

HOME BANCSHARES INC
Form 10-Q
November 06, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

or

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

Commission File Number: 000-51904

HOME BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Arkansas
(State or other jurisdiction of
incorporation or organization)

71-0682831
(I.R.S. Employer
Identification No.)

719 Harkrider, Suite 100, Conway, Arkansas
(Address of principal executive offices)
(501) 328-4770

72032
(Zip Code)

(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, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

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

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

the effects of future economic conditions, including inflation or a decrease in commercial real estate and residential housing values;

governmental monetary and fiscal policies, as well as legislative and regulatory changes;

the impact of the Dodd-Frank financial regulatory reform act and regulations issued thereunder;

the risks of changes in interest rates or the level and composition of deposits, loan demand and the values of loan collateral, securities and interest sensitive assets and liabilities;

the effects of terrorism and efforts to combat it;

credit risks;

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

the effect of any mergers, acquisitions or other transactions to which we or our subsidiaries may from time to time be a party, including our ability to successfully integrate any businesses that we acquire;

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

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

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

Table of Contents**PART I: FINANCIAL INFORMATION****Item 1: Financial Statements****Home BancShares, Inc.****Consolidated Balance Sheets**

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

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

See Condensed Notes to Consolidated Financial Statements.

Table of Contents**Home BancShares, Inc.****Consolidated Statements of Income**

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

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

See Condensed Notes to Consolidated Financial Statements.

Table of Contents**Home BancShares, Inc.****Consolidated Statements of Comprehensive Income**

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

Home BancShares, Inc.**Consolidated Statements of Stockholders Equity****Nine Months Ended September 30, 2014 and 2013**

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

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

See Condensed Notes to Consolidated Financial Statements.

Table of Contents**Home BancShares, Inc.****Consolidated Statements of Cash Flows**

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

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

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.

Condensed Notes to Consolidated Financial Statements

(Unaudited)

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

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

Operating Segments

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

Use of Estimates

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

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

Principles of Consolidation

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

Reclassifications

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

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

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

Earnings per Share

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

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

2. Business Combinations***Acquisition Florida Traditions Bank***

On July 17, 2014, the Company completed its acquisition of Florida Traditions Bank (Traditions) pursuant to a previously announced definitive agreement and plan of merger whereby Traditions merged with and into Centennial Bank (Centennial). Under the terms of the Agreement and Plan of Merger dated April 25, 2014, by and among HBI, Centennial, and Traditions, HBI issued 1,316,072 shares of its common stock valued at approximately \$39.5 million as of July 17, 2014, in exchange for all outstanding shares of Traditions common stock.

Prior to the acquisition, Traditions operated eight banking locations in Central Florida, including its main office in Dade City, Florida. As of acquisition date, Traditions had \$297.6 million in total assets, \$241.6 million in loans after \$8.5 million of loan discounts, and \$267.3 million in deposits.

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

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

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

Equity			
Common stock	26	(13)	13
Capital surplus	25,799	13,670	39,469
Retained earnings	632	(632)	
Accumulated other comprehensive income	26	(26)	
Total equity assumed	26,483	12,999	39,482
Total liabilities and equity assumed	\$ 297,629	\$ 12,844	\$ 310,473

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

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

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

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

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

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

Foreclosed assets held for sale not covered by loss share These assets are presented at the estimated fair values that management expects to receive when the properties are sold, net of related costs of disposal.

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

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

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

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

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

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

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

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

The purchase price allocation and certain fair value measurements remain preliminary due to the timing of the acquisition. We will continue to review the estimated fair values of loans, deposits, property and equipment, intangible assets, and other assets and liabilities, and to evaluate the assumed tax positions and contingencies.

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The Company's operating results for the period ended September 30, 2014, include the operating results of the acquired assets and assumed liabilities subsequent to the acquisition date. Due to the fair value adjustments recorded and the fact Traditions total assets acquired are less than 5% of total assets as of September 30, 2014 excluding Traditions as recorded by HBI as of acquisition date, historical results are not believed to be material to the Company's results, and thus no pro-forma information is presented.

Acquisition Liberty Bancshares, Inc.

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

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

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

3. Investment Securities

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

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

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

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

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

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

Assets, principally investment securities, having a carrying value of approximately \$1.14 billion and \$1.13 billion at September 30, 2014 and December 31, 2013, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. Also, investment securities pledged as collateral for repurchase agreements totaled approximately \$160.9 million and \$161.0 million at September 30, 2014 and December 31, 2013, respectively.

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

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

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

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

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

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

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

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

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

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

	December 31, 2013					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					

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

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

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

4. Loans Receivable Not Covered by Loss Share

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

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

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

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

\$135,000, respectively.

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

Table of Contents**5. Loans Receivable Covered by FDIC Loss Share**

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

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

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

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

Table of Contents**6. Allowance for Loan Losses, Credit Quality and Other**

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

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

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

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

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

the weighted average life of the loans.

Table of Contents**Three Months Ended September 30, 2014**

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

Nine Months Ended September 30, 2014

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

As of September 30, 2014

	Other						
	Construction/	Commercial	Residential	Commercial	Consumer	Unallocated	Total
	Land	Real	Real	&	& Other		
	Development	Estate	Estate	Industrial	& Other		
	(In thousands)						
Allowance for loan losses:							

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

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The following tables present the balances in the allowance for loan losses for the non-covered loan portfolio for the nine-month period ended September 30, 2013 and the year ended December 31, 2013, and the allowance for loan losses and recorded investment in loans not covered by loss share based on portfolio segment by impairment method as of December 31, 2013. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories.

Year Ended December 31, 2013

	Other		Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	Construction/Commercial Development	Real Estate					
Allowance for loan losses:							
Beginning balance	\$ 5,816	\$ 19,974	\$ 13,813	\$ 3,870	\$ 1,288	\$ 409	\$ 45,170
Loans charged off	(560)	(3,844)	(5,004)	(619)	(1,753)		(11,780)
Recoveries of loans previously charged off	19	2,052	852	49	530		3,502
Net loans recovered (charged off)	(541)	(1,792)	(4,152)	(570)	(1,223)		(8,278)
Provision for loan losses	1,200	(1,424)	(1,598)	(1,110)	986	2,696	750
Balance, September 30	6,475	16,758	8,063	2,190	1,051	3,105	37,642
Loans charged off	(438)	(210)	(1,304)	82	(547)		(2,417)
Recoveries of loans previously charged off	15	19	130	23	171		358
Net loans recovered (charged off)	(423)	(191)	(1,174)	105	(376)		(2,059)
Provision for loan losses	230	(1,467)	2,000	(362)	1,888	1,150	3,439
Balance, December 31	\$ 6,282	\$ 15,100	\$ 8,889	\$ 1,933	\$ 2,563	\$ 4,255	\$ 39,022

As of December 31, 2013

	Other		Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	Construction/Commercial Development	Real Estate					
Allowance for loan losses:							
Period end amount allocated to:							
	\$ 3,826	\$ 8,359	\$ 2,347	\$ 5	\$	\$	\$ 14,537

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

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

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

	December 31, 2013						
	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due (In thousands)	Current Loans	Total Loans Receivable	Accruing Loans Past Due 90 Days or More
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	\$ 4,849	\$ 2,275	\$ 13,007	\$ 20,131	\$ 1,719,537	\$ 1,739,668	\$ 7,914
Construction/land development							
	2,206	352	5,959	8,517	554,150	562,667	4,879
Agricultural	1,040	1,082	89	2,211	79,407	81,618	
Residential real estate loans							

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

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

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

			September 30, 2014		December 31, 2013	
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses	Average Recorded Investment	Average Interest Recognized	Average Interest Recognized
Loans without a specific valuation allowance						
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	\$	\$	\$	\$	\$	\$ 845 \$ 14
Construction/land development						
Agricultural						
Residential real estate loans						
Residential 1-4 family	6	6		6		32 2
Multifamily residential						
Total real estate	6	6		6		877 16
Consumer						
Commercial and industrial						
Agricultural and other						
Total loans without a specific valuation allowance	6	6		6		877 16
Loans with a specific valuation allowance						
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	45,736	42,915	7,487	39,202	363	44,028 1,156
Construction/land development	17,030	15,335	2,076	21,758	148	21,909 563
Agricultural	52	33		50		67
Residential real estate loans						
Residential 1-4 family	18,409	16,197	2,236	16,797	97	16,862 350
Multifamily residential	4,497	4,216	1,183	4,270	47	3,965 108
Total real estate	85,724	78,696	12,982	82,077	655	86,831 2,177
Consumer						
Commercial and industrial	335	300		336	1	295 5
Agricultural and other	5,758	4,084	9	4,764	32	5,262 116
Total loans with a specific valuation allowance	92,001	83,264	12,991	87,369	688	92,484 2,298

Total loans with a specific valuation allowance

Total impaired loans

Real estate:

Commercial real estate loans

Non-farm/non-residential	45,736	42,915	7,487	39,202	363	44,873	1,170
Construction/land development	17,030	15,335	2,076	21,758	148	21,909	563
Agricultural	52	33		50		67	

Residential real estate loans

Residential 1-4 family	18,415	16,203	2,236	16,803	97	16,894	352
Multifamily residential	4,497	4,216	1,183	4,270	47	3,965	108

Total real estate	85,730	78,702	12,982	82,083	655	87,708	2,193
Consumer	335	300		336	1	295	5
Commercial and industrial	5,758	4,084	9	4,764	32	5,262	116
Agricultural and other	184	184		192		96	

Total impaired loans	\$ 92,007	\$ 83,270	\$ 12,991	\$ 87,375	\$ 688	\$ 93,361	\$ 2,314
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Note: Purchased non-covered loans acquired with deteriorated credit quality are accounted for on a pooled basis under ASC 310-30. All of these pools are currently considered to be performing resulting in none of the purchased non-covered loans acquired with deteriorated credit quality being classified as non-covered impaired loans as of September 30, 2014.

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

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

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

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

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

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

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

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

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

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

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

warrant adverse classification.

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

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

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

The Company's classified loans include loans in risk ratings 6, 7 and 8. The following is a presentation of classified non-covered loans (excluding loans accounted for under ASC Topic 310-30) by class as of September 30, 2014 and December 31, 2013:

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

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

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

Loans may be classified, but not considered impaired, due to one of the following reasons: (1) The Company has established minimum dollar amount thresholds for loan impairment testing. All loans over \$1.0 million that are rated 5-8 are individually assessed for impairment on a quarterly basis. Loans rated 5-8 that fall under the threshold amount are not individually tested for impairment and therefore are not included in impaired loans; (2) of the loans that are above the threshold amount and tested for impairment, after testing, some are considered to not be impaired and are not included in impaired loans.

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

	September 30, 2014					Classified Total	Total
	Risk Rated 1	Risk Rated 2	Risk Rated 3	Risk Rated 4	Risk Rated 5		
(In thousands)							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	\$ 1,570	\$ 2,227	\$ 1,230,771	\$ 499,456	\$ 26,392	\$ 39,830	\$ 1,800,246
Construction/land development							
Agricultural	15	119	220,666	383,392	11,554	18,485	634,231
			54,128	22,349	879		77,356
Residential real estate loans							
Residential 1-4 family	272	71	703,844	144,436	14,007	15,950	878,580
Multifamily residential			192,310	44,883	2,340	3,298	242,831
Total real estate	1,857	2,417	2,401,719	1,094,516	55,172	77,563	3,633,244
Consumer	15,284	20	30,637	9,535	684	364	56,524
Commercial and industrial	15,977	6,519	331,797	172,281	3,157	2,570	532,301
Agricultural and other	686	935	85,033	44,152	622	209	131,637
Total risk rated loans	\$ 33,804	\$ 9,891	\$ 2,849,186	\$ 1,320,484	\$ 59,635	\$ 80,706	4,353,706
Purchased credit impaired loans acquired							229,309
Total non-covered loans							\$ 4,583,015

	December 31, 2013					Classified Total	Total
	Risk Rated 1	Risk Rated 2	Risk Rated 3	Risk Rated 4	Risk Rated 5		
(In thousands)							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	\$ 3	\$ 3,135	\$ 1,039,110	\$ 462,957	\$ 28,380	\$ 55,875	\$ 1,589,460
Construction/land development							
Agricultural	54	94	198,228	303,590	11,732	19,140	532,838
	55		53,633	24,901	764	89	79,442
Residential real estate loans							
Residential 1-4 family	393	146	654,739	155,744	17,241	12,943	841,206
Multifamily residential			150,023	52,233	1,679	2,064	205,999

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

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

	September 30, 2014					
	Pre- Modification Number of Loans	Outstanding Balance	Rate Modification	Term Modification	Rate & Term Modification	Post- Modification Outstanding Balance
(Dollars in thousands)						
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	7	\$ 17,340	\$ 2,616	\$ 8,662	\$ 5,672	\$ 16,950
Construction/land development	3	8,324	5,691	1,794		7,485
Residential real estate loans						
Residential 1-4 family	5	1,051	319	246	162	727
Multifamily residential	2	3,182	2,018		294	2,312
Total real estate	17	29,897	10,644	10,702	6,128	27,474
Commercial and industrial	1	380			322	322
Total	18	\$ 30,277	\$ 10,644	\$ 10,702	\$ 6,450	\$ 27,796

	December 31, 2013					
	Pre- Modification Number of Loans	Outstanding Balance	Rate Modification	Term Modification	Rate & Term Modification	Post- Modification Outstanding Balance
(Dollars in thousands)						
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	14	\$ 36,454	\$ 13,029	\$ 8,384	\$ 10,554	\$ 31,967
Construction/land development	3	8,324	5,811	1,794		7,605
Residential real estate loans						
Residential 1-4 family	8	1,646	589	727	170	1,486
Multifamily residential	1	2,887	2,063			2,063
Total real estate	26	49,311	21,492	10,905	10,724	43,121
Commercial and industrial	1	380			345	345
Total	27	\$ 49,691	\$ 21,492	\$ 10,905	\$ 11,069	\$ 43,466

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

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

Allowance for Loan Losses and Credit Quality for Covered Loans

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

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

Three Months Ended September 30, 2014

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

Nine Months Ended September 30, 2014

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

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

As of September 30, 2014

	Other Construction Land Development	Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
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(In thousands)

Allowance for loan losses:

Period end amount allocated to:

Loans individually evaluated for impairment

\$	\$	\$	\$	\$	\$	\$
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Loans collectively evaluated for impairment

Loans evaluated for impairment balance, September 30

Purchased credit impaired loans acquired

143	769	1,220	15	2	2,149
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Balance, September 30	\$ 143	\$ 769	\$ 1,220	\$ 15	\$ 2	\$ 2,149
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Loans receivable:

Period end amount allocated to:

Loans individually evaluated for impairment

\$	\$	\$	\$	\$	\$	\$
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Loans collectively evaluated for impairment

Loans evaluated for
impairment balance, June 30

Purchased credit impaired loans acquired	42,713	100,557	98,351	8,295	1,054	250,970
Balance, September 30	\$ 42,713	\$ 100,557	\$ 98,351	\$ 8,295	\$ 1,054	\$ 250,970

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

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

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

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

As of December 31, 2013

	Other Construction Land Development	Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
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(In thousands)

Allowance for loan losses:

Period end amount allocated to:

Loans individually evaluated for impairment

\$	\$	\$	\$	\$	\$	\$
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Loans collectively evaluated for impairment

Loans evaluated for impairment balance, December 31

Purchased credit impaired loans acquired

1,707	838	2,113	135			4,793
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Balance, December 31	\$ 1,707	\$ 838	\$ 2,113	\$ 135	\$	\$ 4,793
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Loans receivable:

Period end amount allocated to:

Loans individually evaluated for impairment

\$	\$	\$	\$	\$	\$	\$
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Loans collectively evaluated for impairment

Loans evaluated for impairment balance, December 31

Purchased credit impaired loans acquired

48,388	118,396	108,781	5,852	1,099		282,516
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Balance, December 31	\$ 48,388	\$ 118,396	\$ 108,781	\$ 5,852	\$ 1,099	\$ 282,516
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Changes in the carrying amount of the accretible yield for purchased credit impaired loans acquired were as follows for the nine-month period ended September 30, 2014 for the Company's covered and non-covered acquisitions:

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

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

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

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

7. Goodwill and Core Deposits and Other Intangibles

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

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

Goodwill

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

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

<u>Core Deposit and Other Intangibles</u>		
Balance, beginning of period	\$ 22,298	\$ 12,061
Traditions acquisition	2,173	
Amortization expense	(3,467)	(2,406)
Balance, September 30	\$ 21,004	9,655
Liberty acquisition		13,861
Amortization expense		(1,218)
Balance, end of year		\$ 22,298

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

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

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

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

8. Other Assets

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

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

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

9. Deposits

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

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

Table of Contents**10. Securities Sold Under Agreements to Repurchase**

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

11. FHLB Borrowed Funds

The Company's Federal Home Loan Bank (FHLB) borrowed funds were \$713.6 million and \$350.7 million at September 30, 2014 and December 31, 2013, respectively. At September 30, 2014, \$520.0 million and \$193.6 million of the outstanding balance were issued as short-term and long-term advances, respectively. At December 31, 2013, \$130.3 million and \$220.4 million of the outstanding balances were issued as short-term and long-term advances, respectively. The FHLB advances mature from the current year to 2025 with fixed interest rates ranging from 0.105% to 5.960% and are secured by loans and investments securities. Expected maturities will differ from contractual maturities because FHLB may have the right to call or HBI the right to prepay certain obligations.

Additionally, the Company had \$172.0 million and \$191.0 million at September 30, 2014 and December 31, 2013, respectively, in letters of credit under a FHLB blanket borrowing line of credit, which are used to collateralize public deposits at September 30, 2014 and December 31, 2013, respectively.

12. Subordinated Debentures

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

	As of September 30, 2014	As of December 31, 2013
	(In thousands)	
Subordinated debentures, issued in 2006, due 2036, fixed rate of 6.75% during the first five years and at a floating rate of 1.85% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	\$ 3,093	\$ 3,093
Subordinated debentures, issued in 2004, due 2034, fixed rate of 6.00% during the first five years and at a floating rate of 2.00% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	15,464	15,464
Subordinated debentures, issued in 2005, due 2035, fixed rate of 5.84% during the first five years and at a floating rate of 1.45% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	25,774	25,774
Subordinated debentures, issued in 2004, due 2034, fixed rate of 4.29% during the first five years and at a floating rate of 2.50% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	16,495	16,495
Total	\$ 60,826	\$ 60,826

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

13. Income Taxes

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

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

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

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

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

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

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

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

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

14. Common Stock and Compensation Plans***Stock Compensation Plans***

The Company has a stock option and performance incentive plan known as the Amended and Restated 2006 Stock Option and Performance Incentive Plan (the Plan). The purpose of the Plan is to attract and retain highly qualified officers, directors, key employees, and other persons, and to motivate those persons to improve the Company's business results. The Plan provides for the granting of incentive nonqualified options to purchase stock or for the

issuance of restricted shares up to 4,644,000 shares of common stock in the Company. At September 30, 2014, the Company has approximately 1,483,000 shares of common stock remaining available for grants or issuance under the plan and approximately 2,475,000 shares reserved for issuance of common stock.

The intrinsic value of the stock options outstanding and stock options vested at September 30, 2014 was \$18.3 million and \$16.0 million, respectively. The intrinsic value of the stock options exercised during the three and nine-month periods ended September 30, 2014 was approximately \$646,000 and \$1.2 million, respectively. Total unrecognized compensation cost, net of income tax benefit, related to non-vested awards, which are expected to be recognized over the vesting periods, was approximately \$1.4 million as of September 30, 2014. For the first nine months of 2014, the Company has expensed \$241,000 for the non-vested awards.

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

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

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

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

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

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

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

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

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

On June 4, 2013, 12,666 shares of restricted common stock were issued to a regional president of the Company's bank subsidiary. Of these issued shares, 9,666 shares will vest equally each year over three years beginning on the first

anniversary of the issuance. The remaining 3,000 shares are subject to performance based vesting (Performance Shares). The Performance Shares are set up to cliff vest on the third annual anniversary of the date that the performance goal is met. As of September 30, 2013, the performance goal was met when the Company averaged \$0.3125 diluted earnings per share for the past four consecutive quarters or total diluted earnings per share of \$1.25 during the same period. In accordance with the vesting terms of the Performance Shares agreements, the issued shares are due to fully vest on September 30, 2016.

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

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

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

15. Non-Interest Expense

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

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

16. Concentration of Credit Risks

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

The diversity of the Company's economic base tends to provide a stable lending environment. Although the Company has a loan portfolio that is diversified in both industry and geographic area, a substantial portion of its debtors' ability

to honor their contracts is dependent upon real estate values, tourism demand and the economic conditions prevailing in its market areas.

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17. Significant Estimates and Concentrations

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

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

Approximately 86.6% of the Company's loans as of September 30, 2014, are to the borrowers in Alabama, Arkansas and Florida, the three states in which the Company has its primary market areas. Additionally, the Company has 84.5% of its loans as real estate loans primarily in Arkansas, Florida and South Alabama.

Although general economic conditions nationally and locally in our market areas have improved over the past three years and show signs of continued improvement, financial institutions still face circumstances and challenges which in some cases have and could potentially result in large declines in the fair values of investments and other assets, constraints on liquidity and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans. The financial statements have been prepared using values and information currently available to the Company.

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

18. Commitments and Contingencies

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

At September 30, 2014 and December 31, 2013, commitments to extend credit of \$775.8 million and \$623.5 million, respectively, were outstanding. A percentage of these balances are participated out to other banks; therefore, the Company can call on the participating banks to fund future draws. Since some of these commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

Outstanding standby letters of credit are contingent commitments issued by the Company, generally to guarantee the performance of a customer in third-party borrowing arrangements. The term of the guarantee is dependent upon the credit worthiness of the borrower some of which are long-term. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments. The

maximum amount of future payments the Company could be required to make under these guarantees at September 30, 2014 and December 31, 2013, is \$22.9 million and \$21.4 million, respectively.

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

Table of Contents**19. Regulatory Matters**

The Bank is subject to a legal limitation on dividends that can be paid to the parent company without prior approval of the applicable regulatory agencies. Arkansas bank regulators have specified that the maximum dividend limit state banks may pay to the parent company without prior approval is 75% of the current year earnings plus 75% of the retained net earnings of the preceding year. Since the Bank is also under supervision of the Federal Reserve, it is further limited if the total of all dividends declared in any calendar year by the Bank exceeds the Bank's net profits to date for that year combined with its retained net profits for the preceding two years. During the first nine months of 2014, the Company requested approximately \$61.4 million in regular dividends from its banking subsidiary. This dividend is equal to approximately 71.5% of our banking subsidiary's first nine months earnings.

The Federal Reserve Board's risk-based capital guidelines include the definitions for (1) a well-capitalized institution, (2) an adequately-capitalized institution, and (3) an undercapitalized institution. The criteria for a well-capitalized institution are: a 5% Tier 1 leverage capital ratio, a 6% Tier 1 risk-based capital ratio, and a 10% total risk-based capital ratio. As of September 30, 2014, the Bank met the capital standards for a well-capitalized institution. The Company's Tier 1 leverage capital ratio, Tier 1 risk-based capital ratio, and total risk-based capital ratio were 10.22%, 12.42%, and 13.39%, respectively, as of September 30, 2014.

20. Additional Cash Flow Information

The following is summary of the Company's additional cash flow information during the nine-month periods ended:

	Nine Months Ended September 30,	
	2014	2013
	(In thousands)	
Interest paid	\$ 14,323	\$ 10,337
Income taxes paid	16,650	16,875
Assets acquired by foreclosure	14,238	12,522

21. Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

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

Available-for-sale securities are the only material instruments valued on a recurring basis which are held by the Company at fair value. The Company does not have any Level 1 securities. Primarily all of the Company's securities

are considered to be Level 2 securities. These Level 2 securities consist primarily of U.S. government-sponsored enterprises, mortgage-backed securities plus state and political subdivisions. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. As of September 30, 2014 and December 31, 2013, Level 3 securities were immaterial. In addition, there were no material transfers between hierarchy levels during 2014 and 2013.

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The Corporation reviews the prices supplied by the independent pricing service, as well as their underlying pricing methodologies, for reasonableness and to ensure such prices are aligned with traditional pricing matrices. In general, the Company does not purchase investment portfolio securities with complicated structures. Pricing for the Company's investment securities is fairly generic and is easily obtained.

Impaired loans that are collateral dependent are the only material financial assets valued on a non-recurring basis which are held by the Company at fair value. Loan impairment is reported when full payment under the loan terms is not expected. Impaired loans are carried at the net realizable value of the collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require an increase, such increase is reported as a component of the provision for loan losses. The fair value of loans with specific allocated losses was \$70.3 million and \$91.9 million as of September 30, 2014 and December 31, 2013, respectively. This valuation is considered Level 3, consisting of appraisals of underlying collateral. The Company reversed approximately \$183,000 and \$147,000 of accrued interest receivable when non-covered impaired loans were put on non-accrual status during the three months ended September 30, 2014 and 2013, respectively. The Company reversed approximately \$746,000 and \$453,000 of accrued interest receivable when non-covered impaired loans were put on non-accrual status during the nine months ended September 30, 2014 and 2013, respectively.

Foreclosed assets held for sale are the only material non-financial assets valued on a non-recurring basis which are held by the Company at fair value, less estimated costs to sell. At foreclosure, if the fair value, less estimated costs to sell, of the real estate acquired is less than the Company's recorded investment in the related loan, a write-down is recognized through a charge to the allowance for loan losses. Additionally, valuations are periodically performed by management and any subsequent reduction in value is recognized by a charge to income. The fair value of foreclosed assets held for sale is estimated using Level 3 inputs based on appraisals of underlying collateral. As of September 30, 2014 and December 31, 2013, the fair value of foreclosed assets held for sale not covered by loss share, less estimated costs to sell was \$19.4 million and \$29.9 million, respectively.

The significant unobservable (Level 3) inputs used in the fair value measurement of collateral for collateral-dependent impaired loans and foreclosed assets primarily relate to customized discounting criteria applied to the customer's reported amount of collateral. The amount of the collateral discount depends upon the condition and marketability of the underlying collateral. As the Company's primary objective in the event of default would be to monetize the collateral to settle the outstanding balance of the loan, less marketable collateral would receive a larger discount. During the reported periods, collateral discounts ranged from 20% to 50% for commercial and residential real estate collateral.

Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating fair values of financial instruments as disclosed in these notes:

Cash and cash equivalents and federal funds sold For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Investment securities held-to-maturity These securities consist primarily of mortgage-backed securities plus state and political subdivisions. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

Loans receivable not covered by loss share, net of non-covered impaired loans and allowance For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are assumed to approximate the carrying amounts. The fair values for fixed-rate loans are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics.

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Loans receivable covered by FDIC loss share, net of allowance Fair values for loans are 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, whether or not the loan was amortizing and current discount rates. Loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques. The discount rates used for loans are based on current market rates for new originations of comparable loans and include adjustments for liquidity concerns. The discount rate does not include a factor for credit losses as that has been included in the estimated cash flows.

FDIC indemnification asset Although this asset is a contractual receivable from the FDIC, there is no effective interest rate. The Bank will collect this asset over the next several years. The amount ultimately collected will depend on the timing and amount of collections and charge-offs on the acquired assets covered by the loss sharing agreement. While this asset was recorded at its estimated fair value at acquisition date, it is not practicable to complete a fair value analysis on a quarterly or annual basis. This would involve preparing a fair value analysis of the entire portfolio of loans and foreclosed assets covered by the loss sharing agreement on a quarterly or annual basis in order to estimate the fair value of the FDIC indemnification asset.

Accrued interest receivable The carrying amount of accrued interest receivable approximates its fair value.

Deposits and securities sold under agreements to repurchase The fair values of demand, savings deposits and securities sold under agreements to repurchase are, by definition, equal to the amount payable on demand and therefore approximate their carrying amounts. The fair values for time deposits are estimated using a discounted cash flow calculation that utilizes interest rates currently being offered on time deposits with similar contractual maturities.

FHLB borrowed funds For short-term instruments, the carrying amount is a reasonable estimate of fair value. The fair value of long-term debt is estimated based on the current rates available to the Company for debt with similar terms and remaining maturities.

Accrued interest payable The carrying amount of accrued interest payable approximates its fair value.

Subordinated debentures The fair value of subordinated debentures is estimated using the rates that would be charged for subordinated debentures of similar remaining maturities.

Commitments to extend credit, letters of credit and lines of credit The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. The fair value of these commitments is not material.

The following table presents the estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

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	September 30, 2014		
	Carrying Amount	Fair Value	Level
	(In thousands)		
Financial assets:			
Cash and cash equivalents	\$ 137,483	\$ 137,483	1
Federal funds sold	44,275	44,275	1
Investment securities held-to-maturity	296,036	300,023	2
Loans receivable not covered by loss share, net of non-covered impaired loans and allowance	4,462,041	4,449,341	3
Loans receivable covered by FDIC loss share, net of allowance	248,821	248,821	3
FDIC indemnification asset	42,104	42,104	3
Accrued interest receivable	23,366	23,366	1
Financial liabilities:			
Deposits:			
Demand and non-interest bearing	\$ 1,170,441	\$ 1,170,441	1
Savings and interest-bearing transaction accounts	2,830,829	2,830,829	1
Time deposits	1,276,001	1,273,212	3
Federal funds purchased			N/A
Securities sold under agreements to repurchase	160,895	160,895	1
FHLB borrowed funds	713,553	721,163	2
Accrued interest payable	1,108	1,108	1
Subordinated debentures	60,826	60,826	3

	December 31, 2013		
	Carrying Amount	Fair Value	Level
	(In thousands)		
Financial assets:			
Cash and cash equivalents	\$ 165,534	\$ 165,534	1
Federal funds sold	4,275	4,275	1
Investment securities held-to-maturity	114,621	113,901	2
Loans receivable not covered by loss share, net of non-covered impaired loans and allowance	4,063,469	4,053,098	3
Loans receivable covered by FDIC loss share, net of allowance	277,723	277,723	3
FDIC indemnification asset	89,611	89,611	3
Accrued interest receivable	22,944	22,944	1
Financial liabilities:			
Deposits:			
Demand and non-interest bearing	\$ 991,161	\$ 991,161	1
Savings and interest-bearing transaction accounts	2,792,423	2,792,423	1
Time deposits	1,609,462	1,606,664	3
Federal funds purchased			N/A

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Securities sold under agreements to repurchase	160,984	160,984	1
FHLB borrowed funds	350,661	357,674	2
Accrued interest payable	1,252	1,252	1
Subordinated debentures	60,826	60,826	3

Table of Contents**22. Recent Accounting Pronouncements**

In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-04, *Receivables: Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure* (Topic 310-40). ASU 2014-04 clarifies that an in substance repossession or foreclosure occurs upon either the creditor obtaining legal title to the residential real estate property or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The amendments are effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014. The amendments may be adopted using either a modified retrospective transition method or a prospective transition method. Early adoption is permitted. Adoption of ASU 2014-04 is not expected to have a significant effect on the Company's financial statements.

In January 2014, the FASB issued ASU No. 2014-01, *Accounting for Investments in Affordable Housing Projects* (Topic 323). ASU 2014-01 revises the necessary criteria that need to be met in order for an entity to account for investments in affordable housing projects net of the provision for income taxes. It also changes the method of recognition from an effective amortization approach to a proportional amortization approach. Additional disclosures were also set forth in this update. The amendments are effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014. The amendments are required to be applied retrospectively to all periods presented. Early adoption is permitted. Adoption of ASU 2014-01 is not expected to have a significant effect on the Company's financial statements.

In June 2014, the FASB issued ASU No. 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* impacting FASB ASC 860, *Transfers and Servicing*. Generally, an award with a performance target requires an employee also render service once the performance target is achieved. In some cases, however, the terms of an award may provide that the performance target could be achieved after an employee completes the requisite service period. The amendments in this update require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. An entity should apply this guidance as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period for which the service has already been rendered. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a significant effect on the Company's financial statements.

In August 2014, the FASB issued ASU No. 2014-14, *Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure* impacting FASB ASC 310-40, *Receivables - Troubled Debt Restructuring by Creditors*. This update affects creditors that hold government-guaranteed mortgage loans. The amendments in this update require that a mortgage loan be derecognized and that a separate other receivable be recognized if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure; (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under the claim; (3) at the time of foreclosure, the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2014. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a significant effect on the Company's

financial statements.

Presently, the Company is not aware of any changes from the Financial Accounting Standards Board that will have a material impact on the Company's present or future financial statements.

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23. Subsequent Events

Business Combination Broward Financial Holdings, Inc. Subsequent to September 30, 2014, on October 23, 2014, the Company completed its acquisition of Broward Financial Holdings, Inc. (BFHI), parent company of Broward Bank of Commerce (Broward), pursuant to a previously announced definitive agreement and plan of merger whereby a wholly-owned acquisition subsidiary (Acquisition Sub II) of HBI merged with and into BFHI, resulting in BFHI becoming a wholly-owned subsidiary of HBI. Immediately thereafter, Broward was merged into Centennial Bank (Centennial). Under the terms of the Agreement and Plan of Merger dated July 30, 2014 by and among HBI, Centennial, BFHI, Broward and Acquisition Sub II, HBI issued approximately 1,021,000 shares of its common stock valued at \$29,754,001 as of October 23, 2014, plus \$3,306,000 in cash in exchange for all outstanding shares of BFHI common stock. HBI has also agreed to pay the BFHI shareholders at an undetermined date up to approximately \$751,000 in additional consideration. The amount and timing of the additional payment, if any, will depend on future payments received or losses incurred by Centennial from certain current Broward loans. At this point, the Company anticipates it will record a fair value of zero for the potential additional consideration.

Prior to the acquisition, Broward operated two banking locations in Fort Lauderdale, Florida. As of acquisition date, Broward had approximately \$180.2 million in total assets, \$119.2 million in total loans, and \$145.0 million in deposits.

As of the acquisition date, BFHI s common equity totaled \$20,407,000 and the Company paid a purchase price to the BFHI shareholders of \$33,060,001 for the Broward acquisition. As a result, the Company paid a multiple of 1.62 of Broward s book value per share and tangible book value per share.

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Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders

Home BancShares, Inc.

Conway, Arkansas

We have reviewed the accompanying condensed consolidated balance sheet of Home BancShares, Inc. (the Company) as of September 30, 2014, and the related condensed consolidated statements of income and comprehensive income for the three-month and nine-month periods ended September 30, 2014 and 2013 and condensed consolidated statements of stockholders' equity and cash flows for the nine-month periods ended September 30, 2014 and 2013. These interim financial statements are the responsibility of the Company's management.

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

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated February 28, 2014, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2013, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ **BKD, LLP**

Little Rock, Arkansas

November 6, 2014

Table of Contents**Item 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with our Form 10-K, filed with the Securities and Exchange Commission on February 28, 2014, which includes the audited financial statements for the year ended December 31, 2013. *Unless the context requires otherwise, the terms "Company", "us", "we", and "our" refer to Home BancShares, Inc. on a consolidated basis.*

General

We are a bank holding company headquartered in Conway, Arkansas, offering a broad array of financial services through our wholly owned bank subsidiary, Centennial Bank (Centennial). As of September 30, 2014, we had, on a consolidated basis, total assets of \$7.20 billion, loans receivable, net of \$4.78 billion, total deposits of \$5.28 billion, and stockholders' equity of \$958.7 million.

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

Table 1: Key Financial Measures

	As of or for the Three Months		As of or for the Nine	
	Ended September 30,		Months	
	2014	2013	2014	2013
	(Dollars in thousands, except per share data)			
Total assets	\$ 7,196,371	\$ 4,161,306	\$ 7,196,371	\$ 4,161,306
Loans receivable not covered by loss share	4,583,015	2,378,838	4,583,015	2,378,838
Loans receivable covered by FDIC loss share	250,970	308,072	250,970	308,072
Allowance for loan losses	52,844	38,748	52,844	38,748
FDIC claims receivable	12,781	31,168	12,781	31,168
Total deposits	5,277,271	3,248,818	5,277,271	3,248,818
Total stockholders' equity	958,681	545,142	958,681	545,142
Net income	27,371	18,363	83,137	53,570
Basic earnings per share	0.41	0.33	1.27	0.96
Diluted earnings per share	0.41	0.33	1.26	0.95
Diluted earnings per share excluding intangible amortization ⁽¹⁾	0.42	0.33	1.29	0.97
Annualized net interest margin FTE	5.26%	5.41%	5.41%	5.25%
Efficiency ratio	45.70	45.67	42.95	45.56
Annualized return on average assets	1.56	1.80	1.63	1.73

Annualized return on average common equity	11.58	13.63	12.48	13.53
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- (1) See Table 26 Diluted Earnings Per Share Excluding Intangible Amortization for a reconciliation to GAAP for diluted earnings per share excluding intangible amortization.

Table of Contents**Overview*****Credit Improvement in Purchased Credit Impaired Loan Pools***

Impairment testing on the estimated cash flows of the purchased credit impaired loan pools is performed each quarter. Because the economy has improved since the impaired loans were acquired, quite often the impairment test revealed there was a projected credit improvement in certain loan pools. As a result of these improvements, the Company is recognizing additional adjustments to yield over the weighted average life of the loans. When there are improvements in credit quality for covered loans, it decreases the basis in the related indemnification asset and increases our FDIC true-up liability. These positive events are reducing the indemnification asset and increasing our FDIC true-up liability. The indemnification asset reduction is being amortized over the weighted average life of the shared-loss agreements. This amortization is being shown as a reduction to FDIC indemnification non-interest income. The true-up liability is being expensed over the remaining true-up measurement date as other non-interest expense.

Tables 2 and 3 summarize the recognition of these positive events and the financial impact to the three and nine month periods ended September 30, 2014 and 2013:

Table 2: Overall Estimated Impact to Financial Statements Initially Reported

	Additional Adjustment to Yield	Reduction of Indemnification Asset (In thousands)	Increase of FDIC True-up Liability
Periods Tested:			
Prior to 2013	\$ 5,022	\$ 3,876	\$ 502
March 31, 2013	15,566	12,453	1,657
June 30, 2013			
September 30, 2013			
December 31, 2013	14,061	8,389	1,331
March 31, 2014	11,432	8,346	1,143
June 30, 2014	23,428	17,330	1,128
September 30, 2014 ⁽¹⁾	4,720		
Total	\$ 74,229	\$ 50,394	\$ 5,761

(1) Credit improvement in non-covered purchased credit impaired loans

Table 3: Financial Impact for the Three and Nine Months Ended September 30, 2014 and 2013

	Amortization of Yield Accretion Income	Indemnification Asset	FDIC True-up Expense
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(In thousands)

Three Months Ended:			
September 30, 2013	\$ 4,072	\$ 3,485	\$ 249
September 30, 2014	7,866	7,112	281
Additional income (expense)	\$ 3,794	\$ 3,627	\$ 32
Nine Months Ended:			
September 30, 2013	\$ 9,423	\$ 8,565	\$ 406
September 30, 2014	21,211	18,880	716
Additional income (expense)	\$ 11,788	\$ 10,315	\$ 310

Table of Contents***Results of Operations for Three Months Ended September 30, 2014 and 2013***

Our net income increased \$9.0 million or 49.1% to \$27.4 million for the three-month period ended September 30, 2014, from \$18.4 million for the same period in 2013. On a diluted earnings per share basis, our earnings were \$0.41 and \$0.33 per share for the three-month periods ended September 30, 2014 and 2013, respectively. Excluding the \$3.8 million and \$1.0 million of merger expenses associated with the 2014 acquisition of Florida Tradition Bank (Traditions) and the 2013 acquisition of Liberty Bancshares, Inc. (Liberty), respectively, diluted earnings per share for the third quarter of 2014 and 2013 were \$0.45 per share and \$0.34, respectively. The \$10.7 million increase in net income excluding merger expenses is primarily associated with the \$32.3 million of additional net interest income primarily resulting from our 2013 acquisition of Liberty and 2014 acquisition of Traditions plus the additional accretion income from our previous FDIC covered loan acquisitions. These improvements were partially offset by a modest increase in the costs associated with the asset growth from our Liberty and Traditions acquisitions, \$3.8 million of additional amortization of the indemnification asset plus an increase in provision for loan losses of \$4.2 million in third quarter of 2014 when compared to the same period in 2013.

Our annualized net interest margin, on a fully taxable equivalent basis, was 5.26% for the three months ended September 30, 2014, compared to 5.41% for the same period in 2013. The numerous purchased credit impaired loan pools which have been determined to have material projected credit improvement as a result of the quarterly impairment testing and the acquisitions of Liberty and Traditions have significantly changed the mix and metrics on the net interest margin since December 31, 2012. Although there have been many changes since 2012, the Company continues to remain focused on expanding its net interest margin through opportunities such as improved pricing on interest-bearing deposits.

Our annualized return on average assets was 1.56% for the three months ended September 30, 2014, compared to 1.80% for the same period in 2013. Our annualized return on average common equity was 11.58% for the three months ended September 30, 2014, compared to 13.63% for the same period in 2013, respectively. Excluding merger expenses, our return on average assets was 1.69% for the three-month period ended September 30, 2014, compared to 1.86% for the same period in 2013. The slight declines in our profitability ratios from 2013 to 2014 are primarily related to the acquisitions of Liberty and Traditions which have historically performed below our profitability ratios. While we have been making notable progress in improving the performance of the former Liberty and Traditions operations, they have not been brought up to the historical performance metrics of our Company.

Our efficiency ratio was 45.70% for the three months ended September 30, 2014, compared to 45.67% for the same period in 2013. For the third quarter of 2014, our core efficiency ratio was 41.88% which is improved from the 44.76% reported for third quarter of 2013. The improvement in the core efficiency ratio is primarily associated with additional net interest income resulting from our 2013 acquisition of Liberty and 2014 acquisition of Traditions offset by a modest increase in costs associated with the asset growth from our acquisitions.

Additional information and analysis for our earnings can be found in Table 21 of our Non-GAAP Financial Measurement section of the Management Discussion and Analysis.

Results of Operations for Nine Months Ended September 30, 2014 and 2013

Our net income increased \$29.6 million or 55.2% to \$83.1 million for the nine-month period ended September 30, 2014, from \$53.6 million for the same period in 2013. On a diluted earnings per share basis, our earnings were \$1.26 and \$0.95 for the nine-month periods ended September 30, 2014 and 2013, respectively. Excluding the \$4.7 million and \$1.1 million of merger expenses associated with the 2014 acquisition of Traditions and the 2013 acquisition of Liberty, respectively, diluted earnings per share for the nine months ended September 30, 2014 and 2013 were \$1.31

per share and \$0.96, respectively. The \$31.8 million increase in net income excluding merger expenses is primarily associated with the \$98.1 million of additional net interest income primarily resulting from our 2013 acquisition of Liberty and 2014 acquisition of Traditions and the additional accretion income from our previous FDIC covered loan acquisitions. Furthermore, there was \$267,000 of additional net gains from the sale of SBA loans, sale of premises & equipment, investment securities and OREO. These improvements were partially offset by a modest increase in the costs associated with the asset growth from our Liberty and Traditions acquisitions, \$10.9 million of additional amortization of the indemnification asset plus an increase in provision for loan losses of \$16.4 million in the first nine months of 2014 when compared to the same period in 2013.

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Our annualized net interest margin, on a fully taxable equivalent basis, was 5.41% for the nine months ended September 30, 2014, compared to 5.25% for the same period in 2013. The numerous purchased credit impaired loan pools which have been determined to have material projected credit improvement as a result of the quarterly impairment testing and the acquisitions of Liberty and Traditions have significantly changed the mix and metrics on the net interest margin since December 31, 2012. Although there have been many changes since 2012, the Company continues to remain focused on expanding its net interest margin through opportunities such as improved pricing on interest-bearing deposits.

Our annualized return on average assets was 1.63% for the nine months ended September 30, 2014, compared to 1.73% for the same period in 2013. Our annualized return on average common equity was 12.48% for the nine months ended September 30, 2014, compared to 13.53% for the same period in 2013, respectively. Excluding merger expenses, our return on average assets was 1.69% for the nine-month period ended September 30, 2014, compared to 1.75% for the same period in 2013. The slight declines in our profitability ratios from 2013 to 2014 are primarily related to the acquisitions of Liberty and Traditions which have historically performed below our profitability ratios. While we have been making notable progress in improving the performance of the Liberty and Traditions franchise, they have not been brought up to the historical performance metrics of our Company.

Our efficiency ratio was 42.95% for the nine months ended September 30, 2014, compared to 45.56% for the same period in 2013. For the first nine months of 2014, our core efficiency ratio was 41.61% which is improved from the 45.63% reported for the first nine months of 2013. The improvement in the core efficiency ratio is primarily associated with additional net interest income and other non-interest income resulting from our 2013 acquisition of Liberty and 2014 acquisition of Traditions offset by a modest increase in costs associated with the asset growth from our acquisitions.

Additional information and analysis for our earnings can be found in Table 21 of our Non-GAAP Financial Measurement section of the Management Discussion and Analysis.

Financial Condition as of and for the Period Ended September 30, 2014 and December 31, 2013

Our total assets as of September 30, 2014 increased \$384.5 million to \$7.20 billion from the \$6.81 billion reported as of December 31, 2013. Our loan portfolio not covered by loss share increased by \$388.6 million to \$4.58 billion as of September 30, 2014, from \$4.19 billion as of December 31, 2013. This increase is primarily associated with the recent acquisition of \$241.6 million of Traditions non-covered loans plus \$146.9 million of loan growth since December 31, 2013. Our loan portfolio covered by loss share decreased by \$31.5 million to \$251.0 million as of September 30, 2014, from \$282.5 million as of December 31, 2013. This decrease is primarily associated with pay-downs and payoffs. Stockholders' equity increased \$117.7 million to \$958.7 million as of September 30, 2014, compared to \$841.0 million as of December 31, 2013. The annualized improvement in stockholders' equity for the first nine months of 2014 was 18.7%. The increase in stockholders' equity is primarily associated with the \$39.5 million of common stock issued to the Traditions shareholders combined with the \$92.6 million of comprehensive income less the \$16.4 million of dividends paid for the first nine months of 2014.

As of September 30, 2014, our non-performing non-covered loans increased to \$41.0 million, or 0.90%, of total non-covered loans from \$38.3 million, or 0.91%, of total non-covered loans as of December 31, 2013. The allowance for loan losses for non-covered loans as a percent of non-performing non-covered loans increased to 123.57% as of September 30, 2014, compared to 101.95% as of December 31, 2013. Non-performing non-covered loans in Arkansas were \$24.4 million at September 30, 2014 compared to \$17.9 million as of December 31, 2013. Non-performing non-covered loans in Florida were \$16.3 million at September 30, 2014 compared to \$20.3 million as of December 31, 2013. Non-performing non-covered loans in Alabama were \$410,000 at September 30, 2014 compared to \$7,000 as of

December 31, 2013.

As of September 30, 2014, our non-performing non-covered assets improved to \$60.4 million, or 0.88%, of total non-covered assets from \$68.4 million, or 1.07%, of total non-covered assets as of December 31, 2013.

Non-performing non-covered assets in Arkansas were \$39.3 million at September 30, 2014 compared to \$43.5 million as of December 31, 2013. Non-performing non-covered assets in Florida were \$20.7 million at September 30, 2014 compared to \$24.9 million as of December 31, 2013. Non-performing non-covered assets in Alabama were \$425,000 at September 30, 2014 compared to \$7,000 as of December 31, 2013.

Table of Contents**Critical Accounting Policies**

Overview. We prepare our consolidated financial statements based on the selection of certain accounting policies, generally accepted accounting principles and customary practices in the banking industry. These policies, in certain areas, require us to make significant estimates and assumptions. Our accounting policies are described in detail in the notes to our consolidated financial statements in Note 1 of the audited consolidated financial statements included in our Form 10-K, filed with the Securities and Exchange Commission.

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

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

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

Loans Receivable Not Covered by Loss Share and Allowance for Loan Losses. Except for loans acquired during our acquisitions, substantially all of our loans receivable not covered by loss share are reported at their outstanding principal balance adjusted for any charge-offs, as it is management's intent to hold them for the foreseeable future or until maturity or payoff, except for mortgage loans held for sale. Interest income on loans is accrued over the term of the loans based on the principal balance outstanding.

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

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

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

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

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

Acquisition Accounting, Acquired Loans and the Related Indemnification Asset. The Company accounts for its acquisitions under ASC Topic 805, *Business Combinations*, which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date as the fair value of the loans acquired incorporates assumptions regarding credit risk. All loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820. For covered acquired loans fair value is exclusive of the shared-loss agreements with the Federal Deposit Insurance Corporation (FDIC). The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

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

Because the FDIC will reimburse the Company for certain acquired loans should the Company experience a loss, an indemnification asset is recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectability or contractual limitations. The shared-loss agreements on the acquisition date reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties.

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For our FDIC-assisted transactions, shared-loss agreements continue to be measured on the same basis as the related indemnified loans. Because the acquired loans are subject to the accounting prescribed by ASC Topic 310, subsequent changes to the basis of the shared-loss agreements also follow that model. Deterioration in the credit quality of the loans