HOME BANCSHARES INC
Form 10-Q
August 07, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

or

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

Commission File Number: 000-51904

HOME BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

(501) 328-4770

(Registrant s telephone number, including area code)

Not Applicable

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

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

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: 66,458,209 shares as of July 31, 2014.

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FORM 10-Q

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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PART I: FINANCIAL INFORMATION

Item 1: Financial Statements

Home BancShares, Inc.

Consolidated Balance Sheets

(In thousands, except share data)	June 30, 2014 (Unaudited)	December 31, 2013
Assets		
Cash and due from banks	$ 122,167	$ 104,005
Interest-bearing deposits with other banks	21,385	61,529
Cash and cash equivalents	143,552	165,534
Federal funds sold	850	4,275
Investment securities available-for-sale	1,122,803	1,175,484
Investment securities held-to-maturity	205,566	114,621
Loans receivable not covered by loss share	4,133,109	4,194,437
Loans receivable covered by FDIC loss share	263,157	282,516
Allowance for loan losses	(51,173)	(43,815)
Loans receivable, net	4,345,093	4,433,138
Bank premises and equipment, net	196,194	197,224
Foreclosed assets held for sale not covered by loss share	20,960	29,869
Foreclosed assets held for sale covered by FDIC loss share	17,196	20,999
FDIC indemnification asset	56,626	89,611
Cash value of life insurance	64,066	63,501
Accrued interest receivable	20,847	22,944
Deferred tax asset, net	73,151	89,412
Goodwill	301,736	301,736
Core deposit and other intangibles	19,984	22,298
Other assets	77,516	81,215
Total assets	$ 6,666,140	$ 6,811,861
Liabilities and Stockholders Equity		
Deposits:		
Demand and non-interest-bearing	$ 1,129,073	$ 991,161
Savings and interest-bearing transaction accounts	2,756,060	2,792,423
Time deposits	1,306,876	1,609,462
Total deposits	5,192,009	5,393,046
Securities sold under agreements to repurchase	144,602	160,984
FHLB borrowed funds	349,110	350,661
Accrued interest payable and other liabilities	22,358	5,389

Subordinated debentures	60,826	60,826
Total liabilities	5,768,905	5,970,906
Stockholders equity:		
Common stock, par value $0.01; shares authorized 100,000,000 in 2014 and 2013; shares issued and outstanding 65,142,137 in 2014 and 65,081,853 in 2013	651	651
Capital surplus	709,516	708,058
Retained earnings	182,382	136,386
Accumulated other comprehensive income (loss)	4,686	(4,140)
Total stockholders equity	897,235	840,955
Total liabilities and stockholders equity	$ 6,666,140	$ 6,811,861

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.

Consolidated Statements of Income

(In thousands, except per share data)	Three Months Ended June 30, 2014	2013	Six Months Ended June 30, 2014	2013
	(Unaudited)			
Interest income:				
Loans	$ 75,404	$ 44,036	$ 150,417	$ 88,195
Investment securities				
Taxable	4,762	2,490	9,232	4,893
Tax-exempt	2,379	1,467	4,696	2,948
Deposits other banks	29	86	53	184
Federal funds sold	12	6	28	13
Total interest income	82,586	48,085	164,426	96,233
Interest expense:				
Interest on deposits	3,095	2,129	6,479	4,614
FHLB borrowed funds	952	1,012	1,898	2,016
Securities sold under agreements to repurchase	168	86	350	166
Subordinated debentures	328	17	656	247
Total interest expense	4,543	3,244	9,383	7,043
Net interest income	78,043	44,841	155,043	89,190
Provision for loan losses	6,115	850	13,053	850
Net interest income after provision for loan losses	71,928	43,991	141,990	88,340
Non-interest income:				
Service charges on deposit accounts	6,193	4,088	12,104	7,797
Other service charges and fees	5,978	3,479	11,664	6,916
Trust fees	323	17	759	36
Mortgage lending income	1,801	1,619	3,314	2,991
Insurance commissions	934	444	2,350	1,123
Income from title services	53	136	103	245
Increase in cash value of life insurance	281	218	569	398
Dividends from FHLB, FRB, Bankers bank & other	501	401	817	576
Gain on sale of SBA loans				56
Gain (loss) on sale of premises and equipment, net	445	394	454	409
Gain (loss) on OREO, net	859	441	1,398	527
Gain (loss) on securities, net		111		111
FDIC indemnification accretion/(amortization), net	(6,622)	(2,283)	(11,366)	(4,275)

Other income	793	740	1,554	1,920
Total non-interest income	11,539	9,805	23,720	18,830
Non-interest expense:				
Salaries and employee benefits	18,813	12,957	37,746	25,909
Occupancy and equipment	6,251	3,894	12,477	7,488
Data processing expense	1,793	1,231	3,586	2,741
Other operating expenses	11,763	7,773	24,168	15,580
Total non-interest expense	38,620	25,855	77,977	51,718
Income before income taxes	44,847	27,941	87,733	55,452
Income tax expense	16,418	10,282	31,967	20,245
Net income	$ 28,429	$ 17,659	$ 55,766	$ 35,207
Basic earnings per share	$ 0.44	$ 0.32	$ 0.86	$ 0.63
Diluted earnings per share	$ 0.43	$ 0.31	$ 0.85	$ 0.62

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.

Consolidated Statements of Comprehensive Income

(In thousands)	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
	(Unaudited)			
Net income	$ 28,429	$ 17,659	$ 55,766	$ 35,207
Net unrealized gain (loss) on available-for-sale securities	6,870	(14,142)	14,523	(16,377)
Less: reclassification adjustment for realized (gains) losses included in income		(111)		(111)
Other comprehensive income (loss), before tax effect	6,870	(14,253)	14,523	(16,488)
Tax effect	(2,695)	5,591	(5,697)	6,468
Other comprehensive income (loss)	4,175	(8,662)	8,826	(10,020)
Comprehensive income	$ 32,604	$ 8,997	$ 64,592	$ 25,187

Home BancShares, Inc.

Consolidated Statements of Stockholders Equity

Six Months Ended June 30, 2014 and 2013

(In thousands, except share data)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2013	$ 281	$ 416,354	$ 86,837	$ 12,001	$ 515,473
Comprehensive income:					
Net income			35,207		35,207
Other comprehensive income (loss)				(10,020)	(10,020)
Net issuance of 11,701 shares of common stock from exercise of stock options		79			79
2-for-1 stock split during June 2013	281	(281)			
Tax benefit from stock options exercised		48			48
Share-based compensation		595			595
Cash dividends Common Stock, $0.14 per share			(7,872)		(7,872)
Balances at June 30, 2013 (unaudited)	562	416,795	114,172	1,981	533,510

Comprehensive income:						
Net income			31,313			31,313
Other comprehensive income (loss)					(6,121)	(6,121)
Net issuance of 74,500 shares of common stock from exercise of stock options	1	351				352
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		788				788
Share-based compensation		703				703
Cash dividends Common Stock, $0.15 per share			(9,099)			(9,099)
Balances at December 31, 2013	651	708,058	136,386		(4,140)	840,955
Comprehensive income:						
Net income			55,766			55,766
Other comprehensive income (loss)					8,826	8,826
Net issuance of 18,784 shares of common stock from exercise of stock options		97				97
Disgorgement of profits		25				25
Tax benefit from stock options exercised		196				196
Share-based compensation		1,140				1,140
Cash dividends Common Stock, $0.15 per share			(9,770)			(9,770)
Balances at June 30, 2014 (unaudited)	$ 651	$ 709,516	$ 182,382	$	4,686	$ 897,235

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.

Consolidated Statements of Cash Flows

(In thousands)	Six Months Ended June 30, 2014	2013
	(Unaudited)	
Operating Activities		
Net income	$ 55,766	$ 35,207
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	4,988	3,212
Amortization/(accretion)	16,170	8,840
Share-based compensation	1,140	595
Tax benefits from stock options exercised	(196)	(48)
(Gain) loss on assets	(1,852)	(1,318)
Provision for loan losses	13,053	850
Deferred income tax effect	10,563	6,811
Increase in cash value of life insurance	(569)	(398)
Originations of mortgage loans held for sale	(107,389)	(66,673)
Proceeds from sales of mortgage loans held for sale	107,993	58,567
Changes in assets and liabilities:		
Accrued interest receivable	2,097	1,881
Indemnification and other assets	25,322	37,615
Accrued interest payable and other liabilities	17,165	8,163
Net cash provided by (used in) operating activities	144,251	93,304
Investing Activities		
Net (increase) decrease in federal funds sold	3,425	14,673
Net (increase) decrease in loans, excluding loans acquired	63,544	38,923
Purchases of investment securities available-for-sale	(73,910)	(153,852)
Proceeds from maturities of investment securities available-for-sale	138,930	123,942
Proceeds from sale of investment securities available-for-sale		278
Purchases of investment securities held-to-maturity	(99,212)	
Proceeds from maturities of investment securities held-to-maturity	7,962	
Proceeds from foreclosed assets held for sale	24,954	15,042
Proceeds from sale of SBA loans		592
Purchases of premises and equipment, net	(3,504)	(8,657)
Death benefits received		540
Net cash proceeds (paid) received market acquisitions		
Net cash provided by (used in) investing activities	62,189	31,481
Financing Activities		

Net increase (decrease) in deposits, excluding deposits acquired	(201,037)	(158,217)
Net increase (decrease) in securities sold under agreements to repurchase	(16,382)	7,183
Net increase (decrease) in FHLB borrowed funds	(1,551)	(137)
Retirement of subordinated debentures		(25,000)
Proceeds from exercise of stock options	97	79
Disgorgement of profits	25	
Tax benefits from stock options exercised	196	48
Dividends paid on common stock	(9,770)	(7,872)
Net cash provided by (used in) financing activities	(228,422)	(183,916)
Net change in cash and cash equivalents	(21,982)	(59,131)
Cash and cash equivalents beginning of year	165,534	231,855
Cash and cash equivalents end of period	$ 143,552	$ 172,724

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.

Condensed Notes to Consolidated Financial Statements

(Unaudited)

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

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

Operating Segments

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

Use of Estimates

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

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

Principles of Consolidation

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

Reclassifications

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

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Interim financial information

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

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

Earnings per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Net income	$ 28,429	$ 17,659	$ 55,766	$ 35,207
Average shares outstanding	65,140	56,234	65,131	56,228
Effect of common stock options	405	343	392	327
Average diluted shares outstanding	65,545	56,577	65,523	56,555
Basic earnings per share	$ 0.44	$ 0.32	$ 0.86	$ 0.63
Diluted earnings per share	$ 0.43	$ 0.31	$ 0.85	$ 0.62

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.

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

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

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3. Investment Securities

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

	June 30, 2014			
	Available-for-sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 392,226	$ 2,102	$ (1,025)	$ 393,303
Mortgage-backed securities	493,393	4,020	(1,919)	495,494
State and political subdivisions	173,817	5,320	(931)	178,206
Other securities	55,657	556	(413)	55,800
Total	$ 1,115,093	$ 11,998	$ (4,288)	$ 1,122,803

	Held-to-Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
Mortgage-backed securities	$ 69,645	$ 116	$ (85)	$ 69,676
State and political subdivisions	135,921	2,708	(162)	138,467
Total	$ 205,566	$ 2,824	$ (247)	$ 208,143

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

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

Assets, principally investment securities, having a carrying value of approximately $1.10 billion and $1.13 billion at June 30, 2014 and December 31, 2013, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. Also, investment securities pledged as collateral for repurchase agreements totaled approximately $144.6 million and $161.0 million at June 30, 2014 and December 31, 2013, respectively.

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

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	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In thousands)			
Due in one year or less	$ 338,986	$ 339,830	$ 49,928	$ 50,353
Due after one year through five years	568,944	572,852	109,091	110,441
Due after five years through ten years	183,692	185,932	40,807	41,564
Due after ten years	23,471	24,189	5,740	5,785
Total	$ 1,115,093	$ 1,122,803	$ 205,566	$ 208,143

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

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

During the three and six-month periods ended June 30, 2013, $167,000 in available-for-sale securities were sold. The gross realized gains on these sales totaled approximately $111,000. The income tax expense/benefit to net security gains and losses was 39.225% of the gross amounts.

At June 30, 2014 and December 31, 2013, there were $205.6 million and $114.6 million of held-to-maturity securities, respectively. There were no securities classified as held-to-maturity at June 30, 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 six-month period ended June 30, 2014, no securities were deemed to have other-than-temporary impairment besides securities for which impairment was taken in prior periods.

As of June 30, 2014, the Company had approximately $3.2 million in unrealized losses, which have been in continuous loss positions for more than twelve months. Excluding impairment write downs taken in prior periods, the Company s assessments indicated that the cause of the market depreciation was primarily the change in interest rates and not the issuer s financial condition, or downgrades by rating agencies. In addition, approximately 80.7% of the Company s investment portfolio matures in five years or less. As a result, the Company has the ability and intent to hold such securities until maturity.

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

	June 30, 2014					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. government-sponsored enterprises	$ 29,230	$ (86)	$ 56,471	$ (939)	$ 85,701	$ (1,025)
Mortgage-backed securities	179,512	(691)	74,534	(1,313)	254,046	(2,004)
State and political subdivisions	14,762	(179)	30,073	(914)	44,835	(1,093)
Other securities	6,334	(331)	10,834	(82)	17,168	(413)
Total	$ 229,838	$ (1,287)	$ 171,912	$ (3,248)	$ 401,750	$ (4,535)

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Taxable:				
Available-for-sale	$ 4,499	$ 2,490	$ 8,919	$ 4,893
Held-to-maturity	263		313	
Non-taxable:				
Available-for-sale	1,449	1,467	2,939	2,948

Held-to-maturity	930		1,757	
Total	$ 7,141	$ 3,957	$ 13,928	$ 7,841

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4. Loans Receivable Not Covered by Loss Share

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

	June 30, 2014	December 31, 2013
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 1,733,029	$ 1,739,668
Construction/land development	603,216	562,667
Agricultural	64,409	81,618
Residential real estate loans		
Residential 1-4 family	887,097	913,332
Multifamily residential	218,615	213,232
Total real estate	3,506,366	3,510,517
Consumer	56,197	69,570
Commercial and industrial	447,459	511,421
Agricultural	56,852	37,129
Other	66,235	65,800
Loans receivable not covered by loss share	$ 4,133,109	$ 4,194,437

During the three and six-month periods ended June 30, 2014, no SBA loans were sold. During the three-month period ended June 30, 2013, no SBA loans were sold. During the six-month period ended June 30, 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 $29.9 million and $30.5 million at June 30, 2014 and December 31, 2013, respectively, are included in residential 1-4 family loans. Mortgage loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis. Gains and losses resulting from sales of mortgage loans are recognized when the respective loans are sold to investors. Gains and losses are determined by the difference between the selling price and the carrying amount of the loans sold, net of discounts collected or paid. The Company obtains forward commitments to sell mortgage loans to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. The forward commitments acquired by the Company for mortgage loans in process of origination are not mandatory forward commitments. These commitments are structured on a best efforts basis; therefore, the Company is not required to substitute another loan or to buy back the commitment if the original loan does not fund. Typically, the Company delivers the mortgage loans within a few days after the loans are funded. These commitments are derivative instruments and their fair values at June 30, 2014 and December 31, 2013 were not material.

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5. Loans Receivable Covered by FDIC Loss Share

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

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

	June 30, 2014	December 31, 2013
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 107,171	$ 117,164
Construction/land development	44,763	48,388
Agricultural	1,145	1,232
Residential real estate loans		
Residential 1-4 family	91,706	98,403
Multifamily residential	10,002	10,378
Total real estate	254,787	275,565
Consumer	20	20
Commercial and industrial	7,368	5,852
Other	982	1,079
Loans receivable covered by FDIC loss share	$ 263,157	$ 282,516

The acquired loans were grouped into pools based on common risk characteristics and were recorded at their estimated fair values, which incorporated estimated credit losses at the acquisition dates. These loan pools are systematically reviewed by the Company to determine material changes in cash flow estimates from those identified at the time of the acquisition. Techniques used in determining risk of loss are similar to the Centennial Bank non-covered loan portfolio, with most focus being placed on those loan pools which include the larger loan relationships and those loan pools which exhibit higher risk characteristics. As of June 30, 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 six months ended June 30, 2014:

	For Loans Not Covered by Loss Share	For Loans Covered by FDIC Loss Share	Total

	(In thousands)		
Allowance for loan losses:			
Beginning balance	$ 39,022	$ 4,793	$ 43,815
Loans charged off	4,950	1,051	6,001
Recoveries of loans previously charged off	1,123	302	1,425
Net loans recovered (charged off)	(3,827)	(749)	(4,576)
Provision for loan losses for non-covered loans	13,053		13,053
Provision for loan losses forecasted outside of loss share		280	280
Provision for loan losses before benefit attributable to FDIC loss share agreements		(1,399)	(1,399)
Benefit attributable to FDIC loss share agreements		1,119	1,119
Net provision for loan losses for covered loans			
Increase in FDIC indemnification asset		(1,119)	(1,119)
Balance, June 30	$ 48,248	$ 2,925	$ 51,173

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

The following tables present the balance in the allowance for loan losses for the non-covered loan portfolio for the three and six-month periods ended June 30, 2014 and the allowance for loan losses and recorded investment in loans not covered by loss share based on portfolio segment by impairment method as of June 30, 2014. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories. Additionally, the Company s discount for credit losses on non-covered loans acquired was $157.7 million, $174.6 million $80.3 million at June 30, 2014, December 31, 2013 and June 30, 2013, respectively.

	Three Months Ended June 30, 2014						
	Construction Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
Beginning balance	$ 6,125	$ 16,717	$ 9,756	$ 3,867	$ 3,646	$ 3,913	$ 44,024
Loans charged off	(145)	(601)	(870)	(316)	(594)		(2,526)
Recoveries of loans previously charged off	20	199	(4)	30	390		635
Net loans recovered (charged off)	(125)	(402)	(874)	(286)	(204)		(1,891)
Provision for loan losses	657	3,255	1,134	133	422	514	6,115
Balance, June 30	$ 6,657	$ 19,570	$ 10,016	$ 3,714	$ 3,864	$ 4,427	$ 48,248

	Six Months Ended June 30, 2014						
	Construction Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
Beginning balance	$ 6,282	$ 15,100	$ 8,889	$ 1,933	$ 2,563	$ 4,255	$ 39,022
Loans charged off	(167)	(668)	(1,483)	(1,184)	(1,448)		(4,950)
Recoveries of loans previously charged off	45	221	53	65	739		1,123
Net loans recovered (charged off)	(122)	(447)	(1,430)	(1,119)	(709)		(3,827)
Provision for loan losses	497	4,917	2,557	2,900	2,010	172	13,053
Balance, June 30	$ 6,657	$ 19,570	$ 10,016	$ 3,714	$ 3,864	$ 4,427	$ 48,248

	As of June 30, 2014						
	Construction Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 2,824	$ 10,564	$ 2,561	$ 6	$	$	$ 15,955
Loans collectively evaluated for impairment	3,833	9,006	7,455	3,708	3,864	4,427	32,293
Loans evaluated for impairment, balance, June 30	6,657	19,570	10,016	3,714	3,864	4,427	48,248
Purchased credit impaired loans acquired							