

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q**

(Mark One)

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

For the Quarterly Period Ended March 31, 2021

or

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

For the Transition period from ____ to ____

Commission File Number: 000-51904

HOME BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Arkansas

(State or other jurisdiction of
incorporation or organization)

71-0682831

(I.R.S. Employer
Identification No.)

719 Harkrider, Suite 100, Conway, Arkansas

(Address of principal executive offices)

72032

(Zip Code)

(501) 339-2929

(Registrant's telephone number, including area code)

Not Applicable

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	HOMB	NASDAQ Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

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

Common Stock Issued and Outstanding: 164,842,385 shares as of May 5, 2021.

HOME BANCSHARES, INC.
FORM 10-Q
March 31, 2021

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- the effects of future local, regional, national and international economic conditions, including inflation, a decrease in commercial real estate and residential housing values and unemployment;
 - changes in the level of nonperforming assets and charge-offs, and credit risk generally;
 - the risks of changes in interest rates or the level and composition of deposits, loan demand and the values of loan collateral, securities and interest-sensitive assets and liabilities;
 - disruptions, uncertainties and related effects on our business and operations as a result of the ongoing COVID-19 pandemic and measures that have been or may be implemented or imposed in response to the pandemic, including the impact on, among other things, credit quality and liquidity;
 - the effect of any mergers, acquisitions or other transactions to which we or our bank subsidiary may from time to time be a party, including our ability to successfully integrate any businesses that we acquire;
 - the risk that expected cost savings and other benefits from acquisitions may not be fully realized or may take longer to realize than expected;
 - the possibility that an acquisition does not close when expected or at all because required regulatory, shareholder or other approvals and other conditions to closing are not received or satisfied on a timely basis or at all;
 - the reaction to a proposed acquisition transaction of the respective companies’ customers, employees and counterparties;
 - diversion of management time on acquisition-related issues;
 - the ability to enter into and/or close additional acquisitions;
 - the availability of and access to capital on terms acceptable to us;
 - increased regulatory requirements and supervision that applies as a result of our exceeding \$10 billion in total assets;
 - legislation and regulation affecting the financial services industry as a whole, and the Company and its subsidiaries in particular, including the effects resulting from the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), recent reforms to the Dodd-Frank Act, legislation and regulations in response to the COVID-19 pandemic and other future legislative and regulatory changes;
 - changes in governmental monetary and fiscal policies;
 - the effects of terrorism and efforts to combat it;
 - political instability;
 - risks associated with our customer relationship with the Cuban government and our correspondent banking relationship with Banco Internacional de Comercio, S.A. (BICSA), a Cuban commercial bank;
 - adverse weather events, including hurricanes, and other natural disasters;
 - the ability to keep pace with technological changes, including changes regarding cybersecurity;
 - an increase in the incidence or severity of fraud, illegal payments, cybersecurity breaches or other illegal acts impacting our bank subsidiary, our vendors or our customers;
 - the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in our market area and elsewhere, including institutions operating regionally, nationally and internationally, together with competitors offering banking products and services by mail, telephone and the Internet;
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- potential claims, expenses and other adverse effects related to current or future litigation, regulatory examinations or other government actions;
- the effect of changes in accounting policies and practices and auditing requirements, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board, and other accounting standard setters;
- higher defaults on our loan portfolio than we expect; and
- the failure of assumptions underlying the establishment of our allowance for credit losses or changes in our estimate of the adequacy of the allowance for credit losses.

All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this Cautionary Note. Our actual results may differ significantly from those we discuss in these forward-looking statements. For other factors, risks and uncertainties that could cause our actual results to differ materially from estimates and projections contained in these forward-looking statements, see the “Risk Factors” section of our Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on February 26, 2021.

PART I: FINANCIAL INFORMATION

Item 1: Financial Statements

**Home BancShares, Inc.
Consolidated Balance Sheets**

(In thousands, except share data)	March 31, 2021	December 31, 2020
	(Unaudited)	
Assets		
Cash and due from banks	\$ 218,814	\$ 242,173
Interest-bearing deposits with other banks	2,259,734	1,021,613
Cash and cash equivalents	2,478,548	1,263,788
Investment securities – available-for-sale, net of allowance for credit losses	2,539,123	2,473,781
Loans receivable	10,778,493	11,220,721
Allowance for credit losses	(242,932)	(245,472)
Loans receivable, net	10,535,561	10,975,249
Bank premises and equipment, net	278,620	278,614
Foreclosed assets held for sale	3,004	4,420
Cash value of life insurance	103,599	103,519
Accrued interest receivable	55,495	60,528
Deferred tax asset, net	77,145	70,249
Goodwill	973,025	973,025
Core deposit and other intangibles	29,307	30,728
Other assets	166,814	164,902
Total assets	\$ 17,240,241	\$ 16,398,802
Liabilities and Stockholders' Equity		
Deposits:		
Demand and non-interest-bearing	\$ 3,859,722	\$ 3,266,753
Savings and interest-bearing transaction accounts	8,477,208	8,212,240
Time deposits	1,175,664	1,246,797
Total deposits	13,512,594	12,725,790
Federal funds purchased	—	—
Securities sold under agreements to repurchase	162,929	168,931
FHLB and other borrowed funds	400,000	400,000
Accrued interest payable and other liabilities	148,999	127,999
Subordinated debentures	370,515	370,326
Total liabilities	14,595,037	13,793,046
Stockholders' equity:		
Common stock, par value \$0.01; shares authorized 300,000,000 in 2021 and 2020; shares issued and outstanding 165,141,370 in 2021 and 165,095,252 in 2020	1,651	1,651
Capital surplus	1,516,286	1,520,617
Retained earnings	1,107,818	1,039,370
Accumulated other comprehensive income	19,449	44,120
Total stockholders' equity	2,645,204	2,605,758
Total liabilities and stockholders' equity	\$ 17,240,241	\$ 16,398,802

See Condensed Notes to Consolidated Financial Statements.

Home BancShares, Inc.
Consolidated Statements of Income

(In thousands, except per share data)	Three Months Ended March 31,	
	2021	2020
	(Unaudited)	
Interest income:		
Loans	\$ 150,917	\$ 158,148
Investment securities		
Taxable	6,253	9,776
Tax-exempt	5,071	3,114
Deposits – other banks	410	1,116
Federal funds sold	—	21
Total interest income	162,651	172,175
Interest expense:		
Interest on deposits	7,705	24,198
Federal funds purchased	—	13
FHLB and other borrowed funds	1,875	2,698
Securities sold under agreements to repurchase	190	462
Subordinated debentures	4,793	5,079
Total interest expense	14,563	32,450
Net interest income	148,088	139,725
Provision for credit losses	—	94,598
Net interest income after provision for credit losses	148,088	45,127
Non-interest income:		
Service charges on deposit accounts	5,002	6,631
Other service charges and fees	7,608	6,056
Trust fees	522	438
Mortgage lending income	8,167	2,621
Insurance commissions	492	678
Increase in cash value of life insurance	502	560
Dividends from FHLB, FRB, FNBB & other	8,609	7,842
Gain on sale of SBA loans	—	341
(Loss) gain on sale of branches, equipment and other assets, net	(29)	82
Gain on OREO, net	401	277
Gain on securities, net	219	—
Fair value adjustment for marketable securities	5,782	(5,818)
Other income	8,001	3,219
Total non-interest income	45,276	22,927
Non-interest expense:		
Salaries and employee benefits	42,059	39,329
Occupancy and equipment	9,237	8,873
Data processing expense	5,870	4,326
Other operating expenses	15,700	17,946
Total non-interest expense	72,866	70,474
Income (loss) before income taxes	120,498	(2,420)
Income tax expense (benefit)	28,896	(2,927)
Net income	\$ 91,602	\$ 507
Basic earnings per share	\$ 0.55	\$ 0.00
Diluted earnings per share	\$ 0.55	\$ 0.00

See Condensed Notes to Consolidated Financial Statements.

Home BancShares, Inc.
Consolidated Statements of Comprehensive Income

(In thousands)	Three Months Ended March 31,	
	2021	2020
	(Unaudited)	
Net income	\$ 91,602	\$ 507
Net unrealized (loss) gain on available-for-sale securities	(33,400)	6,430
Other comprehensive (loss) income, before tax effect	(33,400)	6,430
Tax effect on other comprehensive income (loss)	8,729	(1,680)
Other comprehensive (loss) income	(24,671)	4,750
Comprehensive income	\$ 66,931	\$ 5,257

See Condensed Notes to Consolidated Financial Statements.

Home BancShares, Inc.
Consolidated Statements of Stockholders' Equity

For the Three Months Ended March 31, 2021

<u>(In thousands, except share data)</u>	<u>Common Stock</u>	<u>Capital Surplus</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
Balances at January 1, 2021	\$ 1,651	\$ 1,520,617	\$ 1,039,370	\$ 44,120	\$ 2,605,758
Comprehensive income:					
Net income	—	—	91,602	—	91,602
Other comprehensive income	—	—	—	(24,671)	(24,671)
Net issuance of 161,434 shares of common stock from exercise of stock options	1	2,321	—	—	2,322
Repurchase of 330,000 shares of common stock	(3)	(8,767)	—	—	(8,770)
Share-based compensation net issuance of 214,684 shares of restricted common stock	2	2,115	—	—	2,117
Cash dividends – Common Stock, \$0.14 per share	—	—	(23,154)	—	(23,154)
Balances at March 31, 2021 (unaudited)	<u>\$ 1,651</u>	<u>\$ 1,516,286</u>	<u>\$ 1,107,818</u>	<u>\$ 19,449</u>	<u>\$ 2,645,204</u>

See Condensed Notes to Consolidated Financial Statements.

Home BancShares, Inc.
Consolidated Statements of Stockholders' Equity

For the Three Months Ended March 31, 2020

(In thousands, except share data)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances at January 1, 2020	\$ 1,664	\$ 1,537,091	\$ 956,555	\$ 16,221	\$ 2,511,531
Cumulative change in accounting principle (adoption of ASC 326)	—	—	(43,956)	—	(43,956)
Balance at January 1, 2020 (as adjusted for change in accounting principle)	\$ 1,664	\$ 1,537,091	\$ 912,599	\$ 16,221	\$ 2,467,575
Comprehensive income:					
Net income	—	—	507	—	507
Other comprehensive loss	—	—	—	4,750	4,750
Net issuance of 22,864 shares of common stock from exercise of stock options	—	422	—	—	422
Repurchase of 1,423,560 shares of common stock	(14)	(23,843)	—	—	(23,857)
Share-based compensation net issuance of 175,249 shares of restricted common stock	1	2,481	—	—	2,482
Cash dividends – Common Stock, \$0.13 per share	—	—	(21,608)	—	(21,608)
Balances at March 31, 2020 (unaudited)	<u>\$ 1,651</u>	<u>\$ 1,516,151</u>	<u>\$ 891,498</u>	<u>\$ 20,971</u>	<u>\$ 2,430,271</u>

See Condensed Notes to Consolidated Financial Statements.

Home BancShares, Inc.
Consolidated Statements of Cash Flows

(In thousands)	Three Months Ended March 31,	
	2021	2020
	(Unaudited)	
Operating Activities		
Net income	\$ 91,602	\$ 507
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	4,728	4,750
(Increase) decrease in value of equity securities	(5,782)	5,818
Amortization of securities, net	6,618	3,936
Accretion of purchased loans	(5,485)	(7,647)
Share-based compensation	2,117	2,482
Gain on assets	(591)	(700)
Provision for credit losses	—	94,598
Deferred income tax effect	(13,078)	(32,809)
Increase in cash value of life insurance	(502)	(560)
Originations of mortgage loans held for sale	(202,455)	(137,945)
Proceeds from sales of mortgage loans held for sale	203,936	139,915
Changes in assets and liabilities:		
Accrued interest receivable	5,033	(4,979)
Other assets	13,943	16,458
Accrued interest payable and other liabilities	21,000	28,294
Net cash provided by operating activities	121,084	112,118
Investing Activities		
Net decrease (increase) in loans, excluding purchased loans	441,905	(111,479)
Purchases of investment securities – available-for-sale	(299,058)	(157,808)
Proceeds from maturities of investment securities – available-for-sale	175,805	137,960
Proceeds from sales of investment securities – available-for-sale	18,112	—
Purchases of equity securities	(10,460)	(15,015)
Proceeds from sales of equity securities	15,354	—
Redemptions of other investments	(50)	(11,384)
Proceeds from foreclosed assets held for sale	3,603	2,471
Proceeds from sale of SBA loans	—	4,057
Purchases of premises and equipment, net	(3,153)	(4,545)
Return of investment on cash value of life insurance	418	46,028
Net cash paid – market acquisitions	—	(421,211)
Net cash provided by (used in) investing activities	342,476	(530,926)
Financing Activities		
Net increase in deposits	786,804	236,531
Net decrease in securities sold under agreements to repurchase	(6,002)	(16,843)
Net decrease in federal funds purchased	—	(5,000)
Net increase in FHLB and other borrowed funds	—	329,997
Proceeds from exercise of stock options	2,322	422
Repurchase of common stock	(8,770)	(23,857)
Dividends paid on common stock	(23,154)	(21,608)
Net cash provided by financing activities	751,200	499,642
Net change in cash and cash equivalents	1,214,760	80,834
Cash and cash equivalents – beginning of year	1,263,788	490,601
Cash and cash equivalents – end of period	\$ 2,478,548	\$ 571,435

See Condensed Notes to Consolidated Financial Statements.

Home BancShares, Inc.
Condensed Notes to Consolidated Financial Statements
(Unaudited)

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

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

Operating Segments

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

Use of Estimates

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

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

Interim financial information

The accompanying unaudited consolidated financial statements as of March 31, 2021 and 2020 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 2020 Form 10-K, filed with the Securities and Exchange Commission.

New Accounting Pronouncements

The Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASC 326”), effective January 1, 2020. The guidance replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credits, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. ASC 326 requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses as well as the credit quality and underwriting standards of a company’s portfolio. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for loans and off-balance-sheet (“OBS”) credit exposures. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a one-time cumulative-effect adjustment to the allowance for credit losses of \$44.0 million which was recognized through a \$32.5 million adjustment to retained earnings, net of tax. This adjustment brought the beginning balance of the allowance for credit losses to \$146.1 million as of January 1, 2020. In addition, the Company recorded a \$15.5 million reserve on unfunded commitments which was recognized through an \$11.5 million adjustment to retained earnings, net of tax.

The Company adopted ASC 326 using the prospective transition approach for financial assets purchased with credit deterioration (“PCD”) that were previously classified as purchased credit impaired (“PCI”) and accounted for under ASC 310-30. In 2019, the Company reevaluated its loan pools of purchased loans with deteriorated credit quality. These loans pools related specifically to acquired loans from the Heritage, Liberty, Landmark, Bay Cities, Bank of Commerce, Premier Bank, Stonegate and Shore Premier Finance acquisitions. At acquisition, a portion of these loans was recorded as purchased credit impaired loans on a pool by pool basis. Through the reevaluation of these loan pools, management determined that estimated losses for purchase credit impaired loans should be processed against the credit mark of the applicable pools. The remaining non-accretable mark was then moved to accretable mark to be recognized over the remaining weighted average life of the loan pools. The projected losses for these loans were less than the total credit mark. As such, the remaining \$107.6 million of loans in these pools along with the \$29.3 million in accretable yield was deemed to be immaterial and was reclassified out of the purchased credit impaired loans category. As of December 31, 2019, the Company no longer held any purchased loans with deteriorated credit quality. Therefore, the Company did not have any PCI loans upon adoption on of ASC 326 as of January 1, 2020.

The Company has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. PCD loans are recorded at the amount paid. An allowance for credit losses is determined using the same methodology as other loans. The initial allowance for credit losses determined on a collective basis is allocated to individual loans. The sum of the loan’s purchase price and allowance for credit losses becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through the provision for credit loss.

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2020. As of December 31, 2019, the Company did not have any other-than-temporarily impaired investment securities. Therefore, upon adoption of ASC 326, the Company determined than an allowance for credit losses on available-for-sale securities was not deemed material. However, the Company evaluated the investment portfolio during the first quarter of 2020 and determined that an \$842,000 provision for credit losses was necessary. No additional provision was deemed necessary during the remaining quarters of 2020 or the first quarter of 2021. See Note 3 for further discussion.

The following table illustrates the impact of the adoption of ASC 326 on the Company's 2020 consolidated balance sheet.

	January 1, 2020		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
(In thousands)			
Assets:			
Allowance for credit losses on loans	\$ 146,110	\$ 102,122	\$ 43,988
Liabilities:			
Allowance for credit losses on OBS credit exposures (included in other liabilities)	15,521	—	15,521

Revenue Recognition

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

- Service charges on deposit accounts – These represent general service fees for monthly account maintenance and activity or transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when our performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed (such as a wire transfer). Payment for such performance obligations are generally received at the time the performance obligations are satisfied.
- Other service charges and fees – These represent credit card interchange fees and Centennial Commercial Finance Group ("Centennial CFG") loan fees. The interchange fees are recorded in the period the performance obligation is satisfied which is generally the cash basis based on agreed upon contracts. The Centennial CFG loan fees are based on loan or other negotiated agreements with customers and are accounted for under ASC Topic 310.

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 March 31,	
	2021	2020
(In thousands)		
Net income	\$ 91,602	\$ 507
Average shares outstanding	165,257	166,014
Effect of common stock options	189	—
Average diluted shares outstanding	165,446	166,014
Basic earnings per share	\$ 0.55	\$ 0.00
Diluted earnings per share	\$ 0.55	\$ 0.00

As of March 31, 2020, options to purchase 3.3 million shares of common stock with a weighted average exercise price of \$19.57 were excluded from the computation of diluted earnings per share as the majority of the options had an exercise price which was greater than the average market price of the common stock.

2. Business Combinations

Acquisition of LH-Finance

On February 29, 2020, the Company completed the acquisition of LH-Finance, the marine lending division of People’s United Bank, N.A. The Company paid a purchase price of approximately \$421.2 million in cash. LH-Finance provides direct consumer financing for United States Coast Guard (“USCG”) registered high-end sail and power boats. Additionally, LH-Finance provides inventory floor plan lines of credit to marine dealers, primarily those selling USCG documented vessels.

Including the purchase accounting adjustments, as of the acquisition date, LH-Finance had approximately \$409.1 million in total assets, including \$407.4 million in total loans, which resulted in goodwill of \$14.6 million being recorded.

The acquired portfolio of loans is now housed in the Shore Premier Finance (“SPF”) division. The SPF division of Centennial is responsible for servicing the acquired loan portfolio and originating new loan production. In connection with this acquisition, Centennial opened a loan production office in Baltimore, Maryland.

3. Investment Securities

The following table summarizes the amortized cost and fair value of securities available-for-sale and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss):

	March 31, 2021			
	Available-for-Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	\$ 333,291	\$ 2,004	\$ (2,321)	\$ 332,974
Residential mortgage-backed securities	751,372	8,731	(8,093)	752,010
Commercial mortgage-backed securities	435,269	13,610	(1,042)	447,837
State and political subdivisions	951,293	19,677	(7,167)	963,803
Other securities	42,407	449	(357)	42,499
Total	<u>\$ 2,513,632</u>	<u>\$ 44,471</u>	<u>\$ (18,980)</u>	<u>\$ 2,539,123</u>

	December 31, 2020			
	Available-for-Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	\$ 325,860	\$ 2,338	\$ (1,207)	\$ 326,991
Residential mortgage-backed securities	703,138	10,607	(688)	713,057
Commercial mortgage-backed securities	446,964	18,048	(126)	464,886
State and political subdivisions	898,174	31,173	(1,454)	927,893
Other securities	40,755	434	(235)	40,954
Total	<u>\$ 2,414,891</u>	<u>\$ 62,600</u>	<u>\$ (3,710)</u>	<u>\$ 2,473,781</u>

Assets, principally investment securities, having a carrying value of approximately \$1.08 billion at March 31, 2021 and December 31, 2020, respectively, were pledged to secure public deposits, as collateral for repurchase agreements, and for other purposes required or permitted by law. Investment securities pledged as collateral for repurchase agreements totaled approximately \$162.9 million and \$168.9 million at March 31, 2021 and December 31, 2020, respectively.

The amortized cost and estimated fair value of securities classified as available-for-sale at March 31, 2021, by contractual maturity, are shown below. Expected maturities could differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	\$ 8,651	\$ 8,690
Due after one year through five years	47,161	48,038
Due after five years through ten years	232,035	232,163
Due after ten years	1,037,144	1,048,385
Mortgage - backed securities: Residential	751,372	752,010
Mortgage - backed securities: Commercial	435,269	447,837
Other	2,000	2,000
Total	<u>\$ 2,513,632</u>	<u>\$ 2,539,123</u>

During the three months ended March 31, 2021, \$17.9 million in available-for-sale securities were sold. The gross realized gains on the sales totaled \$219,000 for the three months ended March 31, 2021.

During the three-month period ended March 31, 2020, no available-for-sale securities were sold.

The following shows gross unrealized losses and estimated fair value of investment securities classified as available-for-sale, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position as of March 31, 2021 and December 31, 2020.

	March 31, 2021					
	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	\$ 60,870	\$ (1,637)	\$ 77,145	\$ (684)	\$ 138,015	\$ (2,321)
Residential mortgage-backed securities	338,020	(8,016)	10,938	(77)	348,958	(8,093)
Commercial mortgage-backed securities	68,953	(1,042)	—	—	68,953	(1,042)
State and political subdivisions	377,950	(6,217)	13,133	(950)	391,083	(7,167)
Other securities	9,302	(250)	8,258	(107)	17,560	(357)
Total	<u>\$ 855,095</u>	<u>\$ (17,162)</u>	<u>\$ 109,474</u>	<u>\$ (1,818)</u>	<u>\$ 964,569</u>	<u>\$ (18,980)</u>

	December 31, 2020					
	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	\$ 54,611	\$ (383)	\$ 95,249	\$ (824)	\$ 149,860	\$ (1,207)
Residential mortgage-backed securities	143,458	(643)	4,900	(45)	148,358	(688)
Commercial mortgage-backed securities	26,886	(126)	—	—	26,886	(126)
State and political subdivisions	78,349	(1,454)	—	—	78,349	(1,454)
Other securities	5,434	(100)	8,748	(135)	14,182	(235)
Total	<u>\$ 308,738</u>	<u>\$ (2,706)</u>	<u>\$ 108,897</u>	<u>\$ (1,004)</u>	<u>\$ 417,635</u>	<u>\$ (3,710)</u>

The Company evaluates all securities quarterly to determine if any debt securities in a loss position require a provision for credit losses in accordance with ASC 326, *Measurement of Credit Losses on Financial Instruments*. The Company first assesses whether it intends to sell or is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For securities that do not meet this criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the uncollectability of a security is confirmed or when either of the criteria regarding intent or requirement to sell is met. At March 31, 2021, the Company determined that the allowance for credit losses of \$842,000, resulting from economic uncertainties related to the COVID-19 pandemic, was adequate for the investment portfolio. No additional provision for credit losses was considered necessary for the portfolio.

	<u>March 31, 2021</u>	<u>December 31, 2020</u>
	(In thousands)	
Allowance for credit losses:		
Beginning balance	\$ 842	\$ —
Provision for credit loss - investment securities	—	842
Balance, March 31	<u>\$ 842</u>	<u>\$ 842</u>
Provision for credit loss - investment securities	—	—
Balance, December 31, 2020		<u>\$ 842</u>

For the three months ended March 31, 2021, the Company had investment securities with approximately \$1.8 million in unrealized losses, which have been in continuous loss positions for more than twelve months. The Company's assessments indicated that the cause of the market depreciation was primarily due to the change in interest rates and not the issuer's financial condition or downgrades by rating agencies. In addition, approximately 52.9% of the principal balance from the Company's investment portfolio will mature and be repaid to the Company within five years or less. As a result, the Company has the ability and intent to hold such securities until maturity.

As of March 31, 2021, the Company's securities portfolio consisted of 1,296 investment securities, 321 of which were in an unrealized loss position. As noted in the table above, the total amount of the unrealized loss was \$19.0 million. The U.S government-sponsored enterprises portfolio contained unrealized losses of \$2.3 million on 51 securities. The residential mortgage-backed securities portfolio contained \$8.1 million of unrealized losses on 110 securities, and the commercial mortgage-backed securities portfolio contained \$1.0 million of unrealized losses on 27 securities. The state and political subdivisions portfolio contained \$7.2 million of unrealized losses on 125 securities. In addition, the other securities portfolio contained \$357,000 of unrealized losses on 8 securities. The unrealized losses on the Company's investments were a result of interest rate changes. The Company expects to recover the amortized cost basis over the term of the securities. Because the decline in market value was attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider an allowance for credit losses on the other portions of the investment portfolio necessary as of March 31, 2021.

Income earned on available-for sale securities for the three months ended March 31, 2021 and 2020, is as follows:

	<u>For the Three Months</u>	
	<u>Ended March 31,</u>	
	<u>2021</u>	<u>2020</u>
	(In thousands)	
Taxable	\$ 6,253	\$ 9,776
Non-taxable	5,071	3,114
Total	<u>\$ 11,324</u>	<u>\$ 12,890</u>

4. Loans Receivable

The various categories of loans receivable are summarized as follows:

	March 31, 2021	December 31, 2020
(In thousands)		
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	\$ 4,289,142	\$ 4,429,060
Construction/land development	1,612,973	1,562,298
Agricultural	113,382	114,431
Residential real estate loans		
Residential 1-4 family	1,437,546	1,536,257
Multifamily residential	377,661	536,538
Total real estate	7,830,704	8,178,584
Consumer	839,819	864,690
Commercial and industrial	1,794,787	1,896,442
Agricultural	65,017	66,869
Other	248,166	214,136
Total loans receivable	10,778,493	11,220,721
Allowance for credit losses	(242,932)	(245,473)
Loans receivable, net	<u>\$ 10,535,561</u>	<u>\$ 10,975,248</u>

During the three months ended March 31, 2021, the Company did not sell any guaranteed portions of Small Business Administration (“SBA”) loans. During the three months ended March 31, 2020, the Company sold \$3.7 million of the guaranteed portion of certain SBA loans, which resulted in gains of approximately \$341,000.

Mortgage loans held for sale of approximately \$113.4 million and \$114.8 million at March 31, 2021 and December 31, 2020, respectively, are included in residential 1-4 family loans. Mortgage loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis. Gains and losses resulting from sales of mortgage loans are recognized when the respective loans are sold to investors. Gains and losses are determined by the difference between the selling price and the carrying amount of the loans sold, net of discounts collected or paid. The Company obtains forward commitments to sell mortgage loans to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. The forward commitments acquired by the Company for mortgage loans in process of origination are considered mandatory forward commitments. Because these commitments are structured on a mandatory basis, the Company is required to substitute another loan or to buy back the commitment if the original loan does not fund. These commitments are derivative instruments and their fair values at March 31, 2021 and December 31, 2020 were not material.

The Company adopted ASC 326 using the prospective transition approach for financial assets purchased with credit deterioration (“PCD”) that were previously classified as purchased credit impaired (“PCI”) and accounted for under ASC 310-30. In 2019, the Company reevaluated its loan pools of purchased loans with deteriorated credit quality. These loans pools related specifically to acquired loans from the Heritage, Liberty, Landmark, Bay Cities, Bank of Commerce, Premier Bank, Stonegate and Shore Premier Finance acquisitions. At acquisition, a portion of these loans was recorded as purchased credit impaired loans on a pool by pool basis. Through the reevaluation of these loan pools, management determined that estimated losses for purchase credit impaired loans should be processed against the credit mark of the applicable pools. The remaining non-accretable mark was then moved to accretable mark to be recognized over the remaining weighted average life of the loan pools. The projected losses for these loans were less than the total credit mark. As such, the remaining \$107.6 million of loans in these pools along with the \$29.3 million in accretable yield was deemed to be immaterial and was reclassified out of the purchased credit impaired loans category. As of December 31, 2019, the Company no longer held any purchased loans with deteriorated credit quality. Therefore, the Company did not have any PCI loans upon adoption of ASC 326 as of January 1, 2020.

The Company has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. PCD loans are recorded at the amount paid. An allowance for credit losses is determined using the same methodology as other loans. The initial allowance for credit losses determined on a collective basis is allocated to individual loans. The sum of the loan’s purchase price and allowance for credit losses becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through the provision for credit losses. As a result of the acquisition of LH-Finance in 2020, the Company held approximately \$605,000 and \$760,000 in PCD loans, as of March 31, 2021 and December 31, 2020, respectively.

A description of our accounting policies for loans, impaired loans and non-accrual loans are set forth in our 2020 Form 10-K filed with the SEC on February 26, 2020. The Company adopted ASC 326 effective January 1, 2020. See Notes 1 and 5 for further discussion.

5. Allowance for Credit Losses, Credit Quality and Other

The Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, effective January 1, 2020. The guidance replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance, including loan commitments, standby letters of credits, financial guarantees, and other similar instruments. The Company adopted ASC 326 using the modified retrospective method for loans and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a one-time cumulative-effect adjustment to the allowance for credit losses of \$44.0 million which was recognized through a \$32.5 million adjustment to retained earnings, net of tax. This adjustment brought the beginning balance of the allowance for credit losses to \$146.1 million as of January 1, 2020. In addition, the Company recorded a \$15.5 million reserve on unfunded commitments as of January 1, 2020, which was recognized through an \$11.5 million adjustment to retained earnings, net of tax.

The Company uses the discounted cash flow (“DCF”) method to estimate expected losses for all of Company’s loan pools. These pools are as follows: construction & land development; other commercial real estate; residential real estate; commercial & industrial; and consumer & other. The loan portfolio pools were selected in order to generally align with the loan categories specified in the quarterly call reports required to be filed with the Federal Financial Institutions Examination Council. For each of these loan pools, the Company generates cash flow projections at the instrument level wherein payment expectations are adjusted for estimated prepayment speed, curtailments, time to recovery, probability of default, and loss given default. The modeling of expected prepayment speeds, curtailment rates, and time to recovery are based on historical internal data. The Company uses regression analysis of historical internal and peer data to determine suitable loss drivers to utilize when modeling lifetime probability of default and loss given default. This analysis also determines how expected probability of default and loss given default will react to forecasted levels of the loss drivers.

Each year management evaluates the performance of the selected models used in the CECL calculation through backtesting. Based on the results of the testing, management determines if the various models produced accurate results compared to the actual losses incurred for the current economic environment. Management then determines if changes to the input assumptions and economic factors would produce a stronger overall calculation that is more responsive to changes in economic conditions. The Company continues to use regression analysis to determine suitable loss drives to utilize when modeling lifetime probability of default and loss given default for the changes in the economic factors for the loss driver segments. Based on this analysis, management determined that changes to several of the economic factors for the various loss driver segments were necessary. The identified loss drivers by segment are included below as of March 31, 2021 and December 31, 2020, respectively.

March 31, 2021

Loss Driver Segment	Call Report Segment(s)	Modeled Economic Factors
1-4 Family Construction	1a1	National Unemployment (%) & Housing Price Index (%)
All Other Construction	1a2	National Unemployment (%) & Gross Domestic Product (%)
1-4 Family Revolving HELOC & Junior Liens	1c1	National Unemployment (%) & Housing Price Index – CoreLogic (%)
1-4 Family Revolving HELOC & Junior Liens	1c2b	National Unemployment (%) & Gross Domestic Product (%)
1-4 Family Senior Liens	1c2a	National Unemployment (%) & Gross Domestic Product (%)
Multifamily	1d	Rental Vacancy Rate (%) & Housing Price Index – Case-Schiller (%)
Owner Occupied CRE	1e1	National Unemployment (%) & Gross Domestic Product (%)
Non-Owner Occupied CRE	1e2,1b,8	National Unemployment (%) & Gross Domestic Product (%)
Commercial & Industrial, Agricultural, Non-Depository Financial Institutions, Purchase/Carry Securities, Other	4a, 3, 9a, 9b1, 9b2, Other	National Unemployment (%) & National Retail Sales (%)
Consumer Auto	6c	National Unemployment (%) & National Retail Sales (%)
Other Consumer	6b, 6d	National Unemployment (%) & National Retail Sales (%)
Other Consumer - SPF	6d	National Unemployment (%)

Loss Driver Segment	Call Report Segment(s)	Modeled Economic Factors
1-4 Family Construction	1a1	National Unemployment (%) & Housing Price Index (%)
All Other Construction	1a2	National Unemployment (%) & Commercial Real Estate Price Index (%)
1-4 Family Revolving HELOC & Junior Liens	1c1, 1c2b	National Unemployment (%) & Housing Price Index (%)
1-4 Family Senior Liens	1c2a	National Unemployment (%) & Housing Price Index (%)
Multifamily	1d	National Unemployment (%) & Housing Price Index (%)
Owner Occupied CRE	1e1	National Unemployment (%) & Commercial Real Estate Price Index (%)
Non-Owner Occupied CRE	1e2, 1b, 8	National Unemployment (%) & Commercial Real Estate Price Index (%)
Commercial & Industrial, Agricultural, Non-Depository Financial Institutions, Purchase/Carry Securities, Other	4a, 3, 9a, 9b1, 9b2, Other	National Unemployment (%) & National Retail Sales (%)
Consumer Auto	6c	National Unemployment (%) & National Retail Sales (%)
Other Consumer	6b, 6d	National Unemployment (%) & National Retail Sales (%)
Other Consumer - SPF	6d	National Unemployment (%)

For all DCF models, management has determined that four quarters represents a reasonable and supportable forecast period and reverts back to a historical loss rate over four quarters on a straight-line basis. Management leverages economic projections from a reputable and independent third party to inform its loss driver forecasts over the four-quarter forecast period. Other internal and external indicators of economic forecasts are also considered by management when developing the forecast metrics.

The combination of adjustments for credit expectations (default and loss) and time expectations prepayment, curtailment, and time to recovery produces an expected cash flow stream at the instrument level. Instrument effective yield is calculated, net of the impacts of prepayment assumptions, and the instrument expected cash flows are then discounted at that effective yield to produce an instrument-level net present value of expected cash flows ("NPV"). An allowance for credit loss is established for the difference between the instrument's NPV and amortized cost basis.

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

Residential Real Estate Loans. We originate one to four family, residential mortgage loans generally secured by property located in our primary market areas. Residential real estate loans generally have a loan-to-value ratio of up to 90%. These loans are underwritten by giving consideration to many factors including the borrower's ability to pay, stability of employment or source of income, debt-to-income ratio, credit history and loan-to-value ratio.

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

Consumer & Other Loans. Our consumer & other loans are primarily composed of loans to finance USCG registered high-end sail and power boats as a result of our acquisitions of SPF on June 30, 2018 and LH-Finance on February 29, 2020. The performance of consumer & other loans will be affected by the local and regional economies as well as the rates of personal bankruptcies, job loss, divorce and other individual-specific characteristics.

Off-Balance Sheet Credit Exposures. The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit loss on off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The Company uses the DCF method to estimate expected losses for all of Company's off-balance sheet credit exposures through the use of the existing DCF models for the Company's loan portfolio pools. The off-balance sheet credit exposures exhibit similar risk characteristics as loans currently in the Company's loan portfolio.

As of March 31, 2021, the markets in which we operate have begun to experience economic recovery as unemployment rates have declined, COVID-19 vaccination rates have increased, and communities have begun to reopen for business activity. However, there is still a significant amount of uncertainty related to the COVID-19 pandemic which may slow the anticipated economic recovery. The Company determined that an additional provision for credit losses on loans was not necessary as the current level of the allowance for credit losses was considered adequate as of March 31, 2021. In addition, the Company determined that the current level of the unfunded commitment reserve was adequate and no additional unfunded commitments expense was necessary as of March 31, 2021.

ASC 326 requires that both a discount and an allowance for credit losses be recorded on loans during an acquisition. During the first quarter of 2020, we completed the acquisition of \$406.2 million of loans from LH-Finance. As a result, the Company recorded a \$6.6 million loan discount and a \$9.3 million increase in the allowance for credit losses for this acquisition. A small portion of the loans acquired during the quarter were purchase credit deteriorated ("PCD") loans, so the Company recorded a \$357,000 allowance for credit losses on these loans.

The following tables present the activity in the allowance for credit losses for the three months ended March 31, 2021:

	Three Months Ended March 31, 2021					Total
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	
(In thousands)						
Allowance for credit losses:						
Beginning balance	\$ 32,861	\$ 88,453	\$ 53,216	\$ 46,530	\$ 24,413	\$ 245,473
Loans charged off	—	(19)	(226)	(2,279)	(523)	(3,047)
Recoveries of loans previously charged off	22	14	62	76	332	506
Net loans (charged off) recovered	22	(5)	(164)	(2,203)	(191)	(2,541)
Provision for credit losses	(9,946)	5,421	1,545	5,497	(2,517)	—
Balance, March 31	\$ 22,937	\$ 93,869	\$ 54,597	\$ 49,824	\$ 21,705	\$ 242,932

The following tables present the balances in the allowance for loan losses for the three month period ended March 31, 2020 and the year ended December 31, 2020.

	Three Months Ended March 31, 2020 and Year Ended December 31, 2020					Total
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	
(In thousands)						
Allowance for credit losses:						
Beginning balance	\$ 26,433	\$ 33,529	\$ 20,135	\$ 16,615	\$ 5,410	\$ 102,122
Impact of adoption ASC 326	(5,296)	15,912	16,680	11,584	5,108	43,988
Allowance for credit losses on PCD loans	—	—	—	—	357	357
Loans charged off	(45)	(519)	(339)	(2,804)	(558)	(4,265)
Recoveries of loans previously charged off	10	250	160	65	255	740
Net loans charged off	(35)	(269)	(179)	(2,739)	(303)	(3,525)
Provision for credit loss - loans	13,309	23,483	6,144	28,940	4,796	76,672
Provision for credit loss - acquired loans	—	—	—	—	9,309	9,309
Balance, March 31	34,411	72,655	42,780	54,400	24,677	228,923
Loans charged off	(1,173)	(2,522)	(146)	(4,960)	(1,420)	(10,221)
Recoveries of loans previously charged off	97	397	177	153	506	1,330
Net loans charged off	(1,076)	(2,125)	31	(4,807)	(914)	(8,891)
Provision for credit loss - loans	(474)	17,923	10,405	(3,063)	650	25,441
Balance, December 31	\$ 32,861	\$ 88,453	\$ 53,216	\$ 46,530	\$ 24,413	\$ 245,473

The following table presents the amortized cost basis of loans on nonaccrual status and loans past due over 90 days still accruing as of March 31, 2021 and December 31, 2020:

	March 31, 2021		
	Nonaccrual	Nonaccrual With Reserve	Loans Past Due Over 90 Days Still Accruing
(In thousands)			
Real estate:			
Commercial real estate loans			
Non-farm/non-residential	\$ 19,945	\$ 9,085	\$ 2,718
Construction/land development	1,252	7,826	1
Agricultural	862	—	—
Residential real estate loans			
Residential 1-4 family	19,166	3,000	1,180
Multifamily residential	172	—	—
Total real estate	41,397	19,911	3,899
Consumer	1,902	—	230
Commercial and industrial	14,755	—	80
Agricultural & other	1,088	—	—
Total	\$ 59,142	\$ 19,911	\$ 4,209

	December 31, 2020		
	Nonaccrual	Nonaccrual With Reserve	Loans Past Due Over 90 Days Still Accruing
	(In thousands)		
Real estate:			
Commercial real estate loans			
Non-farm/non-residential	\$ 20,947	\$ 6,794	\$ 6,088
Construction/land development	1,381	2,089	1,296
Agricultural	879	—	—
Residential real estate loans			
Residential 1-4 family	19,334	3,000	1,821
Multifamily residential	173	—	—
Total real estate	42,714	11,883	9,205
Consumer	3,506	—	174
Commercial and industrial	17,251	—	231
Agricultural & other	1,057	—	—
Total	\$ 64,528	\$ 11,883	\$ 9,610

The Company had \$59.1 million and \$64.5 million in nonaccrual loans for the periods ended March 31, 2021 and December 31, 2020, respectively. In addition, the Company had \$4.2 million and \$9.6 million in loans past due 90 days or more and still accruing for the periods ended March 31, 2021 and December 31, 2020, respectively.

The Company had \$19.9 million and \$11.9 million in nonaccrual loans with a specific reserve as of March 31, 2021 and December 31, 2020, respectively. The Company did not recognize any interest income on nonaccrual loans during the period ended March 31, 2021 or March 31, 2020.

The following table presents the amortized cost basis of collateral-dependent impaired loans by class of loans as of March 31, 2021 and December 31, 2020:

	March 31, 2021		
	Commercial Real Estate	Residential Real Estate	Other
	(In thousands)		
Real estate:			
Commercial real estate loans			
Non-farm/non-residential	\$ 307,946	\$ —	\$ —
Construction/land development	4,587	—	—
Agricultural	862	—	—
Residential real estate loans			
Residential 1-4 family	—	27,459	—
Multifamily residential	—	172	—
Total real estate	313,395	27,631	—
Consumer	—	—	2,146
Commercial and industrial	—	—	19,077
Agricultural & other	—	—	1,088
Total	\$ 313,395	\$ 27,631	\$ 22,311

	December 31, 2020		
	Commercial	Residential	
	Real Estate	Real Estate	Other
	(In thousands)		
Real estate:			
Commercial real estate loans			
Non-farm/non-residential	\$ 47,429	\$ —	\$ —
Construction/land development	6,012	—	—
Agricultural	879	—	—
Residential real estate loans			
Residential 1-4 family	—	32,413	—
Multifamily residential	—	173	—
Total real estate	54,320	32,586	—
Consumer	—	—	3,694
Commercial and industrial	—	—	21,027
Agricultural & other	—	—	1,057
Total	\$ 54,320	\$ 32,586	\$ 25,778

The Company had \$363.3 million and \$112.7 million in collateral-dependent impaired loans for the periods ended March 31, 2021 and December 31, 2020, respectively. The increase in collateral-dependent impaired loans was due to the Company changing the valuation method for lodging and assisted living loans to a market price valuation methodology. This involved assigning a 15% discount of par for these impaired loans. The 15% figure was derived based on knowledge of current hotel and assisted living offerings in the loan sale market. In the event of default, liquidation would be achieved through a loan sale. The Company is continuing to monitor these impaired loans and will adjust the discount as necessary.

Loans that do not share risk characteristics are evaluated on an individual basis. For collateral-dependent impaired loans, excluding lodging and assisted living loans, where the Company has determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and the Company expects repayment of the financial asset to be provided substantially through the operation or sale of the collateral, the allowance for credit losses is measured based on the difference between the fair value of the collateral and the amortized cost basis of the loan as of the measurement date. When repayment is expected to be from the operation of the collateral, expected credit losses are calculated as the amount by which the amortized cost basis of the loan exceeds the present value of expected cash flows from the operation of the collateral. When repayment is expected to be from the sale of the collateral, expected credit losses are calculated as the amount by which the amortized cost basis of the loan exceeds the fair value of the underlying collateral less estimated costs to sell. The allowance for credit losses may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the loan.

The following is an aging analysis for loans receivable as of March 31, 2021 and December 31, 2020:

March 31, 2021							
	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	\$ 4,540	\$ 3,038	\$ 22,663	\$ 30,241	\$ 4,258,901	\$ 4,289,142	\$ 2,718
Construction/land development	562	35	1,253	1,850	1,611,123	1,612,973	1
Agricultural	—	130	862	992	112,390	113,382	—
Residential real estate loans							
Residential 1-4 family	6,022	1,477	20,346	27,845	1,409,701	1,437,546	1,180
Multifamily residential	—	—	172	172	377,489	377,661	—
Total real estate	11,124	4,680	45,296	61,100	7,769,604	7,830,704	3,899
Consumer	984	456	2,132	3,572	836,247	839,819	230
Commercial and industrial	1,132	351	14,835	16,318	1,778,469	1,794,787	80
Agricultural & other	691	86	1,088	1,865	311,318	313,183	—
Total	\$ 13,931	\$ 5,573	\$ 63,351	\$ 82,855	\$ 10,695,638	\$ 10,778,493	\$ 4,209

December 31, 2020							
	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due	Current Loans	Total Loans Receivable	Accruing Loans Past Due 90 Days or More
(In thousands)							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	\$ 3,856	\$ 68	\$ 27,035	\$ 30,959	\$ 4,398,101	\$ 4,429,060	\$ 6,088
Construction/land development	178	44	2,677	\$ 2,899	1,559,399	1,562,298	1,296
Agricultural	522	—	879	1,401	113,030	114,431	—
Residential real estate loans							
Residential 1-4 family	4,833	7,787	21,155	33,775	1,502,482	1,536,257	1,821
Multifamily residential	111	—	173	284	536,254	536,538	—
Total real estate	9,500	7,899	51,919	69,318	8,109,266	8,178,584	9,205
Consumer	2,899	802	3,680	7,381	857,309	864,690	174
Commercial and industrial	960	515	17,482	18,957	1,877,485	1,896,442	231
Agricultural and other	1,125	3,713	1,057	5,895	275,110	281,005	—
Total	\$ 14,484	\$ 12,929	\$ 74,138	\$ 101,551	\$ 11,119,170	\$ 11,220,721	\$ 9,610

Non-accruing loans at March 31, 2021 and December 31, 2020 were \$59.1 million and \$64.5 million, respectively.

Interest recognized on impaired loans during the three months ended March 31, 2021 and 2020 was approximately \$267,000 and \$399,000, respectively. The amount of interest recognized on impaired loans on the cash basis is not materially different than the accrual basis.

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

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

- *Risk rating 1 – Excellent.* Loans in this category are to persons or entities of unquestionable financial strength, a highly liquid financial position, with collateral that is liquid and well margined. These borrowers have performed without question on past obligations, and the Bank expects their performance to continue. Internally generated cash flow covers current maturities of long-term debt by a substantial margin. Loans secured by bank certificates of deposit and savings accounts, with appropriate holds placed on the accounts, are to be rated in this category.
- *Risk rating 2 – Good.* These are loans to persons or entities with strong financial condition and above-average liquidity that have previously satisfactorily handled their obligations with the Bank. Collateral securing the Bank's debt is margined in accordance with policy guidelines. Internally generated cash flow covers current maturities of long-term debt more than adequately. Unsecured loans to individuals supported by strong financial statements and on which repayment is satisfactory may be included in this classification.
- *Risk rating 3 – Satisfactory.* Loans to persons or entities with an average financial condition, adequate collateral margins, adequate cash flow to service long-term debt, and net worth comprised mainly of fixed assets are included in this category. These entities are minimally profitable now, with projections indicating continued profitability into the foreseeable future. Closely held corporations or businesses where a majority of the profits are withdrawn by the owners or paid in dividends are included in this rating category. Overall, these loans are basically sound.
- *Risk rating 4 – Watch.* Borrowers who have marginal cash flow, marginal profitability or have experienced an unprofitable year and a declining financial condition characterize these loans. The borrower has in the past satisfactorily handled debts with the Bank, but in recent months has either been late, delinquent in making payments, or made sporadic payments. While the Bank continues to be adequately secured, margins have decreased or are decreasing, despite the borrower's continued satisfactory condition. Other characteristics of borrowers in this class include inadequate credit information, weakness of financial statement and repayment capacity, but with collateral that appears to limit exposure.
- *Risk rating 5 – Other Loans Especially Mentioned ("OLEM").* A loan criticized as OLEM has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. OLEM assets are not adversely classified and do not expose the institution to sufficient risk to warrant adverse classification.
- *Risk rating 6 – Substandard.* A loan classified as substandard is inadequately protected by the sound worth and paying capacity of the borrower or the collateral pledged. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual assets.
- *Risk rating 7 – Doubtful.* A loan classified as doubtful has all the weaknesses inherent in a loan classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. These are poor quality loans in which neither the collateral, if any, nor the financial condition of the borrower presently ensure collectability in full in a reasonable period of time; in fact, there is permanent impairment in the collateral securing the loan.
- *Risk rating 8 – Loss.* Assets classified as loss are considered uncollectible and of such little value that the continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather, it is not practical or desirable to defer writing off this basically worthless asset, even though partial recovery may occur in the future. This classification is based upon current facts, not probabilities. Assets classified as loss should be charged-off in the period in which they became uncollectible.

The Company's classified loans include loans in risk ratings 6, 7 and 8. The following is a presentation of classified loans by class as of March 31, 2021 and December 31, 2020:

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

Based on the most recent analysis performed, the risk category of loans by class of loans as of March 31, 2021 and December 31, 2020 is as follows:

March 31, 2021								
Term Loans Amortized Cost Basis by Origination Year							Revolving Loans Amortized Cost Basis	Total
2021	2020	2019	2018	2017	Prior	Total		
(In thousands)								
Real estate:								
Commercial real estate loans								
Non-farm/non-residential								
Risk rating 1	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Risk rating 2	—	—	—	—	—	—	25	25
Risk rating 3	44,038	293,351	332,244	449,435	268,007	1,188,602	261,698	2,837,375
Risk rating 4	1,034	26,988	151,064	202,071	192,571	393,141	40,386	1,007,255
Risk rating 5	—	10,589	2,083	86,174	38,542	228,508	124	366,020
Risk rating 6	—	—	15,629	1,763	14,048	46,292	84	77,816
Risk rating 7	—	—	—	—	—	557	—	557
Risk rating 8	—	—	—	—	—	94	—	94
Total non-farm/non-residential	45,072	330,928	501,020	739,443	513,168	1,857,194	302,317	4,289,142
Construction/land development								
Risk rating 1	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Risk rating 2	—	—	—	—	—	243	—	243
Risk rating 3	31,274	241,608	144,498	68,865	29,756	73,258	134,788	724,047
Risk rating 4	10,728	174,120	452,731	73,793	41,076	46,437	54,926	853,811
Risk rating 5	—	—	457	388	21,902	1,224	1	23,972
Risk rating 6	—	—	734	82	—	10,084	—	10,900
Risk rating 7	—	—	—	—	—	—	—	—
Risk rating 8	—	—	—	—	—	—	—	—
Total construction/land development	42,002	415,728	598,420	143,128	92,734	131,246	189,715	1,612,973
Agricultural								
Risk rating 1	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Risk rating 2	—	—	—	—	—	—	—	—
Risk rating 3	2,084	31,979	8,338	8,549	5,648	27,993	5,601	90,192
Risk rating 4	66	2,142	520	1,192	876	16,066	848	21,710
Risk rating 5	—	—	—	—	—	116	—	116
Risk rating 6	—	46	—	—	—	1,318	—	1,364
Risk rating 7	—	—	—	—	—	—	—	—
Risk rating 8	—	—	—	—	—	—	—	—
Total agricultural	2,150	34,167	8,858	9,741	6,524	45,493	6,449	113,382
Total commercial real estate loans	\$ 89,224	\$ 780,823	\$ 1,108,298	\$ 892,312	\$ 612,426	\$ 2,033,933	\$ 498,481	\$ 6,015,497
Residential real estate loans								
Residential 1-4 family								
Risk rating 1	\$ —	\$ —	\$ 47	\$ —	\$ —	\$ 86	\$ 118	\$ 251
Risk rating 2	—	—	—	—	—	62	1	63
Risk rating 3	86,245	175,228	175,063	141,871	125,404	411,607	106,087	1,221,505
Risk rating 4	—	4,250	11,630	26,214	19,651	74,481	30,766	166,992
Risk rating 5	—	—	1,178	1,359	4,662	6,334	964	14,497
Risk rating 6	290	1,976	2,681	1,339	1,466	19,512	6,950	34,214
Risk rating 7	—	—	—	—	—	—	—	—
Risk rating 8	—	—	—	—	6	18	—	24
Total residential 1-4 family	86,535	181,454	190,599	170,783	151,189	512,100	144,886	1,437,546
Multifamily residential								
Risk rating 1	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Risk rating 2	—	—	—	—	—	—	—	—
Risk rating 3	161	19,461	23,518	55,875	10,815	59,652	6,467	175,949
Risk rating 4	—	478	3,985	101,146	11,328	20,981	37,799	175,717
Risk rating 5	—	—	—	—	—	24,928	—	24,928
Risk rating 6	—	—	—	—	895	172	—	1,067
Risk rating 7	—	—	—	—	—	—	—	—
Risk rating 8	—	—	—	—	—	—	—	—
Total multifamily residential	161	19,939	27,503	157,021	23,038	105,733	44,266	377,661
Total real estate	\$ 175,920	\$ 982,216	\$ 1,326,400	\$ 1,220,116	\$ 786,653	\$ 2,651,766	\$ 687,633	\$ 7,830,704

March 31, 2021

Term Loans Amortized Cost Basis by Origination Year, Continued

	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Total
(In thousands)								
Consumer								
Risk rating 1	\$ 735	\$ 2,721	\$ 1,988	\$ 1,418	\$ 361	\$ 2,088	\$ 1,864	\$ 11,175
Risk rating 2	—	—	47	759	—	11	57	874
Risk rating 3	53,370	218,205	174,945	142,314	86,467	125,075	12,315	812,691
Risk rating 4	374	1,882	3,717	2,082	148	3,236	92	11,531
Risk rating 5	—	120	—	105	198	788	—	1,211
Risk rating 6	—	29	397	478	1	1,388	44	2,337
Risk rating 7	—	—	—	—	—	—	—	—
Risk rating 8	—	—	—	—	—	—	—	—
Total consumer	54,479	222,957	181,094	147,156	87,175	132,586	14,372	839,819
Commercial and industrial								
Risk rating 1	\$ 270,945	\$ 342,512	\$ 421	\$ 233	\$ 175	\$ 21,627	\$ 11,177	\$ 647,090
Risk rating 2	30	25	180	—	93	579	297	1,204
Risk rating 3	20,700	92,131	117,920	64,027	35,759	74,584	132,787	537,908
Risk rating 4	33,864	35,042	119,236	143,526	37,659	45,436	81,276	496,039
Risk rating 5	—	3,143	16,592	11,257	6,097	3,653	10,526	51,268
Risk rating 6	—	15,502	4,767	28,608	3,207	6,221	2,955	61,260
Risk rating 7	—	—	2	—	—	—	—	2
Risk rating 8	—	2	1	1	—	9	3	16
Total commercial and industrial	325,539	488,357	259,119	247,652	82,990	152,109	239,021	1,794,787
Agricultural and other								
Risk rating 1	\$ 18,659	\$ 35,633	\$ 49	\$ 53	\$ —	\$ 131	\$ 1,260	\$ 55,785
Risk rating 2	—	15	4,571	—	—	2,118	1,106	7,810
Risk rating 3	15,492	70,196	6,601	4,780	4,819	52,180	28,287	182,355
Risk rating 4	2,382	442	4,525	1,560	1,081	2,597	52,147	64,734
Risk rating 5	—	—	—	—	—	605	—	605
Risk rating 6	—	—	30	17	34	1,756	57	1,894
Risk rating 7	—	—	—	—	—	—	—	—
Risk rating 8	—	—	—	—	—	—	—	—
Total agricultural and other	36,533	106,286	15,776	6,410	5,934	59,387	82,857	313,183
Total	\$ 592,471	\$ 1,799,816	\$ 1,782,389	\$ 1,621,334	\$ 962,752	\$ 2,995,848	\$ 1,023,883	\$ 10,778,493

December 31, 2020

Term Loans Amortized Cost Basis by Origination Year

	2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Total
(In thousands)								
Real estate:								
Commercial real estate loans								
Non-farm/non-residential								
Risk rating 1	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Risk rating 2	—	—	—	—	—	—	25	25
Risk rating 3	301,237	340,562	546,670	286,173	289,483	942,449	266,867	2,973,441
Risk rating 4	27,239	139,354	161,461	265,684	197,979	300,055	17,305	1,109,077
Risk rating 5	10,591	16,865	67,089	7,764	108,885	84,609	750	296,553
Risk rating 6	—	859	2,289	987	4,577	40,600	86	49,398
Risk rating 7	—	—	—	—	—	552	—	552
Risk rating 8	—	—	—	—	—	14	—	14
Total non-farm/non-residential	339,067	497,640	777,509	560,608	600,924	1,368,279	285,033	4,429,060
Construction/land development								
Risk rating 1	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Risk rating 2	—	—	—	—	—	—	283	283
Risk rating 3	211,567	181,257	91,323	33,986	25,600	54,245	115,120	713,098
Risk rating 4	129,599	417,737	92,032	46,249	17,161	32,060	76,845	811,683
Risk rating 5	—	—	392	21,892	—	1,227	545	24,056
Risk rating 6	—	763	98	63	157	12,065	—	13,146
Risk rating 7	—	—	—	—	—	—	—	—
Risk rating 8	—	—	—	1	—	31	—	32
Total construction/land development	341,166	599,757	183,845	102,191	42,918	99,911	192,510	1,562,298
Agricultural								
Risk rating 1	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Risk rating 2	—	—	—	—	—	—	—	—
Risk rating 3	33,428	8,885	9,119	5,397	3,935	25,159	5,538	91,461
Risk rating 4	2,141	535	1,206	681	5,499	10,735	665	21,462
Risk rating 5	—	—	—	—	—	116	—	116
Risk rating 6	47	—	—	—	—	1,345	—	1,392
Risk rating 7	—	—	—	—	—	—	—	—
Risk rating 8	—	—	—	—	—	—	—	—
Total agricultural	35,616	9,420	10,325	6,078	9,434	37,355	6,203	114,431
Total commercial real estate loans	\$ 715,849	\$ 1,106,817	\$ 971,679	\$ 668,877	\$ 653,276	\$ 1,505,545	\$ 483,746	\$ 6,105,789
Residential real estate loans								
Residential 1-4 family								
Risk rating 1	\$ —	\$ 47	\$ —	\$ —	\$ 76	\$ 12	\$ 120	\$ 255
Risk rating 2	—	—	—	—	—	423	1,540	1,963
Risk rating 3	237,991	184,578	151,478	139,096	119,642	343,381	119,186	1,295,352
Risk rating 4	4,626	12,716	32,594	20,687	16,148	68,328	30,137	185,236
Risk rating 5	—	—	1,363	4,700	383	5,344	516	12,306
Risk rating 6	554	5,973	829	2,084	3,222	18,074	10,257	40,993
Risk rating 7	—	—	—	—	—	—	—	—
Risk rating 8	—	—	—	—	—	8	144	152
Total residential 1-4 family	243,171	203,314	186,264	166,567	139,471	435,570	161,900	1,536,257
Multifamily residential								
Risk rating 1	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Risk rating 2	—	—	—	—	—	—	—	—
Risk rating 3	19,033	60,175	87,104	11,477	8,092	59,592	6,386	251,859
Risk rating 4	477	6,358	101,364	93,475	1,924	17,672	37,286	258,556
Risk rating 5	—	—	—	—	—	24,945	—	24,945
Risk rating 6	—	—	—	894	—	284	—	1,178
Risk rating 7	—	—	—	—	—	—	—	—
Risk rating 8	—	—	—	—	—	—	—	—
Total multifamily residential	19,510	66,533	188,468	105,846	10,016	102,493	43,672	536,538
Total real estate	\$ 978,530	\$ 1,376,664	\$ 1,346,411	\$ 941,290	\$ 802,763	\$ 2,043,608	\$ 689,318	\$ 8,178,584

December 31, 2020

Term Loans Amortized Cost Basis by Origination Year, Continued

	2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Total
	(In thousands)							
Consumer								
Risk rating 1	\$ 3,389	\$ 2,375	\$ 1,596	\$ 485	\$ 828	\$ 1,428	\$ 1,957	\$ 12,058
Risk rating 2	—	47	931	—	—	12	57	1,047
Risk rating 3	229,189	192,054	152,646	97,812	68,585	68,871	20,094	829,251
Risk rating 4	3,699	3,479	2,769	1,411	1,371	1,991	117	14,837
Risk rating 5	144	737	22	198	568	321	—	1,990
Risk rating 6	12	361	566	3	2,052	2,468	45	5,507
Risk rating 7	—	—	—	—	—	—	—	—
Risk rating 8	—	—	—	—	—	—	—	—
Total consumer	236,433	199,053	158,530	99,909	73,404	75,091	22,270	864,690
Commercial and industrial								
Risk rating 1	\$ 632,735	\$ 506	\$ 271	\$ 183	\$ 20,199	\$ 1,445	\$ 10,023	\$ 665,362
Risk rating 2	29	187	2	96	67	623	268	1,272
Risk rating 3	80,586	131,717	62,814	35,651	39,502	52,743	135,590	538,603
Risk rating 4	68,032	144,867	149,445	42,416	15,138	43,065	115,341	578,304
Risk rating 5	3,195	16,341	11,283	346	251	448	10,637	42,501
Risk rating 6	1,261	4,086	30,834	22,992	2,615	5,198	3,405	70,391
Risk rating 7	—	3	—	—	—	—	—	3
Risk rating 8	1	—	1	—	4	—	—	6
Total commercial and industrial	785,839	297,707	254,650	101,684	77,776	103,522	275,264	1,896,442
Agricultural and other								
Risk rating 1	\$ 59,248	\$ 51	\$ 53	\$ —	\$ 110	\$ 27	\$ 1,036	\$ 60,525
Risk rating 2	16	4,571	—	—	—	2,859	1,159	8,605
Risk rating 3	78,305	7,045	5,050	5,045	18,445	36,925	42,401	193,216
Risk rating 4	1,043	5,041	1,592	1,096	895	1,703	4,600	15,970
Risk rating 5	—	—	—	—	—	605	—	605
Risk rating 6	—	219	18	—	223	1,624	—	2,084
Risk rating 7	—	—	—	—	—	—	—	—
Risk rating 8	—	—	—	—	—	—	—	—
Total agricultural and other	138,612	16,927	6,713	6,141	19,673	43,743	49,196	281,005
Total	\$ 2,139,414	\$ 1,890,351	\$ 1,766,304	\$ 1,149,024	\$ 973,616	\$ 2,265,964	\$ 1,036,048	\$ 11,220,721

The Company considers the performance of the loan portfolio and its impact on the allowance for credit losses. The Company also evaluates credit quality based on the aging status of the loan, which was previously presented and by payment activity. The following tables present the amortized cost of performing and nonperforming loans as of March 31, 2021 and December 31, 2020.

March 31, 2021								
Term Loans Amortized Cost Basis by Origination Year							Revolving Loans Amortized Cost Basis	Total
2021	2020	2019	2018	2017	Prior	Total		
(In thousands)								
Real estate:								
Commercial real estate loans								
Non-farm/non-residential								
Performing	\$ 45,072	\$ 320,787	\$ 486,244	\$ 714,285	\$ 476,750	\$ 1,635,825	\$ 302,233	\$ 3,981,196
Non-performing	—	10,141	14,776	25,158	36,418	221,369	84	307,946
Total non-farm/ non-residential	45,072	330,928	501,020	739,443	513,168	1,857,194	302,317	4,289,142
Construction/land development								
Performing	\$ 42,002	\$ 415,728	\$ 597,686	\$ 143,105	\$ 92,672	\$ 127,478	\$ 189,715	\$ 1,608,386
Non-performing	—	—	734	23	62	3,768	—	4,587
Total construction/ land development	42,002	415,728	598,420	143,128	92,734	131,246	189,715	1,612,973
Agricultural								
Performing	\$ 2,150	\$ 34,167	\$ 8,858	\$ 9,741	\$ 6,524	\$ 44,631	\$ 6,449	\$ 112,520
Non-performing	—	—	—	—	—	862	—	862
Total agricultural	2,150	34,167	8,858	9,741	6,524	45,493	6,449	113,382
Total commercial real estate loans	\$ 89,224	\$ 780,823	\$ 1,108,298	\$ 892,312	\$ 612,426	\$ 2,033,933	\$ 498,481	\$ 6,015,497
Residential real estate loans								
Residential 1-4 family								
Performing	\$ 86,535	\$ 179,180	\$ 188,053	\$ 170,012	\$ 146,071	\$ 501,478	\$ 138,758	\$ 1,410,087
Non-performing	—	2,274	2,546	771	5,118	10,622	6,128	27,459
Total residential 1-4 family	86,535	181,454	190,599	170,783	151,189	512,100	144,886	1,437,546
Multifamily residential								
Performing	\$ 161	\$ 19,939	\$ 27,503	\$ 157,021	\$ 23,038	\$ 105,561	\$ 44,266	\$ 377,489
Non-performing	—	—	—	—	—	172	—	172
Total multifamily residential	161	19,939	27,503	157,021	23,038	105,733	44,266	377,661
Total real estate	\$ 175,920	\$ 982,216	\$ 1,326,400	\$ 1,220,116	\$ 786,653	\$ 2,651,766	\$ 687,633	\$ 7,830,704
Consumer								
Performing	\$ 54,479	\$ 222,930	\$ 180,740	\$ 147,038	\$ 87,173	\$ 130,948	\$ 14,365	\$ 837,673
Non-performing	—	27	354	118	2	1,638	7	2,146
Total consumer	54,479	222,957	181,094	147,156	87,175	132,586	14,372	839,819
Commercial and industrial								
Performing	\$ 325,539	\$ 488,294	\$ 254,644	\$ 241,302	\$ 80,014	\$ 147,647	\$ 238,270	\$ 1,775,710
Non-performing	—	63	4,475	6,350	2,976	4,462	751	19,077
Total commercial and industrial	325,539	488,357	259,119	247,652	82,990	152,109	239,021	1,794,787
Agricultural and other								
Performing	\$ 36,533	\$ 106,286	\$ 15,776	\$ 6,393	\$ 5,900	\$ 58,350	\$ 82,857	\$ 312,095
Non-performing	—	—	—	17	34	1,037	—	1,088
Total agricultural and other	36,533	106,286	15,776	6,410	5,934	59,387	82,857	313,183
Total	\$ 592,471	\$ 1,799,816	\$ 1,782,389	\$ 1,621,334	\$ 962,752	\$ 2,995,848	\$ 1,023,883	\$ 10,778,493

December 31, 2020

Term Loans Amortized Cost Basis by Origination Year								Revolving Loans Amortized Cost Basis	Total
2020	2019	2018	2017	2016	Prior				
(In thousands)									
Real estate:									
Commercial real estate loans									
Non-farm/non-residential									
Performing	\$ 339,067	\$ 497,640	\$ 775,220	\$ 560,279	\$ 598,074	\$ 1,326,404	\$ 284,947	\$ 4,381,631	
Non-performing	—	—	2,289	329	2,850	41,875	86	47,429	
Total non-farm/ non-residential	339,067	497,640	777,509	560,608	600,924	1,368,279	285,033	4,429,060	
Construction/land development									
Performing	\$ 341,166	\$ 598,995	\$ 183,821	\$ 102,127	\$ 42,779	\$ 94,888	\$ 192,510	\$ 1,556,286	
Non-performing	—	762	24	64	139	5,023	—	6,012	
Total construction/ land development	341,166	599,757	183,845	102,191	42,918	99,911	192,510	1,562,298	
Agricultural									
Performing	\$ 35,616	\$ 9,420	\$ 10,325	\$ 6,078	\$ 9,434	\$ 36,476	\$ 6,203	\$ 113,552	
Non-performing	—	—	—	—	—	879	—	879	
Total agricultural	35,616	9,420	10,325	6,078	9,434	37,355	6,203	114,431	
Total commercial real estate loans	\$ 715,849	\$ 1,106,817	\$ 971,679	\$ 668,877	\$ 653,276	\$ 1,505,545	\$ 483,746	\$ 6,105,789	
Residential real estate loans									
Residential 1-4 family									
Performing	\$ 242,505	\$ 196,951	\$ 185,316	\$ 161,274	\$ 137,840	\$ 425,056	\$ 154,902	\$ 1,503,844	
Non-performing	666	6,363	948	5,293	1,631	10,514	6,998	32,413	
Total residential 1-4 family	243,171	203,314	186,264	166,567	139,471	435,570	161,900	1,536,257	
Multifamily residential									
Performing	\$ 19,510	\$ 66,533	\$ 188,468	\$ 105,846	\$ 10,016	\$ 102,320	\$ 43,672	\$ 536,365	
Non-performing	—	—	—	—	—	173	—	173	
Total multifamily residential	19,510	66,533	188,468	105,846	10,016	102,493	43,672	536,538	
Total real estate	\$ 978,530	\$ 1,376,664	\$ 1,346,411	\$ 941,290	\$ 802,763	\$ 2,043,608	\$ 689,318	\$ 8,178,584	
Consumer									
Performing	\$ 236,395	\$ 198,737	\$ 158,324	\$ 99,905	\$ 71,924	\$ 73,448	\$ 22,263	\$ 860,996	
Non-performing	38	316	206	4	1,480	1,643	7	3,694	
Total consumer	236,433	199,053	158,530	99,909	73,404	75,091	22,270	864,690	
Commercial and industrial									
Performing	\$ 785,776	\$ 293,938	\$ 246,177	\$ 98,664	\$ 76,427	\$ 100,050	\$ 274,383	\$ 1,875,415	
Non-performing	63	3,769	8,473	3,020	1,349	3,472	881	21,027	
Total commercial and industrial	785,839	297,707	254,650	101,684	77,776	103,522	275,264	1,896,442	
Agricultural and other									
Performing	\$ 138,612	\$ 16,927	\$ 6,695	\$ 6,141	\$ 19,450	\$ 42,927	\$ 49,196	\$ 279,948	
Non-performing	—	—	18	—	223	816	—	1,057	
Total agricultural and other	138,612	16,927	6,713	6,141	19,673	43,743	49,196	281,005	
Total	\$ 2,139,414	\$ 1,890,351	\$ 1,766,304	\$ 1,149,024	\$ 973,616	\$ 2,265,964	\$ 1,036,048	\$ 11,220,721	

The Company had approximately \$8.6 million or 72 total revolving loans convert to term loans for the three months ended March 31, 2021 compared to \$50.8 million or 109 total revolving loans convert to term loans for the three months ended March 31, 2020. These loans were considered immaterial for vintage disclosure inclusion.

The following is a presentation of troubled debt restructurings (“TDRs”) by class as of March 31, 2021 and December 31, 2020:

	March 31, 2021					
	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	\$ 11,396	\$ 4,069	\$ 616	\$ 4,353	\$ 9,038
Construction/land development	2	58	—	5	8	13
Agricultural	1	282	265	—	—	265
Residential real estate loans						
Residential 1-4 family	21	2,913	1,417	162	405	1,984
Total real estate	38	14,649	5,751	783	4,766	11,300
Consumer	1	17	14	—	—	14
Commercial and industrial	10	2,389	262	112	91	465
Total	\$ 49	\$ 17,055	\$ 6,027	\$ 895	\$ 4,857	\$ 11,779

	December 31, 2020					
	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	\$ 11,510	\$ 4,350	\$ 383	\$ 4,723	\$ 9,456
Construction/land development	2	58	—	7	9	16
Agricultural	1	282	267	—	—	267
Residential real estate loans						
Residential 1-4 family	21	2,913	1,441	165	431	2,037
Multifamily residential	—	—	—	—	—	—
Total real estate	38	14,763	6,058	555	5,163	11,776
Consumer	1	17	14	—	—	14
Commercial and industrial	12	2,470	308	127	91	526
Total	51	\$ 17,250	\$ 6,380	\$ 682	\$ 5,254	\$ 12,316

The following is a presentation of TDRs on non-accrual status as of March 31, 2021 and December 31, 2020 because they are not in compliance with the modified terms:

	March 31, 2021		December 31, 2020	
	Number of Loans	Recorded Balance	Number of Loans	Recorded Balance
(Dollars in thousands)				
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	2	\$ 248	2	\$ 350
Construction/land development	1	8	1	9
Agricultural	1	265	1	267
Residential real estate loans				
Residential 1-4 family	7	524	7	547
Total real estate	11	1,045	11	1,173
Commercial and industrial	7	355	8	414
Total	18	\$ 1,400	19	\$ 1,587

The following is a presentation of total foreclosed assets as of March 31, 2021 and December 31, 2020:

	<u>March 31, 2021</u>	<u>December 31, 2020</u>
	(In thousands)	
Commercial real estate loans		
Non-farm/non-residential	\$ 953	\$ 438
Construction/land development	910	3,189
Residential real estate loans		
Residential 1-4 family	1,141	793
Total foreclosed assets held for sale	<u>\$ 3,004</u>	<u>\$ 4,420</u>

The Company has purchased loans for which there was, at acquisition, evidence of more than insignificant deterioration of credit quality since origination. The purchase price of the loans at acquisition was \$1.3 million, and a \$357,000 allowance for credit losses was recorded on these loans at acquisition along with a \$17,000 non-credit premium. The allowance and non-credit premium resulted in a par value of \$1.0 million for these loans at acquisition. As of March 31, 2021 and December 31, 2020, the balance of purchase credit deteriorated loans was approximately \$605,000 and \$760,000, respectively.

6. Goodwill and Core Deposits and Other Intangibles

Changes in the carrying amount and accumulated amortization of the Company's goodwill and core deposits and other intangibles at March 31, 2021 and December 31, 2020, were as follows:

	<u>March 31, 2021</u>	<u>December 31, 2020</u>
	(In thousands)	
Goodwill		
Balance, beginning of period	\$ 973,025	\$ 958,408
Acquisitions	—	14,617
Balance, end of period	<u>\$ 973,025</u>	<u>\$ 973,025</u>
	<u>March 31, 2021</u>	<u>December 31, 2020</u>
	(In thousands)	
Core Deposit and Other Intangibles		
Balance, beginning of period	\$ 30,728	\$ 36,572
Amortization expense	(1,421)	(1,517)
Balance, March 31	<u>29,307</u>	35,055
Amortization expense		(4,327)
Balance, end of year		<u>\$ 30,728</u>

The carrying basis and accumulated amortization of core deposits and other intangibles at March 31, 2021 and December 31, 2020 were:

	<u>March 31, 2021</u>	<u>December 31, 2020</u>
	(In thousands)	
Gross carrying basis	\$ 86,625	\$ 86,625
Accumulated amortization	(57,318)	(55,897)
Net carrying amount	<u>\$ 29,307</u>	<u>\$ 30,728</u>

Core deposit and other intangible amortization expense was approximately \$1.4 million and \$1.5 million for the three months ended March 31, 2021 and 2020, respectively. The Company's estimated amortization expense of core deposits and other intangibles for each of the years 2021 through 2025 is approximately: 2021 – \$5.7 million; 2022 – \$5.7 million; 2023 – \$5.5 million; 2024 – \$4.3 million; 2025 - \$3.9 million.

The carrying amount of the Company's goodwill was \$973.0 million at both March 31, 2021 and December 31, 2020. Goodwill is tested annually for impairment during the fourth quarter or more often if events and circumstances indicate there may be an impairment. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated, and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

7. Other Assets

Other assets consist primarily of equity securities without a readily determinable fair value and other miscellaneous assets. As of March 31, 2021 and December 31, 2020, other assets were \$166.8 million and \$164.9 million, respectively.

The Company has equity securities without readily determinable fair values such as stock holdings in the Federal Home Loan Bank ("FHLB") and the Federal Reserve Bank ("Federal Reserve") which are outside the scope of ASC Topic 321, *Investments – Equity Securities* ("ASC Topic 321"). These equity securities without a readily determinable fair value were \$86.7 million at March 31, 2021 and December 31, 2020, and are accounted for at cost.

The Company has equity securities such as stock holdings in First National Bankers' Bank and other miscellaneous holdings which are accounted for under ASC Topic 321. These equity securities without a readily determinable fair value were \$28.2 million at March 31, 2021 and December 31, 2020. There were no observable transactions during the period that would indicate a material change in fair value. Therefore, these investments were accounted for at cost, less impairment.

8. Deposits

The aggregate amount of time deposits with a minimum denomination of \$250,000 was \$558.0 million at March 31, 2021 and December 31, 2020. The aggregate amount of time deposits with a minimum denomination of \$100,000 was \$809.6 million and \$864.3 million at March 31, 2021 and December 31, 2020, respectively. Interest expense applicable to certificates in excess of \$100,000 totaled \$2.4 million and \$7.1 million for the three months ended March 31, 2021 and 2020, respectively. As of March 31, 2021 and December 31, 2020, brokered deposits were \$625.7 million and \$635.7 million, respectively.

Deposits totaling approximately \$1.97 billion and \$1.98 billion at March 31, 2021 and December 31, 2020, respectively, were public funds obtained primarily from state and political subdivisions in the United States.

9. Securities Sold Under Agreements to Repurchase

At March 31, 2021 and December 31, 2020, securities sold under agreements to repurchase totaled \$162.9 million and \$168.9 million, respectively. For the three-month periods ended March 31, 2021 and 2020, securities sold under agreements to repurchase daily weighted-average totaled \$159.7 million and \$138.2 million, respectively.

The remaining contractual maturity of securities sold under agreements to repurchase in the consolidated balance sheets as of March 31, 2021 and December 31, 2020 is presented in the following tables:

	March 31, 2021				Total
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	
(In thousands)					
Securities sold under agreements to repurchase:					
U.S. government-sponsored enterprises	\$ 10,596	\$ —	\$ —	\$ —	\$ 10,596
Mortgage-backed securities	14,005	—	—	—	14,005
State and political subdivisions	134,847	—	—	—	134,847
Other securities	3,481	—	—	—	3,481
Total borrowings	<u>\$ 162,929</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 162,929</u>

	December 31, 2020				Total
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	
(In thousands)					
Securities sold under agreements to repurchase:					
U.S. government-sponsored enterprises	\$ 11,166	\$ —	\$ —	\$ —	\$ 11,166
Mortgage-backed securities	18,830	—	—	—	18,830
State and political subdivisions	135,308	—	—	—	135,308
Other securities	3,627	—	—	—	3,627
Total borrowings	<u>\$ 168,931</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 168,931</u>

10. FHLB and Other Borrowed Funds

The Company's FHLB borrowed funds, which are secured by our loan portfolio, were \$400.0 million at both March 31, 2021 and December 31, 2020. The Company had no other borrowed funds as of March 31, 2021 or December 31, 2020. At March 31, 2021 and December 31, 2020, all of the outstanding balances were classified as long-term advances. The FHLB advances mature in 2033 with fixed interest rates ranging from 1.76% to 2.26%. Maturities of borrowings as of March 31, 2021 include: 2021 – zero; 2022 – zero; 2023 – zero; 2024 – zero; 2025 – zero; after 2025 – \$400.0 million. Expected maturities could differ from contractual maturities because FHLB may have the right to call or HBI the right to prepay certain obligations.

Additionally, the Company had \$1.15 billion and \$1.11 billion at March 31, 2021 and December 31, 2020, in letters of credit under a FHLB blanket borrowing line of credit, which are used to collateralize public deposits at March 31, 2021 and December 31, 2020, respectively.

The parent company took out a \$20.0 million line of credit for general corporate purposes during 2015. The balance on this line of credit at March 31, 2021 and December 31, 2020 was zero.

11. Subordinated Debentures

Subordinated debentures at March 31, 2021 and December 31, 2020 consisted of subordinated debt securities and guaranteed payments on trust preferred securities with the following components:

	As of March 31, 2021	As of December 31, 2020
(In thousands)		
Trust preferred securities		
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
Subordinated debentures, issued in 2005, due 2035, floating rate of 2.15% above the three-month LIBOR rate, reset quarterly, currently callable without penalty	4,464	4,452
Subordinated debentures, issued in 2006, due 2036, fixed rate of 7.38% during the first five years and at a floating rate of 1.62% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	5,872	5,849
Subordinated debt securities		
Subordinated notes, net of issuance costs, issued in 2017, due 2027, fixed rate of 5.625% during the first five years and at a floating rate of 3.575% above the then three-month LIBOR rate, reset quarterly, thereafter, callable in 2022 without penalty	299,353	299,199
Total	<u>\$ 370,515</u>	<u>\$ 370,326</u>

Trust Preferred Securities. The Company holds trust preferred securities with a face amount of \$73.3 million 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.

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

Subordinated Debt Securities. On April 3, 2017, the Company completed an underwritten public offering of \$300.0 million in aggregate principal amount of its 5.625% Fixed-to-Floating Rate Subordinated Notes due 2027 (the "Notes") for net proceeds, after underwriting discounts and issuance costs, of approximately \$297.0 million. The Notes are unsecured, subordinated debt obligations and mature on April 15, 2027. From and including the date of issuance to, but excluding April 15, 2022, the Notes bear interest at an initial rate of 5.625% per annum. From and including April 15, 2022 to, but excluding the maturity date or earlier redemption, the Notes will bear interest at a floating rate equal to three-month LIBOR as calculated on each applicable date of determination plus a spread of 3.575%; provided, however, that in the event three-month LIBOR is less than zero, then three-month LIBOR shall be deemed to be zero.

The Company may, beginning with the interest payment date of April 15, 2022, and on any interest payment date thereafter, redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to but excluding the date of redemption. The Company may also redeem the Notes at any time, including prior to April 15, 2022, at its option, in whole but not in part, if: (i) a change or prospective change in law occurs that could prevent the Company from deducting interest payable on the Notes for U.S. federal income tax purposes; (ii) a subsequent event occurs that could preclude the Notes from being recognized as Tier 2 capital for regulatory capital purposes; or (iii) the Company is required to register as an investment company under the Investment Company Act of 1940, as amended; in each case, at a redemption price equal to 100% of the principal amount of the Notes plus any accrued and unpaid interest to but excluding the redemption date. The Notes provide the Company with additional Tier 2 regulatory capital to support expected future growth.

12. Income Taxes

The following is a summary of the components of the provision (benefit) for income taxes for the three months ended March 31, 2021 and 2020:

	For the Three Months Ended March 31,	
	2021	2020
	(In thousands)	
Current:		
Federal	\$ 31,535	\$ 22,450
State	10,439	7,432
Total current	<u>41,974</u>	<u>29,882</u>
Deferred:		
Federal	(9,825)	(24,649)
State	(3,253)	(8,160)
Total deferred	<u>(13,078)</u>	<u>(32,809)</u>
Income tax (benefit) expense	<u>\$ 28,896</u>	<u>\$ (2,927)</u>

The reconciliation between the statutory federal income tax rate and effective income tax rate is as follows for the three months ended March 31, 2021 and 2020:

	Three Months Ended	
	March 31,	
	2021	2020
Statutory federal income tax rate	21.00 %	21.00 %
Effect of non-taxable interest income	(0.91)	30.08
Stock compensation	0.33	6.78
State income taxes, net of federal benefit	4.26	55.74
Executive officer compensation & other	(0.70)	7.35
Effective income tax rate	<u>23.98 %</u>	<u>120.95 %</u>

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

	March 31, 2021	December 31, 2020
(In thousands)		
Deferred tax assets:		
Allowance for credit losses	\$ 71,483	\$ 72,445
Deferred compensation	2,701	4,741
Stock compensation	4,806	4,768
Non-accrual interest income	941	775
Real estate owned	131	620
Loan discounts	5,077	6,806
Tax basis premium/discount on acquisitions	4,639	5,101
Investments	320	502
Deposits	(41)	(33)
Other	5,424	5,855
Gross deferred tax assets	95,481	101,580
Deferred tax liabilities:		
Accelerated depreciation on premises and equipment	232	1,929
Unrealized gain on securities available-for-sale	3,841	15,072
Core deposit intangibles	6,726	7,056
FHLB dividends	2,783	2,711
Other	4,754	4,563
Gross deferred tax liabilities	18,336	31,331
Net deferred tax assets	\$ 77,145	\$ 70,249

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and the states of Alabama, Arizona, Arkansas, California, Florida, Georgia, Illinois, Kentucky, Maryland, New York, Oklahoma, Missouri, Pennsylvania, Tennessee, Texas and Wisconsin. The Company is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2018.

13. Common Stock, Compensation Plans and Other

Common Stock

As of March 31, 2021, the Company's Restated Articles of Incorporation, as amended, authorize the issuance of up to 300,000,000 shares of common stock, par value \$0.01 per share.

The Company also has the authority to issue up to 5,500,000 shares of preferred stock, par value \$0.01 per share under the Company's Restated Articles of Incorporation, as amended.

Stock Repurchases

During the first three months of 2021, the Company repurchased a total of 330,000 shares with a weighted-average stock price of \$26.55 per share. Shares repurchased under the program as of March 31, 2021 since its inception total 16,238,335 shares. The remaining balance available for repurchase is 23,513,665 shares at March 31, 2021.

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. As of March 31, 2021, the maximum total number of shares of the Company's common stock available for issuance under the Plan was 13,288,000. At March 31, 2021, the Company had approximately 1,515,000 shares of common stock remaining available for future grants and approximately 4,614,000 shares of common stock reserved for issuance pursuant to outstanding awards under the Plan.

The intrinsic value of the stock options outstanding and stock options vested at March 31, 2021 was \$21.7 million and \$13.7 million. The intrinsic value of stock options exercised during the three months ended March 31, 2021 was approximately \$1.6 million. Total unrecognized compensation cost, net of income tax benefit, related to non-vested stock option awards, which are expected to be recognized over the vesting periods, was approximately \$6.7 million as of March 31, 2021.

The table below summarizes the stock option transactions under the Plan at March 31, 2021 and December 31, 2020 and changes during the three-month period and year then ended:

	For the Three Months Ended March 31, 2021		For the Year Ended December 31, 2020	
	Shares (000)	Weighted-Average Exercisable Price	Shares (000)	Weighted-Average Exercisable Price
Outstanding, beginning of year	3,254	\$ 19.77	3,411	\$ 19.60
Granted	14	21.68	—	—
Forfeited/Expired	(1)	23.51	(76)	21.95
Exercised	(168)	14.91	(81)	10.61
Outstanding, end of period	<u>3,099</u>	<u>20.04</u>	<u>3,254</u>	<u>19.77</u>
Exercisable, end of period	<u>1,368</u>	<u>\$ 17.04</u>	<u>1,537</u>	<u>\$ 16.82</u>

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 three months ended March 31, 2021 was \$11.11 per share. There were no options granted during the year ended December 31, 2020. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model based on the weighted-average assumptions for expected dividend yield, expected stock price volatility, risk-free interest rate, and expected life of options granted.

The assumptions used in determining the fair value of the 2021 and 2020 stock option grants were as follows:

	For the Three Months Ended March 31, 2021	For the Year Ended December 31, 2020
Expected dividend yield	2.59%	Not Applicable
Expected stock price volatility	70.13%	Not Applicable
Risk-free interest rate	0.75%	Not Applicable
Expected life of options	6.5 years	Not Applicable

The following is a summary of currently outstanding and exercisable options at March 31, 2021:

Exercise Prices	Options Outstanding			Options Exercisable		
	Options Outstanding Shares (000)	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Options Exercisable Shares (000)	Weighted-Average Exercise Price	
\$6.56 to \$8.62	164	1.65	\$ 8.32	164	\$ 8.32	
\$9.54 to \$14.71	140	3.30	13.23	140	13.23	
\$16.77 to \$16.86	130	3.39	16.80	130	16.80	
\$17.12 to \$17.36	102	3.97	17.14	102	17.14	
\$17.40 to \$18.46	870	4.38	18.45	605	18.45	
\$18.50 to \$20.16	63	7.58	19.21	19	19.48	
\$20.58 to \$21.25	163	5.01	21.08	125	21.10	
\$21.31 to \$22.22	112	7.35	22.18	40	22.22	
\$22.70 to \$23.32	1,274	7.31	23.32	1	22.70	
\$23.51 to \$25.96	81	6.23	25.63	42	25.96	
	<u>3,099</u>			<u>1,368</u>		

The table below summarized the activity for the Company's restricted stock issued and outstanding at March 31, 2021 and December 31, 2020 and changes during the period and year then ended:

	As of March 31, 2021	As of December 31, 2020
	(In thousands)	
Beginning of year	1,371	1,636
Issued	215	264
Vested	(235)	(453)
Forfeited	—	(76)
End of period	<u>1,351</u>	<u>1,371</u>
Amount of expense for three months and twelve months ended, respectively	<u>\$ 1,664</u>	<u>\$ 6,824</u>

Total unrecognized compensation cost, net of income tax benefit, related to non-vested restricted stock awards, which are expected to be recognized over the vesting periods, was approximately \$20.9 million as of March 31, 2021.

14. Non-Interest Expense

The table below shows the components of non-interest expense for the three months ended March 31, 2021 and 2020:

	Three Months Ended March 31,	
	2021	2020
	(In thousands)	
Salaries and employee benefits	\$ 42,059	\$ 39,329
Occupancy and equipment	9,237	8,873
Data processing expense	5,870	4,326
Other operating expenses:		
Advertising	1,046	1,226
Merger and acquisition expenses	—	711
Amortization of intangibles	1,421	1,517
Electronic banking expense	2,238	1,715
Directors' fees	383	424
Due from bank service charges	249	223
FDIC and state assessment	1,363	1,548
Insurance	781	746
Legal and accounting	846	919
Other professional fees	1,613	3,226
Operating supplies	487	535
Postage	338	327
Telephone	346	324
Other expense	4,589	4,505
Total other operating expenses	<u>15,700</u>	<u>17,946</u>
Total non-interest expense	<u>\$ 72,866</u>	<u>\$ 70,474</u>

15. Leases

The Company leases land and office facilities under long-term, non-cancelable operating lease agreements. The leases expire at various dates through 2042 and do not include renewal options based on economic factors that would have implied that continuation of the lease was reasonably certain. Certain leases provide for increases in future minimum annual rental payments as defined in the lease agreements. The leases generally include real estate taxes and common area maintenance (“CAM”) charges in the rental payments. Short-term leases are leases having a term of twelve months or less. As part of the standard adoption, the Company elected the package of practical expedients whereby we did not reassess (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) initial direct costs for any existing leases. In accordance with ASU 2018-11, the Company elected the practical expedient whereby we elected to not separate nonlease components from the associated lease component of our operating leases. As a result, we account for these components as a single component under Topic 842 since (i) the timing and pattern of transfer of the nonlease components and the associated lease component are the same and (ii) the lease component, if accounted for separately, would be classified as an operating lease. The Company recognizes short term leases on a straight-line basis and does not record a related ROU asset and liability for such leases. In addition, equipment leases were determined to be immaterial and a related ROU asset and liability for such leases is not recorded.

As of March 31, 2021, the balances of the right-of-use asset and lease liability was \$39.6 million and \$42.4 million, respectively. As of December 31, 2020, the balances of the right-of-use asset and lease liability was \$40.2 million and \$43.0 million, respectively. The right-of-use asset is included in bank premises and equipment, net, and the lease liability is included in accrued interest payable and other liabilities.

The minimum rental commitments under these noncancelable operating leases are as follows (in thousands) as of March 31, 2021 and December 31, 2020:

	March 31, 2021	December 31, 2020
2021	\$ 8,303	\$ 8,235
2022	6,776	6,486
2023	6,178	5,714
2024	5,601	5,262
2025	5,301	4,818
Thereafter	28,056	27,453
Total future minimum lease payments	\$ 60,215	\$ 57,968
Discount effect of cash flows	(17,812)	(14,922)
Present value of net future minimum lease payments	\$ 42,403	\$ 43,046

Additional information (dollar amounts in thousands):

	For the Three Months Ended March 31,	For the Three Months Ended March 31,
	2021	2020
Lease expense:		
Operating lease expense	\$ 2,009	\$ 2,014
Short-term lease expense	4	17
Variable lease expense	256	255
Total lease expense	\$ 2,269	\$ 2,286
Other information:		
Cash paid for amounts included in the measurement of lease liabilities	\$ 1,994	\$ 1,974
Weighted-average remaining lease term (in years)	11.87	10.31
Weighted-average discount rate	3.52%	3.61%

The Company currently leases three properties from three related parties. Total rent expense from the leases was \$35,000 or 1.54% of total lease expense and \$35,000 or 1.55% of total lease expense for the three months ended March 31, 2021 and 2020, respectively.

16. Significant Estimates and Concentrations of Credit Risks

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for credit losses and certain concentrations of credit risk are reflected in Note 5, while deposit concentrations are reflected in Note 8.

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

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

Although the Company has a diversified loan portfolio, at March 31, 2021 and December 31, 2020, commercial real estate loans represented 55.8% and 54.4% of total loans receivable, respectively, and 227.4% and 234.3% of total stockholders' equity at March 31, 2021 and December 31, 2020, respectively. Residential real estate loans represented 16.8% and 18.5% of total loans receivable and 68.6% and 79.6% of total stockholders' equity at March 31, 2021 and December 31, 2020, respectively.

Approximately 73.0% of the Company's total loans and 76.2% of the Company's real estate loans as of March 31, 2021, are to borrowers whose collateral is located in Alabama, Arkansas, Florida and New York, the states in which the Company has its branch locations.

Beginning in the first quarter of 2020, the COVID-19 pandemic negatively impacted the U.S. and global economy; disrupted U.S. and global supply chains; lowered equity market valuations; created significant volatility and disruption in financial markets; contributed to a decrease in the rates and yields on U.S. Treasury securities; resulted in ratings downgrades, credit deterioration, and defaults in many industries; increased demands on capital and liquidity; increased unemployment levels and decreased consumer confidence. In addition, the pandemic resulted in temporary closures of many businesses and the institution of social distancing and sheltering in place requirements in many states and communities, including those in our footprint. The pandemic has caused the Company, and could continue to cause the Company, to recognize credit losses in our loan portfolios and increases in our allowance for credit losses and could cause further volatility in the valuation of real estate and other collateral supporting loans. As of March 31, 2021, the markets in which we operate have begun to experience economic recovery as unemployment rates have declined, COVID-19 vaccination rates have increased, and communities have begun to reopen for business activity. However, there is still a significant amount of uncertainty related to the COVID-19 pandemic which may slow the anticipated economic recovery. The Company determined that an additional provision for credit losses on loans was not necessary as the current level of the allowance for credit losses was considered adequate as of March 31, 2021. In addition, the Company determined that the current level of the unfunded commitment reserve was adequate, and no additional unfunded commitments expense was necessary as of March 31, 2021. The financial statements have been prepared using values and information currently available to the Company. The Company is continuing to closely monitor the situation.

Any future volatility in the economy could cause the values of assets and liabilities recorded in the financial statements to change rapidly, resulting in material future adjustments in asset values, the allowance for credit losses and capital that could negatively impact the Company's ability to meet regulatory capital requirements and maintain sufficient liquidity.

17. Commitments and Contingencies

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

At March 31, 2021 and December 31, 2020, commitments to extend credit of \$2.78 billion and \$2.82 billion, respectively, were outstanding. A percentage of these balances are participated out to other banks; therefore, the Company can call on the participating banks to fund future draws. Since some of these commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

Outstanding standby letters of credit are contingent commitments issued by the Company, generally to guarantee the performance of a customer in third-party borrowing arrangements. The term of the guarantee is dependent upon the creditworthiness of the borrower, some of which are long-term. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments. The maximum amount of future payments the Company could be required to make under these guarantees at March 31, 2021 and December 31, 2020, is \$56.3 million and \$56.1 million, respectively.

The Company and/or its bank subsidiary have various unrelated legal proceedings, most of which involve loan foreclosure activity pending, which, in the aggregate, are not expected to have a material adverse effect on the financial position or results of operations or cash flows of the Company and its subsidiary.

18. Regulatory Matters

The Bank is subject to a legal limitation on dividends that can be paid to the parent company without prior approval of the applicable regulatory agencies. Arkansas bank regulators have specified that the maximum dividend limit state banks may pay to the parent company without prior approval is 75% of the current year earnings plus 75% of the retained net earnings of the preceding year. Since the Bank is also under supervision of the Federal Reserve, it is further limited if the total of all dividends declared in any calendar year by the Bank exceeds the Bank's net profits to date for that year combined with its retained net profits for the preceding two years. During the first three months of 2021, the Company requested approximately \$66.0 million in regular dividends from its banking subsidiary.

The Company's banking subsidiary is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Company's regulators could require adjustments to regulatory capital not reflected in the consolidated financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total, common Tier 1 equity and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes that, as of March 31, 2021, the Company meets all capital adequacy requirements to which it is subject.

On December 21, 2018, the federal banking agencies issued a joint final rule to revise their regulatory capital rules to permit bank holding companies and banks to phase-in, for regulatory capital purposes, the day-one impact of the new CECL accounting rule on retained earnings over a period of three years. As part of its response to the impact of COVID-19, on March 27, 2020, the federal banking regulatory agencies issued an interim final rule that provided the option to temporarily delay certain effects of CECL on regulatory capital for two years, followed by a three-year transition period. The interim final rule allows bank holding companies and banks to delay for two years 100% of the day-one impact of adopting CECL and 25% of the cumulative change in the reported allowance for credit losses since adopting CECL. The Company elected to adopt the interim final rule, which is reflected in the risk-based capital ratios presented below

In July 2013, the Federal Reserve Board and the other federal bank regulatory agencies issued a final rule to revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to make them consistent with the agreements that were reached by the Basel Committee on Banking Supervision in “Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems” and certain provisions of the Dodd-Frank Act (“Basel III”). Basel III applies to all depository institutions, bank holding companies with total consolidated assets of \$500 million or more, and savings and loan holding companies. Basel III became effective for the Company and its bank subsidiary on January 1, 2015. Basel III limits a banking organization’s capital distributions and certain discretionary bonus payments if the banking organization does not hold a “capital conservation buffer” of 2.5% of common equity Tier 1 capital to risk-weighted assets, which is in addition to the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement began being phased in beginning January 1, 2016 at the 0.625% level and increased by 0.625% on each subsequent January 1, until it reached 2.5% on January 1, 2019 when the phase-in period ended, and the full capital conservation buffer requirement became effective.

Basel III permanently grandfathered trust preferred securities and other non-qualifying capital instruments that were issued and outstanding as of May 19, 2010 in the Tier 1 capital of bank holding companies with total consolidated assets of less than \$15 billion as of December 31, 2009. The rule phases out of Tier 1 capital these non-qualifying capital instruments issued before May 19, 2010 by all other bank holding companies. Because our total consolidated assets were less than \$15 billion as of December 31, 2009, our outstanding trust preferred securities continue to be treated as Tier 1 capital. However, now that the Company has exceeded \$15 billion in assets, if the Company acquires another financial institution in the future, then the Tier 1 treatment of the Company’s outstanding trust preferred securities will be phased out, but those securities will still be treated as Tier 2 capital.

Basel III also amended the prompt corrective action rules to incorporate a “common equity Tier 1 capital” requirement and to raise the capital requirements for certain capital categories. In order to be adequately capitalized for purposes of the prompt corrective action rules, a banking organization will be required to have at least a 4.5% “common equity Tier 1 risk-based capital” ratio, a 4% “Tier 1 leverage capital” ratio, a 6% “Tier 1 risk-based capital” ratio and an 8% “total risk-based capital” ratio.

The Federal Reserve Board’s risk-based capital guidelines include the definitions for (1) a well-capitalized institution, (2) an adequately-capitalized institution, and (3) an undercapitalized institution. Under Basel III, the criteria for a well-capitalized institution are now: a 6.5% “common equity Tier 1 risk-based capital” ratio, a 5% “Tier 1 leverage capital” ratio, an 8% “Tier 1 risk-based capital” ratio, and a 10% “total risk-based capital” ratio. As of March 31, 2021, the Bank met the capital standards for a well-capitalized institution. The Company’s “common equity Tier 1 risk-based capital” ratio, “Tier 1 leverage capital” ratio, “Tier 1 risk-based capital” ratio, and “total risk-based capital” ratio were 14.34%, 11.13%, 14.95%, and 18.76%, respectively, as of March 31, 2021.

19. Additional Cash Flow Information

In connection with the LH-Finance acquisition, accounted for using the purchase method, the Company acquired approximately \$409.1 million in assets, including \$407.4 million in loans as of February 29, 2020, and paid \$421.2 million in cash.

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

	March 31,	
	2021	2020
	(In thousands)	
Interest paid	\$ 10,719	\$ 28,342
Income taxes paid	1,205	1,502
Assets acquired by foreclosure	1,786	1,255

20. Financial Instruments

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There is a hierarchy of three levels of inputs that may be used to measure fair values:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Transfers of financial instruments between levels within the fair value hierarchy are recognized on the date management determines that the underlying circumstances or assumptions have changed.

Financial Assets and Liabilities Measured on a Recurring Basis

Available-for-sale securities are the only material instruments valued on a recurring basis which are held by the Company at fair value. The Company does not have any Level 1 securities. Primarily all of the Company's securities are considered to be Level 2 securities. These Level 2 securities consist primarily of U.S. government-sponsored enterprises, mortgage-backed securities plus state and political subdivisions. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. As of March 31, 2021 and December 31, 2020, Level 3 securities were immaterial. In addition, there were no material transfers between hierarchy levels during 2021 and 2020. See Note 3 for additional detail related to investment securities.

The Company reviews the prices supplied by the independent pricing service, as well as their underlying pricing methodologies, for reasonableness and to ensure such prices are aligned with traditional pricing matrices. In general, the Company does not purchase investment portfolio securities with complicated structures. Pricing for the Company's investment securities is fairly generic and is easily obtained. The Company uses a third-party comparison pricing vendor in order to reflect consistency in the fair values of the investment securities sampled by the Company each quarter.

Financial Assets and Liabilities Measured on a Nonrecurring Basis

Impaired loans that are collateral dependent are the only material financial assets valued on a non-recurring basis which are held by the Company at fair value. Loan impairment is reported when full payment under the loan terms is not expected. Impaired loans are carried at the net realizable value of the collateral if the loan is collateral dependent. A portion of the allowance for credit losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for credit losses to require an increase, such increase is reported as a component of the provision for credit losses. The fair value of loans with specific allocated losses was \$307.2 million and \$102.1 million as of March 31, 2021 and December 31, 2020, respectively. The increase in collateral-dependent impaired loans was due to the Company changing the valuation for lodging and assisted living loans to a market price valuation methodology. This involved assigning a 15% discount of par for these impaired loans. The 15% figure was derived based on knowledge of current hotel and assisted living offerings in the loan sale market. In the event of default, liquidation would be achieved through a loan sale. The Company is continuing to monitor these impaired loans and will adjust the discount as necessary. This valuation is considered Level 3, consisting of appraisals of underlying collateral. The Company reversed approximately \$58,000 and \$242,000 of accrued interest receivable when impaired loans were put on non-accrual status during the three months ended March 31, 2021 and 2020, respectively.

Nonfinancial Assets and Liabilities Measured on a Nonrecurring Basis

Foreclosed assets held for sale are the only material non-financial assets valued on a non-recurring basis which are held by the Company at fair value, less estimated costs to sell. At foreclosure, if the fair value, less estimated costs to sell, of the real estate acquired is less than the Company's recorded investment in the related loan, a write-down is recognized through a charge to the allowance for credit losses. Additionally, valuations are periodically performed by management and any subsequent reduction in value is recognized by a charge to income. The fair value of foreclosed assets held for sale is estimated using Level 3 inputs based on appraisals of underlying collateral. As of March 31, 2021 and December 31, 2020, the fair value of foreclosed assets held for sale, less estimated costs to sell, was \$3.0 million and \$4.4 million, respectively.

No foreclosed assets held for sale were remeasured during the three months ended March 31, 2021. Regulatory guidelines require the Company to reevaluate the fair value of foreclosed assets held for sale on at least an annual basis. The Company's policy is to comply with the regulatory guidelines.

The significant unobservable (Level 3) inputs used in the fair value measurement of collateral for collateral-dependent impaired loans and foreclosed assets primarily relate to customized discounting criteria applied to the customer's reported amount of collateral. The amount of the collateral discount depends upon the condition and marketability of the underlying collateral. As the Company's primary objective in the event of default would be to monetize the collateral to settle the outstanding balance of the loan, less marketable collateral would receive a larger discount. During the reported periods, collateral discounts ranged from 20% to 80% for commercial and residential real estate collateral.

Fair Values of Financial Instruments

The following table presents the estimated fair values of the Company's financial instruments. Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

	March 31, 2021		
	Carrying	Fair Value	Level
	Amount		
(In thousands)			
Financial assets:			
Cash and cash equivalents	\$ 2,478,548	\$ 2,478,548	1
Loans receivable, net of impaired loans and allowance	10,228,319	10,568,244	3
Accrued interest receivable	55,495	55,495	1
FHLB, Federal Reserve & First National Bankers Bank stock; other equity investments	114,915	114,915	3
Financial liabilities:			
Deposits:			
Demand and non-interest bearing	\$ 3,859,722	\$ 3,859,722	1
Savings and interest-bearing transaction accounts	8,477,208	8,477,208	1
Time deposits	1,175,664	1,196,743	3
Securities sold under agreements to repurchase	162,929	162,929	1
FHLB and other borrowed funds	400,000	402,342	2
Accrued interest payable	9,769	9,769	1
Subordinated debentures	370,515	377,889	3
December 31, 2020			
	Carrying	Fair Value	Level
	Amount		
(In thousands)			
Financial assets:			
Cash and cash equivalents	\$ 1,263,788	\$ 1,263,788	1
Loans receivable, net of impaired loans and allowance	10,873,120	11,292,004	3
Accrued interest receivable	60,528	60,528	1
FHLB, Federal Reserve & First National Bankers Bank stock; other equity investments	114,854	114,854	3
Financial liabilities:			
Deposits:			
Demand and non-interest bearing	\$ 3,266,753	\$ 3,266,753	1
Savings and interest-bearing transaction accounts	8,212,240	8,212,240	1
Time deposits	1,246,797	1,266,430	3
Securities sold under agreements to repurchase	168,931	168,931	1
FHLB and other borrowed funds	400,000	414,207	2
Accrued interest payable	5,925	5,925	1
Subordinated debentures	370,326	378,981	3

21. Recent Accounting Pronouncements

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminates the requirement to determine the fair value of individual assets and liabilities of a reporting unit to measure goodwill impairment. Under the amendments in the new ASU, goodwill impairment testing will be performed by comparing the fair value of the reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss should not exceed the total amount of goodwill allocated to that reporting unit. The new standard is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019 and should be applied on a prospective basis. Early adoption was permitted for annual or interim goodwill impairment testing performed after January 1, 2017. The Company has goodwill from prior business combinations and performs an annual impairment test or more frequently if changes or circumstances occur that would more-likely-than-not reduce the fair value of the reporting unit below its carrying value. During 2020, the Company performed its impairment assessment and determined the fair value of the aggregated reporting units exceed the carrying value, such that the Company's goodwill was not considered impaired. The Company adopted the guidance effective January 1, 2020, and its adoption did not have a significant impact on our financial position or financial statement disclosures. The current accounting policies and processes have not changed, except for the elimination of the Step 2 analysis.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. The new guidance modifies disclosure requirements related to fair value measurement. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Implementation on a prospective or retrospective basis varies by specific disclosure requirement. The Company adopted the guidance effective January 1, 2020, and its adoption did not have a significant impact on our financial position or financial statement disclosures.

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*, that amends the definition of a hosting arrangement and requires a customer in a hosting arrangement that is a service contract to capitalize certain implementation costs as if the arrangement was an internal-use software project. The internal-use software guidance states that only qualifying costs incurred during the application development stage can be capitalized. The effective date is for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Entities have the option to apply the guidance prospectively to all implementation costs incurred after the date of adoption or retrospectively in accordance with the applicable guidance. The Company adopted the guidance effective January 1, 2020, and its adoption did not have a significant impact on our financial position or financial statement disclosures.

In November 2018, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses*. The amendment clarifies that receivables arising from operating leases are not within the scope of Subtopic 326-20. Instead, impairment of receivables arising from operating leases should be accounted for in accordance with Topic 842, Leases. The effective date and transition requirements for the amendments in this update are the same as the effective dates and transition requirements in ASU 2016-13.

In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842) Codification Improvements*. The amendments in this Update reinstate the exception in Topic 842 for lessors that are not manufacturers or dealers. Specifically, those lessors will use their cost, reflecting any volume or trade discounts that may apply, as the fair value of the underlying asset. However, if significant time lapses between the acquisition of the underlying asset and lease commencement, those lessors will be required to apply the definition of *fair value* (exit price) in Topic 820. In addition, the amendments in this Update address the concerns of lessors within the scope of Topic 942 about where "principal payments received under leases" should be presented. Specifically, lessors that are depository and lending institutions within the scope of Topic 942 will present all "principal payments received under leases" within investing activities. Finally, the amendments in this Update clarify the FASB's original intent by explicitly providing an exception to the paragraph 250-10-50-3 interim disclosure requirements in the Topic 842 transition disclosure requirements. The effective date for the amendments in this update is for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. The Company adopted the guidance effective January 1, 2020, and its adoption did not have a significant impact on our financial position or financial statement disclosures.

In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. The amendments clarify certain aspects of the accounting for credit losses, hedging activities, and financial instruments (addressed by ASUs 2016-13, 2017-12 and 2016-01, respectively). The amendments made to the provisions of ASU 2016-13 are related to accrued interest, transfers between classifications or categories for loans and debt securities, recoveries, reinsurance recoverables, projections of interest rate environments for variable-rate financial instruments, cost to sell financial assets when foreclosure is probable, consideration of expected prepayments when determining the effective interest rate, amortized cost basis of line of credit arrangements that are converted to term loans and extension and renewal options that are not unconditionally cancelable by the entity. The effective date and transition requirements for the amendments in this update are the same as the effective dates and transition requirements in ASU 2016-13. The significant amendments made to the provisions of ASU 2017-12 are related to partial-term fair value hedges of interest rate risk, amortization of fair value hedge basis adjustments, disclosure of fair value hedge basis adjustments, consideration of the hedged contractually specified interest rate under the hypothetical derivative method, application of a first-payments-received cash flow hedging technique to overall cash flows on a group of variable interest payments and transition guidance for reclassifying prepayable debt securities from HTM to available-for-sale. The amendments to ASU 2017-12 are effective as of the beginning of the first annual reporting period beginning after the date of issuance of ASU 2019-04. The amendments made to the provisions of ASU 2016-01 indicate that the measurement alternative for equity securities without readily determinable fair values represent a nonrecurring fair value measurement under ASC 820, and therefore, such securities should be remeasured at fair value when an entity identifies an orderly transaction “for an identical or similar investment of the same issuer.” The amendments related to ASU 2016-01 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company adopted the guidance effective January 1, 2020, and its adoption did not have a significant impact on our financial position or financial statement disclosures.

In May 2019, the FASB issued ASU 2019-05, *Financial Instruments – Credit Losses (Topic 326): Targeted Transition Relief*. The amendments provide transition relief for entities adopting the Board’s credit losses standard, ASU 2016-13. Specifically, ASU 2019-05 amends ASU 2016-13 to allow companies to irrevocably elect, upon adoption of ASU 2016-13, the fair value option for financial instruments that were previously recorded at amortized cost and are within the scope of the credit losses guidance in ASC 326-20, are eligible for the fair value option under ASC 825-10, and are not held-to-maturity debt securities. The amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company adopted the standard guidance effective January 1, 2020, and its adoption did not have a significant impact on our financial position or financial statement disclosures.

In November 2019, the FASB issued ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*. The amendments clarify that the allowance for credit losses for purchased financial assets with credit deterioration should include expected recoveries of amounts previously written off and expected to be written off by the entity and should not exceed the aggregate of amounts of the amortized cost basis previously written off and expected to be written off by an entity. The amendments also clarify that when a method other than a discounted cash flow method is used to estimate expected credit losses, the expected recoveries should not include any amounts that result in an acceleration of the noncredit discount. An entity may include increases in expected cash flows after acquisition. Also, the amendments provide transition relief by permitting entities an accounting policy election to adjust the effective interest rate on existing TDRs using prepayment assumptions on the date of adoption of Topic 326 rather than the prepayment assumption in effect immediately before the restructuring. The amendments extend the disclosure relief for accrued interest receivable balances to additional relevant disclosures involving amortized cost basis. In addition, the amendments clarify that an entity should assess whether it reasonably expects the borrower will be able to continually replenish collateral securing financial asset to apply the practical expedient. The entity applying the practical expedient should estimate the expected credit losses for any difference between the amount of the amortized cost basis that is greater than the fair value of the collateral that is greater than the fair value of the collateral securing the financial asset. An entity may determine that the expectation of nonpayment for the amount of the amortized cost basis equal to the fair value of the collateral securing the financial asset is zero. The amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company adopted the standard guidance effective January 1, 2020, and its adoption did not have a significant impact on our financial position or financial statement disclosures.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The amendments in the update simplify the accounting for income taxes by removing the exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items and the exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. The amendments in the update also simplify the accounting for income taxes by requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax, requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction, specifying that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements; however, an entity may elect to do so on an entity-by-entity basis for a legal entity that is both not subject to tax and disregarded by the taxing authority. The amendments require that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date. The Company adopted the guidance effective January 1, 2021, and its adoption did not have a significant impact on our financial position or financial statement disclosures.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU 2020-04 provides optional expedients and exceptions for accounting related to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. ASU 2020-04 applies only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform and do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. ASU 2020-04 was effective upon issuance and generally can be applied through December 31, 2022.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was signed into law. Section 4013 of the CARES Act provides financial institutions the temporary option to not apply ASC Subtopic 310-40, *Receivables—Troubled Debt Restructurings by Creditors*, to certain loan modifications related to COVID-19 made between March 1, 2020 and the earlier of December 31, 2020 or 60 days after termination of the President's national emergency declaration for COVID-19. On December 28, 2020, an extension of section 4013 of the CARES Act, provided institutions with an extension of the temporary option to not apply ASC Subtopic 310-40 until January 1, 2022. Further, financial institutions do not need to determine impairment associated with certain loan concessions that would otherwise have been required for TDRs (e.g., interest rate concessions, payment deferrals, or loan extensions). The Company has relied on Section 4013 of the CARES Act in accounting for loan modifications since the 4th quarter 2020. The Company has granted loan modification to 49 outstanding loans for a total of \$326.1 million as of March 31, 2021. All of the customers currently on deferment chose principal deferment only and now have returned to paying interest monthly.

Report of Independent Registered Public Accounting Firm

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

Results of Review of Interim Consolidated Financial Statements

We have reviewed the condensed consolidated balance sheet of Home BancShares, Inc. and subsidiaries (the "Company") as of March 31, 2021, and the related condensed consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the three-month periods ended March 31, 2021 and 2020, and the related notes (collectively referred to as the "interim financial information" or "statements"). Based on our reviews, we are not aware of any material modifications that should be made to the condensed financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheet of the Company and subsidiaries as of December 31, 2020, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the year then ended (not presented herein), and in our report dated February 26, 2021, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2020, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

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

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

/s/ **BKD, LLP**

Little Rock, Arkansas
May 6, 2021

Item 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our Form 10-K, filed with the Securities and Exchange Commission on February 26, 2021, which includes the audited financial statements for the year ended December 31, 2020. *Unless the context requires otherwise, the terms "Company," "us," "we," and "our" refer to Home BancShares, Inc. on a consolidated basis.*

General

We are a bank holding company headquartered in Conway, Arkansas, offering a broad array of financial services through our wholly-owned bank subsidiary, Centennial Bank (sometimes referred to as "Centennial" or the "Bank"). As of March 31, 2021, we had, on a consolidated basis, total assets of \$17.24 billion, loans receivable, net of \$10.54 billion, total deposits of \$13.51 billion, and stockholders' equity of \$2.65 billion.

We generate most of our revenue from interest on loans and investments, service charges, and mortgage banking income. Deposits and Federal Home Loan Bank ("FHLB") and other borrowed funds are our primary source of funding. Our largest expenses are interest on our funding sources, salaries and related employee benefits and occupancy and equipment. We measure our performance by calculating our return on average common equity, return on average assets and net interest margin. We also measure our performance by our efficiency ratio, which is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income. The efficiency ratio, as adjusted, is a non-GAAP measure and is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income excluding adjustments such as merger expenses and/or certain gains, losses and other non-interest income and expenses.

Table 1: Key Financial Measures

	As of or for the Three Months Ended	
	March 31,	
	2021	2020
	(Dollars in thousands, except per share data)	
Total assets	\$ 17,240,241	\$ 15,531,732
Loans receivable	10,778,493	11,384,982
Allowance for credit losses	242,932	228,923
Total deposits	13,512,594	11,514,914
Total stockholders' equity	2,645,204	2,430,271
Net income	91,602	507
Basic earnings per share	0.55	0.00
Diluted earnings per share	0.55	0.00
Book value per share	16.02	14.72
Tangible book value per share (non-GAAP)(1)	9.95	8.61
Annualized net interest margin – FTE	4.02%	4.22%
Efficiency ratio	36.60	42.08
Efficiency ratio, as adjusted (non-GAAP)(2)	40.67	41.37
Annualized return on average assets	2.22	0.01
Annualized return on average common equity	14.15	0.08

(1) See Table 19 for the non-GAAP tabular reconciliation.

(2) See Table 23 for the non-GAAP tabular reconciliation.

Overview

Recent Developments – COVID-19

The rapid spread of the novel coronavirus (“COVID-19”) hit the United States during the first quarter of 2020 and the effects have continued throughout the first quarter of 2021. In March 2020, the World Health Organization declared COVID-19 a global pandemic and the United States declared a National Public Health Emergency. The Company has been, and may continue to be, impacted by the pandemic. In recent months, COVID-19 vaccination rates have been increasing and restrictive measures have eased in the majority of our market areas. However, uncertainty remains about the duration of the pandemic as well as the timing and extent of the economic recovery. To address the economic impact of the pandemic, multiple stimulus packages have been enacted to provide economic relief to individuals and businesses.

As the pandemic continues to evolve, we will continue to evaluate protocols and processes in place to execute our business continuity plans and help promote the health and safety of our employees and customers. We have reopened our banking lobbies in order to serve customers in person, while still offering service through drive-thru tellers as well as electronic and online means. To support the health and well-being of our employees, we continue to support working remotely. To support our customers or to comply with law, we have deferred loan payments for certain consumer and commercial customers, and we have suspended residential property foreclosure sales, evictions, and involuntary automobile repossessions, and are offering fee waivers, payment deferrals, and other expanded assistance for automobile, mortgage, small business and personal lending customers. Future governmental actions may require these and other types of customer-related responses.

As of March 31, 2021, the markets in which we operate have begun to experience economic recovery as unemployment rates have declined, COVID-19 vaccination rates have increased, and communities have begun to reopen for business activity. Our loan deferrals decreased to \$326.1 million on 49 loans, as of March 31, 2021, from the December 31, 2020 balance of \$330.7 million on 56 loans, with approximately 11% of the initially deferred loan balances returning to full payments of principal and interest following the initial deferral period. All of the customers currently on deferment totaling \$326.1 million chose principal deferment only and now have returned to paying interest monthly. The hospitality sector has been most negatively impacted by COVID-19 and represents nearly half of the deferment balance as of March 31, 2021. The geographic distribution of these deferrals is similar through all of our markets. Our review of deferment requests required updated interim operating statements, balance sheet and liquidity verifications, and validation of the current risk rating.

In April 2020, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES” Act) established a new federal economic relief program administered by the Small Business Administration (“SBA”) called the Paycheck Protection Program (“PPP”), which provides for 100% federally guaranteed loans to be issued by participating private financial institutions to small businesses for payroll and certain other permitted expenses. PPP loans are forgivable, in whole or in part, so long as employee and compensation levels of the borrower are maintained, and the proceeds are used for payroll and other permitted purposes in accordance with the requirements of the PPP. These loans carry a fixed rate of 1.00% and a term of two years, if not forgiven, in whole or in part. Payments are deferred for the first six months of the loan. The Paycheck Protection Program and Health Care Enhancement Act (“PPP/HCEA Act”) was passed by Congress on April 23, 2020 and signed into law on April 24, 2020. The PPP/HCEA Act authorizes additional funds under the CARES Act for PPP loans to be issued by financial institutions through the SBA. The Consolidated Appropriations Act (“CAA”) was signed into law on December 27, 2020. The CAA also authorizes additional funds under the CARES Act for PPP loans to be issued by financial institutions through the SBA. As of March 31, 2021, as a participating lender, we have generated 11,661 loans to both existing and new customers totaling \$1.20 billion. As of March 31, 2021, the outstanding gross PPP loan balances were \$667.3 million. The average loan size was \$99,600.

Although the economic and public health outlooks have improved in the United States during the first quarter of 2021, the future impact of the pandemic on our business, results of operations and financial condition remains uncertain. Should current economic conditions deteriorate or if the pandemic intensifies through the spread of more contagious or severe strains of COVID-19, the pandemic could have an adverse effect on our business and results of operations and financial condition.

Results of Operations for the Three Months Ended March 31, 2021 and 2020

Our net income increased \$91.1 million, or 17,967.5%, to \$91.6 million for the three-month period ended March 31, 2021, from \$507,000 for the same period in 2020. On a diluted earnings per share basis, our earnings were \$0.55 per share for the three-month period ended March 31, 2021 and \$0.00 per share for the three-month period ended March 31, 2020. During the three-month period ended March 31, 2021, the Company did not record any provision for credit losses compared to \$94.6 million for the three-month period ended March 31, 2020. The \$94.6 million of provision for credit losses was primarily due to the COVID-19 pandemic, with \$9.3 million for the acquisition of LH-Finance on February 29, 2020. The Company's provisioning model is closely tied to unemployment rate projections which have continued to improve since the fourth quarter of 2020. The Company determined that an additional provision for credit losses on loans was not necessary as the current level of the allowance for credit losses was considered adequate as of March 31, 2021. In addition, the Company determined that the current level of the unfunded commitment reserve was adequate and no additional provision for unfunded commitments was necessary as of March 31, 2021. The Company also recorded a \$5.8 million adjustment for the increase in fair market value of marketable securities, \$8.1 million of special dividend income from one of our equity investments and a \$5.1 million recovery on historic losses from loans charged-off prior to acquisition.

Total interest expense decreased by \$17.9 million, or 55.1%, and non-interest income increased by \$22.3 million, or 97.5%. This was partially offset by a \$9.5 million or, 5.5%, decrease in total interest income and a \$2.4 million or, 3.4%, increase in non-interest expense. The decrease in interest expense was primarily due to a \$16.5 million decrease in interest on deposits and an \$823,000 decrease in interest on FHLB borrowed funds. The increase in non-interest income was primarily due to an \$11.6 million increase in the fair value adjustment on marketable securities, a \$5.5 million increase in mortgage lending income, a \$1.6 million increase in other service charges and fees, and a \$4.8 million increase in other income, which was partially offset by a \$1.6 million decrease in service charges on deposit accounts. The primary drivers of the decrease in interest income were a \$7.2 million decrease in loan interest income, a \$1.6 million decrease in investment security income and a \$706,000 decrease in interest income on deposits with other banks. The increase in non-interest expense was due to a \$2.7 million increase in salaries and employee benefits, a \$364,000 increase in occupancy and equipment expense, a \$1.5 million increase in data processing expense and was partially offset by a \$2.2 million decrease in other operating expenses. Income tax expense increased by \$31.8 million during the quarter due to an increase in net income.

Our net interest margin decreased from 4.22% for the three-month period ended March 31, 2020 to 4.02% for the three-month period ended March 31, 2021. The yield on interest earning assets was 4.41% and 5.19% for the three months ended March 31, 2021 and 2020, respectively, as average interest earning assets increased from \$13.43 billion to \$15.12 billion. The increase in average earning assets is primarily the result of a \$1.28 billion increase in average interest-bearing balances due from banks, a \$400.7 million increase in average investment securities, and a \$15.2 million increase in average loans receivable. Average PPP loan balances were \$633.8 million for the three months ended March 31, 2021. These loans bear interest at 1.00% plus the accretion of the origination fee. We recognized total interest income of \$11.9 million on PPP loans for the three months ended March 31, 2021. The PPP loans were accretive to the net interest margin by 16 basis points for the three months ended March 31, 2021. This was primarily due to approximately \$313.8 million of the Company's PPP loans being forgiven during the first quarter of 2021 as well as the acceleration of deferred fees for the loans that were forgiven. The COVID-19 pandemic and the resulting governmental response have created a significant amount of excess liquidity in the market. As a result, we had an increase of \$1.28 billion in average interest-bearing cash balances for the three months ended March 31, 2021 compared to the three months ended March 31, 2020. This excess liquidity was dilutive to the net interest margin by 37 basis points. For the three months ended March 31, 2021 and 2020, we recognized \$5.5 million and \$7.6 million, respectively, in total net accretion for acquired loans and deposits. The reduction in accretion was dilutive to the net interest margin by 6 basis points. We recognized \$1.1 million in event interest income for the three months ended March 31, 2021 compared to \$558,000 for the three months ended March 31, 2020. This increased the net interest margin by 2 basis points.

Our efficiency ratio was 36.60% for the three months ended March 31, 2021, compared to 42.08% for the same period in 2020. For the first quarter of 2021, our efficiency ratio, as adjusted (non-GAAP), was 40.67%, an improvement of 70 basis points from the 41.37% reported for the first quarter of 2020. (See Table 23 for the non-GAAP tabular reconciliation).

Our annualized return on average assets was 2.22% for the three months ended March 31, 2021, compared to 0.01% for the same period in 2020. Our annualized return on average common equity was 14.15% for the three months ended March 31, 2021, compared to 0.08% for the same period in 2020.

Financial Condition as of and for the Period Ended March 31, 2021 and December 31, 2020

Our total assets as of March 31, 2021 increased \$841.4 million to \$17.24 billion from the \$16.40 billion reported as of December 31, 2020. Cash and cash equivalents increased \$1.21 billion, or 96.1%, for the three months ended March 31, 2021. The increase in cash and cash equivalents is primarily due to the significant amount of excess liquidity in the market as a continued result of the COVID-19 pandemic and the accompanying governmental response. Our loan portfolio balance decreased to \$10.78 billion as of March 31, 2021 from \$11.22 billion at December 31, 2020 due to organic loan decline of \$417.8 million and \$313.8 million of the Company's PPP loans being forgiven during the first quarter of 2021, which was partially offset by \$289.4 million in new PPP loan originations during the quarter. Total deposits increased \$786.8 million to \$13.51 billion as of March 31, 2021 from \$12.73 billion as of December 31, 2020, which was due customers holding higher deposit balances in response to the COVID-19 pandemic as well as the accompanying governmental response to the pandemic. Stockholders' equity increased \$39.4 million to \$2.65 billion as of March 31, 2021, compared to \$2.61 billion as of December 31, 2020. The \$39.4 million increase in stockholders' equity is primarily associated with the \$91.6 million in net income for the three months ended March 31, 2021, which was partially offset by the \$24.7 million in other comprehensive loss for the three months ended March 31, 2021, \$23.2 million of shareholder dividends paid and stock repurchases of \$8.8 million in 2021.

Our non-performing loans were \$63.4 million, or 0.59% of total loans as of March 31, 2021, compared to \$74.1 million, or 0.66% of total loans as of December 31, 2020. The allowance for credit losses as a percent of non-performing loans increased to 383.47% as of March 31, 2021, from 331.1% as of December 31, 2020. Non-performing loans from our Arkansas franchise were \$23.0 million at March 31, 2021 compared to \$24.1 million as of December 31, 2020. Non-performing loans from our Florida franchise were \$35.1 million at March 31, 2021 compared to \$43.1 million as of December 31, 2020. Non-performing loans from our Alabama franchise were \$516,000 at March 31, 2021 compared to \$530,000 as of December 31, 2020. Non-performing loans from our SPF franchise were \$2.0 million at March 31, 2021 compared to \$3.6 million as of December 31, 2020. Non-performing loans from our Centennial Commercial Finance Group ("CFG") franchise were \$2.8 million at March 31, 2021 and December 31, 2020.

As of March 31, 2021, our non-performing assets decreased to \$66.4 million, or 0.38% of total assets, from \$78.6 million, or 0.48% of total assets, as of December 31, 2020. Non-performing assets from our Arkansas franchise were \$24.9 million at March 31, 2021 compared to \$25.6 million as of December 31, 2020. Non-performing assets from our Florida franchise were \$36.1 million at March 31, 2021 compared to \$46.0 million as of December 31, 2020. Non-performing assets from our Alabama franchise were \$550,000 at March 31, 2021 compared to \$564,000 as of December 31, 2020. Non-performing assets from our SPF franchise were \$2.0 million at March 31, 2021 compared to \$3.6 million as of December 31, 2020. Non-performing assets from our CFG franchise were \$2.8 million at March 31, 2021 and December 31, 2020.

The \$2.8 million balance of non-accrual loans for our Centennial CFG market consists of one loan that is assessed for credit risk by the Federal Reserve under the Shared National Credit Program. The decision to place this loan on non-accrual status was made by the Federal Reserve and not the Company. The loan that makes up the total balance is still current on both principal and interest. However, all interest payments are currently being applied to the principal balance. Because the Federal Reserve required us to place this loan on non-accrual status, we have reversed any interest that had accrued subsequent to the non-accrual date designated by the Federal Reserve.

Critical Accounting Policies

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

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

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

- Service charges on deposit accounts – These represent general service fees for monthly account maintenance and activity or transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when our performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed (such as a wire transfer). Payment for such performance obligations are generally received at the time the performance obligations are satisfied.
- Other service charges and fees – These represent credit card interchange fees and Centennial CFG loan fees. The interchange fees are recorded in the period the performance obligation is satisfied which is generally the cash basis based on agreed upon contracts. Centennial CFG loan fees are based on loan or other negotiated agreements with customers and are accounted for under ASC Topic 310. Interchange fees were \$3.8 million and \$3.5 million for the three months ended March 31, 2021 and 2020, respectively. Centennial CFG loan fees were \$2.0 million and \$733,000 for the three months ended March 31, 2021 and 2020, respectively.

Credit Losses. The Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, effective January 1, 2020. The guidance replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credits, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. ASC 326 requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses as well as the credit quality and underwriting standards of a company's portfolio. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available for sale debt securities management does not intend to sell or believes that it is more likely than not, they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for loans and off-balance-sheet ("OBS") credit exposures. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a one-time cumulative-effect adjustment to the allowance for credit losses of \$44.0 million which was recognized through a \$32.5 million adjustment to retained earnings, net of tax. This adjustment brought the beginning balance of the allowance for credit losses to \$146.1 million as of January 1, 2020. In addition, the Company recorded a \$15.5 million reserve on unfunded commitments as of January 1, 2020, which was recognized through an \$11.5 million adjustment to retained earnings, net of tax.

The Company adopted ASC 326 using the prospective transition approach for financial assets purchased with credit deterioration ("PCD") that were previously classified as purchased credit impaired ("PCI") and accounted for under ASC 310-30. In 2019, the Company reevaluated its loan pools of purchased loans with deteriorated credit quality. These loans pools related specifically to acquired loans from the Heritage, Liberty, Landmark, Bay Cities, Bank of Commerce, Premier Bank, Stonegate and Shore Premier Finance acquisitions. At acquisition, a portion of these loans were recorded as purchased credit impaired loans on a pool by pool basis. Through the reevaluation of these loan pools, management determined that estimated losses for purchase credit impaired loans should be processed against the credit mark of the applicable pools. The remaining non-accretable mark was then moved to accretable mark to be recognized over the remaining weighted average life of the loan pools. The projected losses for these loans were less than the total credit mark. As such, the remaining \$107.6 million of loans in these pools along with the \$29.3 million in accretable yield was deemed to be immaterial and was reclassified out of the purchased credit impaired loans category. As of December 31, 2020, the Company no longer held any purchased loans with deteriorated credit quality. Therefore, the Company did not have any PCI loans upon adoption on of ASC 326 as of January 1, 2020.

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2020. As of December 31, 2019, the Company did not have any other-than-temporarily impaired investment securities. Therefore, upon adoption of ASC 326, the Company determined that an allowance for credit losses on available-for-sale securities was not deemed material. However, the Company evaluated the investment portfolio during the first quarter of 2020 and determined that an \$842,000 provision for credit losses was necessary. No additional provision was deemed necessary during the remaining quarters of 2020 or the first quarter of 2021. See Note 3 “Investment Securities” in the Condensed Notes to Consolidated Financial Statements for further discussion.

Investments – Available-for-sale. Securities available-for-sale are reported at fair value with unrealized holding gains and losses reported as a separate component of stockholders’ equity and other comprehensive income (loss), net of taxes. Securities that are held as available-for-sale are used as a part of our asset/liability management strategy. Securities that may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital, and other similar factors are classified as available-for-sale. The Company evaluates all securities quarterly to determine if any securities in a loss position require a provision for credit losses in accordance with ASC 326, *Measurement of Credit Losses on Financial Instruments*. The Company first assesses whether it intends to sell or is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security’s amortized cost basis is written down to fair value through income. For securities that do not meet this criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, and changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the uncollectability of a security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

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

The allowance for credit losses on loans receivable is a valuation account that is deducted from the loans’ amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in the national unemployment rate, gross domestic product, rental vacancy rate, housing price index and national retail sales index.

The allowance for credit losses is measured based on call report segment as these types of loan exhibit similar risk characteristics. The identified loan segments are as follows:

- 1-4 family construction
- All other construction
- 1-4 family revolving home equity lines of credit (“HELOC”) & junior liens
- 1-4 family senior liens
- Multifamily
- Owner occupies commercial real estate
- Non-owner occupied commercial real estate
- Commercial & industrial, agricultural, non-depository financial institutions, purchase/carry securities, other
- Consumer auto
- Other consumer
- Other consumer - SPF

The allowance for credit losses for each segment is measured through the use of the discounted cash flow method. Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. For those loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies:

- Management has a reasonable expectation at the reporting date that troubled debt restructuring will be executed with an individual borrower.
- The extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

Loans considered impaired, according to ASC 326, are loans for which, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. The aggregate amount of impairment of loans is utilized in evaluating the adequacy of the allowance for credit losses and amount of provisions thereto. Losses on impaired loans are charged against the allowance for credit losses when in the process of collection, it appears likely that such losses will be realized. The accrual of interest on impaired loans is discontinued when, in management's opinion the collection of interest is doubtful or generally when loans are 90 days or more past due. When accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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

Acquisition Accounting and Acquired Loans. We account for our acquisitions under FASB ASC Topic 805, *Business Combinations*, which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. In accordance with ASC 326, the Company records both a discount and an allowance for credit losses on acquired loans. All purchased loans are recorded at fair value in accordance with the fair value methodology prescribed in FASB ASC Topic 820, *Fair Value Measurements*. The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

The Company has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. Purchase credit deteriorated ("PCD") loans are recorded at the amount paid. An allowance for credit losses is determined using the same methodology as other loans. The initial allowance for credit losses determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit losses becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through the provision for credit loss.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures: The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

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

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

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

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

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

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

Acquisitions

Acquisition of LH-Finance

On February 29, 2020, the Company completed the acquisition of LH-Finance, the marine lending division of People’s United Bank, N.A. The Company paid a purchase price of approximately \$421.2 million in cash. LH-Finance provides direct consumer financing for United States Coast Guard (“USCG”) registered high-end sail and power boats. Additionally, LH-Finance provides inventory floor plan lines of credit to marine dealers, primarily those selling USCG documented vessels.

Including the purchase accounting adjustments, as of the acquisition date, LH-Finance had approximately \$409.1 million in total assets, including \$407.4 million in total loans, which resulted in goodwill of \$14.6 million being recorded.

The acquired portfolio of loans is now housed in our SPF division. The SPF division is responsible for servicing the acquired loan portfolio and originating new loan production. In connection with this acquisition, we opened a loan production office in Baltimore, Maryland.

See Note 2 “Business Combinations” in the Condensed Notes to Consolidated Financial Statements for additional information regarding the acquisition of LH-Finance.

Future Acquisitions

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

We will continue evaluating all types of potential bank acquisitions, which may include FDIC-assisted acquisitions as opportunities arise, to determine what is in the best interest of our Company. Our goal in making these decisions is to maximize the return to our investors.

Branches

As opportunities arise, we will continue to open new (commonly referred to as *de novo*) branches in our current markets and in other attractive market areas.

As of March 31, 2021, we had 160 branch locations. There were 76 branches in Arkansas, 78 branches in Florida, five branches in Alabama and one branch in New York City.

Results of Operations

For the three months ended March 31, 2021 and 2020

Our net income increased \$91.1 million, or 17,967.5%, to \$91.6 million for the three-month period ended March 31, 2021, from \$507,000 for the same period in 2020. On a diluted earnings per share basis, our earnings were \$0.55 per share for the three-month period ended March 31, 2021 and \$0.00 per share for the three-month period ended March 31, 2020. During the three-month period ended March 31, 2021, the Company did not record any provision for credit losses compared to \$94.6 million for the three-month period ended March 31, 2020. The \$94.6 million of provision for credit losses was primarily due to the COVID-19 pandemic, with \$9.3 million for the acquisition of LH-Finance on February 29, 2020. The Company's provisioning model is closely tied to unemployment rate projections which have continued to improve since the fourth quarter of 2020. The Company determined that an additional provision for credit losses on loans was not necessary as the current level of the allowance for credit losses was considered adequate as of March 31, 2021. In addition, the Company determined that the current level of the unfunded commitment reserve was adequate and no additional provision for unfunded commitments was necessary as of March 31, 2021. The Company also recorded a \$5.8 million adjustment for the increase in fair market value of marketable securities, \$8.1 million of special dividend income from one of our equity investments and a \$5.1 million recovery on historic losses from loans charged-off prior to acquisition.

Net Interest Income

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

The Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. The Federal reserve lowered the target rate two times in 2020. First, the target rate was lowered to 1.00% to 1.25% on March 3, 2020; second, the rate was lowered to 0.00% to 0.25% on March 15, 2020. The target rate remains at 0.00% to 0.25% as of March 31, 2021.

Our net interest margin decreased from 4.22% for the three-month period ended March 31, 2020 to 4.02% for the three-month period ended March 31, 2021. The yield on interest earning assets was 4.41% and 5.19% for the three months ended March 31, 2021 and 2020, respectively, as average interest earning assets increased from \$13.43 billion to \$15.12 billion. The increase in average earning assets is primarily the result of a \$1.28 billion increase in average interest-bearing balances due from banks, a \$400.7 million increase in average investment securities, and an \$15.2 million increase in average loans receivable. Average PPP loan balances were \$633.8 million for the three months ended March 31, 2021. These loans bear interest at 1.00% plus the accretion of the origination fee. We recognized total interest income of \$11.9 million on PPP loans for the three months ended March 31, 2021. The PPP loans were accretive to the net interest margin by 16 basis points for the three months ended March 31, 2021. This was primarily due to approximately \$313.8 million of the Company's PPP loans being forgiven during the first quarter of 2021 as well as the acceleration of deferred fees for the loans that were forgiven. The COVID-19 pandemic and the resulting governmental response have created a significant amount of excess liquidity in the market. As a result, we had an increase of \$1.28 billion in average interest-bearing cash balances for the three months ended March 31, 2021 compared to the three months ended March 31, 2020. This excess liquidity was dilutive to the net interest margin by 37 basis points. For the three months ended March 31, 2021 and 2020, we recognized \$5.5 million and \$7.6 million, respectively, in total net accretion for acquired loans and deposits. The reduction in accretion was dilutive to the net interest margin by 6 basis points. We recognized \$1.1 million in event interest income for the three months ended March 31, 2021 compared to \$558,000 for the three months ended March 31, 2020. This increased the net interest margin by 2 basis points.

Net interest income on a fully taxable equivalent basis increased \$9.0 million, or 6.4%, to \$149.9 million for the three-month period ended March 31, 2021, from \$141.0 million for the same period in 2020. This increase in net interest income for the three-month period ended March 31, 2021 was the result of a \$17.9 million decrease in interest expense which was partially offset by a \$8.9 million decrease in interest income, on a fully taxable equivalent basis. The \$8.9 million decrease in interest income was primarily the result of lower yields on our earning assets, partially offset by a higher level of earning assets. The lower yield on earning assets resulted in a decrease in interest income of approximately \$13.8 million, and the higher level of earning assets resulted in an increase in interest income of approximately \$4.9 million. The lower yield was primarily driven by the decrease in income on loans of \$7.3 million, a decrease in income on investment securities of \$881,000 and a \$706,000 decrease in income on interest-bearing balances due from banks. The decrease in interest income also reflected a \$2.2 million decrease in loan accretion income. The \$17.9 million decrease in interest expense for the three-month period ended March 31, 2021 is primarily the result of interest-bearing liabilities repricing in a decreasing interest rate environment which lowered interest expense by \$16.9 million as well as a \$1.0 million decrease in interest expense resulting from a change in the composition of average interest bearing liabilities. The decrease in interest expense was primarily driven by a \$16.5 million decrease in interest expense on deposits and an \$823,000 decrease in interest expense on FHLB borrowed funds.

Tables 2 and 3 reflect an analysis of net interest income on a fully taxable equivalent basis for the three months ended March 31, 2021 and 2020, as well as changes in fully taxable equivalent net interest margin for the three months ended March 31, 2021 compared to the same period in 2020.

Table 2: Analysis of Net Interest Income

	Three Months Ended March 31,	
	2021	2020
	(Dollars in thousands)	
Interest income	\$ 162,651	\$ 172,175
Fully taxable equivalent adjustment	1,857	1,227
Interest income – fully taxable equivalent	164,508	173,402
Interest expense	14,563	32,450
Net interest income – fully taxable equivalent	<u>\$ 149,945</u>	<u>\$ 140,952</u>
Yield on earning assets – fully taxable equivalent	4.41 %	5.19 %
Cost of interest-bearing liabilities	0.56	1.29
Net interest spread – fully taxable equivalent	3.85	3.90
Net interest margin – fully taxable equivalent	4.02	4.22

Table 3: Changes in Fully Taxable Equivalent Net Interest Margin

	Three Months Ended March 31, 2021 vs. 2020
	(In thousands)
Increase (decrease) in interest income due to change in earning assets	\$ 4,914
Increase (decrease) in interest income due to change in earning asset yields	(13,808)
(Increase) decrease in interest expense due to change in interest-bearing liabilities	1,019
(Increase) decrease in interest expense due to change in interest rates paid on interest-bearing liabilities	16,868
Increase (decrease) in net interest income	<u>\$ 8,993</u>

Table 4 shows, for each major category of earning assets and interest-bearing liabilities, the average amount outstanding, the interest income or expense on that amount and the average rate earned or expensed for the three months ended March 31, 2021 and 2020, respectively. The table also shows the average rate earned on all earning assets, the average rate expensed on all interest-bearing liabilities, the net interest spread and the net interest margin for the same periods. The analysis is presented on a fully taxable equivalent basis. Non-accrual loans were included in average loans for the purpose of calculating the rate earned on total loans.

Table 4: Average Balance Sheets and Net Interest Income Analysis

	Three Months Ended March 31,					
	2021			2020		
	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
(Dollars in thousands)						
ASSETS						
Earnings assets						
Interest-bearing balances due from banks	\$ 1,610,463	\$ 410	0.10%	\$ 331,038	\$ 1,116	1.36%
Federal funds sold	119	—	0.00	5,218	21	1.62
Investment securities – taxable	1,637,061	6,253	1.55	1,710,288	9,776	2.30
Investment securities – non-taxable	848,158	6,732	3.22	374,198	4,090	4.40
Loans receivable	11,023,139	151,113	5.56	11,007,958	158,399	5.79
Total interest-earning assets	15,118,940	164,508	4.41	13,428,700	173,402	5.19
Non-earning assets	1,599,950			1,704,775		
Total assets	<u>\$ 16,718,890</u>			<u>\$ 15,133,475</u>		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Liabilities						
Interest-bearing liabilities						
Savings and interest-bearing transaction accounts	\$ 8,338,791	\$ 4,716	0.23%	\$ 7,041,303	\$ 15,803	0.90%
Time deposits	1,209,431	2,989	1.00	1,943,721	8,395	1.74
Total interest-bearing deposits	9,548,222	7,705	0.33	8,985,024	24,198	1.08
Federal funds purchased	—	—	0.00	6,264	13	0.83
Securities sold under agreement to repurchase	159,697	190	0.48	138,180	462	1.34
FHLB and other borrowed funds	400,000	1,875	1.90	623,525	2,698	1.74
Subordinated debentures	370,421	4,793	5.25	369,652	5,079	5.53
Total interest-bearing liabilities	10,478,340	14,563	0.56	10,122,645	32,450	1.29
Non-interest-bearing liabilities						
Non-interest-bearing deposits	3,480,050			2,410,583		
Other liabilities	134,882			119,143		
Total liabilities	14,093,272			12,652,371		
Stockholders' equity						
Total liabilities and stockholders' equity	<u>\$ 16,718,890</u>			<u>\$ 15,133,475</u>		
Net interest spread			3.85%			3.90%
Net interest income and margin		<u>\$ 149,945</u>	4.02		<u>\$ 140,952</u>	4.22

Table 5 shows changes in interest income and interest expense resulting from changes in volume and changes in interest rates for the three months ended March 31, 2021 compared to the same period in 2020, on a fully taxable basis. The changes in interest rate and volume have been allocated to changes in average volume and changes in average rates, in proportion to the relationship of absolute dollar amounts of the changes in rates and volume.

Table 5: Volume/Rate Analysis

	Three Months Ended March 31, 2021 over 2020		
	Volume	Yield/Rate	Total
	(In thousands)		
Increase (decrease) in:			
Interest income:			
Interest-bearing balances due from banks	\$ 1,096	\$ (1,802)	\$ (706)
Federal funds sold	(11)	(10)	(21)
Investment securities – taxable	(403)	(3,120)	(3,523)
Investment securities – non-taxable	4,014	(1,372)	2,642
Loans receivable	218	(7,504)	(7,286)
Total interest income	<u>4,914</u>	<u>(13,808)</u>	<u>(8,894)</u>
Interest expense:			
Interest-bearing transaction and savings deposits	2,482	(13,569)	(11,087)
Time deposits	(2,535)	(2,871)	(5,406)
Federal funds purchased	(7)	(6)	(13)
Securities sold under agreement to repurchase	63	(335)	(272)
FHLB borrowed funds	(1,033)	210	(823)
Subordinated debentures	11	(297)	(286)
Total interest expense	<u>(1,019)</u>	<u>(16,868)</u>	<u>(17,887)</u>
Increase (decrease) in net interest income	<u>\$ 5,933</u>	<u>\$ 3,060</u>	<u>\$ 8,993</u>

Provision for Credit Losses

The Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, effective January 1, 2020. The guidance replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credits, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. ASC 326 requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses as well as the credit quality and underwriting standards of a company's portfolio. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available for sale debt securities management does not intend to sell or believes that it is more likely than not, they will be required to sell.

During the three months ended March 31, 2021, we recorded no provision for credit losses compared to recording \$94.6 million provision for credit losses for the three months ended March 31, 2020. As a result of improving economic conditions, the Company determined that an additional provision for credit losses on loans was not necessary as the current level of the allowance for credit losses was considered adequate as of March 31, 2021. In addition, the Company determined that the current level of the unfunded commitment reserve was adequate, and no additional unfunded commitments expense was necessary as of March 31, 2021. The \$94.6 million in provision expense for the three months ended March 31, 2020 was comprised of the following components – investment securities, CECL double accounting for LH-Finance, provision for credit losses on loans and provision for credit losses on unfunded commitments. During the three months ended March 31, 2020, we recorded \$842,000 for credit losses on the investment portfolio as a result of economic uncertainties related to COVID-19, \$9.3 million for CECL double accounting for LH-Finance, \$76.7 million provision for credit losses on loans primarily as a result of COVID-19 and \$7.8 million provision for credit losses on unfunded commitments primarily as a result of COVID-19. Net charge-offs to average total loans decreased to 0.09% for the three months ended March 31, 2021 from 0.13% for the three months ended March 31, 2020.

Loans. Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in the national unemployment rate, gross domestic product, rental vacancy rate, housing price index and national retail sales index.

Acquired loans. In accordance with ASC 326, the Company records both a discount and an allowance for credit losses on acquired loans. This is commonly referred to as “double accounting.”

The allowance for credit losses is measured based on call report segment as these types of loan exhibit similar risk characteristics. The identified loan segments are as follows:

- 1-4 family construction
- All other construction
- 1-4 family revolving home equity lines of credit (“HELOC”) & junior liens
- 1-4 family senior liens
- Multifamily
- Owner occupies commercial real estate
- Non-owner occupied commercial real estate
- Commercial & industrial, agricultural, non-depository financial institutions, purchase/carry securities, other
- Consumer auto
- Other consumer
- Other consumer - SPF

The allowance for credit losses for each segment is measured through the use of the discounted cash flow method. Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. For those loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan.

Investments – Available-for-sale: The Company evaluates all securities quarterly to determine if any securities in a loss position require a provision for credit losses in accordance with ASC 326, *Measurement of Credit Losses on Financial Instruments*. The Company first assesses whether it intends to sell or is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security’s amortized cost basis is written down to fair value through income. For securities that do not meet this criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, and changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the uncollectability of a security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Non-Interest Income

Total non-interest income was \$45.3 million for the three months ended March 31, 2021, compared to \$22.9 million for the same period in 2020. Our recurring non-interest income includes service charges on deposit accounts, other service charges and fees, trust fees, mortgage lending, insurance, increase in cash value of life insurance and dividends.

Table 6 measures the various components of our non-interest income for the three months ended March 31, 2021 and 2020, respectively, as well as changes for the three months ended March 31, 2021 compared to the same period in 2020.

Table 6: Non-Interest Income

	Three Months Ended March 31,		2021 Change from 2020	
	2021	2020		
	(Dollars in thousands)			
Service charges on deposit accounts	\$ 5,002	\$ 6,631	\$ (1,629)	(24.6)%
Other service charges and fees	7,608	6,056	1,552	25.6
Trust fees	522	438	84	19.2
Mortgage lending income	8,167	2,621	5,546	211.6
Insurance commissions	492	678	(186)	(27.4)
Increase in cash value of life insurance	502	560	(58)	(10.4)
Dividends from FHLB, FRB, FNBB & other	8,609	7,842	767	9.8
Gain on sale of SBA loans	—	341	(341)	(100.0)
(Loss) gain on sale of branches, equipment and other assets, net	(29)	82	(111)	(135.4)
Gain on OREO, net	401	277	124	44.8
Gain on securities, net	219	—	219	100.0
Fair value adjustment for marketable securities	5,782	(5,818)	11,600	199.4
Other income	8,001	3,219	4,782	148.6
Total non-interest income	<u>\$ 45,276</u>	<u>\$ 22,927</u>	<u>\$ 22,349</u>	97.5%

Non-interest income increased \$22.3 million, or 97.5%, to \$45.3 million for three months ended March 31, 2021 from \$22.9 million for the same period in 2020. The primary factors that resulted in this increase were the impact of fair value adjustment for marketable securities which increased non-interest income by \$11.6 million and the \$5.5 million increase in mortgage lending income. Other factors were changes related to service charges on deposit accounts, other service charges and fees and other income.

Additional details for the three months ended March 31, 2021 on some of the more significant changes are as follows:

- The \$1.6 million decrease in service charges on deposit accounts is primarily related to a decrease in overdraft fees resulting from changes in consumer spending habits leading consumers to hold higher deposit balances in response to the COVID-19 pandemic.
- The \$1.6 million increase in other service charges and fees is primarily due to an increase in Centennial CFG property finance loan fees.
- The \$5.5 million increase in mortgage lending income is primarily due to the increase in volume of secondary market loan sales driven by the current low interest rate environment.
- The \$767,000 increase for dividends from FHLB, FRB, FNBB & other is primarily due to an increase in special dividends from equity investments.
- The \$11.6 million gain on the fair value adjustment for marketable securities is related to the increase in the fair market value of marketable securities held by the Company.
- The \$4.8 million increase in other income is primarily due to a \$5.1 million recovery on historic losses.

Non-Interest Expense

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

Table 7 below sets forth a summary of non-interest expense for the three months ended March 31, 2021 and 2020, as well as changes for the three months ended March 31, 2021 compared to the same period in 2020.

Table 7: Non-Interest Expense

	Three Months Ended		2021 Change from 2020	
	2021	2020		
	(Dollars in thousands)			
Salaries and employee benefits	\$ 42,059	\$ 39,329	\$ 2,730	6.9%
Occupancy and equipment	9,237	8,873	364	4.1
Data processing expense	5,870	4,326	1,544	35.7
Other operating expenses:				
Advertising	1,046	1,226	(180)	(14.7)
Merger and acquisition expense	—	711	(711)	(100.0)
Amortization of intangibles	1,421	1,517	(96)	(6.3)
Electronic banking expense	2,238	1,715	523	30.5
Directors' fees	383	424	(41)	(9.7)
Due from bank service charges	249	223	26	11.7
FDIC and state assessment	1,363	1,548	(185)	(12.0)
Insurance	781	746	35	4.7
Legal and accounting	846	919	(73)	(7.9)
Other professional fees	1,613	3,226	(1,613)	(50.0)
Operating supplies	487	535	(48)	(9.0)
Postage	338	327	11	3.4
Telephone	346	324	22	6.8
Other expense	4,589	4,505	84	1.9
Total non-interest expense	<u>\$ 72,866</u>	<u>\$ 70,474</u>	<u>\$ 2,392</u>	<u>3.4%</u>

Non-interest expense increased \$2.4 million, or 3.4%, to \$72.9 million for the three months ended March 31, 2021 from \$70.5 million for the same period in 2020. The primary factor that resulted in this increase was the changes related to salaries and employee benefits. Other factors were changes related data processing expenses, merger and acquisition expenses and other professional fees.

Additional details for the three months ended March 31, 2021 on some of the more significant changes are as follows:

- The \$2.7 million increase in salaries and employee benefits expense is primarily due to increased salary expenses related to the normal increased cost of doing business.
- The \$1.5 million increase in data processing expense is primarily related to an increase in software, licensing, software maintenance and bill pay conversion expenses.
- The \$711,000 decrease in merger and acquisition expense is due to the acquisition of LH-Finance during the first quarter of 2020.
- The \$1.6 million decrease in other professional fees is primarily due to a reduction in consulting fees, outsourced special projects and professional fees for the Bank.

Income Taxes

Income tax expense increased \$31.8 million, or 1,087.2%, to \$28.9 million for the three-month period ended March 31, 2021, from an income tax benefit of \$2.9 million for the same period in 2020. The effective income tax rate was 23.98% for the three-month period ended March 31, 2021, compared to 120.95% for the same period in 2020. Two main factors caused the unusual effective income tax rate for the three-month period ended March 31, 2020. First, the Company reported a net loss before taxes, converting income tax expense to an income tax benefit for the period. Second, during the three-month period ended March 31, 2020, the Company booked additional income tax benefit related to amended income tax returns filed for the tax year ended December 31, 2016. This benefit further decreased income tax expense, causing the final income tax benefit to exceed net loss before taxes for the three-month period ended March 31, 2020.

Financial Condition as of and for the Period Ended March 31, 2021 and December 31, 2020

Our total assets as of March 31, 2021 increased \$841.4 million to \$17.24 billion from the \$16.40 billion reported as of December 31, 2020. Cash and cash equivalents increased \$1.21 billion, or 96.1%, for the three months ended March 31, 2021. The increase in cash and cash equivalents is primarily due to the significant amount of excess liquidity in the market as a continued result of the COVID-19 pandemic and the accompanying governmental response. Our loan portfolio balance decreased to \$10.78 billion as of March 31, 2021 from \$11.22 billion at December 31, 2020 due to organic loan decline of \$417.8 million and \$313.8 million of the Company's PPP loans being forgiven during the first quarter of 2021, which was partially offset by \$289.4 million in new PPP loan originations during the quarter. Total deposits increased \$786.8 million to \$13.51 billion as of March 31, 2021 from \$12.73 billion as of December 31, 2020, which was due customers holding higher deposit balances in response to the COVID-19 pandemic as well as the accompanying governmental response to the pandemic. Stockholders' equity increased \$39.4 million to \$2.65 billion as of March 31, 2021, compared to \$2.61 billion as of December 31, 2020. The \$39.4 million increase in stockholders' equity is primarily associated with the \$91.6 million in net income for the three months ended March 31, 2021, which was partially offset by the \$24.7 million in other comprehensive loss for the three months ended March 31, 2021, \$23.2 million of shareholder dividends paid and stock repurchases of \$8.8 million in 2021.

Loan Portfolio

Loans Receivable

Our loan portfolio averaged \$11.02 billion and \$11.01 billion during the three months ended March 31, 2021 and 2020, respectively. Loans receivable were \$10.78 billion and \$11.22 billion as of March 31, 2021 and December 31, 2020, respectively.

The CARES Act was passed by Congress and signed into law on March 27, 2020. The CARES Act includes an allocation for loans to be issued by financial institutions through the Small Business Administration ("SBA"). This program is known as the Paycheck Protection Program ("PPP"). PPP loans are forgivable, in whole or in part, so long as employee and compensation levels of the borrower are maintained, and the proceeds are used for payroll and other permitted purposes in accordance with the requirements of the PPP. These loans carry a fixed rate of 1.00% and a term of two years, if not forgiven, in whole or in part. Payments are deferred for the first six months of the loan. The loans are 100% guaranteed by the SBA. The SBA pays the originating bank a processing fee ranging from 1.00% to 5.00%, based on the size of the loan. The Paycheck Protection Program and Health Care Enhancement Act ("PPP/HCEA Act") was enacted on April 24, 2020. The PPP/HCEA Act authorizes additional funds under the CARES Act for PPP loans to be issued by financial institutions through the SBA. The Consolidated Appropriations Act ("CAA") was signed into law on December 27, 2020. The CAA also authorizes additional funds under the CARES Act for PPP loans to be issued by financial institutions through the SBA. As of March 31, 2021, the Company had \$667.3 million of gross PPP loans. This balance consists of \$613.0 million in commercial and industrial loans and \$54.3 million in other loans. From December 31, 2020 to March 31, 2021, the Company experienced a decline of approximately \$442.2 million in loans. The decrease in the loan portfolio is primarily due to \$417.8 million in organic loan decline as well as \$24.4 million in PPP loan decline. The \$417.8 million in organic loan decline included \$17.6 million in loan decline for Centennial CFG, while the remaining footprint experienced \$400.2 million in loan decline during the first quarter of 2021. The \$24.4 million in PPP loan decline was the result of \$313.8 million of PPP loans being forgiven during the first quarter of 2021, partially offset by \$289.4 million in new PPP loans during the first quarter of 2021.

The most significant components of the loan portfolio were commercial real estate, residential real estate, consumer and commercial and industrial loans. These loans are generally secured by residential or commercial real estate or business or personal property. Although these loans are primarily originated within our franchises in Arkansas, Florida, South Alabama and Centennial CFG, the property securing these loans may not physically be located within our market areas of Arkansas, Florida, Alabama and New York. Loans receivable were approximately \$3.53 billion, \$4.61 billion, \$235.5 million, \$876.1 million and \$1.52 billion as of March 31, 2021 in Arkansas, Florida, Alabama, SPF and Centennial CFG, respectively.

As of March 31, 2021, we had approximately \$448.7 million of construction land development loans which were collateralized by land. This consisted of approximately \$64.5 million for raw land and approximately \$384.2 million for land with commercial and or residential lots.

Table 8 presents our loans receivable balances by category as of March 31, 2021 and December 31, 2020.

Table 8: Loans Receivable

	As of March 31, 2021	As of December 31, 2020
(In thousands)		
Real estate:		
Commercial real estate loans:		
Non-farm/non-residential	\$ 4,289,142	\$ 4,429,060
Construction/land development	1,612,973	1,562,298
Agricultural	113,382	114,431
Residential real estate loans:		
Residential 1-4 family	1,437,546	1,536,257
Multifamily residential	377,661	536,538
Total real estate	7,830,704	8,178,584
Consumer	839,819	864,690
Commercial and industrial	1,794,787	1,896,442
Agricultural	65,017	66,869
Other	248,166	214,136
Total loans receivable	\$ 10,778,493	\$ 11,220,721

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

As of March 31, 2021, commercial real estate loans totaled \$6.02 billion, or 55.8% of loans receivable, as compared to \$6.11 billion, or 54.4% of loans receivable, as of December 31, 2020. Commercial real estate loans originated in our Arkansas, Florida, Alabama, SPF and Centennial CFG markets were \$2.14 billion, \$2.60 billion, \$119.1 million, zero and \$1.15 billion at March 31, 2021, respectively.

Residential Real Estate Loans. We originate one to four family, residential mortgage loans generally secured by property located in our primary market areas. Approximately 36.0% and 52.5% of our residential mortgage loans consist of owner occupied 1-4 family properties and non-owner occupied 1-4 family properties (rental), respectively, as of March 31, 2021, with the remaining 11.5% relating to condos and mobile homes. Residential real estate loans generally have a loan-to-value ratio of up to 90%. These loans are underwritten by giving consideration to the borrower's ability to pay, stability of employment or source of income, debt-to-income ratio, credit history and loan-to-value ratio.

As of March 31, 2021, residential real estate loans totaled \$1.82 billion, or 16.8% of loans receivable, compared to \$2.07 billion, or 18.5% of loans receivable, as of December 31, 2020. Residential real estate loans originated in our Arkansas, Florida, Alabama, SPF and Centennial CFG markets were \$622.4 million, \$1.09 billion, \$64.6 million, zero and \$39.3 million at March 31, 2021, respectively.

Consumer Loans. Our consumer loans are composed of secured and unsecured loans originated by our bank, the primary portion of which consists of loans to finance USCG registered high-end sail and power boats as a result of our acquisition of SPF on June 30, 2018 as well as our acquisition of LH-Finance on February 29, 2020. The performance of consumer loans will be affected by the local and regional economies as well as the rates of personal bankruptcies, job loss, divorce and other individual-specific characteristics.

As of March 31, 2021, consumer loans totaled \$839.8 million, or 7.8% of loans receivable, compared to \$864.7 million, or 7.7% of loans receivable, as of December 31, 2020. Consumer loans originated in our Arkansas, Florida, Alabama, SPF and Centennial CFG markets were \$31.3 million, \$8.8 million, \$931,000, \$798.8 million and zero at March 31, 2021, respectively.

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

As of March 31, 2021, commercial and industrial loans totaled \$1.79 billion, or 16.6% of loans receivable, compared to \$1.90 billion, or 16.9% of loans receivable, as of December 31, 2020. Commercial and industrial loans originated in our Arkansas, Florida, Alabama, SPF and Centennial CFG markets were \$609.2 million, \$803.0 million, \$42.4 million, \$77.3 million and \$262.9 million at March 31, 2021, respectively.

Non-Performing Assets

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

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

The Company adopted ASC 326 using the prospective transition approach for financial assets purchased with credit deterioration that were previously classified as PCI and accounted for under ASC 310-30. In 2019, the Company reevaluated its loan pools of purchased loans with deteriorated credit quality. These loans pools related specifically to acquired loans from the Heritage, Liberty, Landmark, Bay Cities, Bank of Commerce, Premier Bank, Stonegate and Shore Premier Finance acquisitions. At acquisition, a portion of these loans were recorded as purchased credit impaired loans on a pool by pool basis. Through the reevaluation of these loan pools, management determined that estimated losses for purchase credit impaired loans should be processed against the credit mark of the applicable pools. The remaining non-accretable mark was then moved to accretable mark to be recognized over the remaining weighted average life of the loan pools. The projected losses for these loans were less than the total credit mark. As such, the remaining \$107.6 million of loans in these pools along with the \$29.3 million in accretable yield was deemed to be immaterial and was reclassified out of the purchased credit impaired loans category. As of December 31, 2019, the Company no longer held any purchased loans with deteriorated credit quality. Therefore, the Company did not have any PCI loans upon adoption on of ASC 326 as of January 1, 2020.

The Company has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. PCD loans are recorded at the amount paid. An allowance for credit losses is determined using the same methodology as other loans. The initial allowance for credit losses determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit losses becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through provision expense.

Table 9 sets forth information with respect to our non-performing assets as of March 31, 2021 and December 31, 2020. As of these dates, all non-performing restructured loans are included in non-accrual loans.

Table 9: Non-performing Assets

	As of March 31, 2021	As of December 31, 2020
	(Dollars in thousands)	
Non-accrual loans	\$ 59,142	\$ 64,528
Loans past due 90 days or more (principal or interest payments)	4,209	9,610
Total non-performing loans	<u>63,351</u>	<u>74,138</u>
Other non-performing assets		
Foreclosed assets held for sale, net	3,004	4,420
Total non-performing assets	<u>\$ 66,355</u>	<u>\$ 78,558</u>
Allowance for credit losses to non-performing loans	383.47%	331.10%
Non-performing loans to total loans	0.59	0.66
Non-performing assets to total assets	0.38	0.48

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

Total non-performing loans were \$63.4 million and \$74.1 million as of March 31, 2021 and December 31, 2020, respectively. Non-performing loans at March 31, 2021 were \$23.0 million, \$35.1 million, \$516,000, \$2.0 million and \$2.8 million in the Arkansas, Florida, Alabama, SPF and Centennial CFG markets, respectively.

The \$2.8 million balance of non-accrual loans for our Centennial CFG market consists of one loan that is assessed for credit risk by the Federal Reserve under the Shared National Credit Program. The decision to place this loan on non-accrual status was made by the Federal Reserve and not the Company. The loan that makes up the total balance is still current on both principal and interest. However, all interest payments are currently being applied to the principal balance. Because the Federal Reserve required us to place this loan on non-accrual status, we have reversed any interest that had accrued subsequent to the non-accrual date designated by the Federal Reserve.

As of March 31, 2021, the Company expects that the markets in which it operates will experience economic recovery as unemployment rates decline, COVID-19 vaccination rates increase, and communities continue to reopen for business activity. However, there is still a significant amount of uncertainty related to the COVID-19 pandemic which may slow the anticipated economic recovery. The Company determined that an additional provision for credit losses on loans was not necessary as the current level of the allowance for credit losses was considered adequate as of March 31, 2021. In addition, the Company determined that the current level of the unfunded commitment reserve was adequate, and no additional unfunded commitments expense was necessary as of March 31, 2021. The global and economic impacts of the coronavirus continue to evolve, and the Company is continuing to closely monitor the situation.

Troubled debt restructurings (“TDRs”) generally occur when a borrower is experiencing, or is expected to experience, financial difficulties in the near term. As a result, we will work with the borrower to prevent further difficulties, and ultimately to improve the likelihood of recovery on the loan. In those circumstances it may be beneficial to restructure the terms of a loan and work with the borrower for the benefit of both parties, versus forcing the property into foreclosure and having to dispose of it in an unfavorable and depressed real estate market. When we have modified the terms of a loan, we usually either reduce the monthly payment and/or interest rate for generally about three to twelve months. For our TDRs that accrue interest at the time the loan is restructured, it would be a rare exception to have charged-off any portion of the loan. Only non-performing restructured loans are included in our non-performing loans. As of March 31, 2021, we had \$10.4 million of restructured loans that are in compliance with the modified terms and are not reported as past due or non-accrual in Table 9. Our Florida market contains \$8.4 million and our Arkansas market contains \$2.0 million of these restructured loans.

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

Section 4013 of the CARES Act enacted in March 2020 provides financial institutions optional temporary relief from the TDR classification requirements for certain COVID-19 related loan modifications. Specifically, financial institutions may elect to suspend TDR classification for certain loan modifications related to COVID-19 made between March 1, 2020 and the earlier of December 31, 2020 or 60 days after termination of the President's national emergency declaration for COVID-19. On December 28, 2020, an extension of section 4013 of the CARES Act, provided institutions with an extension of the temporary option to not apply ASC Subtopic 310-40 until January 1, 2022. Further, financial institutions do not need to determine impairment associated with certain loan concessions that would otherwise have been required for TDRs (e.g., interest rate concessions, payment deferrals, or loan extensions). On April 7, 2020, the Federal Reserve Board and the other federal bank regulatory agencies issued an interagency statement clarifying the relationship between the Section 4013 of the CARES Act and previous guidance issued by the agencies on March 22, 2020. This interagency statement encourages financial institutions to work prudently with borrowers who are or may be unable to meet their payment obligations because of COVID-19 and states that the agencies view loan modification programs as positive actions that can mitigate adverse effects on borrowers due to COVID-19. The Company relied on Section 4013 of the CARES Act in accounting for loan modifications as of March 31, 2021. The Company has granted loan modifications to 49 loans for a total of \$326.1 million. All of the customers currently on deferment totaling \$326.1 million chose principal deferment only and now have returned to paying interest monthly.

The majority of the Bank's loan modifications relates to commercial lending and involves reducing the interest rate, changing from a principal and interest payment to interest-only, lengthening the amortization period, or a combination of some or all of the three. In addition, it is common for the Bank to seek additional collateral or guarantor support when modifying a loan. At March 31, 2021 and December 31, 2020, the amount of TDRs was \$11.8 million and \$12.3 million, respectively. As of March 31, 2021 and December 31, 2020, 88.1% and 87.1%, respectively, of all restructured loans were performing to the terms of the restructure.

Total foreclosed assets held for sale were \$3.0 million as of March 31, 2021, compared to \$4.4 million as of December 31, 2020 for a decrease of \$1.4 million. The foreclosed assets held for sale as of March 31, 2021 are comprised of \$2.0 million of assets located in Arkansas, \$985,000 located in Florida, \$34,000 located in Alabama and zero from SPF and Centennial CFG.

During the first three months of 2021, we had no foreclosed properties with a carrying value greater than \$1.0 million.

Table 10 shows the summary of foreclosed assets held for sale as of March 31, 2021 and December 31, 2020.

Table 10: Foreclosed Assets Held For Sale

	<u>As of</u> <u>March 31, 2021</u>	<u>As of</u> <u>December 31, 2020</u>
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	\$ 953	\$ 438
Construction/land development	910	3,189
Residential real estate loans		
Residential 1-4 family	1,141	793
Total foreclosed assets held for sale	<u>\$ 3,004</u>	<u>\$ 4,420</u>

A loan is considered impaired when it is probable that we will not receive all amounts due according to the contracted terms of the loans. Impaired loans include non-performing loans (loans past due 90 days or more and non-accrual loans), criticized and/or classified loans with a specific allocation, loans categorized as TDRs and certain other loans identified by management that are still performing (loans included in multiple categories are only included once). As of March 31, 2021 and December 31, 2020, impaired loans were \$363.3 million and \$112.7 million, respectively. The amortized cost balance for loans with a specific allocation increased from \$39.5 million to \$309.3 million, and the specific allocation for impaired loans increased by approximately \$45.5 million for the period ended March 31, 2021 compared to the period ended December 31, 2020. The increase in collateral-dependent impaired loans was due to the Company changing the valuation method for lodging and assisted living loans to a market price valuation methodology. This involved assigning a 15% discount of par for these impaired loans. The 15% figure was derived based on knowledge of current hotel and assisted living offerings in the loan sale market. In the event of default, liquidation would be achieved through a loan sale. The Company is continuing to monitor these impaired loans and will adjust the discount as necessary. As of March 31, 2021, our Arkansas, Florida, Alabama, SPF and Centennial CFG markets accounted for approximately \$196.5 million, \$161.5 million, \$516,000, \$2.0 million and \$2.8 million of the impaired loans, respectively.

The Company has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. PCD loans are recorded at the amount paid. An allowance for credit losses is determined using the same methodology as other loans. The initial allowance for credit losses determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit losses becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through the provision for credit losses. As a result of the acquisition of LH-Finance in 2020, the Company held approximately \$605,000 and \$760,000 in PCD loans, as of March 31, 2021 and December 31, 2020, respectively.

Past Due and Non-Accrual Loans

Table 11 shows the summary of non-accrual loans as of March 31, 2021 and December 31, 2020:

Table 11: Total Non-Accrual Loans

	As of March 31, 2021	As of December 31, 2020
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	\$ 19,945	\$ 20,947
Construction/land development	1,252	1,381
Agricultural	862	879
Residential real estate loans		
Residential 1-4 family	19,166	19,334
Multifamily residential	172	173
Total real estate	<u>41,397</u>	<u>42,714</u>
Consumer	1,902	3,506
Commercial and industrial	14,755	17,251
Agricultural	1,088	1,057
Total non-accrual loans	<u>\$ 59,142</u>	<u>\$ 64,528</u>

If non-accrual loans had been accruing interest in accordance with the original terms of their respective agreements, interest income of approximately \$904,000 and \$399,000, respectively, would have been recorded for the three-month periods ended March 31, 2021 and 2020. The interest income recognized on non-accrual loans for the three months ended March 31, 2021 and 2020 was considered immaterial.

Table 12 shows the summary of accruing past due loans 90 days or more as of March 31, 2021 and December 31, 2020:

Table 12: Loans Accruing Past Due 90 Days or More

	As of March 31, 2021	As of December 31, 2020
(In thousands)		
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	\$ 2,718	\$ 6,088
Construction/land development	1	1,296
Residential real estate loans		
Residential 1-4 family	1,180	1,821
Total real estate	3,899	9,205
Consumer	230	174
Commercial and industrial	80	231
Total loans accruing past due 90 days or more	\$ 4,209	\$ 9,610

Our ratio of total loans accruing past due 90 days or more and non-accrual loans to total loans was 0.59% and 0.66% at March 31, 2021 and December 31, 2020, respectively.

Allowance for Credit Losses

The Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, effective January 1, 2020. The guidance replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance, including loan commitments, standby letters of credits, financial guarantees, and other similar instruments. The Company adopted ASC 326 using the modified retrospective method for loans and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a one-time cumulative-effect adjustment to the allowance for credit losses of \$44.0 million, which was recognized through a \$32.5 million adjustment to retained earnings, net of tax. This adjustment brought the beginning balance of the allowance for credit losses to \$146.1 million as of January 1, 2020. In addition, the Company recorded a \$15.5 million reserve on unfunded commitments, as of January 1, 2020, which was recognized through an \$11.5 million adjustment to retained earnings, net of tax.

Overview. The allowance for credit losses on loans receivable is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

The Company uses the discounted cash flow ("DCF") method to estimate expected losses for all of Company's loan pools. These pools are as follows: construction & land development; other commercial real estate; residential real estate; commercial & industrial; and consumer & other. The loan portfolio pools were selected in order to generally align with the loan categories specified in the quarterly call reports required to be filed with the Federal Financial Institutions Examination Council. For each of these loan pools, the Company generates cash flow projections at the instrument level wherein payment expectations are adjusted for estimated prepayment speed, curtailments, time to recovery, probability of default, and loss given default. The modeling of expected prepayment speeds, curtailment rates, and time to recovery are based on historical internal data. The Company uses regression analysis of historical internal and peer data to determine suitable loss drivers to utilize when modeling lifetime probability of default and loss given default. This analysis also determines how expected probability of default and loss given default will react to forecasted levels of the loss drivers.

For all DCF models, management has determined that four quarters represents a reasonable and supportable forecast period and reverts back to a historical loss rate over four quarters on a straight-line basis. Management leverages economic projections from a reputable and independent third party to inform its loss driver forecasts over the four-quarter forecast period. Other internal and external indicators of economic forecasts are also considered by management when developing the forecast metrics.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in the national unemployment rate, gross domestic product, rental vacancy rate, housing price index and national retail sales index.

The allowance for credit losses is measured based on call report segment as these types of loan exhibit similar risk characteristics. The identified loan segments are as follows:

- 1-4 family construction
- All other construction
- 1-4 family revolving home equity lines of credit (“HELOC”) & junior liens
- 1-4 family senior liens
- Multifamily
- Owner occupies commercial real estate
- Non-owner occupied commercial real estate
- Commercial & industrial, agricultural, non-depository financial institutions, purchase/carry securities, other
- Consumer auto
- Other consumer
- Other consumer - SPF

The combination of adjustments for credit expectations (default and loss) and time expectations (prepayment, curtailment, and time to recovery) produces an expected cash flow stream at the instrument level. Instrument effective yield is calculated, net of the impacts of prepayment assumptions, and the instrument expected cash flows are then discounted at that effective yield to produce an instrument-level net present value of expected cash flows (“NPV”). An allowance for credit loss is established for the difference between the instrument’s NPV and amortized cost basis.

The allowance for credit losses for each segment is measured through the use of the discounted cash flow method. Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. For those loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies:

- Management has a reasonable expectation at the reporting date that troubled debt restructuring will be executed with an individual borrower.
- The extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

Loans considered impaired, according to ASC 326, are loans for which, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. The aggregate amount of impairment of loans is utilized in evaluating the adequacy of the allowance for credit losses and amount of provisions thereto. Losses on impaired loans are charged against the allowance for credit losses when in the process of collection, it appears likely that such losses will be realized. The accrual of interest on impaired loans is discontinued when, in management’s opinion the collection of interest is doubtful or generally when loans are 90 days or more past due. When accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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

Acquisition Accounting and Acquired Loans. We account for our acquisitions under FASB ASC Topic 805, *Business Combinations*, which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. In accordance with ASC 326, the Company records both a discount and an allowance for credit losses on acquired loans. All purchased loans are recorded at fair value in accordance with the fair value methodology prescribed in FASB ASC Topic 820, *Fair Value Measurements*. The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

The Company has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. PCD loans are recorded at the amount paid. An allowance for credit losses is determined using the same methodology as other loans. The initial allowance for credit losses determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit losses becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through provision for credit loss.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures. The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

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

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

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

Between the receipt of the original appraisal and the updated appraisal, we monitor the loan's repayment history. If the loan is \$3.0 million or greater or the total loan relationship is \$5.0 million or greater, our policy requires an annual credit review. For these loans, our policy requires financial statements from the borrowers and guarantors at least annually. In addition, we calculate the global repayment ability of the borrower/guarantors at least annually on these loans.

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

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

The Company had \$363.3 million and \$112.7 million in collateral-dependent impaired loans for the periods ended March 31, 2021 and December 31, 2020, respectively. The increase in collateral-dependent impaired loans was due to the Company changing the valuation method for lodging and assisted living loans to a market price valuation methodology. This involved assigning a 15% discount of par for these impaired loans. The 15% figure was derived based on knowledge of current hotel and assisted living offerings in the loan sale market. In the event of default, liquidation would be achieved through a loan sale. The Company is continuing to monitor these impaired loans and will adjust the discount as necessary.

Loans Collectively Evaluated for Impairment. Loans receivable collectively evaluated for impairment decreased by approximately \$538.3 million from \$10.76 billion at December 31, 2020 to \$10.22 billion at March 31, 2021. The percentage of the allowance for credit losses allocated to loans receivable collectively evaluated for impairment to the total loans collectively evaluated for impairment was 1.83% and 2.18% at March 31, 2021 and December 31, 2020, respectively.

Charge-offs and Recoveries. Total charge-offs increased to \$3.0 million for the three months ended March 31, 2021, compared to \$4.3 million for the same period in 2020. Total recoveries decreased to \$506,000 for the three months ended March 31, 2021, compared to \$740,000 for the same period in 2020. For the three months ended March 31, 2021, net charge-offs were \$546,000 for Arkansas, \$1.9 million for Florida, \$1,000 for Alabama, \$46,000 for SPF and zero for Centennial CFG. These equal a net charge-off position of \$2.5 million.

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

Table 13 shows the allowance for credit losses, charge-offs and recoveries as of and for the three months ended March 31, 2021 and 2020.

Table 13: Analysis of Allowance for Credit Losses

	Three Months Ended March 31,	
	2021	2020
	(Dollars in thousands)	
Balance, beginning of period	\$ 245,473	\$ 102,122
Impact of adopting ASC 326	—	43,988
Allowance for credit losses on acquired loans	—	357
Loans charged off		
Real estate:		
Commercial real estate loans:		
Non-farm/non-residential	19	519
Construction/land development	—	45
Residential real estate loans:		
Residential 1-4 family	226	339
Multifamily residential	—	—
Total real estate	245	903
Consumer	67	16
Commercial and industrial	2,279	2,804
Other	456	542
Total loans charged off	3,047	4,265
Recoveries of loans previously charged off		
Real estate:		
Commercial real estate loans:		
Non-farm/non-residential	14	250
Construction/land development	22	10
Residential real estate loans:		
Residential 1-4 family	62	160
Total real estate	98	420
Consumer	46	43
Commercial and industrial	76	65
Other	286	212
Total recoveries	506	740
Net loans charged off (recovered)	2,541	3,525
Provision for credit losses	—	85,981
Balance, March 31	\$ 242,932	\$ 228,923
Net charge-offs (recoveries) to average loans receivable	0.09%	0.13%
Allowance for credit losses to total loans	2.25	2.01
Allowance for credit losses to net charge-offs (recoveries)	2,357	1,615

Table 14 presents the allocation of allowance for credit losses as of March 31, 2021 and December 31, 2020.

Table 14: Allocation of Allowance for Credit Losses

	As of March 31, 2021		As of December 31, 2020	
	Allowance Amount	% of loans ⁽¹⁾	Allowance Amount	% of loans ⁽¹⁾
(Dollars in thousands)				
Real estate:				
Commercial real estate loans:				
Non-farm/non-residential	\$ 93,653	39.8%	\$ 87,043	39.5%
Construction/land development	22,937	15.0	32,861	13.9
Agricultural	216	1.1	1,410	1.0
Residential real estate loans:				
Residential 1-4 family	50,140	13.3	47,754	13.7
Multifamily residential	4,457	3.5	5,462	4.8
Total real estate	171,403	72.7	174,530	72.9
Consumer	19,268	7.8	21,905	7.7
Commercial and industrial	49,580	16.6	46,061	16.9
Agricultural	244	0.6	469	0.6
Other	2,437	2.3	2,508	1.9
Total allowance for credit losses	\$ 242,932	100.0%	\$ 245,473	100.0%

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

Investment Securities

Our securities portfolio is the second largest component of earning assets and provides a significant source of revenue. Securities within the portfolio are classified as held-to-maturity, available-for-sale, or trading based on the intent and objective of the investment and the ability to hold to maturity. Fair values of securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities. The estimated effective duration of our securities portfolio was 4.0 years as of March 31, 2021.

Securities available-for-sale are reported at fair value with unrealized holding gains and losses reported as a separate component of stockholders' equity as other comprehensive income. Securities that are held as available-for-sale are used as a part of our asset/liability management strategy. Securities that may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital, and other similar factors are classified as available-for-sale. Available-for-sale securities were \$2.54 billion and \$2.47 billion as March 31, 2021 and December 31, 2020, respectively.

As of March 31, 2021, \$1.20 billion, or 47.2%, of our available-for-sale securities were invested in mortgage-backed securities, compared to \$1.18 billion, or 47.6%, of our available-for-sale securities as of December 31, 2020. To reduce our income tax burden, \$963.8 million, or 38.0%, of our available-for-sale securities portfolio as of March 31, 2021, were primarily invested in tax-exempt obligations of state and political subdivisions, compared to \$927.9 million, or 37.5%, of our available-for-sale securities as of December 31, 2020. We had \$333.0 million, or 13.1%, invested in obligations of U.S. Government-sponsored enterprises as of March 31, 2021, compared to \$327.0 million, or 13.2%, of our available-for-sale securities as of December 31, 2020. Also, we had approximately \$42.5 million, or 1.7%, invested in other securities as of March 31, 2021, compared to \$41.0 million, or 1.7% of our available-for-sale securities as of December 31, 2020.

The Company evaluates all securities quarterly to determine if any securities in a loss position require a provision for credit losses in accordance with ASC 326, *Measurement of Credit Losses on Financial Instruments*. The Company first assesses whether it intends to sell or is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For securities that do not meet this criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has been recorded through an allowance for credit losses is recognized in other comprehensive income. Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the uncollectability of a security is confirmed or when either of the criteria regarding intent or requirement to sell is met. At March 31, 2021, the Company determined that the allowance for credit losses of \$842,000, resulting from economic uncertainties related to the COVID-19 pandemic, was adequate for the investment portfolio. No additional provision for credit losses was considered necessary for the portfolio.

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

Deposits

Our deposits averaged \$13.03 billion and \$12.87 billion for the three months ended March 31, 2021 and December 31, 2020, respectively. Total deposits were \$13.51 billion as of March 31, 2021, and \$12.73 billion as of December 31, 2020. Deposits are our primary source of funds. We offer a variety of products designed to attract and retain deposit customers. Those products consist of checking accounts, regular savings deposits, NOW accounts, money market accounts and certificates of deposit. Deposits are gathered from individuals, partnerships and corporations in our market areas. In addition, we obtain deposits from state and local entities and, to a lesser extent, U.S. Government and other depository institutions.

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

Table 15 reflects the classification of the brokered deposits as of March 31, 2021 and December 31, 2020.

Table 15: Brokered Deposits

	March 31, 2021	December 31, 2020
	(In thousands)	
Time Deposits	\$ —	\$ 10,000
Insured Cash Sweep and Other Transaction Accounts	625,674	625,681
Total Brokered Deposits	\$ 625,674	\$ 635,681

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

The Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. The Federal reserve lowered the target rate two times in 2020. First, the target rate was lowered to 1.00% to 1.25% on March 3, 2020; second, the rate was lowered to 0.00% to 0.25% on March 15, 2020. The target rate is currently at 0.00% to 0.25% as of March 31, 2021, which remains unchanged from the target rate as of March 31, 2020.

Table 16 reflects the classification of the average deposits and the average rate paid on each deposit category, which are in excess of 10 percent of average total deposits, for the three months ended March 31, 2021 and 2020.

Table 16: Average Deposit Balances and Rates

	Three Months Ended March 31,			
	2021		2020	
	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
(Dollars in thousands)				
Non-interest-bearing transaction accounts	\$ 3,480,050	—%	\$ 2,410,583	—%
Interest-bearing transaction accounts	7,547,556	0.25	6,392,385	0.97
Savings deposits	791,235	0.07	648,918	0.22
Time deposits:				
\$100,000 or more	834,628	1.17	1,511,447	1.88
Other time deposits	374,803	0.62	432,274	1.24
Total	<u>\$ 13,028,272</u>	0.24%	<u>\$ 11,395,607</u>	0.85%

Securities Sold Under Agreements to Repurchase

We enter into short-term purchases of securities under agreements to resell (resale agreements) and sales of securities under agreements to repurchase (repurchase agreements) of substantially identical securities. The amounts advanced under resale agreements and the amounts borrowed under repurchase agreements are carried on the balance sheet at the amount advanced. Interest incurred on repurchase agreements is reported as interest expense. Securities sold under agreements to repurchase decreased \$6.0 million, or 3.6%, from \$168.9 million as of December 31, 2020 to \$162.9 million as of March 31, 2021.

FHLB and Other Borrowed Funds

The Company's FHLB borrowed funds, which are secured by our loan portfolio, were \$400.0 million at March 31, 2021 and December 31, 2020. The Company had no other borrowed funds as of March 31, 2021 or December 31, 2020. At March 31, 2021, and December 31, 2020 all of the outstanding balances were classified as long-term advances. Our remaining FHLB borrowing capacity was \$3.33 billion and \$3.32 billion as of March 31, 2021 and December 31, 2020, respectively. The FHLB advances mature in 2033 with fixed interest rates ranging from 1.76% to 2.26%. Maturities of borrowings as of March 31, 2021 include: 2021 – zero; 2022 – zero; 2023 – zero; 2024 – zero; 2025 – zero; after 2025 – \$400.0 million. Expected maturities could differ from contractual maturities because FHLB may have the right to call or HBI the right to prepay certain obligations.

Subordinated Debentures

Subordinated debentures, which consist of subordinated debt securities and guaranteed payments on trust preferred securities, were \$370.5 million and \$370.3 million as of March 31, 2021 and December 31, 2020, respectively.

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

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

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

Stockholders’ Equity

Stockholders’ equity was \$2.65 billion at March 31, 2021 compared to \$2.61 billion at December 31, 2020. The \$39.4 million increase in stockholders’ equity is primarily associated with the \$91.6 million in net income for three months ended March 31, 2021, which was partially offset by the \$24.7 million in other comprehensive loss for the three months ended March 31, 2021, the \$23.2 million of shareholder dividends paid and stock repurchases of \$8.8 million in 2021. The annualized increase in stockholders’ equity for the first three months of 2021 was 6.1%. As of March 31, 2021 and December 31, 2020, our equity to asset ratio was 15.34% and 15.89%, respectively. Book value per share was \$16.02 as of March 31, 2021, compared to \$15.78 as of December 31, 2020, a 6.2% annualized increase.

Common Stock Cash Dividends. We declared cash dividends on our common stock of \$0.14 per share and \$0.13 per share for the three months ended March 31, 2021 and 2020, respectively. The common stock dividend payout ratio for the three months ended March 31, 2021 and 2020 was 25.3% and 4,261.9%, respectively. On April 15, 2021, the Board of Directors declared a regular \$0.14 per share quarterly cash dividend payable June 2, 2021, to shareholders of record May 12, 2021.

Stock Repurchase Program. On January 22, 2021, the Company’s Board of Directors authorized the repurchase of up to an additional 20,000,000 shares of its common stock under the previously approved stock repurchase program, which brought the amount of authorized shares available to repurchase to 23,843,665 shares. We repurchased a total of 330,000 shares with a weighted-average stock price of \$26.55 per share during the first three months of 2021. The remaining balance available for repurchase was 23,513,665 shares at March 31, 2021.

Liquidity and Capital Adequacy Requirements

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

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

Basel III permanently grandfathered trust preferred securities and other non-qualifying capital instruments that were issued and outstanding as of May 19, 2010 in the Tier 1 capital of bank holding companies with total consolidated assets of less than \$15 billion as of December 31, 2009. The rule phases out of Tier 1 capital these non-qualifying capital instruments issued before May 19, 2010 by all other bank holding companies. Because our total consolidated assets were less than \$15 billion as of December 31, 2009, our outstanding trust preferred securities continue to be treated as Tier 1 capital. However, now that the Company has exceeded \$15 billion in assets, if the Company acquires another financial institution in the future, then the Tier 1 treatment of the Company’s outstanding trust preferred securities will be phased out, but those securities will still be treated as Tier 2 capital.

Basel III amended the prompt corrective action rules to incorporate a “common equity Tier 1 capital” requirement and to raise the capital requirements for certain capital categories. In order to be adequately capitalized for purposes of the prompt corrective action rules, a banking organization will be required to have at least a 4.5% “common equity Tier 1 risk-based capital” ratio, a 4% “Tier 1 leverage capital” ratio, a 6% “Tier 1 risk-based capital” ratio and an 8% “total risk-based capital” ratio.

Quantitative measures established by regulation to ensure capital adequacy require us to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes that, as of March 31, 2021 and December 31, 2020, we met all regulatory capital adequacy requirements to which we were subject.

On December 21, 2018, the federal banking agencies issued a joint final rule to revise their regulatory capital rules to permit bank holding companies and banks to phase-in, for regulatory capital purposes, the day-one impact of the new CECL accounting rule on retained earnings over a period of three years. As part of its response to the impact of COVID-19, on March 27, 2020, the federal banking regulatory agencies issued an interim final rule that provided the option to temporarily delay certain effects of CECL on regulatory capital for two years, followed by a three-year transition period. The interim final rule allows bank holding companies and banks to delay for two years 100% of the day-one impact of adopting CECL and 25% of the cumulative change in the reported allowance for credit losses since adopting CECL. The Company has elected to adopt the interim final rule, which is reflected in the risk-based capital ratios presented below.

Table 17 presents our risk-based capital ratios on a consolidated basis as of March 31, 2021 and December 31, 2020.

Table 17: Risk-Based Capital

	As of March 31, 2021	As of December 31, 2020
(Dollars in thousands)		
Tier 1 capital		
Stockholders' equity	\$ 2,645,204	\$ 2,605,758
ASC 326 transitional period adjustment	56,698	57,333
Goodwill and core deposit intangibles, net	(1,001,867)	(1,003,288)
Unrealized gain on available-for-sale securities	(19,449)	(44,120)
Total common equity Tier 1 capital	1,680,586	1,615,683
Qualifying trust preferred securities	71,162	71,127
Total Tier 1 capital	1,751,748	1,686,810
Tier 2 capital		
Allowance for credit losses	242,932	245,473
ASC 326 transitional period adjustment	(56,698)	(57,333)
Disallowed allowance for credit losses (limited to 1.25% of risk weighted assets)	(39,000)	(36,911)
Qualifying allowance for credit losses	147,234	151,229
Qualifying subordinated notes	299,353	299,199
Total Tier 2 capital	446,587	450,428
Total risk-based capital	\$ 2,198,335	\$ 2,137,238
Average total assets for leverage ratio	\$ 15,734,834	\$ 15,547,111
Risk weighted assets	\$ 11,717,441	\$ 12,039,156
Ratios at end of period		
Common equity Tier 1 capital	14.34%	13.42%
Leverage ratio	11.13	10.85
Tier 1 risk-based capital	14.95	14.01
Total risk-based capital	18.76	17.75
Minimum guidelines – Basel III		
Common equity Tier 1 capital	7.00%	7.00%
Leverage ratio	4.00	4.00
Tier 1 risk-based capital	8.50	8.50
Total risk-based capital	10.50	10.50
Well-capitalized guidelines		
Common equity Tier 1 capital	6.50%	6.50%
Leverage ratio	5.00	5.00
Tier 1 risk-based capital	8.00	8.00
Total risk-based capital	10.00	10.00

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

Non-GAAP Financial Measurements

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

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

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

Earnings, as adjusted, and diluted earnings per common share, as adjusted, are meaningful non-GAAP financial measures for management, as they exclude items such as certain non-interest income and expenses that management believes are not indicative of our primary business operating results. Management believes the exclusion of these items in expressing earnings provides a meaningful foundation for period-to-period and company-to-company comparisons, which management believes will aid both investors and analysts in analyzing our financial measures and predicting future performance. These non-GAAP financial measures are also used by management to assess the performance of our business.

In Table 18 below, we have provided a reconciliation of the non-GAAP calculation of the financial measure for the periods indicated.

Table 18: Earnings, As Adjusted

	Three Months Ended March 31,	
	2021	2020
	(Dollars in thousands)	
GAAP net income available to common shareholders (A)	\$ 91,602	\$ 507
Adjustments:		
Outsourced special project	—	1,092
Merger and acquisition expense	—	711
Fair value adjustment for marketable securities	(5,782)	5,818
Special dividend from equity investment	(8,073)	(7,004)
Gain on securities	(219)	—
Recoveries on historic losses	(5,107)	—
Total adjustments	(19,181)	617
Tax-effect of adjustments	(5,013)	161
Total adjustments after-tax (B)	(14,168)	456
Earnings, as adjusted (C)	\$ 77,434	\$ 963
Average diluted shares outstanding (D)	165,446	166,014
GAAP diluted earnings per share: A/D	\$ 0.55	\$ —
Adjustments after-tax B/D	(0.08)	0.01
Diluted earnings per common share, as adjusted: C/D	\$ 0.47	\$ 0.01

We had \$1.00 billion, \$1.00 billion, and \$1.01 billion total goodwill, core deposit intangibles and other intangible assets as of March 31, 2021, December 31, 2020 and March 31, 2020, respectively. Because of our level of intangible assets and related amortization expenses, management believes tangible book value per share, return on average assets, as adjusted; return on average assets, excluding intangible amortization; return on average tangible equity excluding intangible amortization; return on average tangible equity, as adjusted; and tangible equity to tangible assets are useful in evaluating our company. These calculations, which are similar to the GAAP calculations of book value per share, return on average assets, return on average equity, and equity to assets, are presented in Tables 19 through 22, respectively.

Table 19: Tangible Book Value Per Share

	As of March 31, 2021	As of December 31, 2020
(In thousands, except per share data)		
Book value per share: A/B	\$ 16.02	\$ 15.78
Tangible book value per share: (A-C-D)/B	9.95	9.70
(A) Total equity	\$ 2,645,204	\$ 2,605,758
(B) Shares outstanding	165,141	165,095
(C) Goodwill	973,025	973,025
(D) Core deposit and other intangibles	29,307	30,728

Table 20: Return on Average Assets

	Three Months Ended March 31,	
	2021	2020
(Dollars in thousands)		
Return on average assets: A/D	2.22%	0.01%
Return on average assets excluding intangible amortization: B/(D-E)	2.39	0.05
Return on average assets excluding fair value adjustment for marketable securities, special dividend from equity investment, gain on securities, recoveries on historic losses, outsourced special project expense and merger expenses: (ROA, as adjusted): (A+C)/D	1.88	0.03
(A) Net income	\$ 91,602	\$ 507
Intangible amortization after-tax	1,049	1,121
(B) Earnings excluding intangible amortization	\$ 92,651	\$ 1,628
(C) Adjustments after-tax	\$ (14,168)	\$ 456
(D) Average assets	16,718,890	15,133,475
(E) Average goodwill, core deposits and other intangible assets	1,003,011	999,004

Table 21: Return on Average Tangible Equity Excluding Intangible Amortization

	Three Months Ended March 31,	
	2021	2020
	(Dollars in thousands)	
Return on average equity: A/D	14.15%	0.08%
Return on average common equity excluding fair value adjustment for marketable securities, special dividend from equity investment, gain on securities, recoveries on historic losses, outsourced special project expense and merger expenses: (ROE, as adjusted) ((A+C)/D)	11.96	0.16
Return on average tangible common equity: (A)/(D-E)	22.90	0.14
Return on average tangible equity excluding intangible amortization: B/(D-E)	23.16	0.44
Return on average tangible common equity excluding fair value adjustment for marketable securities, special dividend from equity investment, gain on securities, recoveries on historic losses, outsourced special project expense and merger expenses: (ROTCE, as adjusted) ((A+C)/(D-E))	19.35	0.26
(A) Net income	\$ 91,602	\$ 507
(B) Earnings excluding intangible amortization	92,651	1,628
(C) Adjustments after-tax	(14,168)	456
(D) Average equity	2,625,618	2,481,104
(E) Average goodwill, core deposits and other intangible assets	1,003,011	999,004

Table 22: Tangible Equity to Tangible Assets

	As of March 31, 2021	As of December 31, 2020
		(Dollars in thousands)
Equity to assets: B/A	15.34%	15.89%
Tangible equity to tangible assets: (B-C-D)/(A-C-D)	10.12	10.41
(A) Total assets	\$ 17,240,241	\$ 16,398,804
(B) Total equity	2,645,204	2,605,758
(C) Goodwill	973,025	973,025
(D) Core deposit and other intangibles	29,307	30,728

The efficiency ratio is a standard measure used in the banking industry and is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income. The efficiency ratio, as adjusted, is a meaningful non-GAAP measure for management, as it excludes certain items and is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income excluding items such as merger expenses and/or certain gains, losses and other non-interest income and expenses. In Table 23 below, we have provided a reconciliation of the non-GAAP calculation of the financial measure for the periods indicated.

Table 23: Efficiency Ratio, As Adjusted

	Three Months Ended March 31,	
	2021	2020
	(Dollars in thousands)	
Net interest income (A)	\$ 148,088	\$ 139,725
Non-interest income (B)	45,276	22,927
Non-interest expense (C)	72,866	70,474
FTE Adjustment (D)	1,857	1,227
Amortization of intangibles (E)	1,421	1,517
Adjustments:		
Non-interest income:		
Special dividend from equity investments	\$ 8,073	\$ 7,004
Fair value adjustment for marketable securities	5,782	(5,818)
Gain on OREO, net	401	277
(Loss) gain on sale of branches, equipment and other assets, net	(29)	82
Gain on securities	219	—
Recoveries on historic losses	5,107	—
Total non-interest income adjustments (F)	\$ 19,553	\$ 1,545
Non-interest expense:		
Merger expense	—	711
Outsourced special project expense	—	1,092
Total non-interest expense adjustments (G)	\$ —	\$ 1,803
Efficiency ratio (reported): ((C-E)/(A+B+D))	36.60%	42.08%
Efficiency ratio, as adjusted (non-GAAP): ((C-E-G)/(A+B+D-F))	40.67	41.37

Recently Issued Accounting Pronouncements

See Note 21 in the Condensed Notes to Consolidated Financial Statements for a discussion of certain recently issued and recently adopted accounting pronouncements.

Item 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***Liquidity and Market Risk Management***

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

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

Due to the continuing effects of the COVID-19 pandemic, the Company continued to increase its liquidity position for the period ended March 31, 2021. Liquidity needs can be met from either assets or liabilities. On the asset side, our primary sources of liquidity include cash and due from banks, federal funds sold, unpledged available-for-sale investment securities and scheduled repayments and maturities of loans. We maintain adequate levels of cash and cash equivalents to meet our day-to-day needs. As of March 31, 2021, our cash and cash equivalents were \$2.48 billion, or 14.4% of total assets, compared to \$1.26 billion, or 7.7% of total assets, as of December 31, 2020. Our unpledged available-for-sale investment securities and federal funds sold were \$1.46 billion and \$1.39 billion as of March 31, 2021 and December 31, 2020, respectively.

As of March 31, 2021, our investment portfolio was comprised of approximately \$1.33 billion, or 52.9%, of securities which mature or are expected to paydown within five years. As of March 31, 2021 and December 31, 2020, \$1.08 billion were pledged to secure public deposits, as collateral for repurchase agreements, and for other purposes required or permitted by law. The Company defines the liquidity ratio as the sum of cash, unpledged securities and federal funds sold divided by total liabilities. The Company's liquidity ratio was 26.95% as of March 31, 2021 compared to 19.22% as of December 31, 2020.

On the liability side, our principal sources of liquidity are deposits, borrowed funds, and access to capital markets. Customer deposits are our largest sources of funds. As of March 31, 2021, our total deposits were \$13.51 billion, or 78.4% of total assets, compared to \$12.73 billion, or 77.6% of total assets, as of December 31, 2020. We attract our deposits primarily from individuals, business, and municipalities located in our market areas.

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

As of March 31, 2021 and December 31, 2020, we could have borrowed under these lines of credit up to \$446.3 million and \$441.8 million, respectively, on a secured basis from the Federal Reserve, up to \$30.0 million from First National Bankers' Bank on an unsecured basis, up to \$20.0 million from First National Bankers Bank on a secured basis and up to \$45.0 million in the aggregate from other financial institutions on an unsecured basis. The unsecured lines may be terminated by the respective institutions at any time.

The lines of credit we maintain with the FHLB can provide us with both short-term and long-term forms of liquidity on a secured basis. FHLB borrowed funds were \$400.0 million at March 31, 2021 and December 31, 2020, respectively. At March 31, 2021 and December 31, 2020, all of the outstanding balances were classified as long-term advances. Our FHLB borrowing capacity was \$3.33 billion as of March 31, 2021 and December 31, 2020, respectively.

We also have the ability to borrow funds under the Federal Reserve's Paycheck Protection Program Liquidity Facility (the "PPPLF") which was established to facilitate lending by financial institutions to small businesses under the PPP by providing term financing to participating financial institutions. Under the PPPLF, the Federal Reserve will lend to eligible and participating financial institutions on a non-recourse basis up to the aggregate principal balance of the PPP loans originated or purchased by the financial institution, with the PPP loans serving as collateral for the PPPLF borrowing. As of March 31, 2021, we could have borrowed up to \$667.3 million from the Federal Reserve under the PPPLF. Borrowings under the PPPLF mature upon the maturity of each underlying PPP loan and will be accelerated in the event the underlying PPP loan goes into default or the eligible borrower sells the PPP loan to the SBA to realize on the SBA guarantee, and to the extent the eligible borrower receives any loan forgiveness reimbursement from the SBA.

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

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

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

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

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

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

For the rising and falling interest rate scenarios, the base market interest rate forecast was increased and decreased over twelve months by 200 and 100 basis points, respectively. At March 31, 2021, our net interest margin exposure related to these hypothetical changes in market interest rates was within the current guidelines established by us.

Table 24 presents our sensitivity to net interest income as of March 31, 2021.

Table 24: Sensitivity of Net Interest Income

Interest Rate Scenario	Percentage Change from Base
Up 200 basis points	14.14%
Up 100 basis points	6.94
Down 100 basis points	(4.36)
Down 200 basis points	(7.58)

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

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

Gap analysis attempts to capture the amounts and timing of balances exposed to changes in interest rates at a given point in time. As of March 31, 2021, our gap position was asset sensitive with a one-year cumulative repricing gap as a percentage of total earning assets of 20.3%. During the COVID-19 pandemic, the Company has participated in the PPP loan program under the CARES Act. The Company had \$667.3 million of gross PPP loans as of March 31, 2021. In addition, total deposits have increased by \$786.8 million, \$593.0 million of which were demand and non-interest-bearing deposits, for the three months ended March 31, 2021. This has left the Company with \$2.23 billion at the Federal Reserve as of March 31, 2021. For the Company’s gap analysis, the PPP loans fell into the 0-12 months and 1-2 year time periods due to maturities and prepayment factors applied to PPP loans. The outflow of PPP funds from the Bank has been slow and, in some cases, has been offset by inflows of other non-interest-bearing deposits. This, along with the rise in demand and non-interest-bearing deposits and the resulting increase in cash on hand, has caused an uneven shift in the sensitivity of the repricing gap between short-term assets and liabilities. Although PPP loans have maturities of two years, a large percentage of these loans are anticipated to receive SBA forgiveness and be repaid in advance of stated maturities. The Company feels that funding these loans was both beneficial and necessary for our customers in light of the current economic environment and believes the one-year repricing gap increase is temporary in nature. The Company believes the repricing gap would have been more in line with historical experiences had it not been for the funding of the PPP loans, and the excess liquidity that we have with the Federal Reserve.

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

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

Table 25 presents a summary of the repricing schedule of our interest-earning assets and interest-bearing liabilities (gap) as of March 31, 2021.

Table 25: Interest Rate Sensitivity

	Interest Rate Sensitivity Period							Total
	0-30 Days	31-90 Days	91-180 Days	181-365 Days	1-2 Years	2-5 Years	Over 5 Years	
(Dollars in thousands)								
Earning assets								
Interest-bearing deposits due from banks	\$ 2,259,734	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,259,734
Federal funds sold	—	—	—	—	—	—	—	—
Investment securities	372,968	95,224	99,582	182,176	326,916	614,301	847,956	2,539,123
Loans receivable	3,301,702	735,448	951,472	1,708,337	1,769,467	1,965,610	346,457	10,778,493
Total earning assets	5,934,404	830,672	1,051,054	1,890,513	2,096,383	2,579,911	1,194,413	15,577,350
Interest-bearing liabilities								
Interest-bearing transaction and savings deposits	\$ 1,821,712	\$ 639,374	\$ 959,061	\$ 1,918,123	\$ 977,958	\$ 809,854	\$ 1,351,126	\$ 8,477,208
Time deposits	155,307	183,879	183,076	443,201	161,643	48,558	—	1,175,664
Federal funds purchased	—	—	—	—	—	—	—	—
Securities sold under repurchase agreements	162,929	—	—	—	—	—	—	162,929
FHLB and other borrowed funds	—	—	—	—	—	—	400,000	400,000
Subordinated debentures	71,162	—	—	—	299,353	—	—	370,515
Total interest-bearing liabilities	2,211,110	823,253	1,142,137	2,361,324	1,438,954	858,412	1,751,126	10,586,316
Interest rate sensitivity gap	\$ 3,723,294	\$ 7,419	\$ (91,083)	\$ (470,811)	\$ 657,429	\$ 1,721,499	\$ (556,713)	\$ 4,991,034
Cumulative interest rate sensitivity gap	\$ 3,723,294	\$ 3,730,713	\$ 3,639,630	\$ 3,168,819	\$ 3,826,248	\$ 5,547,747	\$ 4,991,034	
Cumulative rate sensitive assets to rate sensitive liabilities	268.4%	222.9%	187.1%	148.5%	148.0%	162.8%	147.1%	
Cumulative gap as a % of total earning assets	23.9%	23.9%	23.4%	20.3%	24.6%	35.6%	32.0%	

Item 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls

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

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal controls over financial reporting during the quarter ended March 31, 2021, which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1: Legal Proceedings

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

Item 1A: Risk Factors

There were no material changes from the risk factors set forth in Part I, Item 1A, "Risk Factors," of our Form 10-K for the year ended December 31, 2020. See the discussion of our risk factors in the Form 10-K, as filed with the SEC. The risks described are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

On January 22, 2021, the Company's Board of Directors authorized the repurchase of up to an additional 20,000,000 shares of its common stock under the previously approved stock repurchase program, which was last amended and approved on January 18, 2019. This authorization brought the total amount of authorized shares available to repurchase to 23,843,665 shares. The following table sets forth information with respect to purchases made by or on behalf of the Company of shares of the Company's common stock during the periods indicated:

Period	Number of Shares Purchased	Average Price Paid Per Share Purchased	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
January 1 through January 31, 2021	—	—	—	23,843,665
February 1 through February 28, 2021	—	—	—	23,843,665
March 1 through March 31, 2021	330,000	\$ 26.55	330,000	23,513,665
Total	<u>330,000</u>		<u>330,000</u>	

(1) The above described stock repurchase program has no expiration date.

Item 3: Defaults Upon Senior Securities

Not applicable.

Item 4: Mine Safety Disclosures

Not applicable.

Item 5: Other Information

Not applicable.

Item 6: Exhibits

Exhibit No.	Description of Exhibit
3.1	<u>Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.1 of Home BancShares's registration statement on Form S-1 (File No. 333-132427), as amended)</u>
3.2	<u>Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.2 of Home BancShares's registration statement on Form S-1 (File No. 333-132427), as amended)</u>
3.3	<u>Second Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.3 of Home BancShares's registration statement on Form S-1 (File No. 333-132427), as amended)</u>
3.4	<u>Third Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.4 of Home BancShares's registration statement on Form S-1 (File No. 333-132427), as amended)</u>
3.5	<u>Fourth Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.1 of Home BancShares's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, filed on August 8, 2007)</u>
3.6	<u>Fifth Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 4.6 of Home BancShares's registration statement on Form S-3 (File No. 333-157165))</u>
3.7	<u>Certificate of Designations of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, filed with the Secretary of State of the State of Arkansas on January 14, 2009 (incorporated by reference to Exhibit 3.1 of Home BancShares's Current Report on Form 8-K, filed on January 21, 2009)</u>
3.8	<u>Seventh Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.1 of Home BancShares's Current Report on Form 8-K filed on April 19, 2013)</u>
3.9	<u>Eighth Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.1 of Home BancShares's Current Report on Form 8-K filed on April 22, 2016)</u>
3.10	<u>Ninth Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.1 of Home BancShares's Current Report on Form 8-K filed on April 23, 2019)</u>
3.11	<u>Amended and Restated Bylaws of Home BancShares, Inc. (incorporated by reference to Exhibit 3.1 of Home BancShares's Current Report on Form 8-K filed on January 28, 2021)</u>
4.1	<u>Specimen Stock Certificate representing Home BancShares, Inc. Common Stock (incorporated by reference to Exhibit 4.6 of Home BancShares's registration statement on Form S-1 (File No. 333-132427), as amended)</u>
4.2	Instruments defining the rights of security holders including indentures. Home BancShares hereby agrees to furnish to the SEC upon request copies of instruments defining the rights of holders of long-term debt of Home BancShares and its consolidated subsidiaries. No issuance of debt exceeds ten percent of the assets of Home BancShares and its subsidiaries on a consolidated basis.
10.1	<u>Executive Chairman Agreement by and between John W. Allison and Home BancShares, Inc., dated March 1, 2021 (incorporated by reference to Exhibit 10.1 of Home BancShares's Current Report on Form 8-K filed on March 5, 2021)</u>
10.2	<u>Home BancShares, Inc. 2021 Performance-Based Executive Incentive Plan (incorporated by reference to Exhibit 10.2 of Home BancShares's Current Report on Form 8-K filed on March 5, 2021)</u>
15	<u>Awareness of Independent Registered Public Accounting Firm*</u>
31.1	<u>CEO Certification Pursuant Rule 13a-14(a)/15d-14(a)*</u>
31.2	<u>CFO Certification Pursuant Rule 13a-14(a)/15d-14(a)*</u>

- 32.1 [CEO Certification Pursuant 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes – Oxley Act of 2002*](#)
- 32.2 [CFO Certification Pursuant 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes – Oxley Act of 2002*](#)
- 101.INS Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.*
- 101.SCH Inline XBRL Taxonomy Extension Schema Document*
- 101.CAL InlineXBRL Taxonomy Extension Calculation Linkbase Document*
- 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document*
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document*
- 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document*
- 104 Cover Page Interactive Data File (embedded within the Inline XBRL document)
- * Filed herewith

SIGNATURES

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

HOME BANCSHARES, INC.

(Registrant)

Date: May 6, 2021 /s/ John W. Allison
John W. Allison, Chairman and Chief Executive Officer

Date: May 6, 2021 /s/ Brian S. Davis
Brian S. Davis, Chief Financial Officer

Date: May 6, 2021 /s/ Jennifer C. Floyd
Jennifer C. Floyd, Chief Accounting Officer

**Awareness of Independent Registered
Public Accounting Firm**

We are aware that our report dated May 6, 2021, included with the Quarterly Report on Form 10-Q for the quarter ended March 31, 2021, is incorporated by reference in Forms S-8 (Nos. 333-136645, 333-148763, 333-188591, 333-211116, 333-226608 and 333-229805) and Form S-3 (No. 333-228611). Pursuant to Rule 436(c) under the Securities Act of 1933 (the Act), this report should not be considered a part of these registration statements prepared or certified by us within the meaning of Sections 7 and 11 of the Act.

/s/ **BKD, LLP**

Little Rock, Arkansas
May 6, 2021

I, John W. Allison, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Home BancShares, Inc. for the period ended March 31, 2021;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2021

/s/ John W. Allison

John W. Allison

Chief Executive Officer

I, Brian S. Davis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Home BancShares, Inc. for the period ended March 31, 2021;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2021

/s/ Brian S. Davis

Brian S. Davis

Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Quarterly Report of Home BancShares, Inc. (the Company) on Form 10-Q for the period ended March 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, John W. Allison, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 6, 2021

/s/ John W. Allison

John W. Allison

Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Quarterly Report of Home BancShares, Inc. (the Company) on Form 10-Q for the period ended March 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Brian S. Davis, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 6, 2021

/s/ Brian S. Davis

Brian S. Davis

Chief Financial Officer