HOME BANCSHARES INC
Form 10-Q
May 07, 2018
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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, 2018

or

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

Commission File Number: 000-51904

HOME BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

(501) 339-2929

(Registrant s telephone number, including area code)

Not Applicable

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

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

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

Indicate by check mark 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. (Check one):

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

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

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

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

Common Stock Issued and Outstanding: 173,371,669 shares as of May 7, 2018.

HOME BANCSHARES, INC.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

increased regulatory requirements and supervision that will apply 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 reforms enacted by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) and the adoption of regulations by regulatory bodies under the Dodd-Frank Act;

governmental monetary and fiscal policies, as well as legislative and regulatory changes, including as a result of initiatives of the administration of President Donald J. Trump;

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, through our recently completed acquisition of Stonegate Bank;

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

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

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

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

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

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

All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this Cautionary Note. Our actual results may differ significantly from those we discuss in these forward-looking statements. For other factors, risks and uncertainties that could cause our actual results to differ materially from estimates and projections contained in these forward-looking statements, see the Risk Factors sections of our Form 10-K filed with the Securities and Exchange Commission (the SEC) on February 27, 2018.

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PART I: FINANCIAL INFORMATION

Item 1: Financial Statements

Home BancShares, Inc.

Consolidated Balance Sheets

(In thousands, except share data)	March 31, 2018 (Unaudited)	December 31, 2017
Assets		
Cash and due from banks	$ 185,479	$ 166,915
Interest-bearing deposits with other banks	325,122	469,018
Cash and cash equivalents	510,601	635,933
Federal funds sold	1,825	24,109
Investment securities available-for-sale	1,693,018	1,663,517
Investment securities held-to-maturity	213,731	224,756
Loans receivable	10,325,736	10,331,188
Allowance for loan losses	(110,212)	(110,266)
Loans receivable, net	10,215,524	10,220,922
Bank premises and equipment, net	235,607	237,439
Foreclosed assets held for sale	20,134	18,867
Cash value of life insurance	147,424	146,866
Accrued interest receivable	45,361	45,708
Deferred tax asset, net	78,328	76,564
Goodwill	927,949	927,949
Core deposit and other intangibles	47,726	49,351
Other assets	186,001	177,779
Total assets	$ 14,323,229	$ 14,449,760
Liabilities and Stockholders Equity		
Deposits:		
Demand and non-interest-bearing	$ 2,473,602	$ 2,385,252
Savings and interest-bearing transaction accounts	6,437,408	6,476,819
Time deposits	1,485,605	1,526,431
Total deposits	10,396,615	10,388,502
Securities sold under agreements to repurchase	150,315	147,789
FHLB and other borrowed funds	1,115,061	1,299,188
Accrued interest payable and other liabilities	54,845	41,959
Subordinated debentures	368,212	368,031

Total liabilities		12,085,048		12,245,469
Stockholders equity:				
Common stock, par value $0.01; shares authorized 200,000,000 in 2018 and 2017; shares issued and outstanding 173,603,132 in 2018 and 173,632,983 in 2017		1,736		1,736
Capital surplus		1,671,141		1,675,318
Retained earnings		585,586		530,658
Accumulated other comprehensive loss		(20,282)		(3,421)
Total stockholders equity		2,238,181		2,204,291
Total liabilities and stockholders equity	$	14,323,229	$	14,449,760

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.

Consolidated Statements of Income

(In thousands, except per share data)	Three Months Ended March 31, 2018	2017
	(Unaudited)	
Interest income:		
Loans	$ 148,065	$ 105,762
Investment securities		
Taxable	8,970	5,478
Tax-exempt	3,006	2,944
Deposits other banks	929	308
Federal funds sold	6	2
Total interest income	160,976	114,494
Interest expense:		
Interest on deposits	14,806	5,486
Federal funds purchased	1	
FHLB and other borrowed funds	4,580	3,589
Securities sold under agreements to repurchase	376	165
Subordinated debentures	5,004	439
Total interest expense	24,767	9,679
Net interest income	136,209	104,815
Provision for loan losses	1,600	3,914
Net interest income after provision for loan losses	134,609	100,901
Non-interest income:		
Service charges on deposit accounts	6,075	5,982
Other service charges and fees	10,155	8,917
Trust fees	446	456
Mortgage lending income	2,657	2,791
Insurance commissions	679	545
Increase in cash value of life insurance	654	310
Dividends from FHLB, FRB, Bankers Bank & other	877	1,149
Gain on acquisitions		3,807
Gain on sale of SBA loans	182	188
Gain (loss) on sale of branches, equipment and other assets, net	7	(56)
Gain (loss) on OREO, net	405	121
Gain (loss) on securities, net		423

Other income	3,668	1,837
Total non-interest income	25,805	26,470
Non-interest expense:		
Salaries and employee benefits	35,014	27,421
Occupancy and equipment	8,983	6,681
Data processing expense	3,986	2,723
Other operating expenses	15,397	18,316
Total non-interest expense	63,380	55,141
Income before income taxes	97,034	72,230
Income tax expense	23,970	25,374
Net income	$ 73,064	$ 46,856
Basic earnings per share	$ 0.42	$ 0.33
Diluted earnings per share	$ 0.42	$ 0.33

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.

Consolidated Statements of Comprehensive Income

(In thousands)	Three Months Ended March 31, 2018	2017
	(Unaudited)	
Net income available to all stockholders	$ 73,064	$ 46,856
Net unrealized gain (loss) on available-for-sale securities	(21,633)	1,428
Less: reclassification adjustment for realized (gains) losses included in income		(423)
Other comprehensive income (loss), before tax effect	(21,633)	1,005
Tax effect on other comprehensive (loss) income	5,762	(395)
Other comprehensive income (loss)	(15,871)	610
Comprehensive income	$ 57,193	$ 47,466

Home BancShares, Inc.

Consolidated Statements of Stockholders Equity

Three Months Ended March 31, 2018 and 2017

(In thousands, except share data)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances at January 1, 2017	1,405	869,737	455,948	400	1,327,490
Comprehensive income:					
Net income			46,856		46,856
Other comprehensive income (loss)				610	610
Net issuance of 91,081 shares of common stock from exercise of stock options	1	101			102
Issuance of 2,738,038 shares of common stock from acquisition of GHI, net of issuance costs of approximately $195	27	77,290			77,317
Share-based compensation net issuance of 140,500 shares of restricted common stock	1	1,854			1,855
Cash dividends Common Stock, $0.0900 per share			(12,662)		(12,662)

Balances at March 31, 2017 (unaudited)	$ 1,434	$ 948,982	$ 490,142	$ 1,010	$ 1,441,568
Comprehensive income:					
Net income			88,227		88,227
Other comprehensive income (loss)				(4,431)	(4,431)
Net issuance of 94,035 shares of common stock from exercise of stock options	1	979			980
Issuance of 30,863,658 shares of common stock from acquisition of Stonegate, net of issuance costs of approximately $630	309	741,324			741,633
Repurchase of 857,800 shares of common stock	(9)	(20,816)			(20,825)
Share-based compensation net issuance of 91,266 shares of restricted common stock	1	4,849			4,850
Cash dividends Common Stock, $0.3100 per share			(47,711)		(47,711)
Balances at December 31, 2017	$ 1,736	$ 1,675,318	$ 530,658	$ (3,421)	$ 2,204,291
Comprehensive income:					
Net Income			73,064		73,064
Other comprehensive income (loss)				(15,871)	(15,871)
Net issuance of 142,116 shares of common stock from exercise of stock options	1	899			900
Impact of adoption of new accounting standards[(1)]			990	(990)	
Repurchase of 303,637 shares of common stock	(3)	(7,111)			(7,114)
Share-based compensation net issuance of 147,000 shares of restricted common stock	2	2,035			2,037
Cash dividends Common Stock, $0.1100 per share			(19,126)		(19,126)
Balances at March 31, 2018 (unaudited)	$ 1,736	$ 1,671,141	$ 585,586	$ (20,282)	$ 2,238,181

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

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.

Consolidated Statements of Cash Flows

(In thousands)	Three Months Ended March 31, 2018	2017
	(Unaudited)	
Operating Activities		
Net income	$ 73,064	$ 46,856
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	3,317	2,674
Amortization/(accretion)	5,127	3,724
Share-based compensation	2,037	1,855
(Gain) loss on assets	1,962	(833)
Gain on acquisitions		(3,807)
Provision for loan losses	1,600	3,914
Deferred income tax effect	3,998	2,130
Increase in cash value of life insurance	(654)	(310)
Originations of mortgage loans held for sale	(72,636)	(78,691)
Proceeds from sales of mortgage loans held for sale	80,250	84,244
Changes in assets and liabilities:		
Accrued interest receivable	347	(244)
Indemnification and other assets	(8,219)	(1,645)
Accrued interest payable and other liabilities	12,886	3,012
Net cash provided by (used in) operating activities	103,079	62,879
Investing Activities		
Net (increase) decrease in federal funds sold	22,284	(150)
Net (increase) decrease in loans, excluding purchased loans	(10,724)	(29,229)
Purchases of investment securities available-for-sale	(141,812)	(206,216)
Proceeds from maturities of investment securities available-for-sale	86,674	39,615
Proceeds from sale of investment securities available-for-sale	809	15,538
Purchases of investment securities held-to-maturity		(163)
Proceeds from maturities of investment securities held-to-maturity	10,899	7,411
Proceeds from foreclosed assets held for sale	3,391	6,165
Proceeds from sale of SBA Loans	2,837	4,170
Purchases of premises and equipment, net	(3,941)	(5,636)
Return of investment on cash value of life insurance		592
Net cash proceeds (paid) received market acquisitions		41,363
Net cash provided by (used in) investing activities	(29,583)	(126,540)
Financing Activities		

Net increase (decrease) in deposits, excluding deposits acquired	8,113	181,025
Net increase (decrease) in securities sold under agreements to repurchase	2,526	2,503
Net increase (decrease) in FHLB and other borrowed funds	(184,127)	93,328
Proceeds from exercise of stock options	900	102
Repurchase of common stock	(7,114)	
Common stock issuance costs market acquisitions		(195)
Tax benefits from stock options exercised		
Dividends paid on common stock	(19,126)	(12,662)
Net cash provided by (used in) financing activities	(198,828)	264,101
Net change in cash and cash equivalents	(125,332)	200,440
Cash and cash equivalents beginning of year	635,933	216,649
Cash and cash equivalents end of period	$ 510,601	$ 417,089

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.

Condensed Notes to Consolidated Financial Statements

(Unaudited)

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

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

Operating Segments

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

Use of Estimates

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

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

Principles of Consolidation

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

Reclassifications

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

Interim financial information

The accompanying unaudited consolidated financial statements as of March 31, 2018 and 2017 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 2017 Form 10-K, filed with the Securities and Exchange Commission.

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 an agreed upon contract with Mastercard. The Centennial CFG loan fees are based on loan or other negotiated agreements with customers and are accounted for under ASC Topic 310.

Mortgage lending income This represents fee income on secondary market lending which is accounted for under ASC Topic 310 and transfer of loans based on a bid agreement with the investor which is accounted for under ASC Topic 860, *Transfers and Servicing.*

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,			
	2018		2017	
	(In thousands, except per share data)			
Net income	$	73,064	$	46,856
Average shares outstanding		173,761		141,785
Effect of common stock based compensation		622		707
Average diluted shares outstanding		174,383		142,492
Basic earnings per share	$	0.42	$	0.33
Diluted earnings per share		0.42		0.33

2. Business Combinations

Acquisition of Stonegate Bank

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

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

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

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

Subordinated debentures	8,345	1,489	9,834
Total liabilities assumed	2,601,057	1,104	2,602,161
Equity			
Total equity assumed	391,768	(391,768)	
Total liabilities and equity assumed	$ 2,992,825	$ (390,664)	2,602,161
Net assets acquired			285,362
Purchase price			792,370
Goodwill			$ 507,008

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accrued interest payable and other liabilities Accrued interest payable and other liabilities were acquired from Stonegate at market value.

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

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

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

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

Acquisition of The Bank of Commerce

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Acquisition of Giant Holdings, Inc.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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3. Investment Securities

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

	March 31, 2018			
	Available-for-Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 395,309	$ 937	$ (4,159)	$ 392,087
Residential mortgage-backed securities	515,792	441	(11,852)	504,381
Commercial mortgage-backed securities	517,551	71	(12,883)	504,739
State and political subdivisions	253,766	2,224	(3,141)	252,849
Other securities	37,821	1,458	(317)	38,962
Total	$ 1,720,239	$ 5,131	$ (32,352)	$ 1,693,018

	Held-to-Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 4,043	$	$ (14)	$ 4,029
Residential mortgage-backed securities	54,057	27	(1,055)	53,029
Commercial mortgage-backed securities	15,970	23	(268)	15,725
State and political subdivisions	139,661	1,818	(130)	141,349
Total	$ 213,731	$ 1,868	$ (1,467)	$ 214,132

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

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

Assets, principally investment securities, having a carrying value of approximately $1.19 and $1.18 billion at March 31, 2018 and December 31, 2017, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. Also, investment securities pledged as collateral for repurchase agreements totaled approximately $150.3 and $147.8 million at March 31, 2018 and December 31, 2017, respectively.

The amortized cost and estimated fair value of securities classified as available-for-sale and held-to-maturity at March 31, 2018, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In thousands)			
Due in one year or less	$ 294,998	$ 292,191	$ 60,454	$ 61,310
Due after one year through five years	936,617	922,056	91,149	91,000
Due after five years through ten years	367,552	360,108	12,183	12,006
Due after ten years	121,072	118,663	49,945	49,816
Total	$ 1,720,239	$ 1,693,018	$ 213,731	$ 214,132

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

During the three-month period ended March 31, 2018, approximately $809,000 in available-for-sale securities were sold. No realized gains or losses were recorded on the sales for the three month period ended March 31, 2018. The income tax expense/benefit to net security gains and losses was 26.135% of the gross amounts.

During the three-month period ended March 31, 2017, approximately $15.2 million, in available-for-sale securities were sold. The gross realized gains on the sales for the three month period ended March 31, 2017 totaled approximately $423,000. The income tax expense/benefit to net security gains and losses was 39.225% of the gross amounts.

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

During the three-month period ended March 31, 2018, no securities were deemed to have other-than-temporary impairment.

For the three months ended March 31, 2018, the Company had investment securities with approximately $9.3 million in unrealized losses, which have been in continuous loss positions for more than twelve months. Excluding impairment write downs taken in prior periods, the Company s assessments indicated that the cause of the market depreciation was primarily the change in interest rates and not the issuer s financial condition, or downgrades by rating agencies. In addition, approximately 71.6% of the Company s investment portfolio matures in five years or less. As a result, the Company has the ability and intent to hold such securities until maturity.

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The following shows gross unrealized losses and estimated fair value of investment securities classified as available-for-sale and held-to-maturity with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position as of March 31, 2018 and December 31, 2017:

	March 31, 2018					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. government-sponsored enterprises	$ 215,209	$ (3,024)	$ 44,139	$ (1,149)	$ 259,348	$ (4,173)
Residential mortgage-backed securities	406,785	(9,538)	101,902	(3,369)	508,687	(12,907)
Commercial mortgage-backed securities	367,845	(9,635)	115,292	(3,516)	483,137	(13,151)
State and political subdivisions	102,212	(2,278)	20,638	(993)	122,850	(3,271)
Other securities			9,767	(317)	9,767	(317)
Total	$ 1,092,051	$ (24,475)	$ 291,738	$ (9,344)	$ 1,383,789	$ (33,819)

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

Income earned on securities for the three months ended March 31, 2018 and 2017, is as follows:

	Three Months Ended March 31,	
	2018	2017

	(In thousands)	
Taxable:		
Available-for-sale	$ 8,465	$ 4,794
Held-to-maturity	505	684
Non-taxable:		
Available-for-sale	1,349	1,547
Held-to-maturity	1,657	1,397
Total	$ 11,976	$ 8,422

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4. Loans Receivable

The various categories of loans receivable are summarized as follows:

	March 31, 2018	December 31, 2017
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 4,658,209	$ 4,600,117
Construction/land development	1,641,834	1,700,491
Agricultural	81,151	82,229
Residential real estate loans		
Residential 1-4 family	1,915,346	1,970,311
Multifamily residential	464,194	441,303
Total real estate	8,760,734	8,794,451
Consumer	40,842	46,148
Commercial and industrial	1,324,173	1,297,397
Agricultural	50,770	49,815
Other	149,217	143,377
Total loans receivable	$ 10,325,736	$ 10,331,188

During the three-month period ended March 31, 2018, the Company sold $2.7 million of the guaranteed portion of certain SBA loans, which resulted in a gain of approximately $182,000. During the three-month period ended March 31, 2017, the Company sold $4.0 million of the guaranteed portion of certain SBA loans, which resulted in a gain of approximately $188,000.

Mortgage loans held for sale of approximately $36.7 million and $44.3 million at March 31, 2018 and December 31, 2017, respectively, are included in residential 1-4 family loans. Mortgage loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis. Gains and losses resulting from sales of mortgage loans are recognized when the respective loans are sold to investors. Gains and losses are determined by the difference between the selling price and the carrying amount of the loans sold, net of discounts collected or paid. The Company obtains forward commitments to sell mortgage loans to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. The forward commitments acquired by the Company for mortgage loans in process of origination are considered mandatory forward commitments. Because these commitments are structured on a mandatory basis, the Company is required to substitute another loan or to buy back the commitment if the original loan does not fund. These commitments are derivative instruments and their fair values at March 31, 2018 and December 31, 2017 were not material.

The Company had $3.23 billion of purchased loans, which includes $137.4 million of discount for credit losses on purchased loans, at March 31, 2018. The Company had $49.4 million and $88.0 million remaining of non-accretable discount for credit losses on purchased loans and accretable discount for credit losses on purchased loans, respectively, as of March 31, 2018. The Company had $3.46 billion of purchased loans, which includes $146.6 million of discount for credit losses on purchased loans, at December 31, 2017. The Company had $51.9 million and

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

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5. Allowance for Loan Losses, Credit Quality and Other

The Company s allowance for loan loss as March 31, 2018 and December 31, 2017 was significantly impacted by Hurricane Irma which made initial landfall in the Florida Keys and a second landfall just south of Naples, Florida, as a Category 4 hurricane on September 10, 2017. Based on initial assessments of the potential credit impact and damage to the approximately $2.41 billion in legacy loans receivable we have in the disaster area, the Company established a $32.9 million storm-related provision for loan losses as of December 31, 2017. As of March 31, 2018, charge-offs of $2.2 million have been taken against the storm-related provision for loan losses.

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

	Three Months Ended March 31, 2018 (In thousands)
Allowance for loan losses:	
Beginning balance	$ 110,266
Loans charged off	(2,540)
Recoveries of loans previously charged off	886
Net loans recovered (charged off)	(1,654)
Provision for loan losses	1,600
Balance, March 31, 2018	$ 110,212

The following tables present the balance in the allowance for loan losses for the three-month period ended March 31, 2018, and the allowance for loan losses and recorded investment in loans based on portfolio segment by impairment method as of March 31, 2018. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories.

	Three Months Ended March 31, 2018 (In thousands)						
	Construction Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 20,343	$ 43,939	$ 24,506	$ 15,292	$ 3,334	$ 2,852	$ 110,266
Loans charged off	(8)	(447)	(779)	(814)	(492)		(2,540)
Recoveries of loans previously charged off	30	101	361	98	296		886
Net loans recovered (charged off)	22	(346)	(418)	(716)	(196)		(1,654)

Provision for loan losses	(261)	1,238	(474)	1,617	109	(629)	1,600
Balance, March 31	$ 20,104	$ 44,831	$ 23,614	$ 16,193	$ 3,247	$ 2,223	$ 110,212

	As of March 31, 2018						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 1,173	$ 686	$ 159	$ 1,590	$	$	$ 3,608
Loans collectively evaluated for impairment	18,872	43,667	22,617	14,304	3,236	2,223	104,919
Loans evaluated for impairment balance, March 31	20,045	44,353	22,776	15,894	3,236	2,223	108,527
Purchased credit impaired loans	59	478	838	299	11		1,685
Balance, March 31	$ 20,104	$ 44,831	$ 23,614	$ 16,193	$ 3,247	$ 2,223	$ 110,212
Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 20,927	$ 124,402	$ 22,379	$ 33,536	$ 391	$	$ 201,635
Loans collectively evaluated for impairment	1,606,930	4,508,644	2,311,646	1,276,843	238,180		9,942,243
Loans evaluated for impairment balance, March 31	1,627,857	4,633,046	2,334,025	1,310,379	238,571		10,143,878
Purchased credit impaired loans	13,977	106,314	45,515	13,794	2,258		181,858
Balance, March 31	$ 1,641,834	$ 4,739,360	$ 2,379,540	$ 1,324,173	$ 240,829	$	$ 10,325,736

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

	Year Ended December 31, 2017						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
Beginning balance	$ 11,522	$ 28,188	$ 16,517	$ 12,756	$ 4,188	$ 6,831	$ 80,002
Loans charged off	(207)	(1,464)	(1,891)	(645)	(499)		(4,706)
Recoveries of loans previously charged off	199	331	133	182	256		1,101
Net loans recovered (charged off)	(8)	(1,133)	(1,758)	(463)	(243)		(3,605)
Provision for loan losses	559	1,868	3,481	1,091	(575)	(2,510)	3,914
Balance, March 31	12,073	28,923	18,240	13,384	3,370	4,321	80,311
Loans charged off	(1,425)	(2,285)	(2,089)	(4,933)	(2,033)		(12,765)
Recoveries of loans previously charged off	263	711	543	282	585		2,384
Net loans recovered (charged off)	(1,162)	(1,574)	(1,546)	(4,651)	(1,448)		(10,381)
Provision for loan losses	9,432	16,590	7,812	6,559	1,412	(1,469)	40,336
Balance, December 31	$ 20,343	$ 43,939	$ 24,506	$ 15,292	$ 3,334	$ 2,852	$ 110,266

	As of December 31, 2017						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for	$ 1,378	$ 768	$ 188	$ 843	$ 7	$	$ 3,184

impairment							
Loans collectively evaluated for impairment	18,954	42,824	23,341	14,290	3,310	2,852	105,571
Loans evaluated for impairment balance, December 31	20,332	43,592	23,529	15,133	3,317	2,852	108,755
Purchased credit impaired loans	11	347	977	159	17		1,511
Balance, December 31	$ 20,343	$ 43,939	$ 24,506	$ 15,292	$ 3,334	$ 2,852	$ 110,266
Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 26,860	$ 124,124	$ 20,431	$ 21,867	$ 500	$	$ 193,782
Loans collectively evaluated for impairment	1,658,519	4,442,201	2,341,081	1,261,161	236,392		9,939,354
Loans evaluated for impairment balance, December 31	1,685,379	4,566,325	2,361,512	1,283,028	236,892		10,133,136
Purchased credit impaired loans	15,112	116,021	50,102	14,369	2,448		198,052
Balance, December 31	$ 1,700,491	$ 4,682,346	$ 2,411,614	$ 1,297,397	$ 239,340	$	$ 10,331,188

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The following is an aging analysis for loans receivable as of March 31, 2018 and December 31, 2017:

	March 31, 2018						
	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due	Current Loans	Total Loans Receivable	Accruing Loans Past Due 90 Days or More
				(In thousands)			
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$ 1,126	$ 8,043	$ 14,011	$ 23,180	$ 4,635,029	$ 4,658,209	$ 5,300
Construction/land development	429	1,000	8,768	10,197	1,631,637	1,641,834	3,278
Agricultural	45		276	321	80,830	81,151	
Residential real estate loans							
Residential 1-4 family	3,436	2,216	18,487	24,139	1,891,207	1,915,346	2,451
Multifamily residential	472		251	723	463,471	464,194	99
Total real estate	5,508	11,259	41,793	58,560	8,702,174	8,760,734	11,128
Consumer	74	36	196	306	40,536	40,842	27
Commercial and industrial	2,234	1,283	7,321	10,838	1,313,335	1,324,173	2,068
Agricultural and other	1,308	8	179	1,495	198,492	199,987	
Total	$ 9,124	$ 12,586	$ 49,489	$ 71,199	$ 10,254,537	$ 10,325,736	$ 13,223

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

Consumer	252	51	171	474	45,674	46,148	26
Commercial and industrial	2,073	1,030	6,528	9,631	1,287,766	1,297,397	1,944
Agricultural and other	288	113	137	538	192,654	193,192	54
Total	$ 18,844	$ 4,921	$ 44,697	$ 68,462	$ 10,262,726	$ 10,331,188	$ 10,665

Non-accruing loans at March 31, 2018 and December 31, 2017 were $36.3 million and $34.0 million, respectively.

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

	March 31, 2018			Three Months Ended	
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses	Average Recorded Investment	Interest Recognized
			(In thousands)		
Loans without a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	$ 29	$ 29	$	$ 29	$
Construction/land development	19	19		42	
Agricultural	17	17		18	
Residential real estate loans					
Residential 1-4 family	155	155		135	3
Multifamily residential					
Total real estate	220	220		224	3
Consumer	16	16		17	
Commercial and industrial	202	202		154	3
Agricultural and other					
Total loans without a specific valuation allowance	438	438		395	6
Loans with a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	33,188	31,283	676	30,161	371
Construction/land development	13,264	12,208	1,173	12,183	87
Agricultural	540	544	10	414	7
Residential real estate loans					
Residential 1-4 family	23,752	20,511	100	19,600	322
Multifamily residential	1,737	1,714	59	1,670	19
Total real estate	72,481	66,260	2,018	64,028	806
Consumer	201	195		184	18
Commercial and industrial	23,524	15,885	1,590	14,445	150
Agricultural and other	179	179		244	3
Total loans with a specific valuation allowance	96,385	82,519	3,608	78,901	977
Total impaired loans					
Real estate:					
Commercial real estate loans					

Non-farm/non-residential	33,217	31,312	676	30,190	371
Construction/land development	13,283	12,227	1,173	12,225	87
Agricultural	557	561	10	432	7
Residential real estate loans					
Residential 1-4 family	23,907	20,666	100	19,735	325
Multifamily residential	1,737	1,714	59	1,670	19
Total real estate	72,701	66,480	2,018	64,252	809
Consumer	217	211		201	18
Commercial and industrial	23,726	16,087	1,590	14,599	153
Agricultural and other	179	179		244	3
Total impaired loans	$ 96,823	$ 82,957	$ 3,608	$ 79,296	$ 983

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

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

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

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

Interest recognized on impaired loans during the three months ended March 31, 2018 and 2017 was approximately $983,000 and $514,000, respectively. The amount of interest recognized on impaired loans on the cash basis is not materially different than the accrual basis.

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

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

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

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

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

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

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

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

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

Risk rating 8 Loss. Assets classified as loss are considered uncollectible and of such little value that the continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather, it is not practical or desirable to defer writing off this basically worthless asset, even though partial recovery may occur in the future. This classification is based upon current facts, not probabilities. Assets classified as loss should be charged-off in the period in which they became uncollectible.

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The Company s classified loans include loans in risk ratings 6, 7 and 8. The following is a presentation of classified loans (excluding loans accounted for under ASC Topic 310-30) by class as of March 31, 2018 and December 31, 2017:

	March 31, 2018			
	Risk Rated 6	Risk Rated 7	Risk Rated 8	Classified Total
	(In thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	$ 22,426	$ 568	$	$ 22,994
Construction/land development	23,607			23,607
Agricultural	573			573
Residential real estate loans				
Residential 1-4 family	24,051	661		24,712
Multifamily residential	936			936
Total real estate	71,593	1,229		72,822
Consumer	179	2		181
Commercial and industrial	14,636	249		14,885
Agricultural and other	195	3		198
Total risk rated loans	$ 86,603	$ 1,483	$	$ 88,086

	December 31, 2017			
	Risk Rated 6	Risk Rated 7	Risk Rated 8	Classified Total
	(In thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	$ 20,933	$ 518	$	$ 21,451
Construction/land development	24,013	204		24,217
Agricultural	321			321
Residential real estate loans				
Residential 1-4 family	23,420	564		23,984
Multifamily residential	939			939
Total real estate	69,626	1,286		70,912
Consumer	159	9		168
Commercial and industrial	12,818	80		12,898
Agricultural and other	136			136
Total risk rated loans	$ 82,739	$ 1,375	$	$ 84,114

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.

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The following is a presentation of loans receivable by class and risk rating as of March 31, 2018 and December 31, 2017:

	March 31, 2018						
	Risk Rated 1	Risk Rated 2	Risk Rated 3	Risk Rated 4	Risk Rated 5	Classified Total	Total
	(In thousands)						
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$ 1,009	$ 436	$ 2,635,934	$ 1,769,225	$ 122,506	$ 22,994	$ 4,552,104
Construction/land development	25	575	271,278	1,330,942	1,430	23,607	1,627,857
Agricultural			51,568	27,653	1,148	573	80,942
Residential real estate loans							
Residential 1-4 family	807	849	1,438,822	399,975	12,067	24,712	1,877,232
Multifamily residential			294,675	160,970	212	936	456,793
Total real estate	1,841	1,860	4,692,277	3,688,765	137,363	72,822	8,594,928
Consumer	12,391	724	18,742	7,809	73	181	39,920
Commercial and industrial	22,871	7,175	659,521	576,476	29,451	14,885	1,310,379
Agricultural and other	1,711	3,867	141,820	51,055		198	198,651
Total risk rated loans	$ 38,814	$ 13,626	$ 5,512,360	$ 4,324,105	$ 166,887	$ 88,086	10,143,878
Purchased credit impaired loans							181,858
Total loans receivable							$ 10,325,736

	December 31, 2017						
	Risk Rated 1	Risk Rated 2	Risk Rated 3	Risk Rated 4	Risk Rated 5	Classified Total	Total
	(In thousands)						
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$ 1,015	$ 558	$ 2,595,844	$ 1,745,778	$ 119,656	$ 21,451	$ 4,484,302
Construction/land development	28	583	280,980	1,373,133	6,438	24,217	1,685,379
Agricultural		19	53,018	27,515	1,150	321	82,023
Residential real estate loans							
Residential 1-4 family	1,140	969	1,414,849	475,619	11,658	23,984	1,928,219
Multifamily residential			329,070	103,071	213	939	433,293
Total real estate	2,183	2,129	4,673,761	3,725,116	139,115	70,912	8,613,216
Consumer	13,106	808	22,479	8,532	70	168	45,163

Commercial and industrial	20,870	7,543	627,316	592,088	22,313	12,898	1,283,028
Agricultural and other	1,986	3,914	147,323	38,370		136	191,729
Total risk rated loans	$ 38,145	$ 14,394	$ 5,470,879	$ 4,364,106	$ 161,498	$ 84,114	10,133,136
Purchased credit impaired loans							198,052
Total loans receivable							$ 10,331,188

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The following is a presentation of troubled debt restructurings (TDRs) by class as of March 31, 2018 and December 31, 2017:

	March 31, 2018					
	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	15	$ 15,856	$ 8,770	$ 247	$ 5,502	$ 14,519
Construction/land development	3	641	555	72		627
Agricultural	2	345	282	20		302
Residential real estate loans						
Residential 1-4 family	17	3,605	1,626	77	1,194	2,897
Multifamily residential	3	1,701	1,327		287	1,614
Total real estate	40	22,148	12,560	416	6,983	19,959
Consumer	3	19		15		15
Commercial and industrial	11	1,201	704	47		751
Total	54	$ 23,368	$ 13,264	$ 478	$ 6,983	$ 20,725

	December 31, 2017					
	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	16	$ 16,853	$ 8,815	$ 250	$ 5,513	$ 14,578
Construction/land development	5	782	689	75		764
Agricultural	2	345	282	22		304
Residential real estate loans						
Residential 1-4 family	21	5,607	1,926	81	1,238	3,245
Multifamily residential	3	1,701	1,340		287	1,627
Total real estate	47	25,288	13,052	428	7,038	20,518
Consumer	3	19		18		18
Commercial and industrial	11	951	445	50	1	496
Agricultural and other	1	166	166			166

Total	62	$ 26,424	$ 13,663	$ 496	$ 7,039	$ 21,198

The following is a presentation of TDRs on non-accrual status as of March 31, 2018 and December 31, 2017 because they are not in compliance with the modified terms:

	March 31, 2018		**December 31, 2017**	
	Number of Loans	**Recorded Balance**	**Number of Loans**	**Recorded Balance**
	(Dollars in thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	1	$ 1,189	2	$ 1,161
Agricultural	1	20	1	22
Residential real estate loans				
Residential 1-4 family	6	807	8	850
Multifamily residential	1	152	1	153
Total real estate	9	2,168	12	2,186
Commercial and industrial	1	232	1	
Total	10	$ 2,400	13	$ 2,186

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The following is a presentation of total foreclosed assets as of March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
	(In thousands)	
Commercial real estate loans		
Non-farm/non-residential	$ 8,720	$ 9,766
Construction/land development	5,292	5,920
Residential real estate loans		
Residential 1-4 family	5,660	2,654
Multifamily residential	462	527
Total foreclosed assets held for sale	$ 20,134	$ 18,867

The following is a summary of the purchased credit impaired loans acquired in the GHI, BOC and Stonegate acquisitions during 2017 as of the dates of acquisition:

	GHI	BOC	Stonegate
		(In thousands)	
Contractually required principal and interest at acquisition	$ 22,379	$ 18,586	$ 98,444
Non-accretable difference (expected losses and foregone interest)	4,462	2,811	23,297
Cash flows expected to be collected at acquisition	17,917	15,775	75,147
Accretable yield	2,071	1,043	11,761
Basis in purchased credit impaired loans at acquisition	$ 15,846	$ 14,732	$ 63,386

Changes in the carrying amount of the accretable yield for purchased credit impaired loans were as follows for the three-month period ended March 31, 2018 for the Company s acquisitions:

	Accretable Yield	Carrying Amount of Loans
	(In thousands)	
Balance at beginning of period	$ 41,803	$ 198,052
Reforecasted future interest payments for loan pools	202	
Accretion recorded to interest income	(4,670)	4,670
Adjustment to yield	1,589	
Transfers to foreclosed assets held for sale		(870)
Payments received, net		(19,994)

Balance at end of period	$ 38,924	$ 181,858

The loan pools were evaluated by the Company and are currently forecasted to have a slower run-off than originally expected. As a result, the Company has reforecast the total accretable yield expectations for those loan pools by $202,000. This updated forecast does not change the expected weighted average yields on the loan pools.

During the 2018 impairment tests on the estimated cash flows of loans, the Company established that several loan pools were determined to have a materially projected credit improvement. As a result of this improvement, the Company will recognize approximately $1.6 million as an additional adjustment to yield over the weighted average life of the loans.

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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, 2018 and December 31, 2017, were as follows:

	March 31, 2018	December 31, 2017
	(In thousands)	
Goodwill		
Balance, beginning of period	$ 927,949	$ 377,983
Acquisitions		549,966
Balance, end of period	$ 927,949	$ 927,949

	March 31, 2018	December 31, 2017
	(In thousands)	
Core Deposit and Other Intangibles		
Balance, beginning of period	$ 49,351	$ 18,311
Acquisition		4,378
Amortization expense	(1,625)	(804)
Balance, March 31	$ 47,726	21,885
Acquisitions		30,869
Amortization expense		(3,403)
Balance, end of year		$ 49,351

The carrying basis and accumulated amortization of core deposits and other intangibles at March 31, 2018 and December 31, 2017 were:

	March 31, 2018	December 31, 2017
	(In thousands)	
Gross carrying basis	$ 86,625	$ 86,625
Accumulated amortization	(38,899)	(37,274)
Net carrying amount	$ 47,726	$ 49,351

Core deposit and other intangible amortization expense was approximately $1.6 million and $804,000 for the three months ended March 31, 2018 and 2017, respectively. Including all of the mergers completed as of December 31, 2017, HBI s estimated amortization expense of core deposits and other intangibles for each of the years 2018 through 2022 is approximately: 2018 $6.6 million; 2019 $6.5 million; 2020 $5.9 million; 2021 $5.7 million; 2022 $5.7 million.

The carrying amount of the Company s goodwill was $927.9 million at March 31, 2018 and December 31, 2017. Goodwill is tested annually for impairment during the fourth quarter. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

7. Other Assets

Other assets consist primarily of equity securities without a readily determinable fair value and other miscellaneous assets. As of March 31, 2018 and December 31, 2017 other assets were $186.0 million and $177.8 million, respectively.

The Company has equity securities without readily determinable fair values such as stock holdings in Federal Home Loan Bank (FHLB) and 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 $132.4 million and $132.1 million at March 31, 2018 and December 31, 2017, respectively, and are accounted for at cost.

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The Company has equity securities such as stock holdings in Bankers Bank and other miscellaneous holdings which are accounted for under ASC Topic 321. These equity securities without a readily determinable fair value were $23.8 million and $23.9 million at March 31, 2018 and December 31, 2017, respectively. It is not practical to determine the fair value of bank stocks due to restrictions placed on the transferability of Bankers Bank stock. Therefore, these are accounted for at cost as cost is considered to approximate fair value due to these securities having no recent trades.

8. Deposits

The aggregate amount of time deposits with a minimum denomination of $250,000 was $580.9 million and $636.9 million at March 31, 2018 and December 31, 2017, respectively. The aggregate amount of time deposits with a minimum denomination of $100,000 was $1.00 billion and $998.3 million at March 31, 2018 and December 31, 2017, respectively. Interest expense applicable to certificates in excess of $100,000 totaled $2.8 million and $1.7 million for the three months ended March 31, 2018 and 2017, respectively. As of March 31, 2018 and December 31, 2017, brokered deposits were $962.3 million and $1.03 billion, respectively.

Deposits totaling approximately $1.46 billion and $1.51 billion at March 31, 2018 and December 31, 2017, 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, 2018 and December 31, 2017, securities sold under agreements to repurchase totaled $150.3 million and $147.8 million, respectively. For the three-month periods ended March 31, 2018 and 2017, securities sold under agreements to repurchase daily weighted-average totaled $152.7 million and $124.1 million, respectively.

The remaining contractual maturity of securities sold under agreements to repurchase in the consolidated balance sheets as of March 31, 2018 and December 31, 2017 is presented in the following tables:

	March 31, 2018				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
	(In thousands)				
Securities sold under agreements to repurchase:					
U.S. government-sponsored enterprises	$ 18,506	$	$	$	$ 18,506
Mortgage-backed securities	6,565				6,565
State and political subdivisions	101,722				101,722
Other securities	23,522				23,522
Total borrowings	$ 150,315	$	$	$	$ 150,315

	December 31, 2017				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
	(In thousands)				

Securities sold under agreements to repurchase:					
U.S. government-sponsored enterprises	$ 11,525	$	$	$ 10,000	$ 21,525
Mortgage-backed securities	21,255				21,255
State and political subdivisions	85,428				85,428
Other securities	19,581				19,581
Total borrowings	$ 137,789	$	$	$ 10,000	$ 147,789

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10. FHLB Borrowed Funds

The Company s FHLB borrowed funds, which are secured by our loan portfolio, were $1.12 billion and $1.30 billion at March 31, 2018 and December 31, 2017, respectively. At March 31, 2018, $475.0 million and $640.1 million of the outstanding balance were issued as short-term and long-term advances, respectively. At December 31, 2017, $525.0 million and $774.2 million of the outstanding balance were issued as short-term and long-term advances, respectively. The FHLB advances mature from the current year to 2027 with fixed interest rates ranging from 0.85% to 4.80% and are secured by loans and investments securities. Maturities of borrowings as of March 31, 2018 include: 2018 $800.2 million; 2019 $143.1 million; 2020 $146.4 million; 2021 zero; after 2021 $25.4 million. Expected maturities will differ from contractual maturities because FHLB may have the right to call or HBI the right to prepay certain obligations.

Additionally, the Company had $697.3 and $695.3 million at March 31, 2018 and December 31, 2017, respectively, in letters of credit under a FHLB blanket borrowing line of credit, which are used to collateralize public deposits at March 31, 2018 and December 31, 2017, respectively.

11. Other Borrowings

The Company had zero other borrowings at March 31, 2018. The Company took out a $20.0 million unsecured line of credit for general corporate purposes during 2015. The balance on this line of credit at March 31, 2018 and December 31, 2017 was zero.

12. Subordinated Debentures

Subordinated debentures at March 31, 2018 and December 31, 2017 consisted of guaranteed payments on trust preferred securities with the following components:

	As of March 31, 2018	As of December 31, 2017
	(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	25,774	25,774

rate, reset quarterly, thereafter, currently callable without penalty		
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	4,316	4,304
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	5,592	5,569
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	297,478	297,332
Total	$ 368,212	$ 368,031

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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 $9.9 million and $9.8 million at March 31, 2018 and December 31, 2017, respectively, from the Stonegate acquisition. The difference between the fair value purchased of $9.9 million and the $12.5 million face amount, will be amortized into interest expense over the remaining life of the debentures. The associated subordinated debentures are redeemable, in whole or in part, prior to maturity at our option on a quarterly basis when interest is due and payable and in whole at any time within 90 days following the occurrence and continuation of certain changes in the tax treatment or capital treatment of the debentures.

13. Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act (TCJA) was signed into law. The TCJA makes broad and complex changes to the U.S. tax code that affected our income tax rate in 2017. The TCJA reduces the U.S. federal corporate income tax rate from 35% to 21%. The TCJA also establishes new tax laws that will affect 2018.

ASC 740 requires a company to record the effects of a tax law change in the period of enactment; however, shortly after the enactment of the TCJA, the SEC staff issued SAB 118, which allows a company to record a provisional amount when it does not have the necessary information available, prepared, or analyzed in reasonable detail to complete its accounting for the change in the tax law. The measurement period ends when the company has obtained, prepared and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year.

The following is a summary of the components of the provision (benefit) for income taxes for the three-month periods ended March 31, 2018 and 2017:

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Current:		
Federal	$ 15,005	$ 19,392
State	4,967	3,852
Total current	19,972	23,244

Deferred:		
Federal	3,004	1,777
State	994	353
Total deferred	3,998	2,130
Income tax expense	$ 23,970	$ 25,374

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The reconciliation between the statutory federal income tax rate and effective income tax rate is as follows for the three-month periods ended March 31, 2018 and 2017:

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Statutory federal income tax rate	21.00%	35.00%
Effect of non-taxable interest income	(0.74)	(1.51)
Effect of gain on acquisitions		(1.84)
Stock compensation	(0.83)	(1.09)
State income taxes, net of federal benefit	4.10	3.93
Other	1.17	0.64
Effective income tax rate	24.70%	35.13%

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, 2018	December 31, 2017
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 30,075	$ 29,515
Deferred compensation	1,093	1,142
Stock compensation	2,989	2,731
Real estate owned	1,565	1,731
Unrealized loss on securities available-for-sale	7,233	1,471
Loan discounts	28,246	32,784
Tax basis premium/discount on acquisitions	8,990	8,802
Investments	1,062	1,155
Other	11,677	11,663
Gross deferred tax assets	92,930	90,994
Deferred tax liabilities:		
Accelerated depreciation on premises and equipment	383	291
Core deposit intangibles	10,895	11,258
FHLB dividends	1,712	1,625
Other	1,612	1,256
Gross deferred tax liabilities	14,602	14,430
Net deferred tax assets	$ 78,328	$ 76,564

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and the states of Arkansas, Alabama, Florida and New York. The Company is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2013.

14. Common Stock, Compensation Plans and Other

Common Stock

The Company s Restated Articles of Incorporation, as amended, authorize the issuance of up to 200,000,000 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.

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Stock Repurchases

On February 21, 2018, the Company s Board of Directors authorized the repurchase of up to an additional 5,000,000 shares of its common stock under the previously approved stock repurchase program, which brought the total amount of authorized shares to repurchase to 14,752,000 shares. During 2018, the Company utilized a portion of this stock repurchase program.

During first three months of 2018, the Company repurchased a total of 303,637 shares with a weighted-average stock price of $23.41 per share. The 2018 earnings were used to fund the repurchases during the year. Shares repurchased under the program as of March 31, 2018 total 4,828,501 shares. The remaining balance available for repurchase is 9,923,499 shares at March 31, 2018.

Stock Compensation Plans

The Company has a stock option and performance incentive plan known as the Amended and Restated 2006 Stock Option and Performance Incentive Plan (the Plan). The purpose of the Plan is to attract and retain highly qualified officers, directors, key employees, and other persons, and to motivate those persons to improve the Company s business results. On April 19, 2018 at the Annual Meeting of Shareholders of the Company, the shareholders approved, as proposed in the Proxy Statement, an amendment to the Plan to increase the number of shares of the Company s common stock available for issuance under the Plan by 2,000,000 shares to 13,288,000 shares. The Plan provides for the granting of incentive and non-qualified stock options to and other equity awards, including the issuance of restricted shares. As of March 31, 2018, the maximum total number of shares of the Company s common stock available for issuance under the Plan was 11,288,000. At March 31, 2018, the Company had approximately 2,132,000 shares of common stock remaining available for future grants and approximately 4,319,000 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, 2018 was $13.2 million and $8.0 million, respectively. 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 $4.8 million as of March 31, 2018. For the first three months of 2018, the Company has expensed approximately $503,000 for the non-vested awards.

The table below summarizes the stock option transactions under the Plan at March 31, 2018 and December 31, 2017 and changes during the three-month period and year then ended:

	For the Three Months Ended March 31, 2018		For the Year Ended December 31, 2017	
	Shares (000)	Weighted-Average Exercisable Price	Shares (000)	Weighted-Average Exercisable Price
Outstanding, beginning of year	2,274	$ 16.23	2,397	$ 15.19
Granted			80	25.96
Forfeited/Expired				
Exercised	(142)	8.82	(203)	7.82

Outstanding, end of period	2,132		16.72	2,274		16.23
Exercisable, end of period	933	$	14.19	1,016	$	13.55

The Board of Directors recommends a vote FOR Proposals 2, 3, and 4 and AGAINST Proposal 5.	For	Against	Abstain
2. To approve the Company s Senior Executive Management Incentive Compensation Plan, as amended and restated effective April 1, 2015.	¨	¨	¨
3. To approve, on a non-binding advisory basis, the compensation of our named executive officers.	¨	¨	¨
4. To ratify the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for the fiscal year ending March 31, 2016.	¨	¨	¨
5. To consider a shareholder proposal, if properly presented at the Annual Meeting.	¨	¨	¨

In their discretion, the Proxies are authorized to vote upon such other matters as may properly come before the meeting or at any adjournment thereof.

NOTE: Please sign exactly as name above. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.

Signature [PLEASE SIGN WITHIN BOX]   Date   Signature (Joint Owners)   Date

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YOUR VOTE IS IMPORTANT

Regardless of whether you plan to attend the Annual Meeting of Shareholders, you can be sure the shares are represented at the meeting by promptly returning your proxy in the enclosed envelope.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting to be held on

August 27, 2015:

The Notice and Proxy Statement and Annual Report are available at www.proxyvote.com.

Sign and date proxy card on the reverse side.

Please fold and detach direction form at perforation before mailing.

M94954-P68393

PROXY	**STERIS CORPORATION**	**PROXY**

ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON AUGUST 27, 2015

This Proxy is solicited by the Board of Directors

At the Annual Meeting of Shareholders of the Company to be held on August 27, 2015, and at any adjournment thereof, Walter M Rosebrough, Jr., John P. Wareham, Michael J. Tokich, J. Adam Zangerle, Ronald E. Snyder and Dennis P. Patton, and each of them, with full power of substitution in each (the Proxies), are hereby authorized to represent me and to vote the shares on the following Proposals:

1. To elect directors to serve for a one-year term of office expiring at the Company s 2016 Annual Meeting of Shareholders. The nominees for the Board of Directors are: Richard C. Breeden, Cynthia L. Feldmann, Jacqueline B. Kosecoff, David B. Lewis, Kevin M. McMullen, Walter M Rosebrough, Jr., Mohsen M. Sohi, John P. Wareham, Loyal W. Wilson, and Michael B. Wood.

2. To approve the STERIS Corporation Senior Executive Management Incentive Compensation Plan, as amended and restated effective April 1, 2015.

3. To approve, on a non-binding advisory basis, the compensation of our named executive officers.

4. To ratify the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for the fiscal year ending March 31, 2016.

5. To consider a shareholder proposal, if properly presented at the Annual Meeting.

The Board of Directors recommends votes FOR the election of the nominees listed above, FOR approval of the Company s Senior Executive Management Incentive Plan, as amended and restated effective April 1, 2015, FOR approval, on a non-binding advisory basis, of the compensation of our named executive officers, and FOR the ratification of Ernst & Young LLP as the Company s independent registered public accounting firm for the fiscal year ending March 31, 2016, and AGAINST the shareholder proposal, if properly presented at the Annual Meeting.

Unless otherwise specified, this Proxy will be voted FOR the election of the nominees listed above, FOR approval of the Company s Senior Executive Management Incentive Plan, as amended and restated effective April 1, 2015, FOR approval, on a non-binding advisory basis, of the compensation of our named executive officers, and FOR the ratification of Ernst & Young LLP as the Company s independent registered public accounting firm for the fiscal year ending March 31, 2016, and AGAINST the shareholder proposal, if properly presented at the Annual Meeting and, in the Proxies discretion, on all other matters as may properly come before the meeting or any adjournment thereof.

SEE REVERSE SIDE.

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STERIS CORPORATION

5960 HEISLEY ROAD

MENTOR, OH 44060-1834

ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, direction form and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions below to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 5:00 PM on August 21, 2015, for tabulation. Have your direction form in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 5:00 PM on August 21, 2015, for tabulation. Have your direction form in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your direction form and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

M94955-Z66245 KEEP THIS PORTION FOR YOUR RECORDS

THIS DIRECTION FORM IS VALID ONLY WHEN SIGNED AND DATED. DETACH AND RETURN THIS PORTION ONLY

STERIS CORPORATION	For All	Withhold All	For All Except	To withhold authority to vote for any individual nominee(s), mark For All Except and write the number(s) of the nominee(s) on the line below.
The Board of Directors recommends a vote FOR all the below nominees.	..	..	..	

Vote on Directors

1. Election of Directors

Nominees:

01) Richard C. Breeden
02) Cynthia L. Feldmann
03) Jacqueline B. Kosecoff
04) David B. Lewis
05) Kevin M. McMullen
06) Walter M Rosebrough, Jr.
07) Mohsen M. Sohi
08) John P. Wareham
09) Loyal W. Wilson
10) Michael B. Wood

The Board of Directors recommends a vote FOR Proposals 2, 3, and 4 and AGAINST Proposal 5.	For	Against	Abstain
2. To approve the Company s Senior Executive Management Incentive Compensation Plan, as amended and restated effective April 1, 2015.	¨	¨	¨
3. To approve, on a non-binding advisory basis, the compensation of our named executive officers.	¨	¨	¨
4. To ratify the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for the fiscal year ending March 31, 2016.	¨	¨	¨
5. To consider a shareholder proposal, if properly presented at the Annual Meeting.	¨	¨	¨

In its discretion, the Trustee is authorized to vote upon such other matters as may properly come before the meeting or at any adjournment thereof.

NOTE: Please sign exactly as name above. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.

Signature [PLEASE SIGN WITHIN BOX] Date Signature (Joint Owners) Date

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August 27, 2015:

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Sign and date direction form on the reverse side.

Please fold and detach direction form at perforation before mailing.

M94956-Z66245

DIRECTION FORM **STERIS CORPORATION** **DIRECTION FORM**

ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON August 27, 2015

Instructions for Voting Shares Held by Vanguard Fiduciary Trust Company, Trustee under the

STERIS Corporation 401(k) Plan and Trust (the Plan)

Pursuant to the Plan, and in my capacity as a Named Fiduciary for this purpose, I hereby direct Vanguard Fiduciary Trust Company, as Trustee, to vote in person or by proxy (i) all Common Shares of the Company credited to the employer stock fund account under the Plan and (ii) all Common Shares of the Company credited to accounts under the Plan for which the Trustee does not receive direction, at the Annual Meeting of Shareholders of the Company to be held on August 27, 2015, and at any adjournment thereof, as specified on the reverse side of this direction form on all matters properly coming before said meeting, including:

1. To elect directors to serve for a one-year term of office expiring at the Company s 2016 Annual Meeting of Shareholders. The nominees for the Board of Directors are: Richard C. Breeden, Cynthia L. Feldmann, Jacqueline B. Kosecoff, David B. Lewis, Kevin M. McMullen, Walter M Rosebrough, Jr., Mohsen M. Sohi, John P. Wareham, Loyal W. Wilson, and Michael B. Wood.

2. To approve the STERIS Corporation Senior Executive Management Incentive Compensation Plan, as amended and restated effective April 1, 2015.

3. To approve, on a non-binding advisory basis, the compensation of our named executive officers.

4. To ratify the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for the fiscal year ending March 31, 2016.

5. To consider a shareholder proposal, if properly presented at the Annual Meeting.

The Board of Directors recommends votes FOR the election of the nominees listed above, FOR approval of the Company s Senior Executive Management Incentive Plan, as amended and restated effective April 1, 2015, FOR approval, on a non-binding advisory basis, of the compensation of our named executive officers, and FOR the ratification of Ernst & Young LLP as the Company s independent registered public accounting firm for the fiscal year ending March 31, 2016, and AGAINST the shareholder proposal, if properly presented at the Annual Meeting.

ALL COMMON SHARES OF THE COMPANY HELD UNDER THE PLAN FOR WHICH THE TRUSTEE DOES NOT RECEIVE A DIRECTION (INCLUDING THOSE CREDITED TO YOUR EMPLOYER STOCK FUND ACCOUNT IF YOU DO NOT TIMELY PROVIDE THE TRUSTEE WITH A DIRECTION) WILL BE VOTED BY THE TRUSTEE IN THE SAME PROPORTION AS IT VOTES THOSE SHARES WITH RESPECT TO WHICH IT DOES RECEIVE VOTING INSTRUCTIONS REGARDING THE ELECTION OF THE NOMINEES FOR DIRECTOR LISTED ABOVE, APPROVAL OF THE COMPANY S SENIOR EXECUTIVE MANAGEMENT INCENTIVE PLAN, AS AMENDED AND RESTATED EFFECTIVE APRIL 1, 2015, APPROVAL, ON A NON-BINDING ADVISORY BASIS, OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS, THE RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS THE COMPANY S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING MARCH 31, 2016, AND CONSIDERATION OF THE SHAREHOLDER PROPOSAL, IF PROPERLY PRESENTED AT THE ANNUAL MEETING, AND ALL OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING OR ANY ADJOURNMENT THEREOF. SEE REVERSE SIDE.

DIRECTION FORMS MUST ARRIVE AT THE OFFICES OF BROADRIDGE FINANCIAL SOLUTIONS, THE TABULATING AGENT, NO LATER THAN 5:00 P.M., EASTERN TIME, ON AUGUST 21, 2015, FOR TABULATION.

SEE REVERSE SIDE.