

HOME BANCSHARES INC  
Form 10-Q  
May 08, 2014  
Table of Contents

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

**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Quarterly Period Ended March 31, 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)**

**72032**  
**(Zip Code)**

**(501) 328-4770**

**(Registrant's telephone number, including area code)**

**Not Applicable**

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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: 65,138,712 shares as of May 2, 2014.



**Table of Contents**

**HOME BANCSHARES, INC.**

**FORM 10-Q**

**March 31, 2014**

**INDEX**

	Page No.
<b><u>Part I: Financial Information</u></b>	
Item 1: <u>Financial Statements</u>	
<u>Consolidated Balance Sheets – March 31, 2014 (Unaudited) and December 31, 2013</u>	4
<u>Consolidated Statements of Income (Unaudited) – Three months ended March 31, 2014 and 2013</u>	5
<u>Consolidated Statements of Comprehensive Income (Unaudited) – Three months ended March 31, 2014 and 2013</u>	6
<u>Consolidated Statements Stockholders' Equity (Unaudited) – Three months ended March 31, 2014 and 2013</u>	6
<u>Consolidated Statements of Cash Flows (Unaudited) – Three months ended March 31, 2014 and 2013 (Unaudited)</u>	7
<u>Condensed Notes to Consolidated Financial Statements (Unaudited)</u>	8-40
<u>Report of Independent Registered Public Accounting Firm</u>	41
Item 2: <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	42
Item 3: <u>Quantitative and Qualitative Disclosures About Market Risk</u>	77
Item 4: <u>Controls and Procedures</u>	80
<b><u>Part II: Other Information</u></b>	
Item 1: <u>Legal Proceedings</u>	80
Item 1A: <u>Risk Factors</u>	80
Item 2: <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	80
Item 3: <u>Defaults Upon Senior Securities</u>	80
Item 4: <u>Mine Safety Disclosures</u>	80
Item 5: <u>Other Information</u>	81
Item 6: <u>Exhibits</u>	81
<u>Signatures</u>	82

**Table of Contents**

**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**

<b>(In thousands, except share data)</b>	<b>March 31, 2014 (Unaudited)</b>	<b>December 31, 2013</b>
<b>Assets</b>		
Cash and due from banks	\$ 124,662	\$ 104,005
Interest-bearing deposits with other banks	89,897	61,529
Cash and cash equivalents	214,559	165,534
Federal funds sold	22,925	4,275
Investment securities available-for-sale	1,175,827	1,175,484
Investment securities held-to-maturity	132,363	114,621
Loans receivable not covered by loss share	4,126,564	4,194,437
Loans receivable covered by FDIC loss share	270,641	282,516
Allowance for loan losses	(48,991)	(43,815)
Loans receivable, net	4,348,214	4,433,138
Bank premises and equipment, net	196,392	197,224
Foreclosed assets held for sale not covered by loss share	23,484	29,869
Foreclosed assets held for sale covered by FDIC loss share	20,201	20,999
FDIC indemnification asset	73,348	89,611
Cash value of life insurance	63,787	63,501
Accrued interest receivable	21,865	22,944
Deferred tax asset, net	82,886	89,412
Goodwill	301,736	301,736
Core deposit and other intangibles	21,131	22,298
Other assets	82,058	81,215
<b>Total assets</b>	<b>\$ 6,780,776</b>	<b>\$ 6,811,861</b>
<b>Liabilities and Stockholders Equity</b>		
Deposits:		
Demand and non-interest-bearing	\$ 1,057,148	\$ 991,161
Savings and interest-bearing transaction accounts	2,827,787	2,792,423
Time deposits	1,453,575	1,609,462
Total deposits	5,338,510	5,393,046
Securities sold under agreements to repurchase	137,524	160,984

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FHLB borrowed funds	354,935	350,661
Accrued interest payable and other liabilities	20,113	5,389
Subordinated debentures	60,826	60,826
<b>Total liabilities</b>	<b>5,911,908</b>	<b>5,970,906</b>
<b>Stockholders equity:</b>		
Common stock, par value \$0.01; shares authorized 100,000,000 in 2014 and 2013; shares issued and outstanding 65,134,992 in 2014 and 65,081,853 in 2013	651	651
Capital surplus	708,868	708,058
Retained earnings	158,838	136,386
Accumulated other comprehensive income (loss)	511	(4,140)
<b>Total stockholders equity</b>	<b>868,868</b>	<b>840,955</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 6,780,776</b>	<b>\$ 6,811,861</b>

See Condensed Notes to Consolidated Financial Statements.



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

(In thousands, except per share data <sup>(1)</sup> )	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Unaudited)</b>	
<b>Interest income:</b>		
Loans	\$ 75,013	\$ 44,159
Investment securities		
Taxable	4,470	2,403
Tax-exempt	2,317	1,481
Deposits - other banks	24	98
Federal funds sold	16	7
Total interest income	81,840	48,148
<b>Interest expense:</b>		
Interest on deposits	3,384	2,485
FHLB borrowed funds	946	1,004
Securities sold under agreements to repurchase	182	80
Subordinated debentures	328	230
Total interest expense	4,840	3,799
<b>Net interest income</b>	<b>77,000</b>	<b>44,349</b>
Provision for loan losses	6,938	
<b>Net interest income after provision for loan losses</b>	<b>70,062</b>	<b>44,349</b>
<b>Non-interest income:</b>		
Service charges on deposit accounts	5,911	3,709
Other service charges and fees	5,686	3,437
Trust fees	436	19
Mortgage lending income	1,513	1,372
Insurance commissions	1,416	679
Income from title services	50	109
Increase in cash value of life insurance	288	180
Dividends from FHLB, FRB, Bankers' bank & other	316	175
Gain on sale of SBA loans		56
Gain (loss) on sale of premises and equipment, net	9	15
Gain (loss) on OREO, net	539	86
Gain (loss) on securities, net		
FDIC indemnification accretion/(amortization), net	(4,744)	(1,992)

Other income	761	1,180
<b>Total non-interest income</b>	<b>12,181</b>	<b>9,025</b>
<b>Non-interest expense:</b>		
Salaries and employee benefits	18,933	12,952
Occupancy and equipment	6,226	3,594
Data processing expense	1,793	1,510
Other operating expenses	12,405	7,807
<b>Total non-interest expense</b>	<b>39,357</b>	<b>25,863</b>
<b>Income before income taxes</b>	<b>42,886</b>	<b>27,511</b>
Income tax expense	15,549	9,963
<b>Net income</b>	<b>\$ 27,337</b>	<b>\$ 17,548</b>
<b>Basic earnings per share</b>	<b>\$ 0.42</b>	<b>\$ 0.31</b>
<b>Diluted earnings per share</b>	<b>\$ 0.42</b>	<b>\$ 0.31</b>

(1) All per share amounts have been restated to reflect the effect of the 2-for-1 stock split during June 2013. See Condensed Notes to Consolidated Financial Statements.

Table of Contents

## Home BancShares, Inc.

## Consolidated Statements of Comprehensive Income

(In thousands)	Three Months Ended March 31,	
	2014	2013
	(unaudited)	
Net income	\$ 27,337	\$ 17,548
Net unrealized gain (loss) on available-for-sale securities	7,653	(2,235)
Less: reclassification adjustment for realized (gains) losses included in income		
Other comprehensive income (loss), before tax effect	7,653	(2,235)
Tax effect	(3,002)	877
Other comprehensive income (loss)	4,651	(1,358)
Comprehensive income	\$ 31,988	\$ 16,190

## Home BancShares, Inc.

## Consolidated Statements of Stockholders Equity

## Three Months Ended March 31, 2014 and 2013

(In thousands, except share data <sup>(1)</sup> )	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total
				(Loss)	
<b>Balance at January 1, 2013</b>	\$ 281	\$ 416,354	\$ 86,837	\$ 12,001	\$ 515,473
Comprehensive income:					
Net income			17,548		17,548
Other comprehensive income (loss)				(1,358)	(1,358)
Net issuance of 7,206 shares of common stock from exercise of stock options		126			126
Tax benefit from stock options exercised		24			24
Share-based compensation		237			237
Cash dividends Common Stock, \$0.065 per share			(3,655)		(3,655)
<b>Balances at March 31, 2013 (unaudited)</b>	281	416,741	100,730	10,643	528,395
Comprehensive income:					
Net income			48,972		48,972

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Other comprehensive income (loss)				(14,783)	(14,783)
Net issuance of 78,995 shares of common stock from exercise of stock options	1	304			305
2-for-1 stock split during June 2013	281	(281)			
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		812			812
Share-based compensation		1,061			1,061
Cash dividends Common Stock, \$0.225 per share			(13,316)		(13,316)
<b>Balances at December 31, 2013</b>	<b>651</b>	<b>708,058</b>	<b>136,386</b>	<b>(4,140)</b>	<b>840,955</b>
Comprehensive income:					
Net income			27,337		27,337
Other comprehensive income (loss)				4,651	4,651
Net issuance of 11,139 shares of common stock from exercise of stock options		49			49
Tax benefit from stock options exercised		123			123
Share-based compensation		638			638
Cash dividends Common Stock, \$0.075 per share			(4,885)		(4,885)
<b>Balances at March 31, 2014 (unaudited)</b>	<b>\$ 651</b>	<b>\$ 708,868</b>	<b>\$ 158,838</b>	<b>\$ 511</b>	<b>\$ 868,868</b>

(1) All share and per share amounts have been restated to reflect the effect of the 2-for-1 stock split during June 2013.

See Condensed Notes to Consolidated Financial Statements.

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

(In thousands)	Three Months Ended March 31,	
	2014	2013 (Unaudited)
<b>Operating Activities</b>		
Net income	\$ 27,337	\$ 17,548
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	2,523	1,610
Amortization/(accretion)	(2,334)	365
Share-based compensation	638	237
Tax benefits from stock options exercised	(123)	(24)
(Gain) loss on assets	(548)	(483)
Provision for loan losses	6,938	
Deferred income tax effect	3,524	6,968
Increase in cash value of life insurance	(288)	(180)
Originations of mortgage loans held for sale	(47,372)	(46,476)
Proceeds from sales of mortgage loans held for sale	50,288	46,307
Changes in assets and liabilities:		
Accrued interest receivable	1,079	1,938
Indemnification and other assets	20,166	20,836
Accrued interest payable and other liabilities	14,847	3,372
Net cash provided by (used in) operating activities	76,675	52,018
<b>Investing Activities</b>		
Net (increase) decrease in federal funds sold	(18,650)	14,298
Net (increase) decrease in loans, excluding loans acquired	69,168	37,440
Purchases of investment securities available-for-sale	(72,171)	(76,991)
Proceeds from maturities of investment securities available-for-sale	78,333	74,495
Proceeds from sale of investment securities available-for-sale		
Purchases of investment securities held-to-maturity	(22,672)	
Proceeds from maturities of investment securities held-to-maturity	4,835	
Proceeds from foreclosed assets held for sale	13,624	8,980
Proceeds from sale of SBA loans		592
Purchases of premises and equipment, net		(5,246)
Death benefits received	(1,682)	540
Net cash proceeds (paid) received market acquisitions		
Net cash provided by (used in) investing activities	50,785	54,108
<b>Financing Activities</b>		
Net increase (decrease) in deposits, excluding deposits acquired	(54,536)	(18,016)

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Net increase (decrease) in securities sold under agreements to repurchase	(23,460)	10,916
Net increase (decrease) in FHLB borrowed funds	4,274	(19)
Retirement of subordinated debentures		(25,000)
Proceeds from exercise of stock options	49	126
Tax benefits from stock options exercised	123	24
Dividends paid on common stock	(4,885)	(3,655)
Net cash provided by (used in) financing activities	(78,435)	(35,624)
<b>Net change in cash and cash equivalents</b>	<b>49,025</b>	<b>70,502</b>
<b>Cash and cash equivalents beginning of year</b>	<b>165,534</b>	<b>231,855</b>
<b>Cash and cash equivalents end of period</b>	<b>\$ 214,559</b>	<b>\$ 302,357</b>

See Condensed Notes to Consolidated Financial Statements.

**Table of Contents**

**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.



**Table of Contents*****Interim financial information***

The accompanying unaudited consolidated financial statements as of March 31, 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, which have been restated to reflect the effect of the 2-for-1 stock split during June 2013. 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:

	<b>Three Months Ended March 31, 2014      2013 (In thousands, except per share data)</b>	
Net income	\$ 27,337	\$ 17,548
Average shares outstanding	65,123	56,222
Effect of common stock options	388	313
Average diluted shares outstanding	65,511	56,535
Basic earnings per share	\$ 0.42	\$ 0.31
Diluted earnings per share	\$ 0.42	\$ 0.31

**2. Business Combinations*****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.

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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 making it the 2nd largest bank holding company headquartered 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.

**Table of Contents****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:

	<b>March 31, 2014</b>			
	<b>Available-for-sale</b>			
	<b>Amortized</b>	<b>Gross</b>	<b>Gross</b>	<b>Estimated</b>
	<b>Cost</b>	<b>Unrealized</b>	<b>Unrealized</b>	<b>Fair Value</b>
		<b>Gains</b>	<b>(Losses)</b>	
		<b>(In thousands)</b>		
U.S. government-sponsored enterprises	\$ 428,846	\$ 1,341	\$ (3,059)	\$ 427,128
Mortgage-backed securities	505,502	3,630	(2,869)	506,263
State and political subdivisions	185,446	4,590	(2,187)	187,849
Other securities	55,193	308	(914)	54,587
<b>Total</b>	<b>\$ 1,174,987</b>	<b>\$ 9,869</b>	<b>\$ (9,029)</b>	<b>\$ 1,175,827</b>

	<b>Held-to-Maturity</b>			
	<b>Available-for-sale</b>			
	<b>Amortized</b>	<b>Gross</b>	<b>Gross</b>	<b>Estimated</b>
	<b>Cost</b>	<b>Unrealized</b>	<b>Unrealized</b>	<b>Fair</b>
		<b>Gains</b>	<b>(Losses)</b>	<b>Value</b>
		<b>(In thousands)</b>		
Mortgage-backed securities	\$ 16,115	\$	\$	\$ 16,115
State and political subdivisions	116,248	1,253	(36)	117,465
<b>Total</b>	<b>\$ 132,363</b>	<b>\$ 1,253</b>	<b>\$ (36)</b>	<b>\$ 133,580</b>

	<b>December 31, 2013</b>			
	<b>Available-for-sale</b>			
	<b>Amortized</b>	<b>Gross</b>	<b>Gross</b>	<b>Estimated</b>
	<b>Cost</b>	<b>Unrealized</b>	<b>Unrealized</b>	<b>Fair Value</b>
		<b>Gains</b>	<b>(Losses)</b>	
		<b>(In thousands)</b>		
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
<b>Total</b>	<b>\$ 1,182,297</b>	<b>\$ 7,974</b>	<b>\$ (14,787)</b>	<b>\$ 1,175,484</b>

	<b>Amortized Cost</b>	<b>Held-to-Maturity Gross Unrealized</b>		<b>Estimated Fair Value</b>
		<b>Gains</b>	<b>Unrealized (Losses)</b>	
		<b>(In thousands)</b>		
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 \$1.12 billion and \$1.13 billion at March 31, 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 \$137.5 million and \$161.0 million at March 31, 2014 and December 31, 2013, respectively.

**Table of Contents**

The amortized cost and estimated fair value of securities classified as available-for-sale and held-to-maturity at March 31, 2014, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value (In thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 379,855	\$ 378,114	\$ 34,101	\$ 34,254
Due after one year through five years	542,091	543,482	69,979	70,449
Due after five years through ten years	223,603	224,078	23,409	24,003
Due after ten years	29,438	30,153	4,874	4,874
<b>Total</b>	<b>\$ 1,174,987</b>	<b>\$ 1,175,827</b>	<b>\$ 132,363</b>	<b>\$ 133,580</b>

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

During the three-month periods ended March 31, 2014 and 2013, no available-for-sale securities were sold.

At March 31, 2014 and December 31, 2013, there were \$132.4 million and \$114.6 million of held-to-maturity securities, respectively. There were no securities classified as held-to-maturity at March 31, 2013.

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 three-month period ended March 31, 2014, no securities were deemed to have other-than-temporary impairment besides securities for which impairment was taken in prior periods.

As of March 31, 2014, the Company had approximately \$976,000 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 78.4% 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.



**Table of Contents**

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

	Less Than 12 Months		March 31, 2014 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
U.S. government-sponsored enterprises	\$ 304,835	\$ (2,839)	\$ 16,567	\$ (220)	\$ 321,402	\$ (3,059)
Mortgage-backed securities	265,405	(2,470)	13,732	(399)	279,137	(2,869)
State and political subdivisions	66,537	(1,880)	6,971	(343)	73,508	(2,223)
Other securities	26,094	(900)	3,002	(14)	29,096	(914)
<b>Total</b>	<b>\$ 662,871</b>	<b>\$ (8,089)</b>	<b>\$ 40,272</b>	<b>\$ (976)</b>	<b>\$ 703,143</b>	<b>\$ (9,065)</b>

	Less Than 12 Months		December 31, 2013 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
U.S. government-sponsored enterprises	\$ 312,674	\$ (5,205)	\$ 6,529	\$ (119)	\$ 319,203	\$ (5,324)
Mortgage-backed securities	267,105	(3,968)	11,749	(297)	278,854	(4,265)
State and political subdivisions	130,718	(4,831)	4,042	(295)	134,760	(5,126)
Other securities	36,125	(1,153)			36,125	(1,153)
<b>Total</b>	<b>\$ 746,622</b>	<b>\$ (15,157)</b>	<b>\$ 22,320</b>	<b>\$ (711)</b>	<b>\$ 768,942</b>	<b>\$ (15,868)</b>

Income earned on securities for the three months ended March 31, 2014 and 2013, is as follows:

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Taxable:		
Available-for-sale	\$ 4,420	\$ 2,403
Held-to-maturity	50	
Non-taxable:		
Available-for-sale	1,490	1,481

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Held-to-maturity	827	
<b>Total</b>	<b>\$ 6,787</b>	<b>\$ 3,884</b>



**Table of Contents****4. Loans Receivable Not Covered by Loss Share**

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

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<b>(In thousands)</b>	
<b>Real estate:</b>		
Commercial real estate loans		
Non-farm/non-residential	\$ 1,722,910	\$ 1,739,668
Construction/land development	566,205	562,667
Agricultural	74,775	81,618
Residential real estate loans		
Residential 1-4 family	890,981	913,332
Multifamily residential	206,348	213,232
<b>Total real estate</b>	<b>3,461,219</b>	<b>3,510,517</b>
Consumer	60,735	69,570
Commercial and industrial	491,525	511,421
Agricultural	44,017	37,129
Other	69,068	65,800
 Loans receivable not covered by loss share	 \$ 4,126,564	 \$ 4,194,437

During the three-month period ended March 31, 2014, no SBA loans were sold. During the three-month period ended March 31, 2013, the Company sold \$536,000 of the guaranteed portion of an SBA loan, which resulted in a gain of approximately \$56,000.

Mortgage loans held for sale of approximately \$27.6 million and \$30.5 million at March 31, 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 March 31, 2014 and December 31, 2013 were not material.

As of acquisition date, the Company evaluated \$1.61 billion of net loans (\$1.67 billion gross loans less \$62.1 million discount) purchased in conjunction with the acquisition of Liberty in accordance with the provisions of FASB ASC Topic 310-20, *Nonrefundable Fees and Other Costs*. As of March 31, 2014, the net loan balance of the Liberty ASC Topic 310-20 purchased loans is \$1.40 billion (\$1.45 billion gross loans less \$49.8 million discount). The fair value discount is being accreted into interest income over the weighted average life of the loans using a constant yield

method.

As of acquisition date, the Company evaluated \$120.5 million of net loans (\$162.4 million gross loans less \$41.9 million discount) purchased in conjunction with the acquisition of Liberty in accordance with the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. As of March 31, 2014, the net loan balance of the Liberty ASC Topic 310-30 purchased loans is \$107.6 million (\$148.9 million gross loans less \$41.3 million discount). These purchased non-covered loans are considered impaired if there is evidence of credit deterioration and if it is probable that not all contractually required payments will be collected.

**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 March 31, 2014 and December 31, 2013 for the Company:

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<b>(In thousands)</b>	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	\$ 113,593	\$ 117,164
Construction/land development	45,381	48,388
Agricultural	1,184	1,232
Residential real estate loans		
Residential 1-4 family	92,918	98,403
Multifamily residential	10,043	10,378
<b>Total real estate</b>	<b>263,119</b>	<b>275,565</b>
Consumer	16	20
Commercial and industrial	6,440	5,852
Other	1,066	1,079
<b>Loans receivable covered by FDIC loss share</b>	<b>\$ 270,641</b>	<b>\$ 282,516</b>

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 March 31, 2014 and December 31, 2013, \$36.5 million and \$35.8 million, respectively, were accruing loans past due 90 days or more.

**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 three months ended March 31, 2014:

	<b>For Loans Not Covered</b>	<b>For Loans Covered by FDIC</b>	<b>Total</b>
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	by Loss Share	Loss Share (In thousands)	
<b>Allowance for loan losses:</b>			
Beginning balance	\$ 39,022	\$ 4,793	\$ 43,815
Loans charged off	2,424		2,424
Recoveries of loans previously charged off	488	174	662
Net loans recovered (charged off)	(1,936)	174	(1,762)
Provision for loan losses for non-covered loans	6,938		6,938
Provision for loan losses before benefit attributable to FDIC loss share agreements			
Benefit attributable to FDIC loss share agreements			
Net provision for loan losses for covered loans			
Increase in FDIC indemnification asset			
Balance, March 31	\$ 44,024	\$ 4,967	\$ 48,991

**Table of Contents****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-month period ended March 31, 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 March 31, 2014. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories. Additionally, the Company's discount for credit losses on non-covered loans acquired was \$164.3 million and \$174.6 million at March 31, 2014 and December 31, 2013, respectively.

**Three Months Ended March 31, 2014**

	Other				Consumer			
	Construction/	Commercial	Residential	Commercial	&	Unallocated	Total	
	Land	Real	Real Estate	& Industrial	Other			
	Development	Estate	Real Estate					
	(In thousands)							
<b>Allowance for loan losses:</b>								
Beginning balance	\$ 6,282	\$ 15,100	\$ 8,889	\$ 1,933	\$ 2,563	\$ 4,255	\$ 39,022	
Loans charged off	(22)	(67)	(613)	(868)	(854)		(2,424)	
Recoveries of loans previously charged off	25	22	57	35	349		488	
Net loans recovered (charged off)	3	(45)	(556)	(833)	(505)		(1,936)	
Provision for loan losses	(160)	1,662	1,423	2,767	1,588	(342)	6,938	
Balance, March 31	\$ 6,125	\$ 16,717	\$ 9,756	\$ 3,867	\$ 3,646	\$ 3,913	\$ 44,024	

**As of March 31, 2014**

	Other				Consumer			
	Construction/	Commercial	Residential	Commercial	Consumer	Unallocated	Total	
	Land	Real Estate	Real Estate	& Industrial	& Other			
	Development	Real Estate	Estate					
	(In thousands)							
<b>Allowance for loan losses:</b>								
Period end amount allocated to:								
Loans individually evaluated for impairment	\$ 2,600	\$ 8,319	\$ 2,323	\$ 5	\$	\$	\$ 13,247	
Loans collectively evaluated for impairment	3,525	8,398	7,433	3,862	3,646	3,913	30,777	
Loans evaluated for impairment, balance, March 31	6,125	16,717	9,756	3,867	3,646	3,913	44,024	

Purchased credit impaired  
loans acquired

Balance, March 31	\$ 6,125	\$ 16,717	\$ 9,756	\$ 3,867	\$ 3,646	\$ 3,913	\$ 44,024
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**Loans receivable:**

Period end amount  
allocated to:

Loans individually evaluated for impairment	\$ 27,406	\$ 55,185	\$ 26,089	\$ 5,957	\$ 285	\$	\$ 114,922
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Loans collectively evaluated for impairment	511,500	1,595,560	995,121	467,212	167,961		3,737,354
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Loans evaluated for  
impairment balance,  
March 31

538,906	1,650,745	1,021,210	473,169	168,246		3,852,276
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Purchased credit impaired  
loans acquired

27,299	146,940	76,119	18,356	5,574		274,288
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Balance, March 31	\$ 566,205	\$ 1,797,685	\$ 1,097,329	\$ 491,525	\$ 173,820	\$	\$ 4,126,564
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**Table of Contents**

The following tables present the balance in the allowance for loan losses for the non-covered loan portfolio for the three-month period ended March 31, 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/	Real Estate					
	Land Development	Commercial Real Estate					
	(In thousands)						
<b>Allowance for loan losses:</b>							
Beginning balance	\$ 5,816	\$ 19,974	\$ 13,813	\$ 3,870	\$ 1,288	\$ 409	\$ 45,170
Loans charged off	(118)	(245)	(2,053)	(35)	(867)		(3,318)
Recoveries of loans previously charged off	15	17	180	15	223		450
Net loans recovered (charged off)	(103)	(228)	(1,873)	(20)	(644)		(2,868)
Provision for loan losses	484	(1,235)	(2,111)	(1,023)	393	3,492	
Balance, March 31	6,197	18,511	9,829	2,827	1,037	3,901	42,302
Loans charged off	(880)	(3,809)	(4,255)	(502)	(1,433)		(10,879)
Recoveries of loans previously charged off	19	2,054	802	57	478		3,410
Net loans recovered (charged off)	(861)	(1,755)	(3,453)	(445)	(955)		(7,469)
Provision for loan losses	946	(1,656)	2,513	(449)	2,481	354	4,189
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 Real Estate					
	Land Development	Commercial Real Estate					
	(In thousands)						
<b>Allowance for loan losses:</b>							
Period end amount allocated to:							
Loans individually evaluated for impairment	\$ 3,826	\$ 8,359	\$ 2,347	\$ 5	\$	\$	\$ 14,537

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Loans collectively evaluated for impairment	2,456	6,741	6,542	1,928	2,563	4,255	24,485
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Loans evaluated for impairment balance, December 31	6,282	15,100	8,889	1,933	2,563	4,255	39,022
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Purchased credit impaired loans acquired

Balance, December 31	\$ 6,282	\$ 15,100	\$ 8,889	\$ 1,933	\$ 2,563	\$ 4,255	\$ 39,022
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**Loans receivable:**

Period end amount allocated to:

Loans individually evaluated for impairment	\$ 32,560	\$ 76,559	\$ 20,112	\$ 5,563	\$ 223	\$	\$ 135,017
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Loans collectively evaluated for impairment	500,279	1,592,343	1,027,093	484,036	164,224		3,767,975
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Loans evaluated for impairment balance, December 31	532,839	1,668,902	1,047,205	489,599	164,447		3,902,992
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Purchased credit impaired loans acquired	29,828	152,384	79,359	21,822	8,052		291,445
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Balance, December 31	\$ 562,667	\$ 1,821,286	\$ 1,126,564	\$ 511,421	\$ 172,499	\$	\$ 4,194,437
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**Table of Contents**

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

	<b>March 31, 2014</b>						
	<b>Loans Past Due 30-59 Days</b>	<b>Loans Past Due 60-89 Days</b>	<b>Loans Past Due 90 Days or More</b>	<b>Total Past Due (In thousands)</b>	<b>Current Loans</b>	<b>Total Loans Receivable</b>	<b>Accruing Loans Past Due 90 Days or More</b>
<b>Real estate:</b>							
Commercial real estate loans							
Non-farm/non-residential	\$ 2,861	\$ 3,066	\$ 13,114	\$ 19,041	\$ 1,703,869	\$ 1,722,910	\$ 7,494
Construction/land							
development	236	361	6,214	6,811	559,394	566,205	4,505
Agricultural	22		79	101	74,674	74,775	
Residential real estate loans							
Residential 1-4 family	4,898	2,395	14,550	21,843	869,138	890,981	6,195
Multifamily residential	214		2,905	3,119	203,229	206,348	676
<b>Total real estate</b>	<b>8,231</b>	<b>5,822</b>	<b>36,862</b>	<b>50,915</b>	<b>3,410,304</b>	<b>3,461,219</b>	<b>18,870</b>
Consumer	356	102	285	743	59,992	60,735	89
Commercial and industrial	884	445	5,531	6,860	484,665	491,525	3,022
Agricultural and other	461	25		486	112,599	113,085	
<b>Total</b>	<b>\$ 9,932</b>	<b>\$ 6,394</b>	<b>\$ 42,678</b>	<b>\$ 59,004</b>	<b>\$ 4,067,560</b>	<b>\$ 4,126,564</b>	<b>\$ 21,981</b>

	<b>December 31, 2013</b>						
	<b>Loans Past Due 30-59 Days</b>	<b>Loans Past Due 60-89 Days</b>	<b>Loans Past Due 90 Days or More</b>	<b>Total Past Due (In thousands)</b>	<b>Current Loans</b>	<b>Total Loans Receivable</b>	<b>Accruing Loans Past Due 90 Days or More</b>
<b>Real estate:</b>							
Commercial real estate loans							
Non-farm/non-residential	\$ 4,849	\$ 2,275	\$ 13,007	\$ 20,131	\$ 1,719,537	\$ 1,739,668	\$ 7,914
Construction/land							
development	2,206	352	5,959	8,517	554,150	562,667	4,879
Agricultural	1,040	1,082	89	2,211	79,407	81,618	
Residential real estate loans							
Residential 1-4 family	7,936	2,676	13,775	24,387	888,945	913,332	6,492

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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 March 31, 2014 and December 31, 2013 were \$20.7 million and \$15.1 million, respectively.

**Table of Contents**

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

	March 31, 2014			Three Months Ended	
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses	Average Recorded Investment	Interest Recognized
(In thousands)					
<b>Loans without a specific valuation allowance</b>					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	\$ 1,932	\$ 1,932	\$	\$ 1,691	\$ 14
Construction/land development					
Agricultural					
Residential real estate loans					
Residential 1-4 family	108	108		57	2
Multifamily residential					
Total real estate	2,040	2,040		1,748	16
Consumer					
Commercial and industrial					
Agricultural and other					
Total loans without a specific valuation allowance	2,040	2,040		1,748	16
<b>Loans with a specific valuation allowance</b>					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	47,628	44,448	8,319	48,853	434
Construction/land development	19,501	16,889	2,600	22,060	154
Agricultural	79	79		84	
Residential real estate loans					
Residential 1-4 family	20,011	17,260	1,255	16,929	124
Multifamily residential	5,441	5,254	1,068	3,659	28
Total real estate	92,660	83,930	13,242	91,585	740
Consumer					
Commercial and industrial	336	285		254	2
Agricultural and other	7,350	5,957	5	5,760	43
Total loans with a specific valuation allowance	100,346	90,172	13,247	97,599	785
<b>Total impaired loans</b>					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	49,560	46,380	8,319	50,544	448
Construction/land development	19,501	16,889	2,600	22,060	154

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Agricultural	79	79		84	
Residential real estate loans					
Residential 1-4 family	20,119	17,368	1,255	16,986	126
Multifamily residential	5,441	5,254	1,068	3,659	28
Total real estate	94,700	85,970	13,242	93,333	756
Consumer	336	285		254	2
Commercial and industrial	7,350	5,957	5	5,760	43
Agricultural and other					
Total impaired loans	\$ 102,386	\$ 92,212	\$ 13,247	\$ 99,347	\$ 801

*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 March 31, 2014.

**Table of Contents**

	December 31, 2013				
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses	Year Ended Average Recorded Investment	Interest Recognized
	(In thousands)				
<b>Loans without a specific valuation allowance</b>					
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
<b>Loans with a specific valuation allowance</b>					
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
<b>Total impaired loans</b>					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	57,914	54,707	8,359	59,319	2,382
Construction/land development	29,461	27,231	3,826	23,227	886
Agricultural	89	89		83	
Residential real estate loans					
Residential 1-4 family	19,194	16,605	1,265	14,264	407
Multifamily residential	2,065	2,065	1,082	4,217	101

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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 March 31, 2014 and 2013 was approximately \$801,000 and \$892,000, 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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**Table of Contents**

*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.



**Table of Contents**

*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 March 31, 2014 and December 31, 2013:

	<b>March 31, 2014</b>			
	<b>Risk Rated 6</b>	<b>Risk Rated 7</b>	<b>Risk Rated 8</b>	<b>Classified Total</b>
	<b>(In thousands)</b>			
<b>Real estate:</b>				
Commercial real estate loans				
Non-farm/non-residential	\$ 49,425	\$ 24	\$	\$ 49,449
Construction/land development	18,170	26		18,196
Agricultural	80			80
Residential real estate loans				
Residential 1-4 family	14,200	198		14,398
Multifamily residential	4,094			4,094
<b>Total real estate</b>	<b>85,969</b>	<b>248</b>		<b>86,217</b>
Consumer	446			446
Commercial and industrial	3,697	3		3,700
Agricultural and other	32			32
<b>Total</b>	<b>\$ 90,144</b>	<b>\$ 251</b>	<b>\$</b>	<b>\$ 90,395</b>

	<b>December 31, 2013</b>			
	<b>Risk Rated 6</b>	<b>Risk Rated 7</b>	<b>Risk Rated 8</b>	<b>Classified Total</b>
	<b>(In thousands)</b>			
<b>Real estate:</b>				
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
<b>Total real estate</b>	<b>89,914</b>	<b>197</b>		<b>90,111</b>
Consumer	454			454
Commercial and industrial	2,620	2		2,622

Agricultural and other	32			32
<b>Total</b>	<b>\$ 93,020</b>	<b>\$</b>	<b>199</b>	<b>\$ 93,219</b>

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.

**Table of Contents**

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

	March 31, 2014					Classified Total	Total
	Risk Rated 1	Risk Rated 2	Risk Rated 3	Risk Rated 4	Risk Rated 5		
<b>(In thousands)</b>							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	\$ 134	\$ 2,207	\$ 1,025,315	\$ 476,412	\$ 23,403	\$ 49,449	\$ 1,576,920
Construction/land development	16	117	193,762	316,218	10,597	18,196	538,906
Agricultural			48,751	24,092	902	80	73,825
Residential real estate loans							
Residential 1-4 family	383	70	636,637	154,358	16,172	14,398	822,018
Multifamily residential			147,010	46,903	1,185	4,094	199,192
<b>Total real estate</b>	<b>533</b>	<b>2,394</b>	<b>2,051,475</b>	<b>1,017,983</b>	<b>52,259</b>	<b>86,217</b>	<b>3,210,861</b>
Consumer	14,137	28	35,663	7,593	809	446	58,676
Commercial and industrial	13,850	5,853	298,979	147,684	3,103	3,700	473,169
Agricultural and other	591	5,568	84,295	18,867	217	32	109,570
<b>Total risk rated loans</b>	<b>\$ 29,111</b>	<b>\$ 13,843</b>	<b>\$ 2,470,412</b>	<b>\$ 1,192,127</b>	<b>\$ 56,388</b>	<b>\$ 90,395</b>	<b>\$ 3,852,276</b>
Purchased credit impaired loans acquired							274,288
<b>Total non-covered loans</b>							<b>\$ 4,126,564</b>

	December 31, 2013					Classified Total	Total
	Risk Rated 1	Risk Rated 2	Risk Rated 3	Risk Rated 4	Risk Rated 5		
<b>(In thousands)</b>							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	\$ 3	\$ 3,135	\$ 1,039,110	\$ 462,957	\$ 28,380	\$ 55,875	\$ 1,589,460
Construction/land development	54	94	198,228	303,590	11,732	19,140	532,838
Agricultural	55		53,633	24,901	764	89	79,442
Residential real estate loans							
Residential 1-4 family	393	146	654,739	155,744	17,241	12,943	841,206
Multifamily residential			150,023	52,233	1,679	2,064	205,999
<b>Total real estate</b>	<b>505</b>	<b>3,375</b>	<b>2,095,733</b>	<b>999,425</b>	<b>59,796</b>	<b>90,111</b>	<b>3,248,945</b>
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

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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

**Table of Contents**

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

	<b>March 31, 2014</b>					
	<b>Pre-Modification Number Outstanding of Loans</b>	<b>Outstanding Balance</b>	<b>Rate Modification</b>	<b>Term Modification</b>	<b>Rate &amp; Term Modification</b>	<b>Post- Modification Outstanding Balance</b>
<b>(Dollars in thousands)</b>						
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	11	\$ 25,993	\$ 8,488	\$ 8,383	\$ 5,729	\$ 22,600
Construction/land development	3	8,324	5,772	1,794		7,566
Residential real estate loans						
Residential 1-4 family	8	1,646	429	720	168	1,317
Multifamily residential	2	3,182	2,054		295	2,349
Total real estate	24	39,145	16,743	10,897	6,192	33,832
Commercial and industrial	1	380			338	338
Total	25	\$ 39,525	\$ 16,743	\$ 10,897	\$ 6,530	\$ 34,170

	<b>December 31, 2013</b>					
	<b>Pre-Modification Number Outstanding of Loans</b>	<b>Outstanding Balance</b>	<b>Rate Modification</b>	<b>Term Modification</b>	<b>Rate &amp; Term Modification</b>	<b>Post- Modification Outstanding Balance</b>
<b>(Dollars in thousands)</b>						
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 March 31, 2014 and December 31, 2013 because they are not in compliance with the modified terms:

	March 31, 2014		December 31, 2013	
	Number of Loans	Recorded Balance	Number of Loans	Recorded Balance
	(Dollars in thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	2	\$ 555		\$
Residential real estate loans				
Residential 1-4 family	4	688	4	854
Total real estate	6	1,243	4	854
Total	6	\$ 1,243	4	\$ 854

**Table of Contents****Allowance for Loan Losses and Credit Quality for Covered Loans**

The following tables present the balance in the allowance for loan losses for the covered loan portfolio for the three-month period ended March 31, 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 March 31, 2014.

	Three Months Ended March 31, 2014					Total
	Construction Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other Unallocated	
<b>Allowance for loan losses:</b>						
Beginning balance	\$ 1,707	\$ 838	\$ 2,113	\$ 135	\$	\$ 4,793
Loans charged off						
Recoveries of loans previously charged off	6		168			174
Net loans recovered (charged off)	6		168			174
Provision for loan losses before benefit attributable to FDIC loss share agreements	10	1,345	(1,364)	9		
Benefit attributable to FDIC loss share agreements	(10)	(1,345)	1,364	(9)		
Net provision for loan losses						
Increase in FDIC indemnification asset	10	1,345	(1,364)	9		
Balance, March 31	\$ 1,723	\$ 2,183	\$ 917	\$ 144	\$	\$ 4,967

	As of March 31, 2014					Total
	Construction Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other Unallocated	
<b>Allowance for loan losses:</b>						
Period end amount allocated to:						
Loans individually evaluated for impairment	\$	\$	\$	\$	\$	\$

Loans collectively  
evaluated for impairment

Loans evaluated for  
impairment balance,  
March 31

Purchased credit impaired loans acquired	1,723	2,183	917	144			4,967
Balance, March 31	\$ 1,723	\$ 2,183	\$ 917	\$ 144	\$	\$	\$ 4,967

**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,  
March 31

Purchased credit impaired loans acquired	45,381	114,777	102,960	6,440	1,083		270,641
Balance, March 31	\$ 45,381	\$ 114,777	\$ 102,960	\$ 6,440	\$ 1,083	\$	\$ 270,641



**Table of Contents**

During the quarterly 2013 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 three-month period ended March 31, 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	
<b>Allowance for loan losses:</b>						
Beginning balance	\$ 1,169	\$ 4,005	\$ 228	\$ 60	\$	\$ 5,462
Loans charged off	(878)	(409)	(553)			(1,840)
Recoveries of loans previously charged off		5	6			11
Net loans recovered (charged off)	(878)	(404)	(547)			(1,829)
Provision for loan losses before benefit attributable to FDIC loss share agreements	(28)	(562)	597	(7)		
Benefit attributable to FDIC loss share agreements	22	450	(478)	6		
Net provision for loan losses	(6)	(112)	119	(1)		
Increase in FDIC indemnification asset	(22)	(450)	478	(6)		
Balance, March 31	263	3,039	278	53		3,633
Loans charged off	(27)	(3,017)	(273)	(157)		(3,474)
Recoveries of loans previously charged off	15	8	166			189
Net loans recovered (charged off)	(12)	(3,009)	(107)	(157)		(3,285)
Provision for loan losses before benefit attributable to FDIC loss share agreements	1,456	808	1,942	239		4,445

Benefit attributable to FDIC loss share agreements	(1,140)	(406)	(1,687)	(221)			(3,454)
Net provision for loan losses	316	402	255	18			991
Increase in FDIC indemnification asset	1,140	406	1,687	221			3,454
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

(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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**Table of Contents**

Changes in the carrying amount of the accretible yield for purchased credit impaired loans acquired were as follows for the three-month period ended March 31, 2014 for the Company's covered and non-covered acquisitions:

	<b>Accretible Yield (In thousands)</b>	<b>Carrying Amount of Loans</b>
Balance at beginning of period	\$ 119,981	\$ 573,961
Reforecasted future interest payments for loan pools	1,936	
Accretion	(15,810)	15,810
Adjustment to yield	11,432	
Transfers to foreclosed assets held for sale		(5,158)
Payments received, net		(39,684)
Balance at end of period	\$ 117,539	\$ 544,929

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 \$2.0 million. This updated forecast does not change the expected weighted average yields on the loan pools.

During the first 2014 quarterly impairment testing, four pools evaluated by the Company were determined to have a materially projected credit improvement. As a result of this improvement, the Company will recognize approximately \$11.4 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 \$8.3 million and increase our FDIC true-up liability by \$1.1 million. The \$8.3 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 \$1.1 million will be expensed over the remaining true-up measurement date as other non-interest expense. This will result in approximately \$2.0 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 March 31, 2014 and December 31, 2013, were as follows:

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<b>(In thousands)</b>	
<b>Goodwill</b>		
Balance, beginning of period	\$ 301,736	\$ 85,681
Liberty acquisition		216,055
Balance, end of period	\$ 301,736	\$ 301,736

	March 31, 2014	December 31, 2013
	(In thousands)	
<b><u>Core Deposit and Other Intangibles</u></b>		
Balance, beginning of period	\$ 22,298	\$ 12,061
<b>Acquisitions</b>		
Amortization expense	(1,167)	(802)
<b>Balance, March 31</b>	<b>\$ 21,131</b>	<b>11,259</b>
<b>Acquisitions</b>		
		13,861
<b>Amortization expense</b>		<b>(2,822)</b>
<b>Balance, end of year</b>		<b>\$ 22,298</b>

**Table of Contents**

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

	March 31, 2014	December 31, 2013
	(In thousands)	
Gross carrying basis	\$ 43,524	\$ 43,524
Accumulated amortization	(22,393)	(21,226)
Net carrying amount	\$ 21,131	\$ 22,298

Core deposit and other intangible amortization expense was approximately \$1.2 million and \$802,000 for the three-months ended March 31, 2014 and 2013, respectively. Including all of the mergers completed as of March 31, 2014, HBI's estimated amortization expense of core deposits and other intangibles for each of the years 2014 through 2018 is approximately: 2014 - \$4.4 million; 2015 - \$3.6 million; 2016 - \$2.3 million; 2017 - \$2.2 million; 2018 - \$2.1 million.

The carrying amount of the Company's goodwill was \$301.7 million at both March 31, 2014 and December 31, 2013. 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 March 31, 2014 and December 31, 2013 other assets were \$82.1 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 \$20.4 million and \$19.1 million at March 31, 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 \$49.8 million and \$52.6 million at March 31, 2014 and December 31, 2013, respectively and are accounted for at cost.

**9. Deposits**

The aggregate amount of time deposits with a minimum denomination of \$100,000 was \$778.2 million and \$877.4 million at March 31, 2014 and December 31, 2013, respectively. Interest expense applicable to certificates in excess

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of \$100,000 totaled \$1.2 million and \$1.1 million for the three months ended March 31, 2014 and 2013, respectively. As of March 31, 2014 and December 31, 2013, brokered deposits were \$92.8 million and \$100.4 million, respectively.

Deposits totaling approximately \$1.01 billion and \$1.02 billion at March 31, 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 March 31, 2014 and December 31, 2013, securities sold under agreements to repurchase totaled \$137.5 million and \$161.0 million, respectively. For the three-month periods ended March 31, 2014 and 2013, securities sold under agreements to repurchase daily weighted average totaled \$149.4 million and \$69.7 million, respectively.

**11. FHLB Borrowed Funds**

The Company's Federal Home Loan Bank (FHLB) borrowed funds were \$354.9 million and \$350.7 million at March 31, 2014 and December 31, 2013, respectively. At March 31, 2014, \$100.1 million and \$254.8 million of the outstanding balance were short-term and long-term advances, respectively. At December 31, 2013, \$130.3 million and \$220.4 million of the outstanding balances were short-term and long-term advances, respectively. The FHLB advances mature from the current year to 2025 with fixed interest rates ranging from 0.15% to 5.96% and are secured by loans and investments securities. Expected maturities will differ from contractual maturities because FHLB may have the right to call or HBI the right to prepay certain obligations.

Additionally, the Company had \$171.0 million and \$191.0 million at March 31, 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 March 31, 2014 and December 31, 2013, respectively.

**12. Subordinated Debentures**

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

	<b>As of March 31, 2014</b>	<b>As of December 31, 2013</b>
	<b>(In thousands)</b>	
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	16,495	16,495

floating rate of 2.50% above the three-month LIBOR  
 rate, reset quarterly, thereafter, currently callable  
 without penalty

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 our subordinated debentures, the sole asset of each trust. The trust preferred securities of each trust represent preferred beneficial interests in the assets of the respective trusts and are subject to mandatory redemption upon payment of the subordinated debentures held by the trust. We wholly own the common securities of each trust. Each trust's ability to pay amounts due on the trust preferred securities is solely dependent upon our making payment on the related subordinated debentures. Our obligations under the subordinated securities and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by us of each respective trust's obligations under the trust securities issued by each respective trust.



**Table of Contents****13. Income Taxes**

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

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(In thousands)</b>	
<b>Current:</b>		
Federal	\$ 10,032	\$ 2,494
State	1,993	501
Total current	12,025	2,995
<b>Deferred:</b>		
Federal	2,940	5,814
State	584	1,154
Total deferred	3,524	6,968
<b>Provision for income taxes</b>	<b>\$ 15,549</b>	<b>\$ 9,963</b>

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

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Statutory federal income tax rate	35.00%	35.00%
Effect of nontaxable interest income	(2.01)	(2.12)
Cash value of life insurance	(0.24)	(0.20)
State income taxes, net of federal benefit	3.91	3.91
Other	(0.40)	(0.38)
Effective income tax rate	36.26%	36.21%

**Table of Contents**

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

	March 31, 2014	December 31, 2013
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	\$ 19,243	\$ 17,213
Deferred compensation	1,736	3,230
Stock options	299	277
Real estate owned	9,255	11,145
Loan discounts	54,881	65,639
Tax basis premium/discount on acquisitions	19,981	20,671
Unrealized loss on securities available-for-sale		2,673
Investments	2,590	2,568
Other	7,813	6,992
<b>Gross deferred tax assets</b>	<b>115,798</b>	<b>130,408</b>
Deferred tax liabilities:		
Accelerated depreciation on premises and equipment	2,306	3,616
Unrealized gain on securities available-for-sale	329	
Core deposit intangibles	5,244	5,650
Indemnification asset	22,268	29,074
FHLB dividends	1,602	1,602
Other	1,163	1,054
<b>Gross deferred tax liabilities</b>	<b>32,912</b>	<b>40,996</b>
<b>Net deferred tax assets</b>	<b>\$ 82,886</b>	<b>\$ 89,412</b>

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

On April 18, 2013 at the Annual Meeting of Shareholders of the Company, the shareholders approved, as proposed in the Proxy Statement, an amendment to the Company's Restated Articles of Incorporation to increase the number of authorized shares of common stock from 50,000,000 to 100,000,000.

On April 18, 2013, our Board of Directors declared a 2-for-1 stock split to be paid in the form of a 100% stock dividend on June 12, 2013 (the Payment Date) to shareholders of record at the close of business on May 22, 2013. The additional shares were distributed by the Company's transfer agent, Computershare, and the Company's common stock began trading on a split-adjusted basis on the NASDAQ Global Select Market on June 13, 2013. The stock split increased the Company's total shares of common stock outstanding as of June 12, 2013 from 28,121,596 shares to

56,243,192 shares (split adjusted). All previously reported share and per share data included in filings subsequent to the Payment Date are restated to reflect the retroactive effect of this 2-for-1 stock split.

***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 our 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 (split adjusted) of common stock in the Company. At March 31, 2014, the Company has approximately 1,552,000 shares of common stock remaining available for grants or issuance under the plan and approximately 2,507,000 shares reserved for issuance of common stock.

**Table of Contents**

The intrinsic value of the stock options outstanding and stock options vested at March 31, 2014 was \$23.7 million and \$20.3 million, respectively. The intrinsic value of the stock options exercised during the three-month period ended March 31, 2014 was approximately \$314,000. 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 \$828,000 as of March 31, 2014. For the first three months of 2014, the Company has expensed \$55,000 for the non-vested awards.

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

	For the Three Months Ended March 31, 2014		For the Year Ended December 31, 2013	
	Shares (000)	Weighted Average Exercisable Price	Shares (000)	Weighted Average Exercisable Price
Outstanding, beginning of year	966	\$ 9.57	871	\$ 6.66
Granted			184	21.24
Forfeited			(3)	8.60
Exercised	11	4.41	(86)	5.01
Outstanding, end of period	955	9.63	966	9.57
Exercisable, end of period	731	\$ 6.61	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. There were no stock options granted during the three-months ended March 31, 2014. The weighted-average fair value of options granted during the year ended December 31, 2013 was \$4.50 per share (split adjusted). The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model based on the weighted-average assumptions for expected dividend yield, expected stock price volatility, risk-free interest rate, and expected life of options granted.

	For the Three Months Ended	For the Year Ended
	March 31, 2014	December 31, 2013
Expected dividend yield	Not applicable	1.42%
Expected stock price volatility	Not applicable	22.09%
Risk-free interest rate	Not applicable	1.33%
Expected life of options	Not applicable	6.5 years



**Table of Contents**

The following is a summary of currently outstanding and exercisable options at March 31, 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	13	1.08	\$ 3.33	13	\$ 3.33
\$ 3.92 to \$4.34	45	1.34	4.25	45	4.25
\$ 4.78 to \$4.92	81	1.32	4.82	81	4.82
\$ 5.33 to \$5.33	199	1.60	5.33	199	5.33
\$ 5.54 to \$5.54	199	1.95	5.54	199	5.54
\$ 8.54 to \$8.60	81	3.79	8.57	81	8.57
\$ 9.25 to \$9.31	10	3.15	9.29	10	9.29
\$ 10.16 to \$11.37	55	3.05	10.33	55	10.33
\$ 13.12 to \$13.12	88	7.81	13.12	34	13.12
\$ 17.25 to \$34.80	184	9.06	21.24	14	17.25
	955			731	

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

	As of March 31, 2014	As of December 31, 2013
(In thousands)		
Beginning of year	256	269
Issued	43	35
Vested	(22)	(32)
Forfeited	(1)	(16)
End of period	276	256
Amount of expense for three months and twelve months ended, respectively	\$ 417	\$ 1,086

On January 18, 2013, 18,000 shares (split adjusted) of restricted common stock were issued to each non-employee member of our Board of Directors and 4,000 shares (split adjusted) of restricted common stock to a regional president of our bank subsidiary for a total issuance of 22,000 shares (split adjusted) 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 (split adjusted) of restricted common stock were issued to a regional president of our bank subsidiary. Of these issued shares, 9,666 shares (split adjusted) will vest equally each year over three years beginning on the first anniversary of the issuance. The remaining 3,000 shares (split adjusted) 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 (split adjusted) for the past four consecutive quarters or total diluted earnings per share of \$1.25 (split adjusted) 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 our restricted common stock to our Chairman, which will vest in three equal annual installments beginning on January 17, 2015, plus 3,000 restricted shares of our common stock to a regional president of our bank subsidiary, which will cliff vest on January 17, 2017.

**Table of Contents**

The Company did not utilize a portion of its previously approved stock repurchase program during the first quarter of 2014. This program authorized the repurchase of 2,376,000 shares (split adjusted) of the Company's common stock. Shares repurchased to date under the program total 1,510,896 shares (split adjusted). The remaining balance available for repurchase is 865,104 shares (split adjusted) at March 31, 2014.

**15. Non-Interest Expense**

The table below shows the components of non-interest expense for the three months ended March 31, 2014 and 2013:

	<b>Three Months Ended March 31, 2014      2013 (In thousands)</b>	
Salaries and employee benefits	\$ 18,933	\$ 12,952
Occupancy and equipment	6,226	3,594
Data processing expense	1,793	1,510
Other operating expenses:		
Advertising	522	693
Merger and acquisition expenses	849	28
Amortization of intangibles	1,167	802
Electronic banking expense	1,338	863
Directors' fees	227	190
Due from bank service charges	199	133
FDIC and state assessment	1,114	630
Insurance	614	566
Legal and accounting	417	322
Other professional fees	507	473
Operating supplies	472	343
Postage	352	207
Telephone	454	303
Other expense	4,173	2,254
<b>Total other operating expenses</b>	<b>12,405</b>	<b>7,807</b>
<b>Total non-interest expense</b>	<b>\$ 39,357</b>	<b>\$ 25,863</b>

**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.

## **Table of Contents**

### **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 March 31, 2014 and December 31, 2013, non-covered commercial real estate loans represented 57.3% and 56.8% of gross non-covered loans, respectively, and 272.1% and 283.5% of total stockholders' equity, respectively. Non-covered residential real estate loans represented 26.6% and 26.9% of gross non-covered loans and 126.3% and 134.0% of total stockholders' equity at March 31, 2014 and December 31, 2013, respectively.

Approximately 90.4% of the Company's loans as of March 31, 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 84.7% 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 March 31, 2014 and December 31, 2013, commitments to extend credit of \$667.5 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 March 31, 2014 and December 31, 2013, is \$20.5 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 quarter of 2014, the Company requested approximately \$18.0 million in regular dividends from its banking subsidiary. This dividend is equal to approximately 63.7% of our banking subsidiary's first quarter 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 March 31, 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 9.08%, 11.67%, and 12.65%, respectively, as of March 31, 2014.

**20. Additional Cash Flow Information**

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

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(In thousands)</b>	
Interest paid	\$ 4,930	\$ 3,987
Income taxes paid	500	200
Assets acquired by foreclosure	5,839	5,679

**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 March 31, 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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**Table of Contents**

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 \$79.0 million and \$91.9 million as of March 31, 2014 and December 31, 2013, respectively. This valuation is considered Level 3, consisting of appraisals of underlying collateral. The Company reversed approximately \$104,000 and \$129,000 of accrued interest receivable when non-covered impaired loans were put on non-accrual status during the three months ended March 31, 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 March 31, 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 \$23.5 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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**Table of Contents**

*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.







Subordinated debentures	60,826	60,826	3
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**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.

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.

**Table of Contents**

**23. Subsequent Events**

***Business Combination*** Subsequent to March 31, 2014, on April 25, 2014, Home BancShares, Inc. ( Home or the Company ) entered into a definitive agreement with Florida Traditions Bank ( Traditions ) to acquire all of the outstanding shares of Traditions, which will be merged into Centennial Bank.

Under the terms of the Agreement, shareholders of Traditions will receive approximately \$43.0 million of Home common stock. The number of shares of Home common stock to be issued to Traditions shareholders will be determined based on the average closing price of Home common stock for the 20 trading days immediately prior to the closing date. If, however, the 20-day average closing price of Home exceeds \$40.25 immediately prior to closing, the number of shares of Home common stock issuable will be based on the \$40.25 price. In addition, if the 20-day average closing price of the Home common stock decreases to \$29.75 or below, then the Agreement may be terminated by Home.

Traditions currently operates eight banking locations in Central Florida, including its main office in Dade City, Florida. As of March 31, 2014, Traditions had approximately \$312.0 million in total assets, \$248.8 million in loans, and \$277.7 million in deposits. Upon completion of the transaction, the combined company will have approximately \$7.09 billion in total assets, \$5.62 billion in deposits, \$4.60 billion in loans and 155 branches across Arkansas, Florida and South Alabama.

The transaction is expected to be accretive to the Company's book value per share, tangible book value per share, diluted earnings per share and net income. The acquisition is expected to close in the third quarter and is subject to shareholder approval, regulatory approvals, and other customary conditions.

**Table of Contents**

**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 March 31, 2014, and the related condensed consolidated statements of income and comprehensive income for the three-month periods ended March 31, 2014 and 2013, and condensed consolidated statements of stockholders' equity and cash flows for the three-month periods ended March 31, 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

May 8, 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. As of March 31, 2014, we had, on a consolidated basis, total assets of \$6.78 billion, loans receivable, net of \$4.35 billion, total deposits of \$5.34 billion, and stockholders equity of \$868.9 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 and salaries and related employee benefits. 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.

**Key Financial Measures**

	<b>As of or for the Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in thousands, except per share data<sup>(1)</sup>)</b>	
Total assets	\$ 6,780,776	\$ 4,225,507
Loans receivable not covered by loss share	4,126,564	2,309,146
Loans receivable covered by FDIC loss share	270,641	358,669
Allowance for loan losses	48,991	45,935
FDIC claims receivable	20,407	42,885
Total deposits	5,338,510	3,465,436
Total stockholders' equity	868,868	528,395
Net income	27,337	17,548
Basic earnings per share	0.42	0.31
Diluted earnings per share	0.42	0.31
Diluted earnings per share excluding intangible amortization <sup>(2)</sup>	0.43	0.32
Annualized net interest margin FTE	5.48%	5.15%
Efficiency ratio	42.07	46.03
Annualized return on average assets	1.64	1.70
Annualized return on average common equity	13.00	13.68

- (1) Share and per share amounts have been restated for the 2-for-1 stock split in June 2013.
- (2) See Table 22 Diluted Earnings Per Share Excluding Intangible Amortization for a reconciliation to GAAP for diluted earnings per share excluding intangible amortization.



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**Table of Contents****Overview*****Results of Operations for Three Months Ended March 31, 2014 and 2013***

Our net income increased \$9.8 million or 55.8% to \$27.3 million for the three-month period ended March 31, 2014, from \$17.5 million for the same period in 2013. On a diluted earnings per share basis, our earnings were \$0.42 and \$0.31 (split adjusted) for the three-month periods ended March 31, 2014 and 2013, respectively. Excluding the \$849,000 of merger expenses associated with the recently completed acquisition of Liberty Bancshares, Inc. (Liberty), diluted earnings per share for the first quarter of 2014 was \$0.43 per share. The \$9.8 million increase in net income is primarily associated with the \$36.8 million of additional net interest income and other non-interest income primarily resulting from our 2013 acquisition of Liberty. Furthermore, there was \$447,000 of additional gains from the sale of premises & equipment and OREO. These improvements were partially offset by a modest increase in the costs associated with the asset growth from our Liberty acquisition plus a provision for loan losses of \$6.9 million in first quarter of 2014.

Impairment testing on the estimated cash flows of the covered loan pools during the first quarter of 2014 were determined to have a materially projected credit improvement. As a result of this improvement, the Company will recognize approximately \$11.4 million as an additional adjustment to yield over the weighted average life of the loans with \$2.0 million of this amount being recognized during the first quarter of 2014. Improvements in credit quality decrease the basis in the related indemnification asset and increase our FDIC true up liability. This positive event will reduce the indemnification asset by approximately \$8.3 million of which \$2.1 million was recognized for the first quarter of 2014, and increase our FDIC true-up liability by \$1.1 million of which \$71,000 was recognized for the first quarter of 2014. The \$8.3 million will be amortized over the weighted average life of the shared-loss agreement. This amortization will be shown as a reduction to FDIC indemnification non-interest income. The \$1.1 million will be expensed over the remaining true-up measurement date as other non-interest expense.

Our annualized net interest margin, on a fully taxable equivalent basis, was 5.48% for the three months ended March 31, 2014, compared to 5.15% for the same period in 2013. The numerous pools which have been determined to have material projected credit improvement as a result of the quarterly impairment testing s and the acquisition of Liberty 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 1.64% for the three months ended March 31, 2014, compared to 1.70% for the same period in 2013. Our annualized return on average common equity was 13.00% for the three months ended March 31, 2014, compared to 13.68% for the same period in 2013, respectively. The improvements in our ratios from 2013 to 2014 are consistent with the previously discussed changes in earnings for the three months ended March 31, 2014, compared to the same period in 2013.

Our efficiency ratio was 42.07% for the three months ended March 31, 2014, compared to 46.03% for the same period in 2013. The improvement in the efficiency ratio is primarily associated with additional net interest income and other non-interest income resulting from our 2013 acquisition of Liberty offset by a modest increase in costs associated with the asset growth from our acquisitions and additional merger expenses.

Additional information and analysis for our earnings can be found in Table 17 of our Non-GAAP Financial Measurement section of the Management Discussion and Analysis.



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**Table of Contents*****Financial Condition as of and for the Period Ended March 31, 2014 and December 31, 2013***

Our total assets as of March 31, 2014 decreased \$31.1 million to \$6.78 billion from the \$6.81 billion reported as of December 31, 2013. Our loan portfolio not covered by loss share decreased by \$67.9 million to \$4.13 billion as of March 31, 2014, from \$4.19 billion as of December 31, 2013. Our loan portfolio covered by loss share decreased by \$11.9 million to \$270.6 million as of March 31, 2014, from \$282.5 million as of December 31, 2013. These decreases are primarily associated with pay-downs and payoffs. Stockholders' equity increased \$27.9 million to \$868.9 million as of March 31, 2014, compared to \$841.0 million as of December 31, 2013. The annualized improvement in stockholders' equity for the first three months of 2013 was 13.5%. The increase in stockholders' equity is primarily associated with the \$32.0 million of comprehensive income less the \$4.9 million of cash dividends paid for the first quarter of 2014.

As of March 31, 2014, our non-performing non-covered loans increased to \$42.7 million, or 1.03%, 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 103.15% as of March 31, 2014, compared to 101.95% as of December 31, 2013. Non-performing non-covered loans in Arkansas were \$21.9 million at March 31, 2014 compared to \$17.9 million as of December 31, 2013. Non-performing non-covered loans in Florida were \$20.4 million at March 31, 2014 compared to \$20.3 million as of December 31, 2013. Non-performing non-covered loans in Alabama were \$366,000 at March 31, 2014 compared to \$7,000 as of December 31, 2013.

As of March 31, 2014, our non-performing non-covered assets improved to \$66.2 million, or 1.03%, 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 \$41.2 million at March 31, 2014 compared to \$43.5 million as of December 31, 2013. Non-performing non-covered assets in Florida were \$24.6 million at March 31, 2014 compared to \$24.9 million as of December 31, 2013. Non-performing non-covered assets in Alabama were \$366,000 at March 31, 2014 compared to \$7,000 as of December 31, 2013.

**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 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.

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**Table of Contents**

*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.

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.



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**Table of Contents**

*Acquisition Accounting, Acquired Loans and 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 accretible 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.

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 (immediately recorded as an adjustment to the allowance for loan losses) would immediately increase the basis of the shared-loss agreements, with the offset recorded through the consolidated statement of income as a reduction of the provision for loan losses. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the weighted-average remaining life of the loans) decrease the basis of the shared-loss agreements, with such decrease being amortized into income over 1) the same period or 2) the life of the shared-loss agreements, whichever is shorter. Loss assumptions used in the basis of the indemnified loans are consistent with the loss assumptions used to measure the indemnification asset. Fair value accounting incorporates into the fair value of the indemnification asset an element of the time value of money, which is accreted back into income over the life of the shared-loss agreements.

Upon the determination of an incurred loss, the indemnification asset will be reduced by the amount owed by the FDIC. A corresponding claim receivable is recorded until cash is received from the FDIC.

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

*Intangible Assets.* Intangible assets consist of goodwill and core deposit intangibles. Goodwill represents the excess purchase price over the fair value of net assets acquired in business acquisitions. The core deposit intangible represents the excess intangible value of acquired deposit customer relationships as determined by valuation

specialists. The core deposit intangibles are being amortized over 48 to 114 months on a straight-line basis. Goodwill is not amortized but rather is evaluated for impairment on at least an annual basis. We perform an annual impairment test of goodwill and core deposit intangibles as required by FASB ASC 350, *Intangibles - Goodwill and Other*, in the fourth quarter.



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**Table of Contents**

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

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

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

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

## **Acquisitions**

### ***Acquisition Liberty Bancshares, Inc.***

On October 24, 2013, Home BancShares, Inc. acquired all of the issued and outstanding shares of common stock of Liberty Bancshares, Inc., parent company of Liberty Bank of Arkansas ( *Liberty Bank* ). Under the terms of the agreement, shareholders of Liberty received \$290.1 million of HBI common stock plus \$30.0 million in cash. Also on October 24, 2013, Liberty Bank was merged into Centennial Bank. We also repurchased all of Liberty's SBLF preferred stock held by the U.S. Treasury shortly after the closing. The merger significantly increased the Company's deposit market share in Arkansas making it the second largest bank holding company headquartered in Arkansas.

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

See Note 2 *Business Combinations* in the Notes to Consolidated Financial Statements for an additional discussion for the acquisition of Liberty Bank.



**Table of Contents*****FDIC Indemnification Asset***

In conjunction with FDIC-assisted transactions, the Company entered into loss share agreements with the FDIC. These agreements cover realized losses on loans, foreclosed real estate and certain other assets. These loss share assets are measured separately from the loan portfolios because they are not contractually embedded in the loans and are not transferable with the loans should the Company choose to dispose of them. Fair values at the acquisition dates were estimated based on projected cash flows available for loss-share based on the credit adjustments estimated for each loan pool and the loss share percentages. The loss share assets are also separately measured from the related loans and foreclosed real estate and recorded as FDIC indemnification assets on the Consolidated Balance Sheets. Subsequent to the acquisition date, reimbursements received from the FDIC for actual incurred losses will reduce the loss share assets. Reductions to expected credit losses, to the extent such reductions to expected credit losses are the result of an improvement to the actual or expected cash flows from the covered assets, will also reduce the loss share assets. Increases in expected credit losses will require an increase to the allowance for loan losses and a corresponding increase to the loss share assets. As the loss share agreements approach the various expiration dates there could be unexpected volatility as future expected loan losses might become projected to occur outside of the loss share coverage reimbursement window.

The following table summarizes the activity in the Company's FDIC indemnification asset during the periods indicated:

**Changes in FDIC Indemnification Asset**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in thousands)</b>	
Beginning balance	\$ 89,611	\$ 139,646
Incurred claims for FDIC covered credit losses	(11,519)	(11,379)
FDIC indemnification accretion/(amortization)	(4,744)	(1,992)
Reduction in provision for loan losses:		
Benefit attributable to FDIC loss share agreements		
Ending balance	\$ 73,348	\$ 126,275

***FDIC-Assisted Acquisitions True Up***

Our purchase and assumption agreements in connection with our FDIC-assisted acquisitions allow the FDIC to recover a portion of the loss share funds previously paid out under the indemnification agreements in the event losses fail to reach the expected loss under a claw back provision. Should the markets associated with any of the banks we acquired through FDIC-assisted transactions perform better than initially projected, the Bank is required to pay this clawback (or true-up) payment to the FDIC on a specified date following the tenth anniversary of such acquisition (the True-Up Measurement Date).

Specifically, in connection with the Old Southern and Key West acquisitions, such true-up payments would be equal to 50% of the excess, if any, of (i) 20% of a stated threshold of \$110.0 million in the case of Old Southern and \$23.0 million in the case of Key West, less (ii) the sum of (A) 25% of the asset premium (discount) plus (B) 25% of the

Cumulative Shared Loss Payments (defined as the aggregate of all of the payments made or payable to Centennial Bank minus the aggregate of all of the payments made or payable to the FDIC) plus (C) the Period Servicing Amounts for any twelve-month period prior to and ending on the True-Up Measurement Date (defined as the product of the simple average of the principal amount of shared loss loans and shared loss assets (other than shared loss securities) at the beginning and end of such period times 1%).

In connection with the Coastal-Bayside, Wakulla and Gulf State acquisitions, the true-up payments would be equal to 50% of the excess, if any, of (i) 20% of an intrinsic loss estimate of \$121.0 million in the case of Coastal, \$24.0 million in the case of Bayside, \$73.0 million in the case of Wakulla and \$35.0 million in the case of Gulf State, less (ii) the sum of (A) 20% of the net loss amount (the sum of all losses less the sum of all recoveries on covered assets) plus (B) 25% of the asset premium (discount) plus (C) 3.5% of the total loans subject to loss sharing under the loss sharing agreements as specified in the schedules to the agreements.

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**Table of Contents**

The amount of FDIC-assisted acquisitions true-up accrued at March 31, 2014 and December 31, 2013 was \$8.3 million and \$8.0 million, respectively.

**Branches**

We intend to continue opening new (commonly referred to as *de novo*) branches in our current markets and in other attractive market areas if opportunities arise. During the first quarter of 2014, the Company closed one branch in Panacea, Florida. The Company currently has no plans for additional *de novo* branch locations. In an effort to achieve efficiencies primarily from the recent acquisitions, the Company plans to close or merge four Arkansas and two Florida locations during the second quarter of 2014. The Company currently has 88 branches in Arkansas, 52 branches in Florida and 7 branches in Alabama.

**Results of Operations*****For Three Months Ended March 31, 2014 and 2013***

Our net income increased \$9.8 million or 55.8% to \$27.3 million for the three-month period ended March 31, 2014, from \$17.5 million for the same period in 2013. On a diluted earnings per share basis, our earnings were \$0.42 and \$0.31 (split adjusted) for the three-month periods ended March 31, 2014 and 2013, respectively. Excluding the \$849,000 of merger expenses associated with the recently completed acquisition of Liberty Bancshares, Inc. (Liberty), diluted earnings per share for the first quarter of 2014 was \$0.43 per share. The \$9.8 million increase in net income is primarily associated with the \$36.8 million of additional net interest income and other non-interest income primarily resulting from our 2013 acquisition of Liberty. Furthermore, there was \$447,000 of additional gains from the sale of premises & equipment and OREO. These improvements were partially offset by a modest increase in the costs associated with the asset growth from our Liberty acquisition plus a provision for loan losses of \$6.9 million in first quarter of 2014.

***Net Interest Income***

Net interest income, our principal source of earnings, is the difference between the interest income generated by earning assets and the total interest cost of the deposits and borrowings obtained to fund those assets. Factors affecting the level of net interest income include the volume of earning assets and interest-bearing liabilities, yields earned on loans and investments and rates paid on deposits and other borrowings, the level of non-performing loans and the amount of non-interest-bearing liabilities supporting earning assets. Net interest income is analyzed in the discussion and tables below on a fully taxable equivalent basis. The adjustment to convert certain income to a fully taxable equivalent basis consists of dividing tax-exempt income by one minus the combined federal and state income tax rate (39.225% for the three-month period ended March 31, 2014 and 2013).

The Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. The Federal Funds rate, which is the cost to banks of immediately available overnight funds, was lowered on December 16, 2008 to a historic low of 0.25% to 0% where it has remained since that time.

During the first quarter of 2014 impairment testing on the estimated cash flows of covered loans, four loan pools were determined to have a materially projected credit improvement. As a result of this improvement, the Company will recognize approximately \$11.4 million as an adjustment to yield over the weighted average life of the loans with \$2.0 million of this amount being recognized during the three-month periods ended March 31, 2014.



**Table of Contents**

Net interest income on a fully taxable equivalent basis increased \$33.2 million, or 73.02%, to \$78.6 million for the three-month period ended March 31, 2014, from \$45.4 million for the same period in 2013. This increase in net interest income was the result of a \$34.2 million increase in interest income combined with a \$1.0 million increase in interest expense. The \$34.2 million increase in interest income was primarily the result of a higher level of earning assets combined with higher yields on our covered loans. The \$1.0 million increase in interest expense for the three-month period ended March 31, 2014, is primarily the result of our interest bearing liabilities repricing in the lower interest rate environment combined with an increase in the volume of our average interest-bearing transaction and savings deposits and average time deposits. The repricing of our interest bearing liabilities in the lower interest rate environment resulted in a \$1.5 million decrease in interest expense. The higher level of our interest bearing liabilities resulted in an increase in interest expense of approximately \$2.5 million.

Net interest margin, on a fully taxable equivalent basis, was 5.48% for the three months ended March 31, 2014 compared to 5.15% for the same period in 2013. The numerous pools which have been determined to have material projected credit improvement as a result of the quarterly impairment testing and the acquisition of Liberty 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. The effective yield on non-covered loans for the three months ended March 31, 2014 and 2013 was 6.26% and 6.11%, respectively. The effective yield on covered loans for the three months ended March 31, 2014 and 2013 was 16.02% and 10.30%, respectively.

Additional information and analysis for our net interest margin can be found in Tables 18 through 20 of our Non-GAAP Financial Measurement section of the Management Discussion and Analysis.

Tables 1 and 2 reflect an analysis of net interest income on a fully taxable equivalent basis for the three-month period ended March 31, 2014 and 2013, as well as changes in fully taxable equivalent net interest margin for the three-month period ended March 31, 2014, compared to the same period in 2013.

**Table 1: Analysis of Net Interest Income**

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in thousands)</b>	
Interest income	\$ 81,840	\$ 48,148
Fully taxable equivalent adjustment	1,591	1,075
Interest income fully taxable equivalent	83,431	49,223
Interest expense	4,840	3,799
Net interest income fully taxable equivalent	\$ 78,591	\$ 45,424
Yield on earning assets fully taxable equivalent	5.82%	5.58%
Cost of interest-bearing liabilities	0.40	0.52
Net interest spread fully taxable equivalent	5.42	5.06
Net interest margin fully taxable equivalent	5.48	5.15

**Table 2: Changes in Fully Taxable Equivalent Net Interest Margin**

	<b>Three Months Ended March 31, 2014 vs. 2013 (In thousands)</b>	
Increase (decrease) in interest income due to change in earning assets	\$	33,108
Increase (decrease) in interest income due to change in earning asset yields		1,100
(Increase) decrease in interest expense due to change in interest-bearing liabilities		(2,514)
(Increase) decrease in interest expense due to change in interest rates paid on interest-bearing liabilities		1,473
Increase (decrease) in net interest income	\$	33,167



**Table of Contents**

Table 3 shows, for each major category of earning assets and interest-bearing liabilities, the average amount outstanding, the interest income or expense on that amount and the average rate earned or expensed for the three-month period ended March 31, 2014 and 2013, respectively. The table also shows the average rate earned on all earning assets, the average rate expensed on all interest-bearing liabilities, the net interest spread and the net interest margin for the same periods. The analysis is presented on a fully taxable equivalent basis. Non-accrual loans were included in average loans for the purpose of calculating the rate earned on total loans.

**Table 3: Average Balance Sheets and Net Interest Income Analysis**

	Three Months Ended March 31,					
	Average Balance	2014 Income / Expense	Yield / Rate	Average Balance	2013 Income / Expense	Yield / Rate
<b>(Dollars in thousands)</b>						
<b>ASSETS</b>						
Earnings assets						
Interest-bearing balances due from banks	\$ 63,018	\$ 24	0.15%	\$ 148,744	\$ 98	0.27%
Federal funds sold	31,482	16	0.21	15,724	7	0.18
Investment securities taxable	1,005,313	4,470	1.80	561,056	2,403	1.74
Investment securities non-taxable	286,328	3,789	5.37	165,411	2,419	5.93
Loans receivable	4,427,994	75,132	6.88	2,684,376	44,296	6.69
Total interest-earning assets	5,814,135	83,431	5.82	3,575,311	49,223	5.58
Non-earning assets	952,470			617,582		
Total assets	\$ 6,766,605			\$ 4,192,893		
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>						
Liabilities						
Interest-bearing liabilities						
Savings and interest-bearing transaction accounts	\$ 2,785,216	\$ 1,279	0.19%	\$ 1,771,631	\$ 814	0.19%
Time deposits	1,528,079	2,105	0.56	986,787	1,671	0.69
Total interest-bearing deposits	4,313,295	3,384	0.32	2,758,418	2,485	0.37
Federal funds purchased	508		0.00			0.00
Securities sold under agreement to repurchase	149,352	182	0.49	69,664	80	0.47
FHLB borrowed funds	377,326	946	1.02	130,376	1,004	3.12
Subordinated debentures	60,826	328	2.19	27,149	230	3.44
Total interest-bearing liabilities	4,901,307	4,840	0.40	2,985,607	3,799	0.52

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Non-interest bearing liabilities				
Non-interest bearing deposits	1,003,495		668,222	
Other liabilities	8,825		18,769	
Total liabilities				
	5,913,627		3,672,598	
Stockholders equity	852,978		520,295	
Total liabilities and stockholders equity				
	\$ 6,766,605		\$ 4,192,893	
Net interest spread				
		5.42%		5.06%
Net interest income and margin	\$ 78,591	5.48%	\$ 45,424	5.15%

**Table of Contents**

Table 4 shows changes in interest income and interest expense resulting from changes in volume and changes in interest rates for the three-month period ended March 31, 2014 compared to the same periods in 2013, on a fully taxable basis. The changes in interest rate and volume have been allocated to changes in average volume and changes in average rates, in proportion to the relationship of absolute dollar amounts of the changes in rates and volume.

**Table 4: Volume/Rate Analysis**

	<b>Three Months Ended March 31, 2014 over 2013</b>		
	<b>Volume</b>	<b>Yield/Rate</b>	<b>Total</b>
	<b>(In thousands)</b>		
Increase (decrease) in:			
Interest income:			
Interest-bearing balances due from banks	\$ (43)	\$ (31)	\$ (74)
Federal funds sold	8	1	9
Investment securities taxable	1,973	94	2,067
Investment securities non-taxable	1,619	(249)	1,370
Loans receivable	29,551	1,285	30,836
<b>Total interest income</b>	<b>33,108</b>	<b>1,100</b>	<b>34,208</b>
Interest expense:			
Interest-bearing transaction and savings deposits	465		465
Time deposits	789	(355)	434
Federal funds purchased			
Securities sold under agreement to repurchase	98	4	102
FHLB borrowed funds	956	(1,014)	(58)
Subordinated debentures	206	(108)	98
<b>Total interest expense</b>	<b>2,514</b>	<b>(1,473)</b>	<b>1,041</b>
<b>Increase (decrease) in net interest income</b>	<b>\$ 30,594</b>	<b>\$ 2,573</b>	<b>\$ 33,167</b>

**Provision for Loan Losses**

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

While general economic trends have improved recently, we cannot be certain that the current economic conditions will considerably improve in the near future. Recent and ongoing events at the national and international levels can create uncertainty in the financial markets. Despite these economic uncertainties, we continue to follow our

historically conservative procedures for lending and evaluating the provision and allowance for loan losses. Our practice continues to be primarily traditional real estate lending with strong loan-to-value ratios.

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

## **Table of Contents**

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

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

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

There was zero provision for covered loans for the three months ended March 31, 2014 and 2013.

The Company experienced a \$6.9 million increase in the provision for loan losses for non-covered loans during the first quarter of 2014 versus the same period in 2013. This expected increase is not an indication of a decline in asset quality, but primarily a reflection of the migration of the Liberty (and other acquired) loans from purchased loan accounting treatment to originated loan accounting treatment. Based upon current accounting guidance, the allowance for loan losses is not carried over in an acquisition. As a result, virtually none of the Liberty footprint loans had any allocation of the allowance for loan losses at year end. This is the result of all loans acquired on October 24, 2013 from Liberty being recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820. As the acquired loans mature and are renewed as new credits, management evaluates the credit risk associated with these new credit decisions and determines the required allowance for loan loss for these new originated loans using the allowance for loan loss methodology for all originated loans as disclosed in Note 1 to the Notes to Consolidated Financial Statements in our Form 10-K. Our current or historical provision levels should not be relied upon as a predictor or indicator of future levels going forward.

## ***Non-Interest Income***

Total non-interest income was \$12.2 million for the three-month period ended March 31, 2014, compared to \$9.0 million for the same period in 2013. Our recurring non-interest income includes service charges on deposit accounts, other service charges and fees, trust fees, mortgage lending, insurance, title fees, increase in cash value of life insurance, dividends and FDIC indemnification accretion/amortization.

**Table of Contents**

Table 5 measures the various components of our non-interest income for the three-month periods ended March 31, 2014 and 2013, respectively, as well as changes for the three-month period ended March 31, 2014 compared to the same period in 2013.

**Table 5: Non-Interest Income**

	<b>Three Months Ended March 31,</b>		<b>2014 Change from 2013</b>	
	<b>2014</b>	<b>2013</b>	<b>(Dollars in thousands)</b>	
Service charges on deposit accounts	\$ 5,911	\$ 3,709	\$ 2,202	59.4%
Other service charges and fees	5,686	3,437	2,249	65.4
Trust fees	436	19	417	2,194.7
Mortgage lending income	1,513	1,372	141	10.3
Insurance commissions	1,416	679	737	108.5
Income from title services	50	109	(59)	(54.1)
Increase in cash value of life insurance	288	180	108	60.0
Dividends from FHLB, FRB, Bankers bank & other	316	175	141	80.6
Gain on sale of SBA loans		56	(56)	(100.0)
Gain (loss) on sale of premises and equipment, net	9	15	(6)	(40.0)
Gain (loss) on OREO, net	539	86	453	526.7
Gain (loss) on securities, net				0.0
FDIC indemnification accretion/(amortization), net	(4,744)	(1,992)	(2,752)	138.2
Other income	761	1,180	(419)	(35.5)
<b>Total non-interest income</b>	<b>\$ 12,181</b>	<b>\$ 9,025</b>	<b>\$ 3,156</b>	<b>35.0%</b>

Non-interest income increased \$3.2 million, or 35.0%, to \$12.2 million for the three-month period ended March 31, 2014 from \$9.0 million for the same period in 2013.

The primary factor that resulted in this increase were improvements related to service charges on deposits, other service charges and fees, trust fees, mortgage lending income, insurance, and changes in OREO gains and losses offset by an increase in amortization on our FDIC indemnification asset.

Additional details on some of the more significant changes are as follows:

The \$4.5 million increase in service charges on deposit accounts and other service charges and fees are primarily from our 2013 acquisition of Liberty.

The \$417,000 increase in trust fees are primarily from our 2013 acquisition of Liberty.

The \$737,000 increase in insurance commissions is primarily from our 2013 acquisition of Liberty.

The \$2.8 million decrease in FDIC indemnification accretion/amortization, net is primarily associated with the quarterly impairment testing on the estimated cash flows of the covered loans. During the fourth quarter of 2013 and the first quarter of 2014, twelve FDIC loss sharing pools evaluated by the Company were determined to have a materially projected credit improvement. Improvements in credit quality decrease the basis in the related indemnification asset. These positive events are reducing the indemnification asset by approximately \$16.7 million of which \$3.3 million has been recognized for the first quarter of 2014. The \$16.7 million is being amortized over the weighted average life of the shared-loss agreement.

The \$419,000 decrease in other income is primarily from \$326,000 of tax-free life insurance proceeds during the first quarter of 2013. The proceeds were in connection with two former associates who were not currently with the Company.

**Table of Contents****Non-Interest Expense**

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

Table 6 below sets forth a summary of non-interest expense for the three-month periods ended March 31, 2014 and 2013, as well as changes for the three-month period ended March 31, 2014 compared to the same period in 2013.

**Table 6: Non-Interest Expense**

	<b>Three Months Ended March 31,</b>		<b>2014 Change from 2013</b>	
	<b>2014</b>	<b>2013</b>	<b>(Dollars in thousands)</b>	
Salaries and employee benefits	\$ 18,933	\$ 12,952	\$ 5,981	46.2%
Occupancy and equipment	6,226	3,594	2,632	73.2
Data processing expense	1,793	1,510	283	18.7
Other operating expenses:				
Advertising	522	693	(171)	(24.7)
Merger and acquisition expenses	849	28	821	2,932.1
Amortization of intangibles	1,167	802	365	45.5
Electronic banking expense	1,338	863	475	55.0
Directors fees	227	190	37	19.5
Due from bank service charges	199	133	66	49.6
FDIC and state assessment	1,114	630	484	76.8
Insurance	614	566	48	8.5
Legal and accounting	417	322	95	29.5
Other professional fees	507	473	34	7.2
Operating supplies	472	343	129	37.6
Postage	352	207	145	70.0
Telephone	454	303	151	49.8
Other expense	4,173	2,254	1,919	85.1
<b>Total non-interest expense</b>	<b>\$ 39,357</b>	<b>\$ 25,863</b>	<b>\$ 13,494</b>	<b>52.2%</b>

Non-interest expense, excluding merger expenses, increased \$12.7 million, or 49.1%, to \$38.5 million for the three-month period ended March 31, 2014, from \$25.8 million for the same period in 2013. These increases primarily result from additional expense associated with the Liberty acquisition during 2013. The decrease in advertising is primarily the result of management at its discretion deciding to spend a reduced amount of advertising during 2014.

**Income Taxes**

The provision for income taxes increased \$5.6 million, or 56.1%, to \$15.5 million for the three-month period ended March 31, 2014, from \$10.0 million as of March 31, 2013. The effective income tax rate was 36.26% for the



three-month period ended March 31, 2014, compared to 36.21% for the same period in 2013. The primary cause of the increase in taxes is the result of our higher earnings combined with our marginal tax rate of 39.225%.

**Table of Contents****Financial Condition as of and for the Period Ended March 31, 2014 and December 31, 2013**

Our total assets as of March 31, 2014 decreased \$31.1 million to \$6.78 billion from the \$6.81 billion reported as of December 31, 2013. Our loan portfolio not covered by loss share decreased by \$67.9 million to \$4.13 billion as of March 31, 2014, from \$4.19 billion as of December 31, 2013. Our loan portfolio covered by loss share decreased by \$11.9 million to \$270.6 million as of March 31, 2014, from \$282.5 million as of December 31, 2013. The decrease in covered loans is primarily associated with pay-downs and payoffs in our covered loan portfolio. Stockholders' equity increased \$27.9 million to \$868.9 million as of March 31, 2014, compared to \$841.0 million as of December 31, 2013. The annualized improvement in stockholders' equity for the first three months of 2013 was 13.5%. The increase in stockholders' equity is primarily associated with the \$32.0 million of comprehensive income less the \$4.9 million of cash dividends paid for the first quarter of 2014.

***Loans Receivable Not Covered by Loss Share***

Our non-covered loan portfolio averaged \$4.15 billion and \$2.31 billion during the three-month periods ended March 31, 2014 and 2013, respectively. Non-covered loans were \$4.13 billion as of March 31, 2014, compared to \$4.19 billion as of December 31, 2013. The relatively static state of the non-covered loan portfolio when compared to our historical expansion rates was not unexpected. This is primarily associated with lower loan demand and payoffs in our non-covered portfolios as our customers have grown more cautious in this weaker economy.

The most significant components of the non-covered loan portfolio were commercial real estate, residential real estate, consumer, and commercial and industrial loans. These non-covered loans are primarily originated within our market areas of Arkansas, Florida and South Alabama, and are generally secured by residential or commercial real estate or business or personal property within our market areas. Non-covered loans were \$3.25 billion, \$711.5 million and \$162.6 million as of March 31, 2014 in Arkansas, Florida and Alabama, respectively.

As of March 31, 2014, we had \$276.7 million of construction land development loans which were collateralized by land. This consisted of \$153.5 million for raw land and \$123.1 million for land with commercial and or residential lots.

Table 7 presents our loan balances not covered by loss share by category as of the dates indicated.

**Table 7: Loan Portfolio Not Covered by Loss Share**

	As of March 31, 2014	As of December 31, 2013
	(In thousands)	
Real estate:		
Commercial real estate loans:		
Non-farm/non-residential	\$ 1,722,910	\$ 1,739,668
Construction/land development	566,205	562,667
Agricultural	74,775	81,618
Residential real estate loans:		
Residential 1-4 family	890,981	913,332
Multifamily residential	206,348	213,232

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Total real estate	3,461,219	3,510,517
Consumer	60,735	69,570
Commercial and industrial	491,525	511,421
Agricultural	44,017	37,129
Other	69,068	65,800
Loans receivable not covered by loss share	\$ 4,126,564	\$ 4,194,437

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**Table of Contents**

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

As of March 31, 2014, non-covered commercial real estate loans totaled \$2.36 billion, or 57.3% of our non-covered loan portfolio, which is comparable to \$2.38 billion, or 56.8% of our non-covered loan portfolio, as of December 31, 2013. Our Florida and Alabama non-covered commercial real estate loans are approximately 10.3% and 2.1% of our non-covered loan portfolio, respectively.

*Non-Covered Residential Real Estate Loans.* We originate one to four family, owner occupied residential mortgage loans generally secured by property located in our primary market areas. The majority of our non-covered residential mortgage loans consist of loans secured by owner occupied, single family residences. Non-covered residential real estate loans generally have a loan-to-value ratio of up to 90%. These loans are underwritten by giving consideration to the borrower's ability to pay, stability of employment or source of income, debt-to-income ratio, credit history and loan-to-value ratio.

As of March 31, 2014, non-covered residential real estate loans totaled \$1.10 billion, or 26.6% of our non-covered loan portfolio, compared to \$1.13 billion, or 26.9% of our non-covered loan portfolio, as of December 31, 2013. Our Florida and Alabama non-covered residential real estate loans are approximately 5.7% and 1.4% of our non-covered loan portfolio, respectively.

*Non-Covered Consumer Loans.* Our non-covered consumer loan portfolio is composed of secured and unsecured loans originated by our banks. The performance of consumer loans will be affected by the local and regional economies as well as the rates of personal bankruptcies, job loss, divorce and other individual-specific characteristics.

As of March 31, 2014, our non-covered consumer loan portfolio totaled \$60.7 million, or 1.5% of our total non-covered loan portfolio, compared to the \$69.6 million, or 1.7% of our non-covered loan portfolio as of December 31, 2013. Our Florida and Alabama non-covered consumer loans are less than 1% of our non-covered loan portfolio.

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

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As of March 31, 2014, non-covered commercial and industrial loans outstanding totaled \$491.5 million, or 11.9% of our non-covered loan portfolio, which is comparable to \$511.4 million, or 12.2% of our non-covered loan portfolio, as of December 31, 2013. Our Florida and Alabama non-covered commercial and industrial loans are approximately 0.9% and 0.5% of our non-covered loan portfolio, respectively.

**Table of Contents****Total Loans Receivable**

Table 8 presents total loans receivable by category.

**Table 8: Total Loans Receivable**

As of March 31, 2014

	Loans Receivable Not Covered by Loss Share	Loans Receivable Covered by FDIC Loss Share (In thousands)	Total Loans Receivable
Real estate:			
Commercial real estate loans			
Non-farm/non-residential	\$ 1,722,910	\$ 113,593	\$ 1,836,503
Construction/land development	566,205	45,381	611,586
Agricultural	74,775	1,184	75,959
Residential real estate loans			
Residential 1-4 family	890,981	92,918	983,899
Multifamily residential	206,348	10,043	216,391
<b>Total real estate</b>	<b>3,461,219</b>	<b>263,119</b>	<b>3,724,338</b>
Consumer	60,735	16	60,751
Commercial and industrial	491,525	6,440	497,965
Agricultural	44,017		44,017
Other	69,068	1,066	70,134
<b>Total</b>	<b>\$ 4,126,564</b>	<b>\$ 270,641</b>	<b>\$ 4,397,205</b>

**Non-Performing Assets Not Covered by Loss Share**

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

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

We first reported non-covered loans acquired with deteriorated credit quality in our December 31, 2012 financial statements following our acquisitions of Heritage and Premier in the fourth quarter of 2012. The credit metrics most heavily impacted by our acquisition of acquired non-covered loans with deteriorated credit quality in our acquisitions

of Heritage and Premier were the following credit quality indicators listed in Table 9 below:

Allowance for loan losses for non-covered loans to non-performing non-covered loans;

Non-performing non-covered assets to total non-covered assets; and

Non-performing non-covered loans to total non-covered loans.

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

**Table of Contents**

Table 9 sets forth information with respect to our non-performing non-covered assets as of March 31, 2014 and December 31, 2013. As of these dates, all non-performing non-covered restructured loans are included in non-accrual non-covered loans.

**Table 9: Non-performing Assets Not Covered by Loss Share**

	<b>As of March 31, 2014</b>	<b>As of December 31, 2013</b>
	<b>(Dollars in thousands)</b>	
Non-accrual non-covered loans	\$ 20,697	\$ 15,133
Non-covered loans past due 90 days or more (principal or interest payments)	21,981	23,141
<b>Total non-performing non-covered loans</b>	<b>42,678</b>	<b>38,274</b>
Other non-performing non-covered assets		
Non-covered foreclosed assets held for sale, net	23,484	29,869
Other non-performing non-covered assets	47	281
<b>Total other non-performing non-covered assets</b>	<b>23,531</b>	<b>30,150</b>
<b>Total non-performing non-covered assets</b>	<b>\$ 66,209</b>	<b>\$ 68,424</b>
Allowance for loan losses for non-covered loans to non-performing non-covered loans	103.15%	101.95%
Non-performing non-covered loans to total non-covered loans	1.03	0.91
Non-performing non-covered assets to total non-covered assets	1.03	1.07

Our non-performing non-covered loans are comprised of non-accrual non-covered loans and accruing non-covered loans that are contractually past due 90 days. Our bank subsidiary recognizes income principally on the accrual basis of accounting. When loans are classified as non-accrual, the accrued interest is charged off and no further interest is accrued, unless the credit characteristics of the loan improve. If a loan is determined by management to be uncollectible, the portion of the loan determined to be uncollectible is then charged to the allowance for loan losses. The Florida franchise contains approximately 47.8% and 53.1% of our non-performing non-covered loans as of March 31, 2014 and December 31, 2013, respectively.

Total non-performing non-covered loans were \$42.7 million as of March 31, 2014, compared to \$38.3 million as of December 31, 2013 for an increase of \$4.4 million. Of the \$4.4 million increase in non-performing loans, \$4.0 million is from an increase in non-performing loans in our Arkansas market combined with a \$79,000 increase in non-performing loans in our Florida market and a \$359,000 increase in non-performing loans in Alabama. Non-performing loans at March 31, 2014 are approximately \$21.9 million, \$20.4 million and \$366,000 in the Arkansas, Florida and Alabama markets, respectively.



Although the current state of the real estate market has improved, uncertainties still present in the economy may continue to increase our level of non-performing non-covered loans. While we believe our allowance for loan losses is adequate and our purchased loans are adequately discounted at March 31, 2014, as additional facts become known about relevant internal and external factors that affect loan collectability and our assumptions, it may result in us making additions to the provision for loan losses during 2014. Our current or historical provision levels should not be relied upon as a predictor or indicator of future levels going forward.

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**Table of Contents**

Troubled debt restructurings ( TDR ) generally occur when a borrower is experiencing, or is expected to experience, financial difficulties in the near term. As a result, the Bank will work with the borrower to prevent further difficulties, and ultimately to improve the likelihood of recovery on the loan. In those circumstances it may be beneficial to restructure the terms of a loan and work with the borrower for the benefit of both parties, versus forcing the property into foreclosure and having to dispose of it in an unfavorable and depressed real estate market. When we have modified the terms of a loan, we usually either reduce the monthly payment and/or interest rate for generally about three to twelve months. For our troubled debt restructurings that accrue interest at the time the loan is restructured, it would be a rare exception to have charged-off any portion of the loan. Only non-performing restructured loans are included in our non-performing non-covered loans. As of March 31, 2014, we had \$32.9 million of non-covered restructured loans that are in compliance with the modified terms and are not reported as past due or non-accrual in Table 9. Our Florida market contains \$16.0 million of these non-covered restructured loans.

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

The majority of the Bank's loan modifications relate to commercial lending and involve reducing the interest rate, changing from a principal and interest payment to interest-only, a lengthening of the amortization period, or a combination of some or all of the three. In addition, it is common for the Bank to seek additional collateral or guarantor support when modifying a loan. At March 31, 2014, the amount of troubled debt restructurings was \$34.2 million, a decrease of 21.4% from \$43.5 million at December 31, 2013. As of March 31, 2014 and December 31, 2013, 96.4% and 98.0%, respectively, of all restructured loans were performing to the terms of the restructure.

Total foreclosed assets held for sale not covered by loss share were \$23.5 million as of March 31, 2014, compared to \$29.9 million as of December 31, 2013 for a decrease of \$6.4 million. The foreclosed assets held for sale not covered by loss share are comprised of \$4.2 million of assets located in Florida with the remaining \$19.3 million of assets located in Arkansas. As of March 31, 2014, there were no foreclosed assets not covered by loss share in Alabama.

During the first three months of 2014, we had four non-covered foreclosed properties with a carrying value greater than \$1.0 million. Three of these properties were acquired in the Liberty acquisition and hold an aggregate carrying value of \$10.8 million at March 31, 2014. The remaining property is a development loan in Northwest Arkansas which has been foreclosed since the first quarter of 2011. The carrying value was \$3.6 million at March 31, 2014. The Company does not currently anticipate any additional losses on these properties. As of March 31, 2014, no other foreclosed assets held for sale not covered by loss share have a carrying value greater than \$1.0 million.

**Table of Contents**

Table 10 shows the summary of foreclosed assets held for sale as of March 31, 2014 and December 31, 2013.

**Table 10: Total Foreclosed Assets Held For Sale**

	As of March 31, 2014			As of December 31, 2013		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
(In thousands)						
Commercial real estate loans						
Non-farm/non-residential	\$ 10,404	\$ 8,685	\$ 19,089	\$ 8,422	\$ 9,677	\$ 18,099
Construction/land development	9,338	7,712	17,050	17,675	5,517	23,192
Agricultural	49	3	52		651	651
Residential real estate loans						
Residential 1-4 family	3,625	3,801	7,426	3,772	5,154	8,926
Multifamily residential	68		68			
Total foreclosed assets held for sale	\$ 23,484	\$ 20,201	\$ 43,685	\$ 29,869	\$ 20,999	\$ 50,868

A loan is considered impaired when it is probable that we will not receive all amounts due according to the contracted terms of the loans. Impaired loans include non-performing loans (loans past due 90 days or more and non-accrual loans), criticized and/or classified loans with a specific allocation, loans categorized as TDR s and certain other loans identified by management that are still performing (loans included in multiple categories are only included once). As of March 31, 2014, average non-covered impaired loans were \$99.3 million compared to \$104.1 million as of December 31, 2013. As of March 31, 2014, non-covered impaired loans were \$92.2 million compared to \$106.5 million as of December 31, 2013 for a decrease of \$14.3 million. This decrease is primarily associated with the improvements in loan balances with a specific allocation and loans categorized as TDR s. As of March 31, 2014, our Florida and Alabama markets accounted for approximately \$45.6 million and \$372,000 of the non-covered impaired loans, respectively.

We evaluated loans purchased in conjunction with the 2010 FDIC-assisted acquisitions, the 2012 acquisitions of Heritage and Premier and certain loans during the 2013 acquisition of Liberty for impairment in accordance with the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Purchased loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected. Purchased impaired non-covered loans are not classified as non-performing non-covered assets for the recognition of interest income as the pools are considered to be performing. However, for the purpose of calculating the non-performing credit metrics, the Company has included all of the non-covered loans which are contractually 90 days past due and still accruing, including those in performing pools. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all purchased impaired loans.

All non-covered loans acquired with deteriorated credit quality are considered impaired loans at the date of acquisition. Since the loans are accounted for on a pooled basis under ASC 310-30, individual loans are not classified as impaired.

Since the loans are accounted for on a pooled basis under ASC 310-30, individual loans subsequently restructured within the pools are not classified as TDRs in accordance with ASC 310-30-40. For non-covered loans acquired with deteriorated credit quality that were deemed TDRs prior to the Company's acquisition of them, these loans are also not considered TDRs as they are accounted for under ASC 310-30.

As of March 31, 2014 and December 31, 2013, there were no non-covered loans acquired with deteriorated credit quality on non-accrual status as a result of the loans being accounted for on the pool basis and the pools are considered to be performing for the accruing of interest income. Also, acquired loans contractually past due 90 days or more are accruing interest because the pools are considered to be performing for the purpose of accruing interest income.

**Table of Contents****Past Due and Non-Accrual Loans**

Table 11 shows the summary non-accrual loans as of March 31, 2014 and December 31, 2013:

**Table 11: Total Non-Accrual Loans**

	As of March 31, 2014			As of December 31, 2013		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
(In thousands)						
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	\$ 5,620	\$	\$ 5,620	\$ 5,093	\$	\$ 5,093
Construction/land development	1,709		1,709	1,080		1,080
Agricultural	79		79	89		89
Residential real estate loans						
Residential 1-4 family	8,355		8,355	7,283		7,283
Multifamily residential	2,229		2,229	1		1
Total real estate	17,992		17,992	13,546		13,546
Consumer	196		196	124		124
Commercial and industrial	2,509		2,509	1,463		1,463
Other						
Total non-accrual loans	\$ 20,697	\$	\$ 20,697	\$ 15,133	\$	\$ 15,133

If the non-accrual non-covered loans had been accruing interest in accordance with the original terms of their respective agreements, interest income of approximately \$304,000 and \$333,000 for the three-month periods ended March 31, 2014 and 2013, respectively, would have been recorded. The interest income recognized on the non-covered non-accrual loans for the three-month periods ended March 31, 2014 and 2013 was considered immaterial.

Table 12 shows the summary of accruing past due loans 90 days or more as of March 31, 2014 and December 31, 2013:

**Table 12: Total Loans Accruing Past Due 90 Days or More**

	As of March 31, 2014			As of December 31, 2013		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total

**(In thousands)**

Real estate:						
Commercial real estate loans						
Non-farm/non-residential	\$ 7,494	\$ 20,568	\$ 28,062	\$ 7,914	\$ 15,287	\$ 23,201
Construction/land development	4,505	3,398	7,903	4,879	8,410	13,289
Agricultural		161	161		162	162
Residential real estate loans						
Residential 1-4 family	6,195	9,108	15,303	6,492	10,177	16,669
Multifamily residential	676	1,921	2,597	1	357	358
<b>Total real estate</b>	<b>18,870</b>	<b>35,156</b>	<b>54,026</b>	<b>19,286</b>	<b>34,393</b>	<b>53,679</b>
Consumer	89		89	100		100
Commercial and industrial	3,022	665	3,687	3,755	825	4,580
Other		659	659		624	624
<b>Total loans accruing past due 90 days or more</b>	<b>\$ 21,981</b>	<b>\$ 36,480</b>	<b>\$ 58,461</b>	<b>\$ 23,141</b>	<b>\$ 35,842</b>	<b>\$ 58,983</b>

The Company's total past due and non-accrual covered loans to total covered loans was 13.5% and 12.7% as of March 31, 2014 and December 31, 2013, respectively.

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**Table of Contents*****Allowance for Loan Losses for Non-Covered Loans***

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

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

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

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

Between the receipt of the original appraisal and the updated appraisal, we monitor the loan's repayment history and subject the loan to examination by our internal loan review. If the loan is over \$1.0 million or the total loan relationship is over \$2.0 million, our policy requires an annual credit review. In addition, we update all financial information and calculate the global repayment ability of the borrower/guarantors.

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

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



## **Table of Contents**

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

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

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

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

*Loans Collectively Evaluated for Impairment.* Non-covered loans collectively evaluated for impairment decreased organically by approximately \$30.6 million for the quarter ended March 31, 2014 from \$3.77 billion at December 31, 2013 to \$3.74 billion at March 31, 2014. The percentage of the allowance for loan losses for non-covered loans allocated to non-covered loans collectively evaluated for impairment to the total non-covered loans collectively evaluated for impairment increased from 0.65% at December 31, 2013 to 0.82% at March 31, 2014. This increase is the result of the normal changes associated with the calculation of the allocation of the allowance for loan losses and includes routine changes from the previous year end reporting period such as organic loan growth, unallocated allowance, individual loan impairments, asset quality and net charge-offs.

*Charge-offs and Recoveries.* Total charge-offs decreased to \$2.4 million for the three months ended March 31, 2014, compared to \$3.3 million for the same period in 2013. Total recoveries increased to \$488,000 for the three months ended March 31, 2014, compared to \$450,000 for the same period in 2013. For the three months ended March 31, 2014, the net charge-offs were \$1.3 million for Arkansas, \$670,000 for Florida and \$11,000 for Alabama, respectively, equaling a net charge-off position of \$1.9 million.

During the first quarter of 2014, there were \$2.4 million in charge-offs and \$488,000 in recoveries. While the charge-offs and recoveries consisted of many relationships, there were no individual relationships consisting of charge-offs greater than \$1.0 million.

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

**Table of Contents**

Table 13 shows the allowance for loan losses, charge-offs and recoveries for non-covered loans as of and for the three-month periods ended March 31, 2014 and 2013.

**Table 13: Analysis of Allowance for Loan Losses for Non-Covered Loans**

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in thousands)</b>	
Balance, beginning of period	\$ 39,022	\$ 45,170
Loans charged off		
Real estate:		
Commercial real estate loans:		
Non-farm/non-residential	67	245
Construction/land development	22	118
Agricultural		
Residential real estate loans:		
Residential 1-4 family	347	1,027
Multifamily residential	266	1,026
<b>Total real estate</b>	<b>702</b>	<b>2,416</b>
Consumer	166	602
Commercial and industrial	868	35
Agricultural		
Other	688	265
<b>Total loans charged off</b>	<b>2,424</b>	<b>3,318</b>
Recoveries of loans previously charged off		
Real estate:		
Commercial real estate loans:		
Non-farm/non-residential	22	17
Construction/land development	25	15
Agricultural		
Residential real estate loans:		
Residential 1-4 family	52	114
Multifamily residential	5	66
<b>Total real estate</b>	<b>104</b>	<b>212</b>
Consumer	62	42
Commercial and industrial	35	15
Agricultural		
Other	287	181
<b>Total recoveries</b>	<b>488</b>	<b>450</b>
<b>Net loans charged off (recovered)</b>	<b>1,936</b>	<b>2,868</b>

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Provision for loan losses for non-covered loans	6,938	
Balance, March 31	\$ 44,024	\$ 42,302
Net charge-offs (recoveries) on loans not covered by loss share to average non-covered loans	0.19%	0.50%
Allowance for loan losses for non-covered loans to total non-covered loans <sup>(1)</sup>	1.07	1.83
Allowance for loan losses for non-covered loans to net charge-offs (recoveries)	561	364

(1) See Management's Discussion and Analysis of Financial Condition and Results of Operations Table 21, for additional information on non-GAAP tabular disclosure.

**Table of Contents**

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

The changes for the period ended March 31, 2014 and the year ended December 31, 2013 in the allocation of the allowance for loan losses for non-covered loans for the individual types of loans are primarily associated with changes in the ASC 310 calculations, both individual and aggregate, and changes in the ASC 450 calculations. These calculations are affected by changes in individual loan impairments, changes in asset quality, net charge-offs during the period and normal changes in the outstanding loan portfolio, as well any changes to the general allocation factors due to changes within the actual characteristics of the loan portfolio.

Table 14 presents the allocation of allowance for loan losses for non-covered loans as of March 31, 2014 and December 31, 2013.

**Table 14: Allocation of Allowance for Loan Losses for Non-Covered Loans**

	As of March 31, 2014		As of December 31, 2013	
	Allowance Amount	% of loans <sup>(1)</sup>	Allowance Amount	% of loans <sup>(1)</sup>
(Dollars in thousands)				
<b>Real estate:</b>				
<b>Commercial real estate loans:</b>				
Non-farm/non-residential	\$ 16,425	41.7%	\$ 14,848	41.4%
Construction/land development	6,125	13.7	6,282	13.4
Agricultural	292	1.8	252	1.9
<b>Residential real estate loans:</b>				
Residential 1-4 family	6,935	21.6	6,072	21.8
Multifamily residential	2,821	5.0	2,817	5.1
<b>Total real estate</b>	<b>32,598</b>	<b>83.8</b>	<b>30,271</b>	<b>83.6</b>
Consumer	636	1.5	632	1.7
Commercial and industrial	3,867	11.9	1,933	12.2
Agricultural	3,010	1.1	1,931	0.9
Other		1.7		1.6
Unallocated	3,913		4,255	
<b>Total</b>	<b>\$ 44,024</b>	<b>100.0%</b>	<b>\$ 39,022</b>	<b>100.0%</b>

(1) Percentage of loans in each category to loans receivable not covered by loss share.

***Allowance for Loan Losses for Covered Loans***

Allowance for loan losses for covered loans were \$5.0 million and \$4.8 million at March 31, 2014 and December 31, 2013, respectively.

Total charge-offs decreased to zero for the three months ended March 31, 2014, compared to \$1.8 million for the same period in 2013. Total recoveries increased to \$174,000 for the three months ended March 31, 2014, compared to \$11,000 for the same period in 2013. There was zero provision for loan losses taken on covered loans during the three months ended March 31, 2014 and 2013.

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**Table of Contents*****Investments and Securities***

Our securities portfolio is the second largest component of earning assets and provides a significant source of revenue. Securities within the portfolio are classified as held-to-maturity, available-for-sale, or trading based on the intent and objective of the investment and the ability to hold to maturity. Fair values of securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities. The estimated effective duration of our securities portfolio was 3.3 years as of March 31, 2014.

As of March 31, 2014 and December 31, 2013 we had \$132.4 million and \$114.6 million of held-to-maturity securities, respectively. Of the \$132.4 million of held-to-maturity securities, \$16.1 million were invested in mortgage-backed securities and \$116.2 were invested in state and political subdivisions as of March 31, 2014. All of the held-to-maturity securities were invested in state and political subdivisions as of December 31, 2013.

Securities available-for-sale are reported at fair value with unrealized holding gains and losses reported as a separate component of stockholders' equity as other comprehensive income. Securities that are held as available-for-sale are used as a part of our asset/liability management strategy. Securities that may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital, and other similar factors are classified as available-for-sale. Available-for-sale securities were \$1.18 billion as of March 31, 2014 and December 31, 2013.

As of March 31, 2014, \$506.3 million, or 43.1%, of our available-for-sale securities were invested in mortgage-backed securities, compared to \$461.6 million, or 39.3%, of our available-for-sale securities as of December 31, 2013. To reduce our income tax burden, \$187.8 million, or 16.0%, of our available-for-sale securities portfolio as of March 31, 2014, was primarily invested in tax-exempt obligations of state and political subdivisions, compared to \$195.5 million, or 16.6%, of our available-for-sale securities as of December 31, 2013. Also, we had approximately \$427.1 million, or 36.3%, invested in obligations of U.S. Government-sponsored enterprises as of March 31, 2014, compared to \$463.5 million, or 39.4%, of our available-for-sale securities as of December 31, 2013.

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

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

***Deposits***

Our deposits averaged \$5.32 billion for the three-month period ended March 31, 2014. Total deposits decreased \$54.5 million, or an annualized decrease of 4.1%, to \$5.34 billion as of March 31, 2014, from \$5.39 billion as of December 31, 2013. Deposits are our primary source of funds. We offer a variety of products designed to attract and retain deposit customers. Those products consist of checking accounts, regular savings deposits, NOW accounts, money market accounts and certificates of deposit. Deposits are gathered from individuals, partnerships and corporations in our market areas. In addition, we obtain deposits from state and local entities and, to a lesser extent, U.S. Government and other depository institutions.

Our policy also permits the acceptance of brokered deposits. As of March 31, 2014 and December 31, 2013, brokered deposits were \$92.8 million and \$100.4 million, respectively. Included in these brokered deposits are \$38.6 million and \$41.2 million of Certificate of Deposit Account Registry Service (CDARS) as of March 31, 2014 and December 31, 2013, respectively. CDARS are deposits of our customers we have swapped with other institutions. This gives our customers the potential for FDIC insurance of up to \$50.0 million.

**Table of Contents**

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

The Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. The Federal Funds rate, which is the cost to banks of immediately available overnight funds, was lowered on December 16, 2008 to a historic low of 0.25% to 0% where it has remained since that time.

Table 15 reflects the classification of the average deposits and the average rate paid on each deposit category, which is in excess of 10 percent of average total deposits, for the three-month periods ended March 31, 2014 and 2013.

**Table 15: Average Deposit Balances and Rates**

	Three Months Ended March 31,			
	2014	2013		
	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
	(Dollars in thousands)			
Non-interest-bearing transaction accounts	\$ 1,003,495	%	\$ 668,222	%
Interest-bearing transaction accounts	2,437,025	0.20	1,567,727	0.20
Savings deposits	348,191	0.06	203,904	0.11
Time deposits:				
\$100,000 or more	830,281	0.65	524,816	0.75
Other time deposits	697,798	0.45	461,971	0.61
<b>Total</b>	<b>\$ 5,316,790</b>	<b>0.26%</b>	<b>\$ 3,426,640</b>	<b>0.29%</b>

**Securities Sold Under Agreements to Repurchase**

We enter into short-term purchases of securities under agreements to resell (resale agreements) and sales of securities under agreements to repurchase (repurchase agreements) of substantially identical securities. The amounts advanced under resale agreements and the amounts borrowed under repurchase agreements are carried on the balance sheet at the amount advanced. Interest incurred on repurchase agreements is reported as interest expense. Securities sold under agreements to repurchase decreased \$23.5 million, or 14.6%, from \$161.0 million as of December 31, 2013 to \$137.5 million as of March 31, 2014.

**FHLB Borrowed Funds**

Our FHLB borrowed funds were \$354.9 million and \$350.7 million at March 31, 2014 and December 31, 2013, respectively. At March 31, 2014, \$100.1 million and \$254.8 million of the outstanding balance were short-term and long-term advances, respectively. At December 31, 2013, \$130.3 million and \$220.4 million of the outstanding balances were short-term and long-term advances, respectively. Our remaining FHLB borrowing capacity was \$966.7 million and \$373.5 million as of March 31, 2014 and December 31, 2013, respectively. Expected maturities will differ



from contractual maturities, because FHLB may have the right to call or HBI may have the right to prepay certain obligations.

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**Table of Contents*****Subordinated Debentures***

Subordinated debentures, which consist of guaranteed payments on trust preferred securities, were \$60.8 million as of March 31, 2014 and December 31, 2013.

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

***Stockholders' Equity***

Stockholders' equity was \$868.9 million at March 31, 2014 compared to \$841.0 million at December 31, 2013, an annualized increase of 13.5%. As of March 31, 2014 and December 31, 2013 our equity to asset ratio was 12.8% and 12.3% respectively. Book value per share was \$13.34 at March 31, 2014 compared to \$12.92 at December 31, 2013, a 13.2% annualized increase.

*Common Stock Cash Dividends.* We declared cash dividends on our common stock of \$0.075 per share and \$0.065 per share (split adjusted) for the three-month periods ended March 31, 2014 and 2013, respectively. The common stock dividend payout ratio for the three months ended March 31, 2014 and 2013 was 17.9% and 20.8%, respectively. For the second quarter of 2014, the Board of Directors declared a regular \$0.075 per share quarterly cash dividend payable June 4, 2014, to shareholders of record May 14, 2014.

*2-for-1 Stock Split.* On April 18, 2013, our Board of Directors declared a 2-for-1 stock split to be paid in the form of a 100% stock dividend on June 12, 2013 (the Payment Date) to shareholders of record at the close of business on May 22, 2013. The additional shares were distributed by the Company's transfer agent, Computershare, and the Company's common stock began trading on a split-adjusted basis on the NASDAQ Global Select Market on June 13, 2013. The stock split increased the Company's total shares of common stock outstanding as of June 12, 2013 from 28,121,596 shares to 56,243,192 shares (split adjusted). All previously reported share and per share data included in filings subsequent to the Payment Date are restated to reflect the retroactive effect of this 2-for-1 stock split.

**Table of Contents****Liquidity and Capital Adequacy Requirements**

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

Quantitative measures established by regulation to ensure capital adequacy require us to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes that, as of March 31, 2014 and December 31, 2013, we met all regulatory capital adequacy requirements to which we were subject.

Table 16 presents our risk-based capital ratios as of March 31, 2014 and December 31, 2013.

**Table 16: Risk-Based Capital**

	As of March 31, 2014	As of December 31, 2013
	(Dollars in thousands)	
Tier 1 capital		
Stockholders equity	\$ 868,868	\$ 840,955
Qualifying trust preferred securities	59,000	59,000
Goodwill and core deposit intangibles, net	(322,159)	(323,272)
Unrealized (gain) loss on available-for-sale securities	(511)	4,140
Deferred tax assets	(22,366)	(31,330)
<b>Total Tier 1 capital</b>	<b>582,832</b>	<b>549,493</b>
Tier 2 capital		
Qualifying allowance for loan losses	48,991	43,815
<b>Total Tier 2 capital</b>	<b>48,991</b>	<b>43,815</b>
<b>Total risk-based capital</b>	<b>\$ 631,823</b>	<b>\$ 593,308</b>
Average total assets for leverage ratio	\$ 6,422,080	\$ 5,859,902
<b>Risk weighted assets</b>	<b>\$ 4,995,047</b>	<b>\$ 5,051,558</b>
Ratios at end of period		
Leverage ratio	9.08%	9.38%
Tier 1 risk-based capital	11.67	10.88

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Total risk-based capital	12.65	11.75
Minimum guidelines		
Leverage ratio	4.00%	4.00%
Tier 1 risk-based capital	4.00	4.00
Total risk-based capital	8.00	8.00

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

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**Table of Contents*****Non-GAAP Financial Measurements***

Our accounting and reporting policies conform to generally accepted accounting principles in the United States ( GAAP ) and the prevailing practices in the banking industry. However, due to the application of purchase accounting from the Company's significant number of historical acquisitions (especially Liberty), we believe certain non-GAAP measures and ratios that exclude the impact of these items are useful to the investors and users of our financial statements to evaluate our performance, including net income, earnings per share, net interest margin and the allowance for loan losses for non-covered loans to total non-covered loans.

Because of the Company's significant number of historical acquisitions, our net income, earnings per share, net interest margin and the allowance for loan losses for non-covered loans to total non-covered loans were significantly impacted by accretion and amortization of the fair value adjustments recorded in purchase accounting combined with the recording of provision for loan losses as loans migrate from purchased loan accounting treatment to originated loan accounting treatment. The accretion, amortization and provision for loan losses affect our net income, earnings per share and certain operating ratios as we accrete loan discounts to interest income; amortize premiums and discounts on time deposits to interest expense; amortize impairments of the indemnification assets to non-interest income; amortize intangible assets and accrue FDIC true up liability to non-interest expense; expense merger and acquisition costs and make provision for loan losses to cover new loans originated which are replacing the purchased loans acquired.

The Company experienced a \$6.9 million increase in the provision for loan losses for non-covered loans during the first quarter of 2014 versus the same period in 2013. This expected increase is not an indication of a decline in asset quality, but primarily a reflection of the migration of the Liberty (and other acquired) loans from purchased loan accounting treatment to originated loan accounting treatment. Based upon current accounting guidance, the allowance for loan losses is not carried over in an acquisition. As a result, virtually none of the Liberty footprint loans had any allocation of the allowance for loan losses at year end. This is the result of all loans acquired on October 24, 2013 from Liberty being recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820. As the acquired loans mature and are renewed as new credits, management evaluates the credit risk associated with these new credit decisions and determines the required allowance for loan loss for these new originated loans using the allowance for loan loss methodology for all originated loans as disclosed in note 1 to the Notes to Consolidated Financial Statements in our Form 10-K.

We had \$1.86 million of purchased non-covered loans, which includes \$164.3 million of discount for credit losses on non-covered loans acquired, at March 31, 2014. We had \$2.04 billion of purchased non-covered loans, which includes \$174.6 million of discount for credit losses on non-covered loans acquired at December 31, 2013. For purchased credit-impaired financial assets, GAAP requires a discount embedded in the purchase price that is attributable to the expected credit losses at the date of acquisition, which is a different approach from non-purchased-credit-impaired assets. While the discount for credit losses on purchased non-covered loans is not available for credit losses on non-purchased non-covered loans, management believes it is useful information to show the same accounting as if applied to all loans, including those acquired in a business combination.

We believe these non-GAAP measures and ratios, when taken together with the corresponding GAAP measures and ratios, provide meaningful supplemental information regarding our performance. We believe investors benefit from referring to these non-GAAP measures and ratios in assessing our operating results and related trends, and when planning and forecasting future periods. However, these non-GAAP measures and ratios should be considered in addition to, and not as a substitute for or preferable to, ratios prepared in accordance with GAAP. In Tables 17 through 21 below, we have provided a reconciliation of, where applicable, the most comparable GAAP financial measures and ratios to the non-GAAP financial measures and ratios, or a reconciliation of the non-GAAP calculation of the financial measure for the periods indicated:



Table of Contents**Table 17: Non-GAAP Earnings**

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(In thousands, except per share data)</b>	
GAAP net income	\$ 27,337	\$ 17,548
Accretion to net interest income	(15,264)	(5,055)
Provision for loan losses	6,938	
FDIC indemnification amortization	4,744	1,992
FDIC true-up accrual	267	180
Amortization of intangible assets	1,167	802
Merger and acquisition expenses	849	28
Tax impact of the above items	789	1,248
Non-GAAP impact to net income	(510)	(805)
Non-GAAP net income	\$ 26,827	\$ 16,743
GAAP diluted earnings per share	\$ 0.42	\$ 0.31
Impact of purchase accounting, net of tax	(0.01)	(0.01)
Non-GAAP diluted earnings per share	\$ 0.41	\$ 0.30
Average diluted shares outstanding	65,511	56,535

**Table 18: Average Yield on Loans**

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in thousands)</b>	
Interest income on loans receivable FTE	\$ 75,132	\$ 44,296
Purchase accounting accretion	15,399	4,880
Non-GAAP interest income on loans receivable FTE	\$ 59,733	\$ 39,416
Average loans	\$ 4,427,994	\$ 2,684,376
Average purchase accounting loan discounts <sup>(1)</sup>	281,440	251,303
Average loans (non-GAAP)	\$ 4,709,434	\$ 2,935,679
Average yield on loans (reported)	6.88%	6.69%

Average contractual yield on loans (non-GAAP)	5.14	5.45
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- (1) Balance includes \$164.3 million of discount of credit losses for non-covered loans acquired as of March 31, 2014.



Table of Contents**Table 19: Average Cost of Deposits**

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in thousands)</b>	
Interest expense on deposits	\$ 3,384	\$ 2,485
Amortization of time deposit (premiums)/discounts, net	(135)	175
Non-GAAP interest expense on deposits	\$ 3,249	\$ 2,660
Average deposits	\$ 4,313,295	\$ 2,758,418
Average unamortized CD (premium)/discount, net	11	(1,098)
Average deposits (non-GAAP)	\$ 4,313,306	\$ 2,757,320
Average cost of deposits (reported)	0.32%	0.37%
Average contractual cost of deposits (non-GAAP)	0.31	0.39

**Table 20: Net Interest Margin**

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in thousands)</b>	
Net interest income FTE	\$ 78,591	\$ 45,424
Total purchase accounting accretion	15,264	5,055
Non-GAAP net interest income FTE	\$ 63,327	\$ 40,369
Average interest-earning assets	\$ 5,814,135	\$ 3,575,311
Average purchase accounting loan discounts	281,440	251,303
Average interest-earning assets (non-GAAP)	\$ 6,095,575	\$ 3,826,614
Net interest margin (reported)	5.48%	5.15%
Net interest margin (non-GAAP)	4.21	4.28

**Table of Contents****Table 21: Allowance for Loan Losses for Non-Covered Loans to Total Non-Covered Loans**

	<b>As of March 31, 2014</b>		
	<b>Purchased</b>		
	<b>Non-Covered</b>	<b>Non-Covered</b>	<b>Total</b>
	<b>Loans</b>	<b>Loans</b>	
	<b>(Dollars in thousands)</b>		
Loan balance reported (A)	\$ 2,263,024	\$ 1,863,540	\$ 4,126,564
Loan balance reported plus discount (B)	2,263,024	2,027,864	4,290,888
Allowance for loan losses for non-covered loans (C)	\$ 44,024	\$	\$ 44,024
Discount for credit losses on non-covered loans acquired (D)		164,324	164,324
Total allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired (E)	\$ 44,024	\$ 164,324	\$ 208,348
Allowance for loan losses for non-covered loans to total non-covered loans (C/A)	1.95%	N/A	1.07%
Discount for credit losses on non-covered loans acquired to non-covered loans acquired plus discount for credit losses on non-covered loans acquired (D/B)	N/A	8.10%	N/A
Allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired to total non-covered loans plus discount for credit losses on non-covered loans acquired (E/B)	N/A	N/A	4.86%

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

	<b>As of December 31, 2013</b>		
	<b>Purchased</b>		
	<b>Non-Covered</b>	<b>Non-Covered</b>	<b>Total</b>
	<b>Loans</b>	<b>Loans</b>	
	<b>(Dollars in thousands)</b>		
Loan balance reported (A)	\$ 2,150,463	\$ 2,043,974	\$ 4,194,437
Loan balance reported plus discount (B)	2,150,463	2,218,611	4,369,074
Allowance for loan losses for non-covered loans (C)	\$ 39,022	\$	\$ 39,022
Discount for credit losses on non-covered loans acquired (D)		174,637	174,637

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Total allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired (E)	\$ 39,022	\$ 174,637	\$ 213,659
Allowance for loan losses for non-covered loans to total non-covered loans (C/A)	1.81%	N/A	0.93%
Discount for credit losses on non-covered loans acquired to non-covered loans acquired plus discount for credit losses on non-covered loans acquired (D/B)	N/A	7.87%	N/A
Allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired to total non-covered loans plus discount for credit losses on non-covered loans acquired (E/B)	N/A	N/A	4.89%

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

**Table of Contents**

We had \$322.9 million, \$324.0 million, and \$96.9 million total goodwill, core deposit intangibles and other intangible assets as of March 31, 2014, December 31, 2013 and March 31, 2013, respectively. Because of our level of intangible assets and related amortization expenses, management believes diluted earnings per share excluding intangible amortization, tangible book value per share, return on average assets excluding intangible amortization, return on average tangible equity excluding intangible amortization and tangible equity to tangible assets are useful in evaluating our company. These calculations, which are similar to the GAAP calculation of diluted earnings per share, book value, return on average assets, return on average equity, and equity to assets, are presented in Tables 22 through 26, respectively. All per share data has been restated to reflect the retroactive effect of the 2-for-1 stock split which occurred during June 2013.

**Table 22: Diluted Earnings Per Share Excluding Intangible Amortization**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in thousands, except per share data)</b>	
GAAP net income	\$ 27,337	\$ 17,548
Intangible amortization after-tax	709	487
<b>Earnings excluding intangible amortization</b>	<b>\$ 28,046</b>	<b>\$ 18,035</b>
GAAP diluted earnings per share	\$ 0.42	\$ 0.31
Intangible amortization after-tax	0.01	0.01
<b>Diluted earnings per share excluding intangible amortization</b>	<b>\$ 0.43</b>	<b>\$ 0.32</b>

**Table 23: Tangible Book Value Per Share**

	<b>As of</b>	<b>As of</b>
	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<b>(In thousands, except per share data)</b>	
Book value per share: A/B	\$ 13.34	\$ 12.92
Tangible book value per share: (A-C-D)/B	8.38	7.94
(A) Total equity	\$ 868,868	\$ 840,955
(B) Shares outstanding	65,135	65,082
(C) Goodwill	\$ 301,736	\$ 301,736
(D) Core deposit and other intangibles	21,131	22,298

Table of Contents**Table 24: Return on Average Assets Excluding Intangible Amortization**

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in thousands)</b>	
Return on average assets: A/C	1.64%	1.70%
Return on average assets excluding intangible amortization: B/(C-D)	1.77	1.79
(A) Net income	\$ 27,337	\$ 17,548
Intangible amortization after-tax	709	487
<b>(B) Earnings excluding intangible amortization</b>	<b>\$ 28,046</b>	<b>\$ 18,035</b>
(C) Average assets	\$ 6,766,605	\$ 4,192,893
(D) Average goodwill, core deposits and other intangible assets	323,434	97,332

**Table 25: Return on Average Tangible Equity Excluding Intangible Amortization**

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in thousands)</b>	
Return on average equity: A/C	13.00%	13.68%
Return on average tangible equity excluding intangible amortization: B/(C-D)	21.48	17.29
(A) Net income	\$ 27,337	\$ 17,548
(B) Earnings excluding intangible amortization	28,046	18,035
(C) Average equity	852,978	520,295
(D) Average goodwill, core deposits and other intangible assets	323,434	97,332

**Table 26: Tangible Equity to Tangible Assets**

	<b>As of March 31, 2014</b>	<b>As of December 31, 2013</b>
	<b>(Dollars in thousands)</b>	
Equity to assets: B/A	12.81%	12.35%
Tangible equity to tangible assets: (B-C-D)/(A-C-D)	8.45	7.97
(A) Total assets	\$ 6,780,776	\$ 6,811,861
(B) Total equity	868,868	840,955

(C) Goodwill	301,736	301,736
(D) Core deposit and other intangibles	21,131	22,298

**Recently Issued Accounting Pronouncements**

See Note 22 to the Condensed Notes to Consolidated Financial Statements for a discussion of certain recently issued and recently adopted accounting pronouncements.

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

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

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

Liquidity needs can be met from either assets or liabilities. On the asset side, our primary sources of liquidity include cash and due from banks, federal funds sold, available-for-sale investment securities and scheduled repayments and maturities of loans. We maintain adequate levels of cash and cash equivalents to meet our day-to-day needs. As of March 31, 2014, our cash and cash equivalents were \$214.6 million, or 3.2% of total assets, compared to \$165.5 million, or 2.4% of total assets, as of December 31, 2013. Our available-for-sale investment securities and federal funds sold were \$1.20 billion as of March 31, 2014 and \$1.18 billion as of December 31, 2013.

Our investment portfolio is comprised of approximately 78.4% or \$1.03 billion of securities which mature in less than five years. As of March 31, 2014 and December 31, 2013, \$1.12 billion and \$1.13 billion, respectively, of securities were pledged as collateral for various public fund deposits and securities sold under agreements to repurchase.

On the liability side, our principal sources of liquidity are deposits, borrowed funds, and access to capital markets. Customer deposits are our largest sources of funds. As of March 31, 2014, our total deposits were \$5.34 billion, or 78.7% of total assets, compared to \$5.39 billion, or 79.2% of total assets, as of December 31, 2013. We attract our deposits primarily from individuals, business, and municipalities located in our market areas.

We may occasionally use our Fed funds lines of credit in order to temporarily satisfy short-term liquidity needs. We have Fed funds lines with three other financial institutions pursuant to which we could have borrowed up to \$35.0 million on an unsecured basis as of March 31, 2014 and December 31, 2013. These lines may be terminated by the respective lending institutions at any time.

We also maintain lines of credit with the Federal Home Loan Bank. Our FHLB borrowed funds were \$354.9 million and \$350.7 million at March 31, 2014 and December 31, 2013, respectively. At March 31, 2014, \$100.1 million and \$254.8 million of the outstanding balance were short-term and long-term advances, respectively. At December 31, 2013, \$130.3 million and \$220.4 million of the outstanding balance were short-term and long-term advances, respectively. Our FHLB borrowing capacity was \$966.7 million and \$373.5 million as of March 31, 2014 and December 31, 2013, respectively.

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

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



## **Table of Contents**

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

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

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

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

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

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

Gap analysis attempts to capture the amounts and timing of balances exposed to changes in interest rates at a given point in time. Our gap position as of March 31, 2014 was asset sensitive with a one-year cumulative repricing gap of 98.4%. During these periods, the amount of change our asset base realizes in relation to the total change in market interest rate exceeds that of the liability base.

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

**Table of Contents**

Table 27 presents a summary of the repricing schedule of our interest-earning assets and interest-bearing liabilities (gap) as of March 31, 2014.

**Table 27: Interest Rate Sensitivity**

	Interest Rate Sensitivity Period							Total
	0-30 Days	31-90 Days	91-180 Days	181-365 Days	1-2 Years	2-5 Years	Over 5 Years	
<b>Earning assets</b>								
Interest-bearing deposits due from banks	\$ 89,897	\$	\$	\$	\$	\$	\$	\$ 89,897
Federal funds sold	22,925							22,925
Investment securities	60,187	78,710	49,165	80,916	183,174	480,551	375,487	1,308,190
Loans receivable	819,112	397,649	485,904	770,650	710,241	963,746	200,912	4,348,214
Total earning assets	\$ 992,121	\$ 476,359	\$ 535,069	\$ 851,566	\$ 893,415	\$ 1,444,297	\$ 576,399	\$ 5,769,226
<b>Interest-bearing liabilities</b>								
Interest-bearing transaction and savings deposits	117,025	234,050	351,074	702,149	486,304	476,037	461,148	2,827,787
Time deposits	184,491	257,627	278,783	406,455	228,746	95,174	2,299	1,453,575
Federal funds purchased								
Securities sold under repurchase agreements	137,524							137,524
FHLB borrowed funds	25,228	55,227	30,229	60,430	52,969	127,060	3,792	354,935
Subordinated debentures	60,826							60,826
Total interest-bearing liabilities	525,094	546,904	660,086	1,169,034	768,019	698,271	467,239	4,834,647
Interest rate sensitivity gap	\$ 467,027	\$ (70,545)	\$ (125,017)	\$ (317,468)	\$ 125,396	\$ 746,026	\$ 109,160	\$ 934,579

Cumulative interest rate sensitivity gap	\$ 467,027	\$ 396,482	\$ 271,465	\$ (46,003)	\$ 79,393	\$ 825,419	\$ 934,579
Cumulative rate sensitive assets to rate sensitive liabilities	188.9%	137.0%	115.7%	98.4%	102.2%	118.9%	119.3%
Cumulative gap as a % of total earning assets	8.1%	6.9%	4.7%	(0.8)%	1.4%	14.3%	16.2%

**Table of Contents**

**Item 4: CONTROLS AND PROCEDURES**

**Article I. Evaluation of Disclosure Controls**

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

**Article I. Changes in Internal Control Over Financial Reporting**

There have not been any changes in the Company's internal controls over financial reporting during the quarter ended March 31, 2014, which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II: OTHER INFORMATION**

**Item 1: Legal Proceedings**

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

**Item 1A: Risk Factors**

There were no material changes from the risk factors set forth in Part I, Item 1A, Risk Factors, of our Form 10-K for the year ended December 31, 2013. See the discussion of our risk factors in the Form 10-K, as filed with the SEC. The risks described are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

Not applicable.

**Item 3: Defaults Upon Senior Securities**

Not applicable.

**Item 4: Mine Safety Disclosures**

Not applicable.

**Table of Contents**

**Item 5: Other Information**

Not applicable.

**Item 6: Exhibits**

12.1	Computation of Ratios of Earnings to Fixed Charges*
15	Awareness of Independent Registered Public Accounting Firm*
31.1	CEO Certification Pursuant Rule 13a-14(a)/15d-14(a)*
31.2	CFO Certification Pursuant Rule 13a-14(a)/15d-14(a)*
32.1	CEO Certification Pursuant 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes Oxley Act of 2002*
32.2	CFO Certification Pursuant 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes Oxley Act of 2002*
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*

\* Filed herewith

**Table of Contents**

**SIGNATURES**

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

**HOME BANCSHARES, INC.**

(Registrant)

Date: May 8, 2014

/s/ C. Randall Sims  
C. Randall Sims, Chief Executive Officer

Date: May 8, 2014

/s/ Randy E. Mayor  
Randy E. Mayor, Chief Financial Officer