, *Investments-Debt and Equity Securities*. They include items such as stock holdings in Federal Home Loan Bank, Federal Reserve Bank, Bankers Bank and other miscellaneous holdings. The equity securities without a readily determinable fair value were $63.9 million and $52.6 million at September 30, 2014 and December 31, 2013, respectively and are accounted for at cost.

9. Deposits

The aggregate amount of time deposits with a minimum denomination of $100,000 was $696.8 million and $877.4 million at September 30, 2014 and December 31, 2013, respectively. Interest expense applicable to certificates in excess of $100,000 totaled $1.1 million and $766,000 for the three months ended September 30, 2014 and 2013, respectively. Interest expense applicable to certificates in excess of $100,000 totaled $3.3 million and $2.8 million for the nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014 and December 31, 2013, brokered deposits were $45.2 million and $100.4 million, respectively.

Deposits totaling approximately $950.0 million and $1.02 billion at September 30, 2014 and December 31, 2013, respectively, were public funds obtained primarily from state and political subdivisions in the United States.

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10. Securities Sold Under Agreements to Repurchase

At September 30, 2014 and December 31, 2013, securities sold under agreements to repurchase totaled $160.9 million and $161.0 million, respectively. For the three-month periods ended September 30, 2014 and 2013, securities sold under agreements to repurchase daily weighted average totaled $150.2 million and $73.9 million, respectively. For the nine-month periods ended September 30, 2014 and 2013, securities sold under agreements to repurchase daily weighted average totaled $145.3 million and $72.1 million, respectively.

11. FHLB Borrowed Funds

The Company s Federal Home Loan Bank (FHLB) borrowed funds were $713.6 million and $350.7 million at September 30, 2014 and December 31, 2013, respectively. At September 30, 2014, $520.0 million and $193.6 million of the outstanding balance were issued as short-term and long-term advances, respectively. At December 31, 2013, $130.3 million and $220.4 million of the outstanding balances were issued as short-term and long-term advances, respectively. The FHLB advances mature from the current year to 2025 with fixed interest rates ranging from 0.105% to 5.960% 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 $172.0 million and $191.0 million at September 30, 2014 and December 31, 2013, respectively, in letters of credit under a FHLB blanket borrowing line of credit, which are used to collateralize public deposits at September 30, 2014 and December 31, 2013, respectively.

12. Subordinated Debentures

Subordinated debentures at September 30, 2014 and December 31, 2013 consisted of guaranteed payments on trust preferred securities with the following components:

	As of September 30, 2014	As of December 31, 2013
	(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	$ 60,826	$ 60,826

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

13. Income Taxes

The following is a summary of the components of the provision (benefit) for income taxes for the three and nine-month periods ended September 30:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Current:				
Federal	$ 8,191	$ 6,635	$ 26,048	$ 17,691
State	1,627	1,342	5,174	3,563
Total current	9,818	7,977	31,222	21,254
Deferred:				
Federal	4,329	2,171	13,142	7,994
State	860	442	2,610	1,587
Total deferred	5,189	2,613	15,752	9,581
Provision for income taxes	$ 15,007	$ 10,590	$ 46,974	$ 30,835

The reconciliation between the statutory federal income tax rate and effective income tax rate is as follows for the three and nine-month periods ended September 30:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Statutory federal income tax rate	35.00%	35.00%	35.00%	35.00%
Effect of nontaxable interest income	(2.21)	(2.01)	(2.06)	(2.06)
Cash value of life insurance	(0.27)	(0.34)	(0.24)	(0.25)

State income taxes, net of federal benefit	3.92	4.01	3.92	3.97
Other	(1.03)	(0.08)	(0.52)	(0.13)
Effective income tax rate	35.41%	36.58%	36.10%	36.53%

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The types of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts that give rise to deferred income tax assets and liabilities, and their approximate tax effects, are as follows:

	September 30, 2014	December 31, 2013
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 20,623	$ 17,213
Deferred compensation	2,363	3,230
Stock options	371	277
Real estate owned	4,466	11,145
Loan discounts	30,163	65,639
Tax basis premium/discount on acquisitions	19,408	20,671
Unrealized loss on securities available-for-sale		2,673
Investments	2,672	2,568
Other	8,578	6,992
Gross deferred tax assets	88,644	130,408
Deferred tax liabilities:		
Accelerated depreciation on premises and equipment	2,265	3,616
Unrealized gain on securities available-for-sale	3,445	
Core deposit intangibles	5,340	5,650
Indemnification asset	6,222	29,074
FHLB dividends	1,602	1,602
Other	1,700	1,054
Gross deferred tax liabilities	20,574	40,996
Net deferred tax assets	$ 68,070	$ 89,412

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and the states of Arkansas, Alabama and Florida. With a few exceptions, the Company is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2010.

Early in the fourth quarter of 2014, the State of Florida commenced an examination of the Company s Florida State income tax return for the 2010, 2011 and 2012 tax years. The Company does not anticipate the examination to result in a material change to its financial position.

14. Common Stock and Compensation Plans

Stock Compensation Plans

The Company has a stock option and performance incentive plan known as the Amended and Restated 2006 Stock Option and Performance Incentive Plan (the Plan). The purpose of the Plan is to attract and retain highly qualified officers, directors, key employees, and other persons, and to motivate those persons to improve the Company s business results. The Plan provides for the granting of incentive nonqualified options to purchase stock or for the issuance of restricted shares up to 4,644,000 shares of common stock in the Company. At September 30, 2014, the Company has approximately 1,483,000 shares of common stock remaining available for grants or issuance under the plan and approximately 2,475,000 shares reserved for issuance of common stock.

The intrinsic value of the stock options outstanding and stock options vested at September 30, 2014 was $18.3 million and $16.0 million, respectively. The intrinsic value of the stock options exercised during the three and nine-month periods ended September 30, 2014 was approximately $646,000 and $1.2 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 $1.4 million as of September 30, 2014. For the first nine months of 2014, the Company has expensed $241,000 for the non-vested awards.

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The table below summarizes the transactions under the Company s stock option plans at September 30, 2014 and December 31, 2013 and changes during the nine-month period and year then ended:

	For the Nine Months Ended September 30, 2014		For the Year Ended December 31, 2013	
	Shares (000)	Weighted Average Exercisable Price	Shares (000)	Weighted Average Exercisable Price
Outstanding, beginning of year	966	$ 9.57	871	$ 6.66
Granted	70	33.54	184	21.24
Forfeited			(3)	8.60
Exercised	(44)	4.76	(86)	5.01
Outstanding, end of period	992	11.48	966	9.57
Exercisable, end of period	715	$ 6.97	710	$ 6.20

Stock-based compensation expense for stock-based compensation awards granted is based on the grant date fair value. For stock option awards, the fair value is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. Additionally, there may be other factors that would otherwise have a significant effect on the value of employee stock options granted but are not considered by the model. Accordingly, while management believes that the Black-Scholes option-pricing model provides a reasonable estimate of fair value, the model does not necessarily provide the best single measure of fair value for the Company s employee stock options. The weighted-average fair value of options granted during the nine months ended September 30, 2014 was $10.73 per share. The weighted-average fair value of options granted during the year ended December 31, 2013 was $4.50 per share. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model based on the weighted-average assumptions for expected dividend yield, expected stock price volatility, risk-free interest rate, and expected life of options granted.

	For the Nine Months Ended September 30, 2014	For the Year Ended December 31, 2013
Expected dividend yield	0.89%	1.42%
Expected stock price volatility	30.94%	22.09%
Risk-free interest rate	2.31%	1.33%
Expected life of options	6.5 years	6.5 years

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The following is a summary of currently outstanding and exercisable options at September 30, 2014:

	Options Outstanding			Options Exercisable	
Exercise Prices	Options Outstanding Shares (000)	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Options Exercisable Shares (000)	Weighted-Average Exercise Price
$ 3.08 to $3.50	7	0.70	$ 3.39	7	$ 3.39
$ 3.92 to $4.34	43	0.86	4.26	43	4.26
$ 4.78 to $4.92	61	1.01	4.83	61	4.83
$ 5.33 to $5.33	199	1.10	5.33	199	5.33
$ 5.54 to $5.54	199	1.45	5.54	199	5.54
$ 8.54 to $8.60	77	3.29	8.57	77	8.57
$ 9.25 to $9.31	10	2.65	9.29	10	9.29
$10.16 to $11.37	55	2.55	10.33	55	10.33
$13.12 to $13.12	88	7.31	13.12	34	13.12
$17.25 to $34.80	253	8.83	24.64	30	18.23
	992			715	

The table below summarized the activity for the Company s restricted stock issued and outstanding at September 30, 2014 and December 31, 2013 and changes during the period and year then ended:

	As of September 30, 2014	As of December 31, 2013
	(In thousands)	
Beginning of year	256	269
Issued	43	35
Vested	(30)	(32)
Forfeited	(2)	(16)
End of period	267	256
Amount of expense for nine months and twelve months ended, respectively	$ 1,155	$ 1,086

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

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

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

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

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The Company did not utilize a portion of its previously approved stock repurchase program during the first nine months of 2014. This program authorized the repurchase of 2,376,000 shares of the Company s common stock. Shares repurchased to date under the program total 1,510,896 shares. The remaining balance available for repurchase is 865,104 shares at September 30, 2014.

15. Non-Interest Expense

The table below shows the components of non-interest expense for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Salaries and employee benefits	$ 19,368	$ 12,981	$ 57,114	$ 38,890
Occupancy and equipment	6,234	4,010	18,711	11,498
Data processing expense	1,801	1,114	5,387	3,855
Other operating expenses:				
Advertising	673	363	1,776	1,176
Merger and acquisition expenses	3,772	1,034	4,727	1,063
Amortization of intangibles	1,153	802	3,467	2,406
Electronic banking expense	1,307	926	3,957	2,749
Directors fees	236	188	669	588
Due from bank service charges	200	136	604	437
FDIC and state assessment	972	684	3,144	1,991
Insurance	657	572	1,853	1,693
Legal and accounting	510	227	1,346	943
Other professional fees	716	404	1,806	1,367
Operating supplies	468	309	1,455	984
Postage	323	212	1,002	650
Telephone	548	291	1,465	885
Other expense	3,879	2,462	12,311	7,258
Total other operating expenses	15,414	8,610	39,582	24,190
Total non-interest expense	$ 42,817	$ 26,715	$ 120,794	$ 78,433

16. Concentration of Credit Risks

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

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

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17. Significant Estimates and Concentrations

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

Although the Company has a diversified loan portfolio, at September 30, 2014 and December 31, 2013, non-covered commercial real estate loans represented 58.0% and 56.8% of non-covered loans, respectively, and 277.2% and 283.5% of total stockholders equity, respectively. Non-covered residential real estate loans represented 25.9% and 26.9% of non-covered loans and 123.8% and 134.0% of total