

HOME BANCSHARES INC
Form 10-K
February 28, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

(Mark One)

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2013**

or

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

Commission File Number: 000-51904

HOME BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Arkansas
(State or other jurisdiction of
incorporation or organization)

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

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

72032
(Zip Code)

(Registrant's telephone number, including area code)

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

None	N/A
Title of each class	Name of each exchange on which registered
Securities registered pursuant to Section 12(g) of the Act:	

Common Stock, par value \$0.01 per share

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Edgar Filing: HOME BANCSHARES INC - Form 10-K

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 accelerated filer, large accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) 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

The aggregate market value of the registrant's common stock, par value \$0.01 per share, held by non-affiliates on June 30, 2013, was \$1.16 billion based upon the last trade price as reported on the NASDAQ Global Select Market of \$25.97.

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: 65,132,691 shares as of February 21, 2014.

Documents incorporated by reference: Part III is incorporated by reference from the registrant's Proxy Statement relating to its 2013 Annual Meeting to be held on April 17, 2014.

Table of Contents

HOME BANCSHARES, INC.

FORM 10-K

December 31, 2013

INDEX

	Page No.
<u>PART I:</u>	
Item 1. <u>Business</u>	4-22
Item 1A. <u>Risk Factors</u>	22-34
Item 1B. <u>Unresolved Staff Comments</u>	35
Item 2. <u>Properties</u>	35
Item 3. <u>Legal Proceedings</u>	35
Item 4. <u>Mine Safety Disclosure</u>	35
<u>PART II:</u>	
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	36-37
Item 6. <u>Selected Financial Data</u>	38-39
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operation</u>	40-84
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	84-87
Item 8. <u>Consolidated Financial Statements and Supplementary Data</u>	88-146
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	146
Item 9A. <u>Controls and Procedures</u>	146-147
Item 9B. <u>Other Information</u>	147
<u>PART III:</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	147
Item 11. <u>Executive Compensation</u>	147
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	147
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	147
Item 14. <u>Principal Accounting Fees and Services</u>	147

PART IV:

Item 15. <u>Exhibits, Financial Statement Schedules</u>	148
<u>Signatures</u>	149
Consent and Certifications	After page 149

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 Risk Factors .

Table of Contents**PART I****Item 1. BUSINESS****Company Overview**

Home BancShares, Inc. (Home BancShares, which may also be referred to in this document as we, us or the Company) is a Conway, Arkansas headquartered bank holding company registered under the federal Bank Holding Company Act of 1956. The Company's common stock is traded through the NASDAQ Global Select Market under the symbol HOMB. We are primarily engaged in providing a broad range of commercial and retail banking and related financial services to businesses, real estate developers and investors, individuals and municipalities through our wholly owned community bank subsidiary Centennial Bank (the Bank). The Bank has locations in Arkansas, Florida and South Alabama. Although the Company has a diversified loan portfolio, at December 31, 2013 and 2012, commercial real estate loans represented 57.0% and 56.7% of gross loans and 303.3% and 298.8% of total stockholders' equity, respectively. The Company's total assets, total deposits, total revenue and net income for each of the past three years are as follows:

	As of or for the Years Ended December 31,		
	2013	2012	2011
	(In thousands)		
Total assets	\$ 6,811,861	\$ 4,242,130	\$ 3,604,117
Total deposits	5,393,046	3,483,452	2,858,031
Total revenue (interest income plus non-interest income)	257,491	225,104	213,115
Net income available to all stockholders	66,520	63,022	54,741

Home BancShares acquires, organizes and invests in community banks that serve attractive markets. Our community banking team is built around experienced bankers with strong local relationships. The Company was formed in 1998 by an investor group led by John W. Allison, our Chairman, and Robert H. Bunny Adcock, Jr., our Vice Chairman. After obtaining a bank charter, we established First State Bank in Conway, Arkansas, in 1999. We acquired Community Bank, Bank of Mountain View and Centennial Bank in 2003, 2005 and 2008, respectively. Home BancShares and its founders were also involved in the formation of Twin City Bank and Marine Bank, both of which we acquired in 2005. During 2008 and 2009, we merged all of our banks into one charter and adopted Centennial Bank as the common name. In 2010, we acquired six banks in Florida through Federal Deposit Insurance Corporation (FDIC) assisted transactions with loss share, including Old Southern Bank, Key West Bank, Coastal Community Bank, Bayside Savings Bank, Wakulla Bank and Gulf State Community Bank. In 2012, we acquired three banks headquartered in Florida including Vision Bank, Premier Bank and Heritage Bank of Florida (Heritage). Heritage was acquired through an FDIC-assisted transaction without loss share. In 2013, we acquired Liberty Bancshares, Inc. headquartered in Jonesboro, Arkansas.

We believe many individuals and businesses prefer banking with a locally managed community bank capable of providing flexibility and quick decisions. The execution of our community banking strategy has allowed us to rapidly build our network of banking operations through acquisitions. The following are the financial details concerning our acquisitions during the previous five years.

FDIC Acquisition Old Southern Bank On March 12, 2010, Centennial Bank entered into a purchase and assumption agreement (Old Southern Agreement) with the FDIC, as receiver, pursuant to which Centennial Bank acquired certain assets and assumed substantially all of the deposits and certain liabilities of Old Southern Bank (Old Southern).

Prior to the acquisition, Old Southern operated 7 banking centers in the Orlando, Florida metropolitan area. Including the effects of purchase accounting adjustments, Centennial Bank acquired \$342.6 million in assets and assumed approximately \$328.5 million of the deposits of Old Southern. Additionally, Centennial Bank purchased covered loans with an estimated fair value of \$179.1 million, \$3.0 million of foreclosed assets and \$30.4 million of investment securities.

Table of Contents

See the Company's Note 2 Business Combinations in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2010 for an additional discussion for the acquisition of Old Southern.

FDIC Acquisition Key West Bank On March 26, 2010, Centennial Bank, entered into a purchase and assumption agreement with the FDIC, as receiver, pursuant to which Centennial Bank acquired certain assets and assumed substantially all of the deposits and certain liabilities of Key West Bank (Key West).

Prior to the acquisition, Key West operated one banking center located in Key West, Florida. Including the effects of purchase accounting adjustments, Centennial Bank acquired \$89.6 million in assets and assumed approximately \$66.7 million of the deposits of Key West. Additionally, Centennial Bank purchased covered loans with an estimated fair value of \$46.9 million, \$5.7 million of foreclosed assets and assumed \$20.0 million of FHLB advances.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2010 for an additional discussion for the acquisition of Key West.

FDIC Acquisition Coastal Community Bank and Bayside Savings Bank On July 30, 2010, Centennial Bank entered into separate purchase and assumption agreements with the FDIC, as receiver for each bank, pursuant to which Centennial Bank acquired the loans and certain assets and assumed the deposits and certain liabilities of Coastal Community Bank (Coastal) and Bayside Savings Bank (Bayside), respectively. These two institutions had been under common ownership of Coastal Community Investments, Inc.

Prior to the acquisition, Coastal and Bayside operated 12 banking centers in the Florida Panhandle area. Including the effects of purchase accounting adjustments, Centennial Bank acquired \$436.8 million in assets and assumed approximately \$424.6 million of the deposits of Coastal and Bayside. Additionally, Centennial Bank purchased covered loans with an estimated fair value of \$200.6 million, non-covered loans with an estimated fair value of \$4.1 million, \$9.6 million of foreclosed assets and \$18.5 million of investment securities.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2010 for an additional discussion for the acquisition of Coastal and Bayside.

FDIC Acquisition Wakulla Bank On October 1, 2010, Centennial Bank entered into a purchase and assumption agreement with the FDIC, as receiver, pursuant to which Centennial Bank acquired the performing loans and certain assets and assumed substantially all of the deposits and certain liabilities of Wakulla Bank (Wakulla).

Prior to the acquisition, Wakulla operated 12 banking centers in the Florida Panhandle. Including the effects of purchase accounting adjustments, Centennial Bank acquired approximately \$377.9 million in assets and assumed approximately \$356.2 million in deposits of Wakulla. Additionally, Centennial Bank purchased performing covered loans of approximately \$148.2 million, performing non-covered loans with an estimated fair value of \$17.6 million, \$45.9 million of marketable securities and \$27.6 million of federal funds sold.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2010 for an additional discussion for the acquisition of Wakulla.

FDIC Acquisition Gulf State Community Bank On November 19, 2010, Centennial Bank entered into a purchase and assumption agreement with the FDIC, as receiver, pursuant to which Centennial Bank acquired the loans and certain assets and assumed substantially all of the deposits and certain liabilities of Gulf State Community Bank (Gulf State).

Prior to the acquisition, Gulf State operated five banking centers in the Florida Panhandle. Including the effects of purchase accounting adjustments, Centennial Bank acquired approximately \$118.2 million in assets and assumed approximately \$97.7 million in deposits of Gulf State. Additionally, Centennial Bank purchased covered loans with an estimated fair value of \$41.2 million, non-covered loans with an estimated fair value of \$1.7 million, \$4.7 million of foreclosed assets and \$10.8 million of investment securities.

Table of Contents

See Note 2 *Business Combinations* in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2010 for an additional discussion for the acquisition of Gulf State.

Acquisition Vision Bank On February 16, 2012, Centennial Bank completed the acquisition of operating assets and liabilities of Vision Bank, a Florida state-chartered bank with its principal office located in Panama City, Florida (*Vision*), pursuant to a Purchase and Assumption Agreement (the *Vision Agreement*), dated November 16, 2011, between the Company, Centennial, Park National Corporation, parent company of Vision (*Park*), and Vision. As a result of the acquisition, the Company had an opportunity to increase its deposit base and reduce transaction costs. The Company also reduced costs through economies of scale.

Prior to the acquisition, Vision conducted banking business from 17 banking offices, including eight locations in Baldwin County, Alabama, and nine locations in the Florida Panhandle counties of Bay, Gulf, Okaloosa, Santa Rosa and Walton. Including the effects of the purchase accounting adjustments, Centennial Bank acquired approximately \$529.5 million in assets, approximately \$340.3 million in performing loans including loan discounts and approximately \$524.4 million of deposits.

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

FDIC Acquisition Heritage Bank On November 2, 2012, Centennial Bank acquired all the deposits and substantially all the assets of Heritage Bank from the FDIC. This transaction did not include any non-performing loans or other real estate owned of Heritage. In connection with the Heritage acquisition, Centennial Bank opted to not enter into a loss sharing agreement with the FDIC.

Prior to the acquisition, Heritage operated three banking offices located in Tampa, Lutz and Wesley Chapel, Florida. Including the effects of the purchase accounting adjustments, Centennial Bank acquired approximately \$224.8 million in assets plus a cash settlement to balance the transaction, approximately \$92.6 million in performing loans including loan discounts and approximately \$219.5 million of deposits.

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

Acquisition Premier Bank On December 1, 2012, Home BancShares, Inc. completed the acquisition of all of the issued and outstanding shares of common stock of Premier Bank (*Premier*), a Florida state-chartered bank with its principal office located in Tallahassee, Florida, pursuant to an Asset Purchase Agreement (the *Premier Agreement*) with Premier Bank Holding Company, a Florida corporation and bank holding company (*PBHC*), dated August 14, 2012. The Company then merged Premier with and into Centennial Bank. The Company paid a purchase price to PBHC of \$1,415,000 for the Premier acquisition.

The Premier acquisition was conducted in accordance with the provisions of Section 363 of the United States Bankruptcy Code (the *Bankruptcy Code*) pursuant to a voluntary petition for relief under Chapter 11 of the Bankruptcy Code filed by PBHC with the United States Bankruptcy Court for the Northern District of Florida (the *Bankruptcy Court*) on August 14, 2012. The sale of Premier by PBHC was subject to certain bidding procedures approved by the Bankruptcy Court. No qualifying competing bids were received. The Bankruptcy Court entered a final order on November 29, 2012 approving the sale of Premier to the Company pursuant to and in accordance with the Premier Agreement.

Prior to the acquisition, Premier conducted banking business from six locations in the Florida panhandle cities of Tallahassee (five) and Quincy (one). Including the effects of the purchase accounting adjustments, Centennial Bank acquired approximately \$264.8 million in assets, approximately \$138.1 million in loans including loan discounts and approximately \$246.3 million of deposits.

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

Table of Contents

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. (Liberty), parent company of Liberty Bank of Arkansas (Liberty Bank), and merged Liberty Bank into Centennial Bank. Under the terms of the agreement, shareholders of Liberty received \$290.1 million of our common stock plus \$30.0 million in cash. Home BancShares, Inc. (HBI) 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.

Our Management Team

The following table sets forth, as of December 31, 2013, information concerning the individuals who are our executive officers.

Name	Age	Positions Held with Home BancShares, Inc.	Positions Held with Centennial Bank
John W. Allison	67	Chairman of the Board	Chairman of the Board
C. Randall Sims	59	Chief Executive Officer and Director	Chief Executive Officer, President and Director
Randy E. Mayor	48	Chief Financial Officer, Treasurer and Director	Chief Financial Officer and Director
Brian S. Davis	48	Chief Accounting Officer and Investor Relations Officer	
Kevin D. Hester	50	Chief Lending Officer	Chief Lending Officer and Director
Robert F. Birch, Jr.	63		Regional President
Tracy M. French	52		Regional President
Russell D. Carter, III	38		Regional President

Table of Contents

Our Growth Strategy

Our goals are to achieve growth in earnings per share and to create and build stockholder value. Our growth strategy entails the following:

Organic growth We believe our current branch network provides us with the capacity to grow within our existing market areas. We also believe we are well positioned to attract new business and additional experienced personnel as a result of ongoing changes in our competitive markets. We believe the markets entered into as a result of the Liberty acquisition provide new opportunities for organic growth. The Tampa and Central Florida market remains a target area for organic growth, both approximately \$38.14 billion in deposits in the Tampa and Orlando MSA, of which we have a market share of less than 1%. Overall, we expect the modest organic loan growth we experienced in 2013 to continue in our markets as the economic environment continues to improve.

Strategic acquisitions Strategic acquisitions have been a significant component of our historical growth strategy, and we believe properly priced bank acquisitions can continue to complement our organic growth and *de novo* branching growth strategies. In the near term, our principal acquisition focus will be to continue to expand our presence in Arkansas and other nearby markets, in South Alabama and in Florida, through pursuing non FDIC-assisted bank acquisitions and FDIC-assisted acquisition opportunities. We are continually evaluating potential bank acquisitions to determine what is in the best interests of our Company. Our goals in making these decisions are to maximize the return to our shareholders and to enhance our franchise.

De novo branching As opportunities arise, we will continue to open new (commonly referred to as *de novo*) branches in our current markets and in other attractive market areas. During 2013, three *de novo* branches were opened. All of these new locations were located in the Florida Gulf Coast (two in Pensacola and one in Seagrove). We currently have no definitive plans for additional *de novo* branch locations. However, we plan to evaluate opportunities in Naples, Florida, the Mobile, Alabama area and other areas along the Alabama and Florida Gulf Coast.

Community Banking Philosophy

Our community banking philosophy consists of four basic principles:

manage our community banking franchise with experienced bankers and community bank boards who are empowered to make customer-related decisions quickly;

provide exceptional service and develop strong customer relationships;

pursue the business relationships of our local boards of directors, executive officers, stockholders, and customers to actively promote our community bank; and

maintain our commitment to the communities we serve by supporting civic and nonprofit organizations. These principles, which make up our community banking philosophy, are the driving force for our business. As we streamlined our legacy business into a unified banking network and have integrated new acquisitions, we have preserved lending authority with local management in most cases by using advisory boards that maintain an integral connection to the communities we serve. These advisory boards are empowered with lending authority of up to \$6.0 million in their respective geographic areas. This allows us to capitalize on the strong relationships that these individuals and our local bank officers have in their respective communities to maintain and grow our business. Through experienced and empowered local bankers and board members, we are committed to maintaining a community banking experience for our customers.

Table of Contents

Operating Goals

Our operating goals focus on maintaining strong credit quality, increasing profitability, finding experienced bankers, and maintaining a fortress balance sheet:

Maintain strong credit quality Credit quality is our first priority. We employ a set of credit standards designed to ensure the proper management of credit risk. Our management team plays an active role in monitoring compliance with these credit standards in the different communities served by Centennial Bank. We have a centralized loan review process, which we believe enables us to take prompt action on potential problem loans. This centralized review process also applies to our banking operations in Florida, where the majority of our current non-performing loans are located, and provides for close monitoring of the quality of our Florida loans. While we have experienced management in Florida, the weak market has not allowed for a complete resolution of problem loans. During the past few years we have taken an aggressive approach to resolving problem loans, including those problem loans acquired in the FDIC-assisted and non-FDIC-assisted acquisitions. This approach is paying dividends, as we are experiencing reductions in levels of past due and non-accruing covered loans. We are committed to maintaining high credit quality standards.

Continue to improve profitability We will continue to strive to improve our profitability and achieve high performance ratios as we continue to utilize the available capacity of branches and employees. During 2013, we acquired Liberty and have now converted them into our operating systems. This conversion will provide tremendous opportunities for improved profitability as a result of cost savings because of the economies of scale for the combined companies. As we work out the problem loans in our special assets department, we plan to emphasize business development and relationship enhancement in lending and retail areas in these newly acquired markets. Our core efficiency ratio has improved from 59.4% for the year ended 2008 to 45.5% for the year ended 2013. Core efficiency ratio is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income excluding non-fundamental items such as merger expenses and/or gain and losses. These improvements in operating efficiency are being driven by, among other factors, improvements in our net interest margin, growth in fee income, cost savings from the acquisitions, the streamlining of processes in our lending and retail operations and improvements in our purchasing power.

Attract and motivate experienced bankers We believe a major factor in our success has been our ability to attract and motivate bankers who have experience in and knowledge of their local communities. Historically, our hiring and retaining experienced relationship bankers has been integral to our ability to grow quickly when entering new markets.

Maintain a fortress balance sheet We intend to maintain a strong balance sheet through a focus on four key governing principles: (1) maintain solid asset quality; (2) remain well capitalized; (3) pursue high performance metrics including return on tangible equity (ROTE), return on assets (ROA), efficiency ratio and net interest margin; and (4) retain liquidity at the bank holding company level that can be utilized should attractive acquisition opportunities be identified or for internal capital needs. We strive to maintain capital levels significantly above the regulatory capital requirements through our focus on these governing

principles, which allows us to take advantage of acquisition opportunities as they become available without the need for additional capital.

Our Market Areas

As of December 31, 2013, we conducted business principally through 88 branches in Arkansas, 53 branches in Florida and seven branches in South Alabama. Our branch footprint includes markets in which we are the deposit market share leader as well as markets where we believe we have opportunities for deposit market share growth.

Our Arkansas market has experienced less volatility than our Florida market over the previous years, which has served to offset the weakness experienced in our Florida market. The national economic downturn from a few years ago has led to increases in defaults and foreclosures, and increases in the frequency and amount of loan modifications primarily in the Florida market. While market conditions in our Florida markets have begun to improve, some markets still have challenges. In addition, while the values of real estate collateral supporting many loans have begun to rebound slightly, many remain depressed and may continue to be lower for some time.

Table of Contents**Lending Activities**

We originate loans primarily secured by single and multi-family real estate, residential construction and commercial buildings. In addition, we make loans to small and medium-sized commercial businesses as well as to consumers for a variety of purposes.

Our loan portfolio as of December 31, 2013, was comprised as follows:

	Loans Receivable Not Covered by Loss Share	Loans Receivable Covered by FDIC Loss Share	Total Loans Receivable	Percentage of portfolio
(Dollars in thousands)				
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	\$ 1,739,668	\$ 117,164	\$ 1,856,832	41.5%
Construction/land development	562,667	48,388	611,055	13.6
Agricultural	81,618	1,232	82,850	1.9
Residential real estate loans				
Residential 1-4 family	913,332	98,403	1,011,735	22.6
Multifamily residential	213,232	10,378	223,610	5.0
Total real estate	3,510,517	275,565	3,786,082	84.6
Consumer	69,570	20	69,590	1.6
Commercial and industrial	511,421	5,852	517,273	11.5
Agricultural	37,129		37,129	0.8
Other	65,800	1,079	66,879	1.5
Total	\$ 4,194,437	\$ 282,516	\$ 4,476,953	100.0%

Real Estate Non-farm/Non-residential. Non-farm/non-residential real estate loans consist primarily of loans secured by income-producing properties, such as shopping/retail centers, hotel/motel properties, office buildings, and industrial/warehouse properties. Commercial lending on income-producing property typically involves higher loan principal amounts, and the repayment of these loans is dependent, in large part, on sufficient income from the properties collateralizing the loans to cover operating expenses and debt service. This category of loans also includes specialized properties such as churches, marinas, and nursing homes. Additionally, we make commercial mortgage loans to entities to operate in these types of properties, and the repayment of these loans is dependent, in large part, on the cash flow generated by these entities in the operations of the business. Often, a secondary source of repayment will include the sale of the subject collateral. When this is the case, it is generally our practice to obtain an independent appraisal of this collateral within the Interagency Appraisal and Evaluation Guidelines.

Real Estate Construction/Land Development. This category of loans includes loans to residential and commercial developers to purchase raw land and to develop this land into residential and commercial land developments. In addition, this category includes construction loans for all of the types of real estate loans made by the Bank, including both commercial and residential. These loans are generally secured by a first lien on the real estate being purchased or

developed. Often, the primary source of repayment will be the sale of the subject collateral. When this is the case, it is generally our practice to obtain an independent appraisal of this collateral within the Interagency Appraisal and Evaluation Guidelines.

Real Estate Residential. Our residential mortgage loan program primarily originates loans to individuals for the purchase of residential property. We generally do not retain long-term, fixed-rate residential real estate loans in our portfolio due to interest rate and collateral risks. Residential mortgage loans to individuals retained in our loan portfolio primarily consisted of approximately 41.7% owner occupied 1-4 family properties and approximately 41.7% non-owner occupied 1-4 family properties (rental). The primary source of repayment for these loans is generally the income and/or assets of the individual to whom the loan is made. Often, a secondary source of repayment will include the sale of the subject collateral. When this is the case, it is generally our practice to obtain an independent appraisal of this collateral within the Interagency Appraisal and Evaluation Guidelines.

Table of Contents

Consumer. While our focus is on service to small and medium-sized businesses, we also make a variety of loans to individuals for personal, family and household purposes, including secured and unsecured installment and term loans. The primary source of repayment for these loans is generally the income and/or assets of the individual to whom the loan is made. When secured, we may independently assess the value of the collateral provided using a third-party valuation source.

Commercial and Industrial. Our commercial and industrial loan portfolio primarily consisted of 42.6% inventory/accounts receivable (AR) financing, 32.2% equipment/vehicle financing and 25.2% other, including letters of credit at less than 1%. This category includes loans to smaller business ventures, credit lines for working capital and short-term inventory financing, for example. These loans are typically secured by the assets of the business, and are supplemented by personal guaranties of the principals and often mortgages on the principals' primary residences. The primary source of repayment may be conversion of the assets into cash flow, as in inventory and accounts receivable, or may be cash flow generated by operations, as in equipment/vehicle financing. Assessing the value of inventory can involve many factors including, but not limited to, type, age, condition, level of conversion and marketability, and can involve applying a discount factor or obtaining an independent valuation, based on the assessment of the above factors. Assessing the value of accounts receivable can involve many factors including, but not limited to, concentration, aging, and industry, and can involve applying a discount factor or obtaining an independent valuation, based on the assessment of the above factors. Assessing the value of equipment/vehicles may involve a third-party valuation source, where applicable.

Credit Risks. The principal economic risk associated with each category of the loans that we make is the creditworthiness of the borrower and the ability of the borrower to repay the loan. General economic conditions and the strength of the services and retail market segments affect borrower creditworthiness. General factors affecting a commercial borrower's ability to repay include interest rates, inflation and the demand for the commercial borrower's products and services as well as other factors affecting a borrower's customers, suppliers and employees.

Risks associated with real estate loans also include fluctuations in the value of real estate, new job creation trends, tenant vacancy rates, and in the case of commercial borrowers, the quality of the borrower's management. Consumer loan repayments depend upon the borrower's financial stability and are more likely to be adversely affected by divorce, job loss, illness and other personal hardships.

Lending Policies. We have established common loan documentation procedures and policies, based on the type of loan, for our bank subsidiary. The board of directors periodically reviews these policies for validity. In addition, it has been and will continue to be our practice to attempt to independently verify information provided by our borrowers, including assets and income. We have not made loans similar to those commonly referred to as "no doc" or "stated income" loans. We focus on the primary and secondary methods of repayment, and prepare global cash flows where appropriate. There are legal restrictions on the dollar amount of loans available for each lending relationship. The Arkansas Banking Code provides that no loan relationship may exceed 20% of a bank's risk based capital, and we are in compliance with this restriction. In addition, we are not dependent upon any single lending relationship for an amount exceeding 10% of our revenues. As of December 31, 2013, the maximum amount outstanding to a single borrower was \$77.8 million. As a community lender, we believe from time to time it is in our best interest to agree to modifications or restructurings. These modifications/restructurings can take the form of a reduction in interest rate, a move to interest-only from principal and interest payments, or a lengthening in the amortization period or any combination thereof. Occasionally, we will modify/restructure a single loan by splitting it into two loans following the interagency guidance involving the workout of commercial real estate loans. The loan representing the portion that is supported by the current cash flow of the borrower or project will remain on the Bank's books, while the new loan representing the portion that cannot be serviced by the current cash flow is charged-off. Furthermore, we may make an additional loan or loans to a borrower or related interest of a borrower who is past due more than 90 days. These

circumstances will be very limited in nature, and when approved by the appropriate lending authority, will likely involve obtaining additional collateral that will improve the collectability of the overall relationship. It is our belief that judicious usage of these tools can improve the quality of our loan portfolio by providing our borrowers an improved probability of survival during difficult economic times.

Table of Contents

Loan Approval Procedures. Our bank subsidiary has supplemented our common loan policies to establish its loan approval procedures as follows:

Individual Authorities. The board of directors of Centennial Bank establishes the authorization levels for individual loan officers on a case-by-case basis. Generally, the more experienced a loan officer, the higher the authorization level. The approval authority for individual loan officers ranges from \$25,000 to \$1.0 million for secured loans and from \$1,000 to \$100,000 for unsecured loans.

Officers' Loan Committees. Our bank subsidiary also gives its Officers' Loan Committees loan approval authority. Credits in excess of individual loan limits are submitted to the region's Officers' Loan Committee. The Officers' Loan Committee consists of members of the senior management team of that region and is chaired by that region's chief lending officer. The regional Officers' Loan Committees have approval authority up to \$2.0 million secured and \$500,000 unsecured.

Directors' Loan Committee. Each region throughout our bank subsidiary has a Directors' Loan Committee consisting of outside directors and senior lenders of that region. Generally, each region requires a majority of outside directors be present to establish a quorum. Generally, this committee is chaired either by the Regional Chief Lending Officer or the Regional President. The regional Directors' Loan Committees have approval authority up to \$6.0 million secured and \$500,000 unsecured.

Executive Loan Committee The board of directors of Centennial Bank established the Executive Loan Committee consisting of three outside Board members and members of Executive Management. This committee requires five voting members to establish a quorum, including at least two of the outside Board members, and is chaired by the Chief Lending Officer of the Bank. The Executive Loan Committee has approval authority up to the in-house consolidated lending limit of \$20.0 million.

Currently, our board of directors has established an in-house consolidated lending limit of \$20.0 million to any one borrowing relationship without obtaining the approval of both our Chairman and our director Richard H. Ashley. We have 22 separate relationships that exceed this in-house limit, of which one relationship is to a related party.

Deposits and Other Sources of Funds

Our principal source of funds for loans and investing in securities is core deposits. We offer a wide range of deposit services, including checking, savings, money market accounts and certificates of deposit. We obtain most of our deposits from individuals and small businesses, and municipalities in our market areas. We believe that the rates we offer for core deposits are competitive with those offered by other financial institutions in our market areas. Additionally, our policy also permits the acceptance of brokered deposits. Secondary sources of funding include advances from the Federal Home Loan Banks of Dallas and Atlanta, the Federal Reserve Bank Discount Window and other borrowings. These secondary sources enable us to borrow funds at rates and terms which, at times, are more beneficial to us.

Other Banking Services

Given customer demand for increased convenience and account access, we offer a range of products and services, including 24-hour internet banking and voice response information, cash management, overdraft protection, direct deposit, safe deposit boxes, United States savings bonds and automatic account transfers. We earn fees for most of these services. We also receive ATM transaction fees from transactions performed by our customers participating in a shared network of automated teller machines and a debit card system that our customers can use throughout the United States, as well as in other countries.

Table of Contents

Insurance

Centennial Insurance Agency, Inc. is an independent insurance agency, originally founded in 1959 and purchased July 1, 2000, by Centennial Bank. In connection with the purchase of Liberty we acquired Town and Country Insurance. Shortly after the acquisition of Liberty we merged Town and Country Insurance into Centennial Insurance Agency. As a result, all of the offices in Arkansas operate as Centennial Insurance Agency, Inc. The offices of Centennial Insurance Agency are located in Jacksonville, Cabot, Conway, Little Rock and Jonesboro, Arkansas.

Centennial Insurance Agency writes policies for commercial and personal lines of business including insurance for property, casualty, life, health and employee benefits. It is subject to regulation by the Arkansas Insurance Department.

Cook Insurance Agency, Inc. is an independent insurance agency, originally founded in 1913 and acquired November 19, 2010, by Centennial Bank during the FDIC acquisition of Gulf State Community Bank. Cook Insurance Agency writes policies for commercial and personal lines of business. It is subject to regulation by the Florida Insurance Department. The offices of Cook Insurance Agency are located in Apalachicola and Crawfordville, Florida.

The Company may merge the book of business of Cook Insurance Agency into the Centennial Insurance Agency at some point in the future.

Trust Services

Centennial Trust provides trust services, focusing primarily on personal trusts, corporate trusts and employee benefit trusts. In 2006, we made a strategic decision to enter into an agent agreement for the management of our trust services to a non-affiliated third party. This change was to improve the overall profitability of our trust efforts. Centennial Trust still has ownership rights to the trust assets under management.

In connection with the purchase of Liberty, we acquired additional trust assets under management by the Liberty Bank trust department. As a result of the acquisition of Liberty, we made the decision to combine the Centennial Trust assets with the Liberty trust assets. Going forward in 2014, all of our trust assets will be managed by the trust department of Centennial Bank (formerly the Liberty Bank trust department).

Competition

As of December 31, 2013, we conducted business through 148 branches in our primary market areas of Pulaski, Faulkner, Craighead, Benton, Lonoke, Pope, Washington, White, Greene, Sebastian, Baxter, Independence, Stone, Yell, Clay, Cleburne, Conway, Crawford, Dallas, Johnson, Saline and Sharp Counties in Arkansas and Monroe, Leon, Bay, Franklin, Gulf, Orange, Wakulla, Charlotte, Escambia, Pasco, Seminole, Walton, Calhoun, Collier, Gadsden, Hillsborough, Lake, Liberty, Okaloosa and Santa Rosa Counties in Florida and Baldwin County in Alabama. Many other commercial banks, savings institutions and credit unions have offices in our primary market areas. These institutions include many of the largest banks operating in Arkansas and Florida, including some of the largest banks in the country. Many of our competitors serve the same counties we do. Our competitors often have greater resources, have broader geographic markets, have higher lending limits, offer various services that we may not currently offer and may better afford and make broader use of media advertising, support services and electronic technology than we do. To offset these competitive disadvantages, we depend on our reputation as having greater personal service, consistency, and flexibility and the ability to make credit and other business decisions quickly.

Employees

On December 31, 2013, we had 1,497 full-time equivalent employees. Except for employees acquired in acquisitions, we expect that our 2014 staffing levels will be slightly lower than those at year end 2013 as we continue to achieve the expected efficiencies from the Liberty acquisition. We consider our employee relations to be good, and we have no collective bargaining agreements with any employees.

Table of Contents

SUPERVISION AND REGULATION

General

We and our bank subsidiary are subject to extensive state and federal banking regulations that impose restrictions on and provide for general regulatory oversight of our company and its operations. These laws generally are intended to protect depositors, the deposit insurance fund of the Federal Deposit Insurance Corporation (FDIC) and the banking system as a whole, and not stockholders. The following discussion describes the material elements of the regulatory framework that applies to us.

Financial Regulatory Reform

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) made extensive changes in the regulation of financial institutions and their holding companies. The Dodd-Frank Act contains a comprehensive set of provisions designed to govern the practices and oversight of financial institutions and other participants in the financial markets. The act includes provisions that, among other things:

Centralized responsibility for consumer financial protection by creating the Consumer Financial Protection Bureau, which is responsible for implementing, examining, and enforcing compliance with federal consumer financial laws, including mortgage disclosure laws.

Created the Financial Stability Oversight Council that provides comprehensive monitoring to ensure the stability of our nation s financial system.

Provided mortgage reform provisions regarding a customer s ability to repay, restricting variable-rate lending by requiring that the ability to repay variable-rate loans be determined by using the maximum rate that will apply during the first five years of a variable-rate loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions.

Changed the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminated the ceiling on the size of the Deposit Insurance Fund (DIF), and increased the floor on the size of the DIF, which generally will require an increase in the level of assessments for institutions with assets in excess of \$10 billion.

Made permanent the \$250,000 limit for federal deposit insurance and temporarily provided unlimited federal deposit insurance until January 1, 2013 for noninterest-bearing demand transaction accounts at all insured depository institutions.

Implemented corporate governance revisions, including with regard to executive compensation and proxy access by shareholders, which apply to all public companies, not just financial institutions.

Repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transactions and other accounts.

Amended the Electronic Funds Transfer Act to, among other things, give the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over \$10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer.

Many provisions of the Dodd-Frank Act have delayed effective dates, and the legislation requires various federal agencies to adopt a broad range of new rules and regulations and to prepare numerous studies and reports for Congress. These agencies are still in the process of promulgating the required regulations, and the studies and reports could potentially result in additional legislative or regulatory action. The substance and scope of these regulations therefore cannot be completely determined at this time. We expect our operating and compliance costs to continue to increase as a result of the Dodd-Frank Act and its implementing regulations.

Table of Contents

Home BancShares

We are a bank holding company registered under the federal Bank Holding Company Act of 1956 (the Bank Holding Company Act) and are subject to supervision, regulation and examination by the Federal Reserve Board. The Bank Holding Company Act and other federal laws subject bank holding companies to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations.

Acquisitions of Banks. The Bank Holding Company Act requires every bank holding company to obtain the Federal Reserve Board's prior approval before:

acquiring direct or indirect ownership or control of any voting shares of any bank if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the bank's voting shares;

acquiring all or substantially all of the assets of any bank; or

merging or consolidating with any other bank holding company.

Under the Bank Holding Company Act, if well capitalized and well managed, we, as well as other bank holding companies located within the states in which we operate, may purchase a bank located outside of those states. Conversely, a well-capitalized and well managed bank holding company located outside of the states in which we operate may purchase a bank located inside those states. In each case, however, restrictions may be placed on the acquisition of a bank that has only been in existence for a limited amount of time or will result in specified concentrations of deposits.

Permitted Activities. A bank holding company is generally permitted under the Bank Holding Company Act to engage in or acquire direct or indirect control of more than 5% of the voting shares of any company engaged in the following activities:

banking or managing or controlling banks; and

any activity that the Federal Reserve Board determines to be so closely related to banking as to be a proper incident to the business of banking.

Activities that the Federal Reserve Board has found to be so closely related to banking as to be a proper incident to the business of banking include: factoring accounts receivable; making, acquiring, brokering or servicing loans and usual related activities; leasing personal or real property; operating a non-bank depository institution, such as a savings association; trust company functions; financial and investment advisory activities; conducting discount securities brokerage activities; underwriting and dealing in government obligations and money market instruments; providing specified management consulting and counseling activities; performing selected data processing services and support services; acting as agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions; and performing selected insurance underwriting activities.

Support of Subsidiary Institutions. Under the Dodd-Frank Act and Federal Reserve Board policy, we are required to act as a source of financial strength for our bank subsidiary and to commit resources to support the bank. Under current federal law, the Federal Reserve may require us to make capital injections into our bank subsidiary and may charge us with engaging in unsafe and unsound practices if we fail to commit resources to our bank subsidiary or if we undertake actions that the Federal Reserve believes might jeopardize our ability to commit resources to the bank. As a result, an obligation to support our bank subsidiary may be required at times when, without this requirement, we might not be inclined to provide it.

Table of Contents

Safe and Sound Banking Practices. Bank holding companies are not permitted to engage in unsafe and unsound banking practices. The Federal Reserve Board's Regulation Y, for example, generally requires a holding company to give the Federal Reserve Board prior notice of any redemption or repurchase of its own equity securities, if the consideration to be paid, together with the consideration paid for any repurchases or redemptions in the preceding year, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve Board may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. Depending upon the circumstances, the Federal Reserve Board could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

The Federal Reserve Board has broad authority to prohibit activities of bank holding companies and their non-banking subsidiaries which represent unsafe and unsound banking practices or which constitute violations of laws or regulations, and can assess civil money penalties for certain activities conducted on a knowing and reckless basis, if those activities caused a substantial loss to a depository institution. The penalties can be as high as \$1 million for each day the activity continues.

Annual Reporting; Examinations. We are required to file annual reports with the Federal Reserve Board, and such additional information as the Federal Reserve Board may require pursuant to the Bank Holding Company Act. The Federal Reserve Board may examine a bank holding company or any of its subsidiaries, and charge the company for the cost of such examination.

Capital Adequacy Requirements. The Federal Reserve Board has adopted a system using risk-based capital guidelines to evaluate the capital adequacy of bank holding companies having \$500 million or more in assets on a consolidated basis. We currently have consolidated assets in excess of \$500 million, and are therefore subject to the Federal Reserve Board's capital adequacy guidelines.

Under the guidelines, specific categories of assets are assigned different risk weights, based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a risk-weighted asset base. The guidelines require a minimum total risk-based capital ratio of 8.0% (of which at least 4.0% is required to consist of Tier 1 capital elements). Total capital is the sum of Tier 1 and Tier 2 capital. As of December 31, 2013, our Tier 1 risk-based capital ratio was 10.9% and our total risk-based capital ratio was 11.8%. Well capitalized is a Tier 1 and total risk-based capital ratio in excess of 6% and 10%, respectively. Thus, we are considered well capitalized for regulatory purposes.

In addition to the risk-based capital guidelines, the Federal Reserve Board uses a leverage ratio as an additional tool to evaluate the capital adequacy of bank holding companies. The leverage ratio is a company's Tier 1 capital divided by its average total consolidated assets. Certain highly-rated bank holding companies may maintain a minimum leverage ratio of 3.0%, but other bank holding companies are required to maintain a leverage ratio of at least 4.0%. Well capitalized is a leverage ratio in excess of 5%. As of December 31, 2013, our leverage ratio was 9.4%.

The federal banking agencies' risk-based and leverage ratios are minimum supervisory ratios generally applicable to banking organizations that meet certain specified criteria. The federal bank regulatory agencies may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. Federal Reserve Board guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions, substantially above the minimum supervisory levels, without significant reliance on intangible assets.

Table of Contents

The Dodd-Frank Act includes certain provisions concerning the capital regulations of the federal banking agencies. These provisions, often referred to as the Collins Amendment, are intended to subject bank holding companies to the same capital requirements as their bank subsidiaries and to eliminate or significantly reduce the use of hybrid capital instruments, especially trust preferred securities, as regulatory capital. Under the Collins Amendment, trust preferred securities issued before May 19, 2010 by a company, such as our Company, with total consolidated assets of less than \$15 billion as of December 31, 2009, and treated as regulatory capital are grandfathered, but any such securities issued later are not eligible as regulatory capital. The Collins Amendment requires banking regulators to develop regulations setting minimum risk-based and leverage capital requirements for holding companies and banks on a consolidated basis that are no less stringent than the generally applicable requirements in effect for depository institutions under the prompt corrective action regulations discussed below. The banking regulators also must seek to make capital standards countercyclical so that the required levels of capital increase in times of economic expansion and decrease in times of economic contraction.

In July 2013, the Federal Reserve Board and the other federal bank regulatory agencies issued a final rule to revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to make them consistent with the agreements that were reached by the Basel Committee on Banking Supervision in *Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems* and certain provisions of the Dodd-Frank Act. The final rule applies to all depository institutions, bank holding companies with total consolidated assets of \$500 million or more and savings and loan holding companies (collectively, *banking organizations*). Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets) and a higher minimum Tier 1 risk-based capital requirement (6% of risk-weighted assets) and assigns higher risk weightings (150%) to exposures that are more than 90 days past due or are on nonaccrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule permanently grandfathered trust preferred securities and other non-qualifying capital instruments that were issued and outstanding as of May 19, 2010 in the Tier 1 capital of bank holding companies with total consolidated assets of less than \$15 billion as of December 31, 2009. The rule phases out of Tier 1 capital these non-qualifying capital instruments issued before May 19, 2010 by all other bank holding companies. The final rule also limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a capital conservation buffer of 2.5% of common equity tier 1 capital to risk-weighted assets, which is in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule becomes effective for the Company and our bank subsidiary on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective.

Subsidiary Bank

General. Our bank subsidiary, Centennial Bank, is chartered as an Arkansas state bank and is a member of the Federal Reserve System, making it primarily subject to regulation and supervision by both the Federal Reserve Board and the Arkansas State Bank Department. In addition, our bank subsidiary is subject to various requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be granted and the interest that they may charge, and limitations on the types of investments they may make and on the types of services they may offer. Various consumer laws and regulations also affect the operations of our bank subsidiary.

Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act of 1991 establishes a system of prompt corrective action to resolve the problems of undercapitalized financial institutions. Under this system, the federal banking regulators have established five capital categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) in which all institutions are placed.

Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. The federal banking agencies have specified by regulation the relevant capital level for each category.

Table of Contents

An institution that is categorized as undercapitalized, significantly undercapitalized or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except under an accepted capital restoration plan or with FDIC approval. The regulations also establish procedures for downgrading an institution to a lower capital category based on supervisory factors other than capital.

The Basel III final rule issued by the federal bank regulatory agencies in July 2013 amended the prompt corrective action rules to incorporate a common equity Tier 1 capital requirement and to raise the capital requirements for certain capital categories. In order to be adequately capitalized for purposes of the prompt corrective action rules, a banking organization will be required to have at least an 8% total risk-based capital ratio, a 6% Tier 1 risk-based capital ratio, a 4.5% common equity Tier 1 risk-based capital ratio and a 4% Tier 1 leverage ratio. To be well capitalized, a banking organization will be required to have at least a 10% total risk-based capital ratio, an 8% Tier 1 risk-based capital ratio, a 6.5% common equity Tier 1 risk-based capital ratio and a 5% Tier 1 leverage ratio.

FDIC Insurance and Assessments. Centennial Bank's deposit accounts are insured up to applicable limits by the FDIC's Deposit Insurance Fund (DIF). The Dodd-Frank Act permanently increased the deposit coverage limit to \$250,000 per depositor retroactive to January 1, 2008. The Dodd-Frank also temporarily extended unlimited deposit insurance coverage for noninterest-bearing transaction accounts, which expired on December 31, 2012. These accounts are now insured under the FDIC's general deposit insurance coverage rules.

The FDIC imposes an assessment against institutions for deposit insurance. This assessment is based primarily on the risk category of the institution and certain risk adjustments specified by the FDIC, with riskier institutions paying higher assessments.

In October 2010, the FDIC adopted a new restoration program for the DIF to help bolster the DIF reserve ratio to 1.35% by September 2020 as required by the Dodd-Frank Act. The plan provides that, at least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required.

On February 7, 2011, the FDIC approved a final rule implementing changes to the deposit insurance assessment system, as authorized by the Dodd-Frank Act, which became effective on April 1, 2011. The final rule, among other things, changed the assessment base for insured depository institutions from adjusted domestic deposits to the institution's average consolidated total assets during an assessment period less average tangible equity capital (Tier 1 capital) during that period. The rule revised the assessment rate schedule so that it ranges from 2.5 basis points for the least risky institutions to 45 basis points for the riskiest institutions. The rule also suspended indefinitely the requirement of the FDIC to pay dividends from the DIF when it reaches 1.5% of insured deposits. In lieu of the dividends, the FDIC adopted progressively lower assessment rate schedules when the reserve ratio exceeds 1.15%, 2.0% and 2.5%, respectively.

Under the Federal Deposit Insurance Act, as amended, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Community Reinvestment Act. The Community Reinvestment Act requires, in connection with examinations of financial institutions, that federal banking regulators evaluate the record of each financial institution in meeting the credit needs of its local community, including low and moderate-income neighborhoods. These facts are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. Failure to adequately meet

these criteria could impose additional requirements and limitations on our bank subsidiary. Additionally, we must publicly disclose the terms of various Community Reinvestment Act-related agreements. Our bank subsidiary received a satisfactory CRA rating from the Federal Reserve Bank during its last exam as published in our bank's CRA Public Evaluation.

Other Regulations. Interest and other charges collected or contracted for by our bank subsidiary are subject to state usury laws and federal laws concerning interest rates.

Table of Contents

Loans to Insiders. Sections 22(g) and (h) of the Federal Reserve Act and its implementing regulation, Regulation O, place restrictions on loans by a bank to executive officers, directors, and principal stockholders. Under Section 22(h), loans to a director, an executive officer and to a greater than 10% stockholder of a bank and certain of their related interests, or insiders, and insiders of affiliates, may not exceed, together with all other outstanding loans to such person and related interests, the bank's loans-to-one-borrower limit (generally equal to 15% of the institution's unimpaired capital and surplus). Section 22(h) also requires that loans to insiders and to insiders of affiliates be made on terms substantially the same as offered in comparable transactions to other persons, unless the loans are made pursuant to a benefit or compensation program that (i) is widely available to employees of the bank and (ii) does not give preference to insiders over other employees of the bank. Section 22(h) also requires prior Board of Director's approval for certain loans, and the aggregate amount of extensions of credit by a bank to all insiders cannot exceed the institution's unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers.

Capital Requirements. Our bank subsidiary is also subject to certain restrictions on the payment of dividends as a result of the requirement that it maintain adequate levels of capital in accordance with guidelines promulgated from time to time by applicable regulators. The regulating agencies consider a bank's capital levels when taking action on various types of applications and when conducting supervisory activities related to the safety and soundness of individual banks and the banking system. The Federal Reserve Bank monitors the capital adequacy of our bank subsidiary by using a combination of risk-based guidelines and leverage ratios.

The FDIC Improvement Act. The Federal Deposit Insurance Corporation Improvement Act of 1991, or FDICIA, made a number of reforms addressing the safety and soundness of the deposit insurance system, supervision of domestic and foreign depository institutions, and improvement of accounting standards. This statute also limited deposit insurance coverage, implemented changes in consumer protection laws and provided for least-cost resolution and prompt regulatory action with regard to troubled institutions.

FDICIA requires every bank with total assets in excess of \$500 million to have an annual independent audit made of the bank's financial statements by an independent public accountant to verify that the financial statements of the bank are presented fairly and in accordance with generally accepted accounting principles and comply with such other disclosure requirements as prescribed by the FDIC. FDICIA also places certain restrictions on activities of banks depending on their level of capital.

The capital classification of a bank affects the frequency of examinations of the bank and impacts the ability of the bank to engage in certain activities and affects the deposit insurance premiums paid by such bank. Under FDICIA, the federal banking regulators are required to conduct a full-scope, on-site examination of every bank at least once every 12 months. However, a bank that has assets of less than \$500 million, is well-capitalized and well-managed and meets certain other conditions, is only required to be examined once every 18 months.

Brokered Deposits. Under FDICIA, banks may be restricted in their ability to accept brokered deposits, depending on their capital classification. Well-capitalized banks are permitted to accept brokered deposits, but all banks that are not well-capitalized are not permitted to accept such deposits. The FDIC may, on a case-by-case basis, permit banks that are adequately capitalized to accept brokered deposits if the FDIC determines that acceptance of such deposits would not constitute an unsafe or unsound banking practice with respect to the bank.

Federal Home Loan Bank System. The Federal Home Loan Bank system, of which our bank subsidiary is a member, consists of regional FHLBs governed and regulated by the Federal Housing Finance Agency, or FHFA. The FHLBs serve as reserve or credit facilities for member institutions within their assigned regions. They are funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB system. They make loans (i.e.,

advances) to members in accordance with policies and procedures established by the FHLB and the Boards of Directors of each regional FHLB.

As a system member, our bank subsidiary is entitled to borrow from the FHLB of its region and is required to own a certain amount of capital stock in the FHLB. Our bank subsidiary is in compliance with the stock ownership rules with respect to such advances, commitments and letters of credit and home mortgage loans and similar obligations. All loans, advances and other extensions of credit made by the FHLB to our bank subsidiary are secured by a portion of its respective loan portfolio, certain other investments and the capital stock of the FHLB held by such bank.

Table of Contents

Mortgage Banking Operations. Our bank subsidiary is subject to the rules and regulations of FHA, VA, FNMA, FHLMC and GNMA with respect to originating, processing, selling and servicing mortgage loans and the issuance and sale of mortgage-backed securities. Those rules and regulations, among other things, prohibit discrimination and establish underwriting guidelines which include provisions for inspections and appraisals, require credit reports on prospective borrowers and fix maximum loan amounts, and, with respect to VA loans, fix maximum interest rates. Mortgage origination activities are subject to, among others, the Equal Credit Opportunity Act, Federal Truth-in-Lending Act and the Real Estate Settlement Procedures Act and the regulations promulgated thereunder which, among other things, prohibit discrimination and require the disclosure of certain basic information to mortgagors concerning credit terms and settlement costs. In addition, our bank subsidiary is subject to the Secure and Fair Enforcement for Mortgage Licensing Act of 2008, or SAFE Act, and the rules promulgated thereunder which, among other things, require residential mortgage loan originators who are employees of regulated financial institutions to be registered with the Nationwide Mortgage Licensing System and Registry, a database created by the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators to support the licensing of mortgage loan originators by the states. As part of this registration process, mortgage loan originators must furnish the Registry with certain information and fingerprints and undergo a criminal background check. Our bank subsidiary is also subject to regulation by the Arkansas State Bank Department, as applicable, with respect to, among other things, the establishment of maximum origination fees on certain types of mortgage loan products.

The Consumer Financial Protection Bureau (CFPB) created by the Dodd-Frank Act took over responsibility for enforcing the principal federal consumer protection laws, such as the Truth in Lending Act, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act and the Truth in Saving Act, among others, on July 21, 2011. Institutions that have assets of \$10 billion or less, such as our bank subsidiary, will continue to be supervised and examined in this area by their primary federal regulators (in the case of our bank subsidiary, the Federal Reserve Board). However, the Dodd-Frank Act gives the CFPB expanded data collecting powers for fair lending purposes for both small business and mortgage loans, as well as expanded authority to prevent unfair, deceptive and abusive practices.

In January 2013, the CFPB issued a series of final rules related to mortgage loan origination and mortgage loan servicing. In particular, on January 10, 2013, the CFPB issued a final rule implementing the ability-to-repay and qualified mortgage provisions of the Truth in Lending Act, as amended by the Dodd-Frank Act (the QM Rule). The ability-to-repay provision requires creditors to make reasonable, good faith determinations that borrowers are able to repay their mortgages before extending the credit based on a number of factors and consideration of financial information about the borrower from reasonably reliable third-party documents. The lender is presumed to have satisfied the ability-to-repay requirements if the loan is a qualified mortgage, which meets certain requirements related to the loan's amortization, fees, payment terms and maturity as well as the borrower's debt-to-income ratio. The QM Rule became effective January 10, 2014.

Payment of Dividends

We are a legal entity separate and distinct from our bank subsidiary and other affiliated entities. The principal sources of our cash flow, including cash flow to pay dividends to our stockholders, are dividends that our bank subsidiary pays to us as its sole stockholder. Statutory and regulatory limitations apply to the dividends that our bank subsidiary can pay to us, as well as to the dividends we can pay to our stockholders.

The policy of the Federal Reserve Board that a bank holding company should serve as a source of strength to its subsidiary bank also results in the position of the Federal Reserve Board that a bank holding company should not maintain a level of cash dividends to its stockholders that places undue pressure on the capital of its bank subsidiary or that can be funded only through additional borrowings or other arrangements that may undermine the bank holding

company's ability to serve as such a source of strength. Our ability to pay dividends is also subject to the provisions of Arkansas law.

Table of Contents

There are certain state-law limitations on the payment of dividends by our bank subsidiary. Centennial Bank, which is subject to Arkansas banking laws, may not declare or pay a dividend of 75% or more of the net profits of such bank after all taxes for the current year plus 75% of the retained net profits for the immediately preceding year without the prior approval of the Arkansas State Bank Commissioner. Members of the Federal Reserve System must also comply with the dividend restrictions with which a national bank would be required to comply. Among other things, these restrictions require that if losses have at any time been sustained by a bank equal to or exceeding its undivided profits then on hand, no dividend may be paid. Although we have regularly paid dividends on our common stock beginning with the second quarter of 2003, there can be no assurances that we will be able to pay dividends in the future under the applicable regulatory limitations.

The payment of dividends by us, or by our bank subsidiary, may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under FDICIA, a depository institution may not pay any dividend if payment would result in the depository institution being undercapitalized.

Restrictions on Transactions with Affiliates

We and our bank subsidiary are subject to Section 23A of the Federal Reserve Act. In general, Section 23A imposes limits on the amount of transactions between the bank and its affiliates, and also requires certain levels of collateral for loans to affiliated parties. It also limits the amount of advances to affiliates which are collateralized by the securities or obligations of the bank or its nonbanking affiliates. An affiliate of a bank is generally any company or entity that controls, is controlled by, or is under common control with the bank.

Affiliate transactions are also subject to Section 23B of the Federal Reserve Act which generally requires that certain other transactions between the bank and its affiliates be on terms substantially the same, or at least as favorable to the bank, as those prevailing at that time for comparable transactions with or involving other non-affiliated persons.

The restrictions on loans to directors, executive officers, principal stockholders and their related interests (collectively, the insiders) contained in Sections 22(g) and (h) of the Federal Reserve Act and in its implementing regulation, Regulation O, also apply to all insured institutions and their subsidiaries and holding companies. Insiders are subject to enforcement actions for knowingly accepting loans in violation of applicable restrictions.

Privacy

Under the Gramm-Leach-Bliley Act, financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third parties except under narrow circumstances, such as the processing of transactions requested by the consumer or when the financial institution is jointly sponsoring a product or service with a nonaffiliated third party. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers. We and our subsidiary have established policies and procedures to assure our compliance with all privacy provisions of the Gramm-Leach-Bliley Act.

Anti-Terrorism and Money Laundering Legislation

Our bank subsidiary is subject to the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA PATRIOT Act), the Bank Secrecy Act and rules and

regulations of the Office of Foreign Assets Control (the OFAC). These statutes and related rules and regulations impose requirements and limitations on specific financial transactions and account relationships intended to guard against money laundering and terrorism financing. Our bank subsidiary has established a customer identification program pursuant to Section 326 of the USA PATRIOT Act and the Bank Secrecy Act, and otherwise has implemented policies and procedures intended to comply with the foregoing rules.

Table of Contents

Proposed Legislation and Regulatory Action

New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations and competitive relationships of financial institutions operating and doing business in the United States. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

Effect of Governmental Monetary Policies

Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve Board's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve Board affect the levels of bank loans, investments and deposits through its control over the issuance of United States government securities, its regulation of the discount rate applicable to banks and its influence over reserve requirements to which banks are subject. We cannot predict the nature or impact of future changes in monetary and fiscal policies.

AVAILABLE INFORMATION

We are subject to the information requirements of the Securities Exchange Act of 1934. Accordingly, we file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. You can also review our filings by accessing the website maintained by the SEC at <http://www.sec.gov>. The site contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. In addition, we maintain a website at <http://www.homebancshares.com>. We make available on our website copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to such documents as soon as practicable after we electronically file such materials with or furnish such documents to the SEC.

Item 1A. RISK FACTORS

Our business exposes us to certain risks. Risks and uncertainties that management is not aware of or focused on may also adversely affect our business and operation. The following is a discussion of the most significant risks and uncertainties that may affect our business, financial condition and future results.

Risks Related to Our Industry

Difficult market and economic conditions may adversely affect our industry and our business.

The financial crisis and the resulting economic downturn in the latter years of the last decade had a significant adverse impact on the banking industry, and particularly community banks. Dramatic declines in the housing market, with falling home prices and increased delinquencies and foreclosures, negatively impacted the credit performance of mortgage and construction loans and resulted in significant write-downs of assets by many financial institutions. Reduced availability of commercial credit and sustained higher unemployment negatively impacted the credit performance of commercial and consumer credit, resulting in additional write-downs. As a result of these market

conditions and the raising of credit standards, our industry experienced commercial and consumer deficiencies, low customer confidence, market volatility and generally sluggish business activity.

Although general economic conditions nationally and locally in our market areas have improved over the past three years and show signs of continued improvement, unemployment levels and business activity across a wide range of industries and regions, particularly in our Florida markets, have not fully recovered to historical levels prior to 2007. Loan demand has not returned to pre-recession levels, and competition among depository institutions for deposits and quality loans has increased significantly. In addition, despite recent increases in property values in our markets, the values of real estate collateral supporting many commercial loans and home mortgages, which declined during the recession, have not fully recovered.

Table of Contents

We cannot be certain that the current positive economic trends will continue or that market and economic conditions will return to pre-recession levels in the near future. The improvement of certain economic indicators, such as real estate asset values, rents and unemployment, may vary between geographic markets and may continue to lag behind improvement in the overall economy. These economic indicators typically affect certain industries, such as real estate and financial services, more significantly than other economic sectors. If the positive movement in these economic indicators in our market areas subsides or conditions once again worsen, the adverse effects of the recent economic downturn on us, our customers and the other financial institutions in our market would likely exacerbate and may result in increased foreclosures, delinquencies and customer bankruptcies as well as more restricted access to funds. Any such negative events may have an adverse effect on our business, financial condition, results of operations and stock price.

Recent legislative and regulatory initiatives to address difficult market and economic conditions may not maintain stability within the U.S. banking system.

Since 2008, the U.S. Congress, the Federal Reserve, the Treasury, the FDIC, the SEC and others have taken numerous legislative and regulatory actions to stabilize the U.S. banking system and to prevent future financial crises like the one experienced in 2008 and 2009. These measures have included the Emergency Economic Stabilization Act of 2008 (the EESA), which authorized the Treasury to purchase troubled assets and capital securities from banks and their holding companies under the TARP program; significant financial reforms under the Dodd-Frank Act; homeowner relief that encourages loan restructuring and modification; the establishment of significant liquidity and credit facilities for financial institutions and investment banks; the lowering of the federal funds rate; emergency action against short selling practices; a temporary guaranty program for money market funds; the establishment of a commercial paper funding facility to provide back-stop liquidity to commercial paper issuers; efforts by the Federal Reserve to purchase U.S. Treasury bonds; and coordinated international efforts to address illiquidity and other weaknesses in the banking sector.

While the banking system in the United States has substantially stabilized, it is unknown whether these legislative and regulatory initiatives will produce broad, long-term stability, particularly if conditions in the real estate markets remain weak or worsen or if any significant negative economic developments occur as a result of fiscal and political uncertainties in the United States and abroad. Should these or other legislative or regulatory initiatives fail to fully stabilize the financial markets and prevent similar future crises, our business, financial condition, results of operations and prospects could be materially and adversely affected.

We are subject to extensive regulation that could limit or restrict our activities and impose financial requirements or limitations on the conduct of our business, which limitations or restrictions could adversely affect our profitability.

We and our bank subsidiary are subject to extensive federal and state regulation and supervision. As a registered bank holding company, we are primarily regulated by the Federal Reserve Board. Our bank subsidiary is also primarily regulated by the Federal Reserve Board and the Arkansas State Bank Department.

Banking industry regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not security holders. Complying with such regulations is costly and may limit our growth and restrict certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits and locations of offices. We are also subject to capital requirements by our regulators. Violations of various laws, even if unintentional, may result in significant fines or other penalties, including restrictions on branching or bank acquisitions.

Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. The Dodd-Frank Act instituted major changes to the banking and financial institutions regulatory regimes in light of the recent performance of and government intervention in the financial services sector. The act requires the issuance of a substantial number of new regulations by federal regulatory agencies which will affect financial institutions, many of which have yet to be issued or implemented.

Table of Contents

As the provisions of the Dodd-Frank Act and the regulations promulgated under the act are implemented, there could be additional new federal or state laws, regulations and policies regarding lending and funding practices and liquidity standards. Additionally, financial institution regulatory agencies are expected to be very aggressive in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement actions. Negative developments in the financial services industry or other new legislation or regulations could adversely impact our operations and our financial performance by subjecting us to additional costs, restricting our business operations, including our ability to originate or sell loans, and/or increasing the ability of non-banks to offer competing financial services.

As regulation of the banking industry continues to evolve, we expect the costs of compliance to continue to increase and, thus, to affect our ability to operate profitably. In addition, industry, legislative or regulatory developments may cause us to materially change our existing strategic direction, capital strategies, compensation or operating plans. If these developments negatively impact our ability to implement our business strategies, it may have a material adverse effect on our results of operations and future prospects.

Additional bank failures or further changes to the FDIC insurance assessment system may increase our FDIC insurance assessments and result in higher noninterest expense.

In July 2010, the Dodd-Frank Act made permanent the \$250,000 per depositor coverage limit on federal deposit insurance provided by the FDIC. The FDIC has taken a number of actions since 2008 in order to maintain a strong funding position and restore reserve ratios of the DIF depleted by the increased deposit insurance coverage and the high number of bank failures.

Effective April 1, 2011, the FDIC approved a final rule implementing additional changes to the deposit insurance assessment system, as authorized by the Dodd-Frank Act. The final rule, among other things, changes the assessment base for insured institutions, suspends indefinitely certain requirements of the FDIC to pay dividends from the DIF to prevent the DIF from becoming unnecessarily large and adopts, in place of the dividends, progressively lower assessment rate schedules when the reserve ratio exceeds certain levels. Additionally, the final rule changes the method of calculating assessment rates for large institutions and highly complex institutions.

We are generally unable to control the amount and timetable for payment of premiums that we are required to pay for FDIC insurance. There is no guarantee that our assessment rate will not increase in the future. Additionally, if there continue to be historically high numbers of bank or financial institution failures in the foreseeable future or the recently adopted changes do not have their desired effect of strengthening the DIF reserve ratio, the FDIC may further revise the assessment rates or the risk-based assessment system. Such changes may require us to pay higher FDIC premiums than our current levels, which would increase our noninterest expense.

Our profitability is vulnerable to interest rate fluctuations and monetary policy.

Most of our assets and liabilities are monetary in nature, and thus subject us to significant risks from changes in interest rates. Consequently, our results of operations can be significantly affected by changes in interest rates and our ability to manage interest rate risk. Changes in market interest rates, or changes in the relationships between short-term and long-term market interest rates, or changes in the relationship between different interest rate indices can affect the interest rates charged on interest-earning assets differently than the interest paid on interest-bearing liabilities. This difference could result in an increase in interest expense relative to interest income or a decrease in interest rate spread. In addition to affecting our profitability, changes in interest rates can impact the valuation of our assets and liabilities.

As of December 31, 2013, our one-year ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities was 92.1% and our cumulative repricing gap position was a negative 4.2% of total earning assets, resulting in a limited impact on earnings for various interest rate change scenarios. Floating rate loans made up 12.9% of our \$4.48 billion total loan portfolio. A loan is considered fixed rate if the loan is currently at its adjustable floor or ceiling. In addition, 55.4% of our loans receivable and 78.4% of our time deposits at December 31, 2013, were scheduled to reprice within 12 months and our other rate sensitive asset and rate sensitive liabilities composition is subject to change. Significant composition changes in our rate sensitive assets or liabilities could result in a more unbalanced position and interest rate changes would have more of an impact on our earnings.

Table of Contents

Our results of operations are also affected by the monetary policies of the Federal Reserve Board. Actions by the Federal Reserve Board involving monetary policies could have an adverse effect on our deposit levels, loan demand or business and earnings.

Risks Related to Our Acquisition of Liberty Bancshares, Inc.

Our financial results and condition could be adversely affected if we fail to realize the expected benefits of the Liberty acquisition or it takes longer than expected to realize those benefits.

Following our acquisition of Liberty Bancshares, Inc. (Liberty) and its bank subsidiary, Liberty Bank of Arkansas (Liberty Bank), on October 24, 2013, we began the process of integrating the businesses of Liberty and the Company. While we substantially completed the integration of the core operating systems of Liberty during the fourth quarter of 2013, the overall integration of the two businesses will continue during 2014. This integration process could result in the loss of key employees, the disruption of ongoing businesses and the loss of customers and their business and deposits. It may also divert management attention and resources from other operations and limit the Company's ability to pursue other acquisitions. There is no assurance that we will realize the cost savings and other financial benefits of the acquisition when and in the amounts expected.

We may incur losses on loans, securities and other acquired assets of Liberty that are materially greater than reflected in our preliminary fair value adjustments.

We accounted for the Liberty acquisition under the purchase method of accounting, recording the acquired assets and liabilities of Liberty at fair value based on preliminary purchase accounting adjustments. Under purchase accounting, we have until one year after the acquisition to finalize the fair value adjustments, meaning we could materially adjust until then the preliminary fair value estimates of Liberty's assets and liabilities based on new or updated information.

We recorded at fair value all credit-impaired loans acquired in the merger of Liberty Bank into Centennial Bank based on the present value of their expected cash flows. We estimated cash flows using internal credit, interest rate and prepayment risk models using assumptions about matters that are inherently uncertain. We may not realize the estimated cash flows or fair value of these loans. In addition, although the difference between the pre-merger carrying value of the credit-impaired loans and their expected cash flows the non-accretable difference is available to absorb future charge-offs, we may be required to increase our allowance for credit losses and related provision expense because of subsequent additional credit deterioration in these loans.

Risks Related to Our Business

Our decisions regarding credit risk could be inaccurate and our allowance for loan losses may be inadequate, which would materially and adversely affect us.

Management makes various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of our secured loans. We endeavor to maintain an allowance for loan losses that we consider adequate to absorb future losses that may occur in our loan portfolio. As of December 31, 2013, our allowance for loan losses for non-covered loans was approximately \$39.0 million, or 0.93% of our total loans receivable not covered by loss share, a decrease of 13.6% from December 31, 2012. In determining the size of the allowance, we analyze our loan portfolio based on our historical loss experience, volume and classification of loans, volume and trends in delinquencies and non-accruals, national and local economic conditions, and other pertinent information. The economic conditions particularly in our Florida market have improved but not to pre-recessions levels. These conditions may continue or

could even worsen.

If our assumptions are incorrect, our current allowance may be insufficient to absorb future loan losses, and increased loan loss reserves may be needed to respond to different economic conditions or adverse developments in our loan portfolio. When there is an economic downturn it is more difficult for us to estimate the losses that we will experience in our loan portfolio. In addition, federal and state regulators periodically review our allowance for loan losses and may require us to increase our allowance for loan losses or recognize further loan charge-offs based on judgments different than those of our management. Any increase in our allowance for loan losses or loan charge-offs could have a negative effect on our operating results.

Table of Contents

Our high concentration of real estate loans exposes us to increased lending risk.

As of December 31, 2013, the primary composition of our total loan portfolio was as follows:

commercial real estate loans (excludes construction/land development) of \$1.94 billion, or 43.4% of total loans;

construction/land development loans of \$611.1 million, or 13.6% of total loans;

commercial and industrial loans of \$517.3 million, or 11.5% of total loans;

residential real estate loans of \$1.24 billion, or 27.6% of total loans; and

consumer loans of \$69.6 million, or 1.6% of total loans.

Commercial real estate, construction/land development and commercial and industrial loans, which comprised 68.5% of our total loan portfolio as of December 31, 2013, expose us to a greater risk of loss than our residential real estate and consumer loans, which comprised 29.1% of our total loan portfolio as of December 31, 2013. Commercial real estate and land development loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential loans. Consequently, an adverse development with respect to one commercial loan or one credit relationship exposes us to a significantly greater risk of loss compared to an adverse development with respect to one residential mortgage loan.

Approximately 90.5% of our loans as of December 31, 2013, are to the borrowers in Alabama, Arkansas and Florida, the three states in which we have our primary market areas. An adverse development with respect to the market conditions of these specific market areas could expose us to a greater risk of loss than a portfolio that is spread among a larger geography base.

Our concentration in commercial real estate loans exposes us to greater risk associated with those types of loans. The repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the related real estate or commercial project. If the cash flows from the project are reduced, a borrower's ability to repay the loan may be impaired. This cash flow shortage may result in the failure to make loan payments. In such cases, we may be compelled to modify the terms of the loan, or in the most extreme cases, we may have to foreclose. In addition, the nature of these loans is such that they are generally less predictable and more difficult to evaluate and monitor. As a result, repayment of these loans may, to a greater extent than residential loans, be subject to adverse conditions in the real estate market or economy.

We have 84.6% of our loans as real estate loans primarily in Arkansas, Florida and South Alabama, and this poses a concentration risk, especially if the Florida area does not continue to improve or once again deteriorates resulting in depressed sales prices and low sales, combined with increased delinquencies and foreclosures on residential and commercial real estate loans.

Depressed local economic and housing markets have led to loan losses and reduced earnings in the past and could lead to additional loan losses and reduced earnings.

Beginning in 2007, our Florida markets experienced a dramatic reduction in housing and real estate values, coupled with significantly higher unemployment. These conditions contributed to increased non-performing loans and reduced asset quality during this time period. While market conditions in our Florida markets have begun to improve, we continue to experience higher non-performing loans and reduced asset quality in these markets as compared to pre-recession levels. As of December 31, 2013, our non-performing non-covered loans totaled approximately \$38.3 million, or 0.91% of total non-covered loans. Non-performing non-covered assets were approximately \$68.4 million as of this same date, or 1.07% of total non-covered assets. In addition, we had approximately \$30.1 million in accruing non-covered loans that were between 30 and 89 days delinquent as of December 31, 2013. If these markets do not continue to improve or once again deteriorate, they may lead to additional valuation adjustments on our loan portfolios and real estate owned as we continue to reassess the market value of our loan portfolio, the losses associated with the loans in default and the net realizable value of real estate owned.

Table of Contents

Our non-performing assets adversely affect our net income in various ways. If economic and market conditions do not continue to improve, we could incur additional losses relating to increased non-performing loans. We do not record interest income on non-accrual loans or other real estate owned, thereby adversely affecting our income, and our loan administration costs. When we take collateral in foreclosures and similar proceedings, we are required to mark the related loan to the then-fair market value of the collateral, which may result in a loss. These loans and other real estate owned also increase our risk profile and the capital our regulators believe is appropriate in light of such risks. In addition, the resolution of non-performing assets requires significant commitments of time from management and our directors, which can be detrimental to the performance of their other responsibilities. These effects, individually or in the aggregate, could have an adverse effect on our financial condition and results of operations.

While we believe our allowance for loan losses is adequate as of December 31, 2013, as additional facts become known about relevant internal and external factors that affect loan collectability and our assumptions, it may result in our making additions to the provision for loan losses during 2014. Any failure by management to closely monitor the status of the market and make the necessary changes could have a negative effect on our operating results.

Additionally, our success significantly depends upon the growth in population, income levels, deposits and housing starts in our markets. Generally, trends in these factors were negative in the few years following 2007 in our Florida markets and have only partially recovered as of December 31, 2013. If the communities in which we operate do not grow or if prevailing economic conditions locally or nationally continue to remain challenging, our business may be adversely affected. We are less able than a larger institution to spread the risks of unfavorable local economic conditions across a large number of diversified economies. Moreover, we cannot give any assurance we will benefit from any market growth or favorable economic conditions in our primary market areas if they do occur.

If the value of real estate in our Florida markets were to stop improving or once again deteriorate, a significant portion of our loans in our Florida market that were not acquired from the FDIC could become under-collateralized, which could have a material adverse effect on us.

As of December 31, 2013, non-covered loans in the Florida market totaled \$1.00 billion, or 24.0% of our non-covered loans receivable. Of the Florida loans for which we do not have loss sharing, approximately 93.7% were secured by real estate. In prior years, the difficult local economic conditions have adversely affected the values of our real estate collateral in Florida, and they could do so again if the markets were to stop improving or once again deteriorate in the future. The real estate collateral in each case provides an alternate source of repayment on our loans in the event of default by the borrower but may deteriorate in value during the time credit is extended. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected.

Because we have a concentration of exposure to a number of individual borrowers, a significant loss on any of those loans could materially and adversely affect us.

We have a concentration of exposure to a number of individual borrowers. Under applicable law, our bank subsidiary is generally permitted to make loans to one borrowing relationship up to 20% of its Tier 1 capital plus the allowance for loan losses. As of December 31, 2013, the legal lending limit of our bank subsidiary for secured loans was approximately \$111.8 million. Currently, our board of directors has established an in-house lending limit of \$20.0 million to any one borrowing relationship without obtaining the approval of both our Chairman and our director Richard H. Ashley. Currently, we have a total of \$777.4 million committed to the aggregate group of borrowers whose total debt exceeds the established in-house lending limit of \$20.0 million.

A portion of our loans are to customers who have been adversely affected by the home building industry.

Customers who are builders and developers face greater difficulty in selling their homes in markets where the decrease in housing and real estate values are more pronounced. Consequently, we have faced delinquencies and non-performing assets as these customers have been forced to default on their loans. If the housing markets were to stop improving or once again deteriorate additional downgrades, provisions for loan losses and charge-offs relating to our loan portfolios may occur.

Table of Contents

Our cost of funds may increase as a result of general economic conditions, interest rates and competitive pressures.

Our cost of funds may increase as a result of general economic conditions, interest rates and competitive pressures. We have traditionally obtained funds principally through local deposits, and we have a base of lower cost transaction deposits. Generally, we believe local deposits are a more stable source of funds than other borrowings because interest rates paid for local deposits are typically lower than interest rates charged for borrowings from other institutional lenders. In addition, local deposits reflect a mix of transaction and time deposits, whereas brokered deposits typically are less stable time deposits, which may need to be replaced with higher cost funds. Our costs of funds and our profitability and liquidity are likely to be adversely affected, if and to the extent we have to rely upon higher cost borrowings from other institutional lenders or brokers to fund loan demand or liquidity needs, and changes in our deposit mix and growth could adversely affect our profitability and the ability to expand our loan portfolio.

The loss of key officers may materially and adversely affect us.

Our success depends significantly on our Chairman, John W. Allison, and our executive officers, especially C. Randall Sims, Randy E. Mayor, Brian S. Davis and Kevin D. Hester and on our regional bank presidents Tracy M. French, Robert F. Birch and Russell D. Carter, III. Centennial Bank, in particular, relies heavily on its management team's relationships in its local communities to generate business. Because we do not have employment agreements or non-compete agreements with our employees, our executive officers and regional bank presidents are free to resign at any time and accept an employment offer from another company, including a competitor. The loss of services from a member of our current management team may materially and adversely affect our business, financial condition, results of operations and future prospects.

Recent legislation imposes certain executive compensation and corporate governance requirements, which could adversely affect us and our business, including our ability to recruit and retain qualified employees.

On January 25, 2011, the SEC adopted a final rule implementing certain executive compensation and corporate governance provisions of the Dodd-Frank Act. These provisions make applicable to all public companies certain executive compensation requirements similar to those imposed on participants in the TARP Capital Purchase Program. The SEC rule requires public companies to provide their shareholders with non-binding advisory votes (i) at least once every three years on the compensation paid to their named executive officers, and (ii) at least once every six years on whether they should have a say on pay vote every one, two or three years. A separate, non-binding advisory shareholder vote will be required regarding golden parachute compensation arrangements for named executive officers when a shareholder vote takes place on mergers, acquisitions, dispositions or other transactions that would trigger the parachute payments. Also, the SEC is required to ensure that national listing exchanges, such as the New York Stock Exchange and the NASDAQ, prohibit the listing of any companies that fail to adopt clawback policies pursuant to which incentive-based compensation paid to executives will be subject to clawback based on financial results which were subsequently restated within three years of such payment. The amount of the clawback is the amount in excess of what would have been paid under the restated results. As a public company, we are subject to the requirements of these new SEC rules, whereas some of our competitors are not publicly traded and therefore not subject to such rules.

These provisions and any future rules issued by the Treasury or the SEC could adversely affect our ability to attract and retain management capable and motivated sufficiently to manage and operate our business through difficult economic and market conditions. If we are unable to attract and retain qualified employees to manage and operate our business, we may not be able to successfully execute our business strategy.

Table of Contents

Our growth and expansion strategy may not be successful and our market value and profitability may suffer.

Growth through the acquisition of banks, particularly FDIC-assisted transactions, and *de novo* branching represent important components of our business strategy. Any future acquisitions we might make will be accompanied by the risks commonly encountered in acquisitions. These risks include, among other things:

credit risk associated with the acquired bank's loans and investments;

difficulty of integrating operations and personnel; and

potential disruption of our ongoing business.

We expect that competition for suitable acquisition candidates may be significant. We may compete with other banks or financial service companies with similar acquisition strategies, many of which are larger and have greater financial and other resources. We cannot assure you that we will be able to successfully identify and acquire suitable acquisition targets on acceptable terms and conditions.

In the current economic environment, we may continue to have opportunities to acquire the assets and liabilities of failed banks in FDIC-assisted transactions. These acquisitions involve risks similar to acquiring existing banks even though the FDIC might provide assistance to mitigate certain risks such as sharing in exposure to loan losses and providing indemnification against certain liabilities of the failed institution. However, because these acquisitions are structured in a manner that would not allow us the time normally associated with preparing for integration of an acquired institution, we may face additional risks in FDIC-assisted transactions. These risks include, among other things, the loss of customers, strain on management resources related to collection and management of problem loans and problems related to integration of personnel and operating systems.

In addition to the acquisition of existing financial institutions, as opportunities arise, we plan to have some *de novo* branching. *De novo* branching and any acquisition carry with them numerous risks, including the following:

the inability to obtain all required regulatory approvals;

significant costs and anticipated operating losses associated with establishing a *de novo* branch or a new bank;

the inability to secure the services of qualified senior management;

the local market may not accept the services of a new bank owned and managed by a bank holding company headquartered outside of the market area of the new bank;

economic downturns in the new market;

the inability to obtain attractive locations within a new market at a reasonable cost; and

the additional strain on management resources and internal systems and controls.

We cannot assure that we will be successful in overcoming these risks or any other problems encountered in connection with acquisitions (including FDIC-assisted transactions) and *de novo* branching. Our inability to overcome these risks could have an adverse effect on our ability to achieve our business strategy and maintain our market value and profitability.

Our loss sharing agreements with the FDIC limit our ability to enter into certain change of control transactions, including the sale of significant amounts of our common stock by us or our shareholders, without the consent of the FDIC.

The loss sharing agreements we entered into with the FDIC in connection with our recent FDIC-assisted acquisitions require the consent of the FDIC in connection with certain change of control transactions, including the sale by the Company or by any individual shareholder, or group of shareholders acting in concert, of shares of our common stock totaling more than 9% of our outstanding common stock. This requirement could restrict or delay our ability to raise additional capital to fund acquisition or growth opportunities or for other purposes, or to pursue a merger or consolidation transaction that management may believe is in the best interest of our shareholders. This could also restrict or delay the ability of our shareholders to sell a substantial amount of our shares. In addition, if such a transaction were to occur without the FDIC's consent, we could lose the benefit of the loss-share coverage provided by these agreements for certain covered assets.

Table of Contents

There may be undiscovered risks or losses associated with our bank acquisitions which would have a negative impact upon our future income.

Our growth strategy includes strategic acquisitions of banks. We have acquired 15 banks since we started our first subsidiary bank in 1999, including six in 2010, three in 2012 and one in 2013, and will continue to consider strategic acquisitions, with a primary focus on Arkansas, Florida, South Alabama and other nearby markets. In most cases, other than in connection with FDIC-assisted transactions and our acquisition of Vision Bank in 2012, our acquisition of a bank includes the acquisition of all of the target bank's assets and liabilities, including its loan portfolio. There may be instances when we, under our normal operating procedures, may find after the acquisition that there may be additional losses or undisclosed liabilities with respect to the assets and liabilities of the target bank, and, with respect to its loan portfolio, that the ability of a borrower to repay a loan may have become impaired, the quality of the value of the collateral securing a loan may fall below our standards, or the allowance for loan losses may not be adequate. One or more of these factors might cause us to have additional losses or liabilities, additional loan charge-offs, or increases in allowances for loan losses, which would have a negative impact upon our financial condition and results of operations.

Changes in national and local economic conditions could lead to higher loan charge-offs in connection with our acquisitions.

In connection with our acquisitions since 2010, we have acquired a significant portfolio of loans. Although we marked down the loan portfolios we have acquired, there is no assurance that the non-impaired loans we acquired will not become impaired or that the impaired loans will not suffer further deterioration in value resulting in additional charge-offs to the acquired loan portfolio. Fluctuations in national, regional and local economic conditions, including those related to local residential and commercial real estate and construction markets, may increase the level of charge-offs we make to our loan portfolio, and, may consequently, reduce our net income. Such fluctuations may also increase the level of charge-offs on the loan portfolios we have acquired in the acquisitions and correspondingly reduce our net income. These fluctuations are not predictable, cannot be controlled and may have a material adverse impact on our operations and financial condition even if other favorable events occur.

Although in connection with our 2010 FDIC-assisted acquisitions we entered into loss sharing agreements with the FDIC, which provide that a significant portion of losses related to specified loan portfolios we acquired will be indemnified by the FDIC, we are not protected from all losses resulting from charge-offs with respect to those specified loan portfolios. Additionally, the loss sharing agreements have limited terms, which begin to expire in 2015; therefore, any charge-off of related losses that we experience after the term of the loss sharing agreements will not be reimbursed by the FDIC and will negatively impact our net income.

The expiration of our loss sharing agreements in connection with our 2010 FDIC-assisted acquisitions may result in write-downs to our FDIC indemnification asset to the extent expected loan losses do not occur within the loss share coverage window, which could have a material adverse effect on our financial condition.

In conjunction with our FDIC-assisted transactions, we entered into loss sharing agreements with the FDIC which cover realized losses on loans, foreclosed real estate and certain other assets. These agreements are recorded as assets on our consolidated balance sheet to the extent of the expected loss share indemnification. 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 we 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.

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 in the indemnification asset as future expected loan losses might become projected to occur outside of the loss share coverage reimbursement window. If the loan losses projected to occur outside the loss share coverage reimbursement period are substantial, the resulting reductions in our FDIC indemnification asset could have a material adverse effect on our financial condition.

Table of Contents

Our recent acquisitions have increased our commercial real estate loan portfolio, which have a greater credit risk than residential mortgage loans.

With our 2010 FDIC-assisted acquisitions and subsequent market acquisitions, our commercial loan and construction loan portfolios have become a larger portion of our total loan portfolio than they were prior to these acquisitions. These types of lending are generally considered to have more complex credit risks than traditional single-family residential lending, because the principal is concentrated in a limited number of loans with repayment dependent on the successful operation of the related real estate or construction project. Consequently, these loans are more sensitive to the current adverse conditions in the real estate market and the general economy. These loans are generally less predictable and more difficult to evaluate and monitor and collateral may be more difficult to dispose of in a market decline.

Our acquisitions have caused us to modify our disclosure controls and procedures, which may not result in the material information that we are required to disclose in our SEC reports being recorded, processed, summarized, and reported adequately.

Our management is responsible for establishing and maintaining effective disclosure controls and procedures that are designed to cause the material information that we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 to be recorded, processed, summarized, and reported to the extent applicable within the time periods required by the SEC's rules and forms. As a result of our acquisitions, we may implement changes to processes, information technology systems and other components of internal control over financial reporting as part of our integration activities. Notwithstanding any changes to our disclosure controls and procedures resulting from our evaluation of the same after the acquisition, our control systems, no matter how well designed and operated, may not result in the material information that we are required to disclose in our SEC reports being recorded, processed, summarized, and reported adequately. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected.

Our failure to fully comply with the loss sharing provisions relating to our FDIC acquisitions could jeopardize the loss-share coverage afforded to certain individual or pools of assets, rendering us financially responsible for the full amount of any losses related to such assets.

In connection with our FDIC acquisitions in 2010, we entered into loss sharing agreements with the FDIC whereby the FDIC agreed to cover 70% or 80% of the losses on certain single family residential mortgage loans and certain commercial loans (together, covered assets), and 30%, 80% or 95% of the losses on such covered assets in excess of thresholds stated in the loss sharing agreements. Our management of and application of the terms and conditions of the loss sharing provisions of the Purchase and Assumption Agreements related to the covered assets is monitored by the FDIC through periodic reports that we must submit to the FDIC and on-site compliance visitations by the FDIC. If we fail to fully comply with its obligations under the loss sharing provisions of the Purchase and Assumption Agreements relating to the acquisitions, we could lose the benefit of the loss-share coverage as it applies to certain individual or pools of covered assets. Without such loss-share coverage, we would be solely financially responsible for the losses sustained by such individual or pools of assets.

Competition from other financial institutions may adversely affect our profitability.

The banking business is highly competitive. We experience strong competition, not only from commercial banks, savings and loan associations and credit unions, but also from mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds and other financial services providers operating

in or near our market areas. We compete with these institutions both in attracting deposits and in making loans.

Many of our competitors are much larger national and regional financial institutions. We may face a competitive disadvantage against them as a result of our smaller size and resources and our lack of geographic diversification. Many of our competitors are not subject to the same degree of regulation that we are as an FDIC-insured institution, which gives them greater operating flexibility and reduces their expenses relative to ours.

Table of Contents

We also compete against community banks that have strong local ties. These smaller institutions are likely to cater to the same small and mid-sized businesses that we target and to use a relationship-based approach similar to ours. In addition, our competitors may seek to gain market share by pricing below the current market rates for loans and paying higher rates for deposits. Competitive pressures can adversely affect our results of operations and future prospects.

We may incur environmental liabilities with respect to properties to which we take title.

A significant portion of our loan portfolio is secured by real property. In the course of our business, we may own or foreclose and take title to real estate and could become subject to environmental liabilities with respect to these properties. We may become responsible to a governmental agency or third parties for property damage, personal injury, investigation and clean-up costs incurred by those parties in connection with environmental contamination, or may be required to investigate or clean-up hazardous or toxic substances, or chemical releases at a property. The costs associated with environmental investigation or remediation activities could be substantial. If we were to become subject to significant environmental liabilities, it could have a material adverse effect on our results of operations and financial condition.

We continually encounter technological change, and we may have fewer resources than many of our competitors to continue to invest in technological improvements.

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. In addition to better serving customers, effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our clients, which may adversely affect our results of operations and future prospects.

A failure in or breach of our operational or security systems, or those of our third party service providers, including as a result of cyber-attacks, could disrupt our business, result in unintentional disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.

As a financial institution, our operations rely heavily on the secure processing, storage and transmission of confidential and other information on our computer systems and networks. Any failure, interruption or breach in security or operational integrity of these systems could result in failures or disruptions in our online banking system, customer relationship management, general ledger, deposit and loan servicing and other systems. The security and integrity of our systems could be threatened by a variety of interruptions or information security breaches, including those caused by computer hacking, cyber-attacks, electronic fraudulent activity or attempted theft of financial assets. We cannot assure you that any such failures, interruption or security breaches will not occur, or if they do occur that they will be adequately addressed. While we have certain protective policies and procedures in place, the nature and sophistication of the threats continue to evolve. We may be required to expend significant additional resources in the future to modify and enhance our protective measures.

Additionally, we face the risk of operational disruption, failure, termination or capacity constraints of any of the third parties that facilitate our business activities, including exchanges, clearing agents, clearing houses or other financial intermediaries. Such parties could also be the source of an attack on, or breach of, our operational systems. Any failures, interruptions or security breaches in our information systems could damage our reputation, result in a loss of

customer business, result in a violation of privacy or other laws, or expose us to civil litigation, regulatory fines or losses not covered by insurance.

Table of Contents

Our recent results do not indicate our future results and may not provide guidance to assess the risk of an investment in our common stock.

We are unlikely to sustain our historical rate of growth, and may not even be able to expand our business at all. Further, our recent growth may distort some of our historical financial ratios and statistics. Various factors, such as economic conditions, regulatory and legislative considerations and competition, may also impede or prohibit our ability to expand our market presence. If we are not able to successfully grow our business, our financial condition and results of operations could be adversely affected.

We may not be able to raise the additional capital we need to grow and, as a result, our ability to expand our operations could be materially impaired.

Federal and state regulatory authorities require us and our bank subsidiary to maintain adequate levels of capital to support our operations. While we believe that our existing capital (which well exceeds the federal and state capital requirements) will be sufficient to support our current operations, anticipated expansion and potential acquisitions, factors such as faster than anticipated growth, reduced earnings levels, operating losses, changes in economic conditions, revisions in regulatory requirements, or additional acquisition opportunities may lead us to seek additional capital.

Our ability to raise additional capital, if needed, will depend on our financial performance and on conditions in the capital markets at that time, which are outside our control. If we need additional capital but cannot raise it on terms acceptable to us, our ability to expand our operations could be materially impaired.

Our directors and executive officers own a significant portion of our common stock and can exert significant influence over our business and corporate affairs.

Our directors and executive officers, as a group, beneficially owned 17.45% of our common stock as of December 31, 2013. Consequently, if they vote their shares in concert, they can significantly influence the outcome of all matters submitted to our shareholders for approval, including the election of directors. The interests of our officers and directors may conflict with the interests of other holders of our common stock, and they may take actions affecting the Company with which you disagree.

Hurricanes or other adverse weather events could negatively affect our local economies or disrupt our operations, which would have an adverse effect on us.

Like other coastal areas, our markets in Alabama and Florida are susceptible to hurricanes and tropical storms. Such weather events can disrupt our operations, result in damage to our properties and negatively affect the local economies in which we operate. We cannot predict whether or to what extent damage that may be caused by future hurricanes or other weather events will affect our operations or the economies in our market areas, but such weather events could result in a decline in loan originations, a decline in the value or destruction of properties securing our loans and an increase in the delinquencies, foreclosures and loan losses. Our business or results of operations may be adversely affected by these and other negative effects of hurricanes or other significant weather events.

Table of Contents

Risks Related to Owning Our Stock

The holders of our subordinated debentures have rights that are senior to those of our shareholders. If we defer payments of interest on our outstanding subordinated debentures or if certain defaults relating to those debentures occur, we will be prohibited from declaring or paying dividends or distributions on, and from making liquidation payments with respect to, our common stock.

As of December 31, 2013, we have \$60.8 million of subordinated debentures issued in connection with trust preferred securities. Payments of the principal and interest on the trust preferred securities are unconditionally guaranteed by us. The subordinated debentures are senior to our shares of common stock. As a result, we must make payments on the subordinated debentures (and the related trust preferred securities) before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the debentures must be satisfied before any distributions can be made to the holders of our common stock. We have the right to defer distributions on the subordinated debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid to holders of our capital stock. If we elect to defer or if we default with respect to our obligations to make payments on these subordinated debentures, this would likely have a material adverse effect on the market value of our common stock. Moreover, without notice to or consent from the holders of our common stock, we may enter into other financing agreements that limit our ability to purchase or to pay dividends or distributions on our capital stock, including our common stock.

We may be unable to, or choose not to, pay dividends on our common stock.

Although we have paid a quarterly dividend on our common stock since the second quarter of 2003 and expect to continue this practice, we cannot assure you of our ability to continue. Our ability to pay dividends depends on the following factors, among others:

We may not have sufficient earnings since our primary source of income, the payment of dividends to us by our bank subsidiary, is subject to federal and state laws that limit the ability of that bank to pay dividends.

Federal Reserve Board policy requires bank holding companies to pay cash dividends on common stock only out of net income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition.

Before dividends may be paid on our common stock in any year, payments must be made on our subordinated debentures.

Our board of directors may determine that, even though funds are available for dividend payments, retaining the funds for internal uses, such as expansion of our operations, is a better strategy.

If we fail to pay dividends, capital appreciation, if any, of our common stock may be the sole opportunity for gains on an investment in our common stock. In addition, in the event our bank subsidiary becomes unable to pay dividends to us, we may not be able to service our debt, pay our other obligations or pay dividends on our common stock. Accordingly, our inability to receive dividends from our bank subsidiary could also have a material adverse effect on

our business, financial condition and results of operations and the value of your investment in our common stock.

Our stock trading volume may not provide adequate liquidity for investors.

Although shares of our common stock are listed for trade on the NASDAQ Global Select Market, the average daily trading volume in the common stock is less than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of a sufficient number of willing buyers and sellers of the common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the daily average trading volume of our common stock, significant sales of the common stock in a brief period of time, or the expectation of these sales, could cause a decline in the price of our common stock.

Table of Contents

Item 1B. UNRESOLVED STAFF COMMENTS

There are currently no unresolved Commission staff comments received by the Company more than 180 days prior to the end of the fiscal year covered by this annual report.

Item 2. PROPERTIES

The Company's main office is located in a Company-owned 33,000 square foot building located at 719 Harkrider Street in downtown Conway, Arkansas. As of December 31, 2013, our bank subsidiary owned or leased a total of 88 branches located in Arkansas, 53 branches Florida and seven branches in South Alabama. The Company also owns or leases other buildings that provide space for operations, mortgage lending and other general purposes. We believe that our banking and other offices are in good condition and are suitable to our needs.

Item 3. LEGAL PROCEEDINGS

While we and our bank subsidiary and other affiliates are from time to time parties to various legal proceedings arising in the ordinary course of their business, management believes, after consultation with legal counsel, that there are no proceedings threatened or pending against us or our bank subsidiary or other affiliates that will, individually or in the aggregate, have a material adverse effect on our business or consolidated financial condition.

Item 4. MINE SAFETY DISCLOSURE

Not applicable.

Table of Contents**PART II****Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock trades on the NASDAQ Global Select Market under the symbol HOMB. The following table sets forth, for all the periods indicated, cash dividends declared, and the high and low closing bid prices for our common stock. All per share amounts have been restated to reflect the effect of the 2-for-1 stock split during June 2013.

	Price per Common Share		Quarterly Dividends
	High	Low	Per Common Share
2013			
1st Quarter	\$ 18.84	\$ 16.71	\$ 0.065
2nd Quarter	26.32	18.62	0.075
3rd Quarter	31.00	25.42	0.075
4th Quarter	38.79	28.72	0.075
2012			
1st Quarter	\$ 13.50	\$ 12.36	\$ 0.050
2nd Quarter	15.29	13.01	0.050
3rd Quarter	17.55	14.78	0.060
4th Quarter	17.71	16.04	0.130

As of February 21, 2014, there were approximately 912 stockholders of record of the Company's common stock.

Our policy is to declare regular quarterly dividends based upon our earnings, financial position, capital improvements and such other factors deemed relevant by the Board of Directors. The dividend policy is subject to change, however, and the payment of dividends is not necessarily dependent upon the availability of earnings and future financial condition.

There were no sales of our unregistered securities during the period covered by this report.

We currently maintain a compensation plan, the Home BancShares, Inc. 2006 Stock Option and Performance Incentive Plan, which provides for the issuance of stock-based compensation to directors, officers and other employees. This plan has been approved by the stockholders. The following table sets forth information regarding outstanding options and shares reserved for future issuance under the foregoing plan as of December 31, 2013:

Plan Category	Number of securities to be issued upon exercise of outstanding options,	Weighted-average exercise price of outstanding options for warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding shares
---------------	---	--	--

	warrants and rights (a)	(b)	reflected in column (a)) (c)
Equity compensation plans approved by the stockholders	966,142	\$ 9.57	1,593,967
Equity compensation plans not approved by the stockholders			

Table of Contents**Performance Graph**

Below is a graph which summarizes the cumulative return earned by the Company's stockholders since December 31, 2008, compared with the cumulative total return on the Russell 2000 Index and SNL Bank and Thrift Index. This presentation assumes that the value of the investment in the Company's common stock and each index was \$100.00 on December 31, 2008 and that subsequent cash dividends were reinvested.

<i>Index</i>	<i>Period Ending</i>					
	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13
Home BancShares, Inc.	100.00	90.30	91.78	109.21	141.89	324.95
Russell 2000	100.00	127.17	161.32	154.59	179.86	249.69
SNL Bank and Thrift	100.00	98.66	110.14	85.64	115.00	157.46

Table of Contents**Item 6. SELECTED FINANCIAL DATA.****Summary Consolidated Financial Data**

As of or for the Years Ended December 31,
2013 2012 2011 2010 2009
(Dollars and shares in thousands, except per share data)

Income statement data:					
Total interest income	\$ 217,126	\$ 177,135	\$ 171,806	\$ 151,122	\$ 132,253
Total interest expense	14,531	21,535	30,551	34,708	39,943
Net interest income	202,595	155,600	141,255	116,414	92,310
Provision for loan losses	5,180	2,750	3,500	72,850	11,150
Net interest income after provision for loan losses	197,415	152,850	137,755	43,564	81,160
Non-interest income	40,365	47,969	41,309	65,049	30,659
Non-interest expense	133,307	102,368	94,722	85,001	72,883
Income before income taxes	104,473	98,451	84,342	23,612	38,936
Provision for income taxes	37,953	35,429	29,601	6,021	12,130
Net income	66,520	63,022	54,741	17,591	26,806
Preferred stock dividends and accretion of discount on preferred stock			1,828	2,680	2,576
Net income available to common stockholders	\$ 66,520	\$ 63,022	\$ 52,913	\$ 14,911	\$ 24,230
Per share data⁽¹¹⁾:					
Basic earnings per common share	\$ 1.15	\$ 1.12	\$ 0.93	\$ 0.26	\$ 0.51
Diluted earnings per common share	1.14	1.11	0.92	0.26	0.51
Diluted earnings per common share excluding intangible amortization ⁽¹⁾	1.18	1.14	0.95	0.29	0.53
Book value per common share	12.92	9.17	8.38	7.51	7.36
Tangible book value per common share ⁽²⁾⁽⁵⁾	7.94	7.43	7.18	6.26	6.33
Dividends common	0.2900	0.2900	0.1340	0.1083	0.1091
Average common shares outstanding	57,908	56,274	56,832	56,722	47,254
Average diluted shares outstanding	58,252	56,630	57,224	57,200	47,768
Performance ratios:					
Return on average assets	1.43%	1.58%	1.50%	0.55%	1.03%
Return on average assets excluding intangible amortization ⁽⁶⁾	1.52	1.66	1.57	0.61	1.10
Return on average common equity	11.27	12.75	11.77	3.41	7.45
Return on average tangible common equity excluding intangible amortization ⁽²⁾⁽⁷⁾	15.26	15.87	14.39	4.40	9.49
Net interest margin ⁽¹⁰⁾	5.19	4.70	4.69	4.27	4.09
Efficiency ratio ⁽³⁾	52.44	47.88	49.13	44.41	55.98
Asset quality:					
	1.07%	1.30%	1.53%	2.08%	2.12%

Non-performing non-covered assets to total non-covered assets					
Non-performing non-covered loans to total non-covered loans	0.91	1.17	1.56	2.62	2.05
Allowance for loan losses for non-covered loans to non-performing non-covered loans	101.95	165.62	189.64	107.77	107.57
Allowance for loans losses for non-covered loans to total non-covered loans ⁽⁹⁾	0.93	1.94	2.96	2.83	2.20
Net charge-offs on loans not covered by loss share to average non-covered loans	0.39	0.40	0.26	3.19	0.43

Table of Contents**Summary Consolidated Financial Data Continued**

	As of or for the Years Ended December 31,				
	2013	2012	2011	2010	2009
	(Dollars and shares in thousands, except per share data)				
Balance sheet data (period end):					
Total assets	\$ 6,811,861	\$ 4,242,130	\$ 3,604,117	\$ 3,762,646	\$ 2,684,865
Investment securities available-for-sale	1,175,484	726,223	671,221	469,864	322,115
Investment securities held-to-maturity	114,621				
Loans receivable not covered by loss share	4,194,437	2,331,199	1,760,086	1,892,374	1,950,285
Loans receivable covered by FDIC loss share	282,516	384,884	481,739	575,776	
Allowance for loan losses	43,815	50,632	52,129	53,348	42,968
Intangible assets	324,034	97,742	68,283	71,110	57,737
Non-interest-bearing deposits	991,161	666,414	464,581	392,622	302,228
Total deposits	5,393,046	3,483,452	2,858,031	2,961,798	1,835,423
Subordinated debentures (trust preferred securities)	60,826	28,867	44,331	44,331	47,484
Stockholders equity	840,955	515,473	474,066	476,925	464,973
Capital ratios:					
Common equity to assets	12.35%	12.15%	13.15%	11.4%	15.48%
Tangible common equity to tangible assets ⁽²⁾⁽⁸⁾	7.97	10.08	11.48	9.65	13.63
Tier 1 leverage ratio ⁽⁴⁾	9.38	10.95	12.48	12.15	17.42
Tier 1 risk-based capital ratio	10.88	13.94	17.04	16.69	20.76
Total risk-based capital ratio	11.75	15.20	18.30	17.95	22.02
Dividend payout common	25.51	25.89	13.90	35.01	19.11

- (1) Diluted earnings per common share excluding intangible amortization reflect diluted earnings per share plus per share intangible amortization expense, net of the corresponding tax effect. See Management's Discussion and Analysis of Financial Condition and Results of Operations Table 23, for the non-GAAP tabular reconciliation.
- (2) Tangible calculations eliminate the effect of goodwill and acquisition-related intangible assets and the corresponding amortization expense on a tax-effected basis.
- (3) The efficiency ratio 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.
- (4) Leverage ratio is Tier 1 capital to quarterly average total assets less intangible assets and gross unrealized gains/losses on available-for-sale investment securities.
- (5) See Management's Discussion and Analysis of Financial Condition and Results of Operations Table 24, for the non-GAAP tabular reconciliation.
- (6) See Management's Discussion and Analysis of Financial Condition and Results of Operations Table 25, for the non-GAAP tabular reconciliation.
- (7) See Management's Discussion and Analysis of Financial Condition and Results of Operations Table 26, for the non-GAAP tabular reconciliation.
- (8) See Management's Discussion and Analysis of Financial Condition and Results of Operations Table 27, for the non-GAAP tabular reconciliation.
- (9) See Management's Discussion and Analysis of Financial Condition and Results of Operations Table 28, for additional information on non-GAAP tabular disclosure.

- (10) Fully taxable equivalent (assuming an income tax rate of 39.225%).
- (11) Share and per share amounts have been restated for the 2-for-1 stock split in June 2013.

Table of Contents**Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis presents our consolidated financial condition and results of operations for the years ended December 31, 2013, 2012 and 2011. This discussion should be read together with the Summary Consolidated Financial Data, our consolidated financial statements and the notes thereto, and other financial data included in this document. In addition to the historical information provided below, we have made certain estimates and forward-looking statements that involve risks and uncertainties. Our actual results could differ significantly from those anticipated in these estimates and in the forward-looking statements as a result of certain factors, including those discussed in the section of this document captioned Risk Factors, and elsewhere in this document. Unless the context requires otherwise, the terms 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 December 31, 2013, we had, on a consolidated basis, total assets of \$6.81 billion, loans receivable, net of \$4.43 billion, total deposits of \$5.39 billion, and stockholders' equity of \$841.0 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

	As of or for the Years Ended December		
	31,⁽¹⁾		
	2013	2012	2011
	(Dollars in thousands, except per share data)		
Total assets	\$ 6,811,861	\$ 4,242,130	\$ 3,604,117
Loans receivable not covered by loss share	4,194,437	2,331,199	1,760,086
Loans receivable covered by FDIC loss share	282,516	384,884	481,739
Allowance for loan losses	43,815	50,632	52,129
FDIC claims receivable	19,124	45,224	30,216
Total deposits	5,393,046	3,483,452	2,858,031
Total stockholders' equity	840,955	515,473	474,066
Net income available to all stockholders	66,520	63,022	54,741
Net income available to common stockholders	66,520	63,022	52,913
Basic earnings per common share	1.15	1.12	0.93
Diluted earnings per common share	1.14	1.11	0.92
Diluted earnings per common share excluding intangible amortization ⁽²⁾	1.18	1.14	0.95
Net interest margin FTE	5.19%	4.70%	4.69%

Edgar Filing: HOME BANCSHARES INC - Form 10-K

Efficiency ratio	52.44	47.88	49.13
Return on average assets	1.43	1.58	1.50
Return on average common equity	11.27	12.75	11.77

- (1) Share and per share amounts have been restated for the 2-for-1 stock split in June 2013.
- (2) See Table 23 Diluted Earnings Per Common Share Excluding Intangible Amortization for a reconciliation to GAAP for diluted earnings per common share excluding intangible amortization.

Table of Contents**2013 Overview**

Our net income increased 5.6% to \$66.5 million for the year ended December 31, 2013, from \$63.0 million for the same period in 2012. On a diluted earnings per share basis, our earnings increased 2.7% to \$1.14 for the year ended December 31, 2013, as compared to \$1.11 for the same period in 2012. Excluding the \$18.4 million of 2013 merger expenses associated with the acquisition of Liberty Bancshares, Inc. (Liberty), diluted earnings per share for the year ended 2013 was \$1.33 per share. Excluding the net total expense of \$2.0 million for merger expenses and gain on acquisition associated with the three acquisitions completed during 2012, diluted earnings per share for the year ended 2012 was \$1.13 per share. Excluding merger expenses and acquisition gain, this represents an increase of \$0.20 per share or 17.7% for the year ended 2013 when compared to the previous year. Excluding merger expenses and acquisition gain, net income for the years ended 2013 and 2012 would have been \$77.7 million and \$64.2 million, respectively, for an increase of \$13.5 million or 21.0%. The \$13.5 million increase in net income excluding the non-fundamental items is primarily associated with a full year of additional net income from our 2012 acquisitions of Vision, Heritage and Premier plus 69 days of net income from our 2013 acquisition of Liberty.

Our return on average assets was 1.43% for the year ended December 31, 2013, compared to 1.58% for the same period in 2012. Our return on average common equity was 11.27% for the year ended December 31, 2013, compared to 12.75% for the same period in 2012. Excluding merger expenses and acquisition gain our return on average assets was 1.67% for the year ended December 31, 2013, compared to 1.61% for the same period in 2012. Excluding merger expenses and acquisition gain, our return on average common equity was 13.17% for the year ended December 31, 2013, compared to 12.99% for the same period in 2012. The improved performance ratios excluding the non-fundamental items were primarily due to the growth in the Company from our acquisitions.

Our net interest margin, on a fully taxable equivalent basis, was 5.19% for the year ended December 31, 2013, compared to 4.70% for the same period in 2012. Our ability to improve pricing on interest bearing deposits to offset the lowering of interest rates in the non-covered loan portfolio during this lower rate environment allowed the Company to maintain a solid net interest margin. Our 2010 FDIC acquisitions have helped improve the yield on the total loan portfolio and the total net interest margin. Thirteen of the FDIC loss sharing covered loan pools evaluated by the Company during 2013 were determined to have material projected credit improvements. As a result of these improvements, the Company is recognizing approximately \$29.7 million as an adjustment to yield over the weighted average life of the loans with \$11.4 million of this amount being recognized during 2013. Additionally, during the third quarter of 2013, one of the thirteen pools with a material projected credit improvement paid off in its entirety. As a result of this payoff we collected \$1.9 million of unexpected 2013 cash flows. This unexpected positive cash flow resulted in the recognition of \$1.9 million as a 2013 adjustment to yield on loans and is included in the \$11.4 million recognized during 2013. For the years ended December 31, 2013 and 2012, the effective yield on non-covered loans was 6.01% and 6.28% and covered loans was 11.61% and 7.63%, respectively.

Our efficiency ratio was 52.44% for the year ended December 31, 2013, compared to 47.88% for the same period in 2012. Our core efficiency ratio at 45.49% and 45.73% for the years ended December 31, 2013 and 2012, respectively, demonstrates our consistently tight expense controls. Core efficiency ratio is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income excluding non-fundamental items such as merger expenses and/or gain and losses.

Our total assets increased \$2.57 billion, an increase of 60.6%, to \$6.81 billion as of December 31, 2013, from \$4.24 billion as of December 31, 2012. Excluding the \$2.82 billion of assets acquired from our 2013 acquisitions of Liberty our total assets as of December 31, 2013 decreased \$249.6 million, a decline of 5.9%. Our loan portfolio not covered by loss share increased \$1.86 billion, an increase of 79.9%, to \$4.19 billion as of December 31, 2013, from \$2.33 billion as of December 31, 2012. Excluding the \$1.73 billion of loans acquired during the year from our 2013

acquisition of Liberty our loan portfolio not covered by loss share increased by \$131.6 million, an increase 5.6%. The increase in the non-covered loan portfolio is primarily associated with the improved loan demand from historical lows in the prior years. Our loan portfolio covered by loss share decreased by \$102.4 million, a reduction of 26.6%, to \$282.5 million as of December 31, 2013, from \$384.9 million as of December 31, 2012. The decrease in the covered loan portfolio is the result of pay downs and payoffs since no covered loans were acquired during 2013. Stockholders equity increased \$325.5 million, an increase of 63.1%, to \$841.0 million as of December 31, 2013, compared to \$515.5 million as of December 31, 2012. The increase in stockholders equity is primarily associated with the \$290.1 million of common stock issued to the Liberty shareholders combined with the \$50.4 million of comprehensive income less the \$17.0 million of dividends paid for 2013.

Table of Contents

As of December 31, 2013, our non-performing non-covered loans increased to \$38.3 million, or 0.91%, of total non-covered loans from \$27.3 million, or 1.17%, of total non-covered loans as of December 31, 2012. The allowance for loan losses as a percent of non-performing non-covered loans was 101.95% as of December 31, 2013, compared to 165.62% from December 31, 2012. Non-performing non-covered loans in Florida were \$20.3 million at December 31, 2013 compared to \$15.2 million as of December 31, 2012. Non-performing non-covered loans in Arkansas were \$17.9 million at December 31, 2013 compared to \$12.1 million as of December 31, 2012. As of December 31, 2013 and 2012, no loans in Alabama were non-performing.

As of December 31, 2013, our non-performing non-covered assets increased to \$68.4 million, or 1.07%, of total non-covered assets from \$47.8 million, or 1.30%, of total assets as of December 31, 2012. Non-performing non-covered assets in Florida were \$24.9 million at December 31, 2013 compared to \$23.2 million as of December 31, 2012. Non-performing non-covered assets in Arkansas were \$43.5 million at December 31, 2013 compared to \$24.6 million as of December 31, 2012. As of December 31, 2013 and 2012, no assets in Alabama were non-performing.

As a result of the Liberty non-performing non-covered loans and assets purchased during the acquisition combined with zero Liberty legacy allowance for loan losses being allowed to carry over, this large acquisition has changed the composition of our asset quality ratios from the prior year.

2012 Overview

Our net income increased 15.1% to \$63.0 million for the year ended December 31, 2012, from \$54.7 million for the same period in 2011. On a diluted earnings per share basis, our net earnings increased 20.5% to \$1.11 for the year ended December 31, 2012, as compared to \$0.92 for the same period in 2011.

The \$8.3 million increase in net income is primarily associated with additional net income and other non-interest income resulting from our 2012 acquisitions of Vision, Heritage and Premier including acquisition gains during 2012 when compared to a lower amount of non-recurring gains during 2011 offset by \$7.2 million of merger expenses and the expected reduction in income from FDIC indemnification accretion. Additionally, the new costs associated with the asset growth from the 2012 acquisitions were partially offset by reductions in assessment fees and advertising expense. The total provision for loan losses was approximately \$2.8 million and \$3.5 million for the years ended December 31, 2012 and 2011, respectively.

Our return on average assets was 1.58% for the year ended December 31, 2012, compared to 1.50% for the same period in 2011. Our return on average common equity was 12.75% for the year ended December 31, 2012, compared to 11.77% for the same period in 2011. The changes were primarily due to the previously discussed changes in net income for the year ended December 31, 2012, compared to the same period in 2011.

Our net interest margin, on a fully taxable equivalent basis, was 4.70% for the year ended December 31, 2012, compared to 4.69% for the same period in 2011. Our ability to improve pricing on interest bearing deposits to offset the lowering of interest rates in the loan portfolio during this lower rate environment allowed the Company to maintain a solid net interest margin. Our acquisitions have helped maintain the yield on the loan portfolio. For the year ended December 31, 2012, the effective yield on non-covered loans and covered loans was 6.28% and 7.63%, respectively.

Our efficiency ratio (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) was 47.88% for the year ended December 31, 2012, compared to 49.13% for the same period in 2011. The improvement in the efficiency ratio is

primarily associated with increased net interest income and non-interest income resulting from our 2012 acquisitions combined with acquisition gains during 2012 when compared to a lower amount of non-recurring gains during 2011 partially offset by merger expenses and the expected reduction in income from FDIC indemnification accretion. Additionally, the new costs associated with the asset growth from the acquisitions of Vision, Heritage and Premier were offset by reductions in assessment fees and advertising expense.

Table of Contents

Our total assets increased \$638.0 million, an increase of 17.7%, to \$4.24 billion as of December 31, 2012, from \$3.60 billion as of December 31, 2011. Excluding the \$1.02 billion of assets acquired from our 2012 acquisitions of Vision, Heritage and Premier, our total assets as of December 31, 2012 decreased \$381.1 million, a decline of 10.6%. Our loan portfolio not covered by loss share increased \$571.1 million, an increase of 32.4%, to \$2.33 billion as of December 31, 2012, from \$1.76 billion as of December 31, 2011. Excluding the \$571.0 million of loans acquired during the year from our 2012 acquisitions of Vision, Heritage and Premier, our loan portfolio not covered by loss share increased slightly by \$70,000, an increase of less than 0.01%. Our loan portfolio covered by loss share decreased by \$96.9 million, a reduction of 20.1%, to \$384.9 million as of December 31, 2012, from \$481.7 million as of December 31, 2011. Stockholders' equity increased \$41.4 million, an increase of 8.7%, to \$515.5 million as of December 31, 2012, compared to \$474.1 million as of December 31, 2011. The decrease in loans is primarily associated with historically low loan demand and payoffs in our non-covered and covered loan portfolios. The increase in stockholders' equity is primarily associated with the \$67.0 million of comprehensive income less the \$16.3 million of dividends paid for 2012 and \$13.5 million used to repurchase 910,896 shares (split adjusted) of common stock.

As of December 31, 2012, our non-performing non-covered loans decreased to \$27.3 million, or 1.17%, of total non-covered loans from \$27.5 million, or 1.56%, of total non-covered loans as of December 31, 2011. The allowance for loan losses as a percent of non-performing non-covered loans was 165.6% as of December 31, 2012, compared to 189.6% from December 31, 2011. Non-performing non-covered loans in Florida were \$15.2 million at December 31, 2012 compared to \$19.7 million as of December 31, 2011. Non-performing non-covered loans in Arkansas were \$12.1 million at December 31, 2012 compared to \$7.8 million as of December 31, 2011. As of December 31, 2012, no loans in Alabama were non-performing.

As of December 31, 2012, our non-performing non-covered assets increased to \$47.8 million, or 1.30%, of total non-covered assets from \$44.2 million, or 1.53%, of total assets as of December 31, 2011. Non-performing non-covered assets in Florida were \$23.2 million at December 31, 2012 compared to \$24.2 million as of December 31, 2011. Non-performing non-covered assets in Arkansas were \$24.6 million at December 31, 2012 compared to \$20.0 million as of December 31, 2011. As of December 31, 2012, no assets in Alabama were non-performing.

Critical Accounting Policies

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

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

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.

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.

Table of Contents

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.

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.

Table of Contents

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. (*Liberty*), 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.

Acquisition Premier Bank

On December 1, 2012, Home BancShares, Inc. completed the acquisition of all of the issued and outstanding shares of common stock of Premier Bank, a Florida state-chartered bank with its principal office located in Tallahassee, Florida, pursuant to the Premier Agreement with PBHC, dated August 14, 2012. The Company has merged Premier with and Centennial Bank. The Company paid a purchase price to PBHC of \$1,415,000 for the Premier acquisition.

The Premier acquisition was conducted in accordance with the provisions of Section 363 of the Bankruptcy Code pursuant to a voluntary petition for relief under Chapter 11 of the Bankruptcy Code filed by PBHC with the

Bankruptcy Court on August 14, 2012. The sale of Premier by PBHC was subject to certain bidding procedures approved by the Bankruptcy Court. No qualifying competing bids were received. The Bankruptcy Court entered a final order on November 29, 2012 approving the sale of Premier to the Company pursuant to and in accordance with the Premier Agreement.

Table of Contents

Prior to the acquisition, Premier conducted banking business from six locations in the Florida panhandle cities of Tallahassee (five) and Quincy (one). Including the effects of the purchase accounting adjustments, Centennial Bank acquired approximately \$264.8 million in assets, \$11.5 million in investment securities, \$4.0 million of federal funds sold, \$138.1 million in loans including loan discounts, \$5.1 million of bank premises and equipment, \$7.6 million of foreclosed assets, \$8.6 million of goodwill, \$1.9 million of core deposit intangible, \$5.7 million in cash value of life insurance, \$246.3 million of deposits and \$13.3 million of FHLB borrowed funds.

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

Acquisition Heritage Bank of Florida

On November 2, 2012, Centennial Bank acquired all the deposits and substantially all the assets of Heritage Bank from the FDIC. This transaction did not include any non-performing loans or other real estate owned of Heritage. In connection with the Heritage acquisition, Centennial Bank opted to not enter into a loss sharing agreement with the FDIC.

Prior to the acquisition, Heritage operated three banking offices located in Tampa, Lutz and Wesley Chapel, Florida. Including the effects of the purchase accounting adjustments, Centennial Bank acquired approximately \$224.8 million in assets including a cash settlement of \$82.4 million to balance the transaction, federal funds sold of \$7.0 million, approximately \$92.6 million in performing loans including loan discounts, core deposit intangible of \$1.1 million and approximately \$219.5 million of deposits.

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

Acquisition Vision Bank

As of February 16, 2012, we acquired seventeen branch locations in the Gulf Coast communities of Baldwin County, Alabama, and the Florida Panhandle through the acquisition of Vision Bank. Including the effects of purchase accounting adjustments, we acquired total assets of \$529.5 million, total performing loans (after discount) of \$340.3 million, cash and due from banks of \$140.2 million, goodwill of \$17.4 million, fixed assets of \$12.5 million, deferred taxes of \$11.2 million, core deposit intangible of \$3.2 million and total deposits of \$524.4 million. The fair value discount on the \$355.8 of gross loans was \$15.5 million. We did not purchase certain of Vision's performing loans nor any of its non-performing loans or other real estate owned.

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

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.

Table of Contents

The following table summarizes the activity in the Company's FDIC indemnification asset during the years ended December 31, 2013 and 2012:

Changes in FDIC Indemnification Asset

	2013	2012
	(Dollars in thousands)	
Beginning balance	\$ 139,646	\$ 193,856
Incurring claims for FDIC covered credit losses	(43,088)	(61,933)
FDIC indemnification accretion/(amortization)	(10,401)	1,721
Reduction in provision for loan losses:		
Benefit attributable to FDIC loss share agreements	3,454	6,002
Ending balance	\$ 89,611	\$ 139,646

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.

The amount of FDIC-assisted acquisitions true-up accrued at December 31, 2013 and 2012 was \$8.0 million and \$7.1 million, respectively.

Future Acquisitions

In our continuing evaluation of our growth plans for the Company, we believe properly priced bank acquisitions can complement our organic growth and *de novo* branching growth strategies. In the near term, our principal acquisition focus will be to continue to expand our presence in Arkansas and other nearby markets, in South Alabama and in Florida, through pursuing non FDIC-assisted bank acquisitions and FDIC-assisted acquisition opportunities.

We will continue evaluating all types of potential bank acquisitions to determine what is in the best interest of our Company. Our goal in making these decisions is to maximize the return to our investors.

Table of Contents***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 2013, the Company opened two *de novo* branch locations, one on Highway 30A in Seagrave, Florida and the other in Pensacola, Florida. The Company also opened a loan production office in Pensacola, Florida and subsequently converted it to a full-service branch during the year just ended. During 2012 and 2011 no *de novo* branches were opened. The Company currently has no plans for additional *de novo* branch locations.

The Company acquired 46 Arkansas locations as a result of the Liberty acquisition. In an effort to achieve efficiencies from this transaction, the Company subsequently closed or merged four locations. During 2013, the Company also closed five other branches – one in South Arkansas, one in Panama City, Florida and three in Tallahassee, Florida in an effort to improve operational efficiencies. During the first quarter of 2014, the Company has plans to close one branch in Panacea, Florida. The Company had 88 branches in Arkansas, 53 branches in Florida and seven branches in Alabama at December 31, 2013.

Results of Operations for the Years Ended December 31, 2013, 2012 and 2011

Our net income increased 5.6% to \$66.5 million for the year ended December 31, 2013, from \$63.0 million for the same period in 2012. On a diluted earnings per share basis, our earnings increased 2.7% to \$1.14 for the year ended December 31, 2013, as compared to \$1.11 for the same period in 2012. Excluding the \$18.4 million of 2013 merger expenses associated with the acquisition of Liberty, diluted earnings per share for the year ended 2013 was \$1.33 per share. Excluding the net total expense of \$2.0 million for merger expenses and gain on acquisition associated with the three acquisitions completed during 2012, diluted earnings per share for the year ended 2012 was \$1.13 per share. Excluding merger expenses and acquisition gain, this represents an increase of \$0.20 per share or 17.7% for the year ended 2013 when compared to the previous year. Excluding merger expenses and acquisition gain, net income for the years ended 2013 and 2012 would have been \$77.7 million and \$64.2 million, respectively, for an increase of \$13.5 million or 21.0%. The \$13.5 million increase in net income excluding the non-fundamental items is primarily associated with a full year of additional net income from our 2012 acquisitions of Vision, Heritage and Premier plus 69 days of net income from our 2013 acquisition of Liberty.

Our net income increased 15.1% to \$63.0 million for the year ended December 31, 2012, from \$54.7 million for the same period in 2011. On a diluted earnings per share basis, our net earnings increased 20.5% to \$1.11 (split adjusted) for the year ended December 31, 2012, as compared to \$0.92 (split adjusted) for the same period in 2011.

The \$8.3 million increase in net income is primarily associated with additional net income and other non-interest income resulting from our 2012 acquisitions of Vision, Heritage and Premier including acquisition gains during 2012 when compared to a lower amount of non-recurring gains during 2011 offset by \$7.2 million of merger expenses and the expected reduction in income from FDIC indemnification accretion. Additionally, the new costs associated with the asset growth from the 2012 acquisitions were partially offset by reductions in assessment fees and advertising expense. The total provision for loan losses was approximately \$2.8 million and \$3.5 million for the year ended December 31, 2012 and 2011, respectively.

Our net income increased 211.2% to \$54.7 million for the year ended December 31, 2011, from \$17.6 million for the same period in 2010. On a diluted earnings per share basis, our net earnings increased 255.8% to \$0.92 (split adjusted) for the year ended December 31, 2011, as compared to \$0.26 (split adjusted) for the same period in 2010.

One of the primary reasons for the increase in net income from 2010 to 2011 is the lower provision for loan losses. The Company was able to reduce its provision for loan losses from \$72.9 million in 2010 to \$3.5 million for 2011 as a result of improving asset quality during 2011. During 2010, the Company acquired six failed institutions in FDIC-assisted acquisitions. These acquisitions resulted in \$34.5 million of bargain purchase gains and \$5.2 million of merger expenses during 2010. We did not have any acquisitions during 2011. However, we were able to increase in net interest income from 2010 to 2011 by \$24.8 million as a result of the additional earning assets obtained in our FDIC-assisted transactions combined with a 42 basis point improvement in net interest margin. The FDIC-assisted transactions produced \$1.0 million more in FDIC indemnification accretion during 2011 which was offset by increased costs associated with the asset growth. Additionally, we incurred \$3.6 million of investments security losses from fraudulent bonds in 2010. During 2011, we were able to record a gain from the collection of \$2.2 million in insurance proceeds on these bonds.

Table of Contents***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 years ended December 31, 2013, 2012 and 2011).

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.

Our 2010 FDIC acquisitions have helped improve the yield on the total loan portfolio and the total net interest margin. Thirteen of the FDIC loss sharing covered loan pools evaluated by the Company during 2013 were determined to have material projected credit improvements. As a result of these improvements, the Company is recognizing approximately \$29.7 million as an adjustment to yield over the weighted average life of the loans with \$11.4 million of this amount being recognized during 2013. Additionally, during the third quarter of 2013, one of the thirteen pools with a material projected credit improvement paid off in its entirety. As a result of this payoff we collected \$1.9 million of unexpected 2013 cash flows. This unexpected positive cash flow resulted in the recognition of \$1.9 million as a 2013 adjustment to yield on loans and is included in the \$11.4 million recognized during 2013.

Net interest income on a fully taxable equivalent basis increased \$46.9 million, or 29.3%, to \$206.9 million for the year ended December 31, 2013, from \$160.1 million for the same period in 2012. This increase in net interest income was the result of a \$39.8 million increase in interest income combined with a \$7.0 million decrease in interest expense. The \$39.8 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 \$7.0 million decrease in interest expense for the year ended December 31, 2013, is primarily the result of our interest bearing liabilities repricing in the lower interest rate environment combined with a decrease in the volume of our average time deposits and subordinated debentures. The repricing of our interest bearing liabilities in the lower interest rate environment resulted in a \$7.7 million decrease in interest expense. The lower level of our average time deposits and subordinated debentures offset by increases in the remaining interest bearing liabilities resulted in an increase in interest expense of approximately \$739,000.

Net interest income on a fully taxable equivalent basis increased \$14.4 million, or 9.8%, to \$160.1 million for the year ended December 31, 2012, from \$145.7 million for the same period in 2011. This increase in net interest income was the result of a \$5.3 million increase in interest income combined with a \$9.0 million decrease in interest expense. The \$5.3 million increase in interest income was primarily the result of a higher level of earning assets offset by the repricing of our earning assets. The higher level of earning assets resulted in an improvement in interest income of \$12.0 million, while the repricing of our earning assets resulted in a \$6.7 million decrease in interest income for the year ended December 31, 2012. The \$9.0 million decrease in interest expense for the year ended December 31, 2012, is primarily the result of our interest bearing liabilities repricing in the lower interest rate environment combined with a decrease in our average time deposits, FHLB and other borrowed funds and subordinated debentures. The repricing of our interest bearing liabilities in the lower interest rate environment resulted in a \$7.6 million decrease in interest expense. The lower level of our average time deposits, FHLB and other borrowed funds and subordinated debentures offset by increases in the remaining interest bearing liabilities resulted in a reduction in interest expense of \$1.4

million.

Table of Contents

Net interest margin, on a fully taxable equivalent basis, was 5.19% for the year ended December 31, 2013 compared to 4.70% for the same period in 2012, respectively. Our ability to improve pricing on interest bearing deposits combined with additional yield on FDIC loss sharing loans, which more than offset the lower interest rates on newly originated loans in the loan portfolio during this historically low rate environment, allowed the Company to expand net interest margin. The effective yield on non-covered loans for the year ended December 31, 2013 was 6.01%. The effective yield on covered loans for the year ended December 31, 2013 was 11.61%. Excluding the \$11.4 million of additional yield for the year ended December 31, 2013, the pro-forma effective yield on covered loans was 8.17%.

When adjusted for the previously discussed \$11.4 million of additional yield for the year ended 2013, net interest margin, on a fully taxable equivalent basis, was 4.91% for the year just ended compared to 4.70% for the year ended 2012.

Net interest margin, on a fully taxable equivalent basis, was 4.70% for the year ended December 31, 2012 compared to 4.69% for the same period in 2011, respectively. Our ability to improve pricing on interest bearing deposits to offset the lowering of interest rates in the loan portfolio during this lower rate environment allowed the Company to maintain a solid net interest margin. Our acquisitions have helped maintain the yield on the loan portfolio. For the year ended December 31, 2012, the effective yield on non-covered loans and covered loans was 6.28% and 7.63%, respectively.

Tables 1 and 2 reflect an analysis of net interest income on a fully taxable equivalent basis for the years ended December 31, 2013, 2012 and 2011, as well as changes in fully taxable equivalent net interest margin for the years 2013 compared to 2012 and 2012 compared to 2011.

Table 1: Analysis of Net Interest Income

	Years Ended December 31,		
	2013	2012	2011
	(Dollars in thousands)		
Interest income	\$ 217,126	\$ 177,135	\$ 171,806
Fully taxable equivalent adjustment	4,332	4,475	4,467
Interest income - fully taxable equivalent	221,458	181,610	176,273
Interest expense	14,531	21,535	30,551
Net interest income - fully taxable equivalent	\$ 206,927	\$ 160,075	\$ 145,722
Yield on earning assets - fully taxable equivalent	5.56%	5.34%	5.68%
Cost of interest-bearing liabilities	0.44	0.74	1.13
Net interest spread - fully taxable equivalent	5.12	4.60	4.55
Net interest margin - fully taxable equivalent	5.19	4.70	4.69

Table 2: Changes in Fully Taxable Equivalent Net Interest Margin

December 31,
2013 vs. 2012 2012 vs. 2011

Edgar Filing: HOME BANCSHARES INC - Form 10-K

	(In thousands)	
Increase (decrease) in interest income due to change in earning assets	\$ 37,621	\$ 12,026
Increase (decrease) in interest income due to change in earning asset yields	2,227	(6,689)
(Increase) decrease in interest expense due to change in interest-bearing liabilities	(739)	1,431
(Increase) decrease in interest expense due to change in interest rates paid on interest-bearing liabilities	7,743	7,585
Increase (decrease) in net interest income	\$ 46,852	\$ 14,353

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 years ended December 31, 2013, 2012 and 2011. 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

	Years Ended December 31,								
	2013			2012			2011		
	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
(Dollars in thousands)									
ASSETS									
Earning assets									
Interest-bearing									
balances due from									
banks	\$ 102,777	\$ 254	0.25%	\$ 165,862	\$ 379	0.23%	\$ 178,476	\$ 418	0.23%
Federal funds sold	13,619	29	0.21	7,175	17	0.24	5,735	11	0.19
Investment securities - taxable	665,495	12,298	1.85	580,826	11,226	1.93	400,152	9,244	2.31
Investment securities - non-taxable	198,198	9,814	4.95	158,231	10,023	6.33	150,776	10,017	6.64
Loans receivable	3,005,470	199,063	6.62	2,490,901	159,965	6.42	2,369,216	156,583	6.61
Total interest-earning assets	3,985,559	221,458	5.56	3,402,995	181,610	5.34	3,104,355	176,273	5.68
Non-earning assets	668,656			575,728			553,901		
Total assets	\$ 4,654,215			\$ 3,978,723			\$ 3,658,256		
LIABILITIES AND SHAREHOLDERS EQUITY									
Liabilities									
Interest-bearing liabilities									
Interest-bearing transaction and savings deposits									
Time deposits	\$ 1,939,497	\$ 3,437	0.18%	\$ 1,501,093	\$ 3,572	0.24%	\$ 1,132,798	\$ 5,084	0.45%
	1,038,246	6,307	0.61	1,148,072	11,417	0.99	1,318,868	17,884	1.36
Total interest-bearing	2,977,743	9,744	0.33	2,649,165	14,989	0.57	2,451,666	22,968	0.94

Edgar Filing: HOME BANCSHARES INC - Form 10-K

deposits									
Federal funds purchased	520	4	0.77	273	1	0.37	12		0.00
Securities sold under agreement to repurchase	88,081	424	0.48	67,040	407	0.61	66,851	483	0.72
FHLB and other borrowed funds	191,258	3,841	2.01	136,312	4,364	3.20	150,146	4,940	3.29
Subordinated debentures	19,938	518	2.60	39,852	1,774	4.45	44,331	2,160	4.87
Total interest-bearing liabilities	3,277,540	14,531	0.44	2,892,642	21,535	0.74	2,713,006	30,551	1.13
Non-interest-bearing liabilities									
Non-interest-bearing deposits	761,540			569,017			443,781		
Other liabilities	25,071			22,946			26,870		
Total liabilities	4,064,151			3,484,605			3,183,657		
Stockholders equity	590,064			494,118			474,599		
Total liabilities and stockholders equity	\$ 4,654,215			\$ 3,978,723			\$ 3,658,256		
Net interest spread			5.12%			4.60%			4.55%
Net interest income and margin	\$ 206,927		5.19	\$ 160,075		4.70	\$ 145,722		4.69

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 year ended December 31, 2013 compared to 2012 and 2012 compared to 2011 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

	Years Ended December 31,					
	2013 over 2012			2012 over 2011		
	Volume	Yield /Rate	Total	Volume	Yield /Rate	Total
	(In thousands)					
Increase (decrease) in:						
Interest income:						
Interest-bearing balances due from banks	\$ (154)	\$ 29	\$ (125)	\$ (29)	\$ (10)	\$ (39)
Federal funds sold	14	(2)	12	3	3	6
Investment securities - taxable	1,582	(510)	1,072	3,673	(1,691)	1,982
Investment securities - non-taxable	2,235	(2,444)	(209)	483	(477)	6
Loans receivable	33,944	5,154	39,098	7,896	(4,514)	3,382
Total interest income	37,621	2,227	39,848	12,026	(6,689)	5,337
Interest expense:						
Interest-bearing transaction and savings deposits						
Time deposits	901	(1,036)	(135)	1,335	(2,847)	(1,512)
Federal funds purchased	(1,008)	(4,102)	(5,110)	(2,114)	(4,353)	(6,467)
Securities sold under agreement to repurchase	1	2	3	1	1	1
FHLB and other borrowed funds	112	(95)	17	1	(77)	(76)
Subordinated debentures	1,418	(1,941)	(523)	(446)	(130)	(576)
Total interest expense	(685)	(571)	(1,256)	(208)	(178)	(386)
Total interest expense	739	(7,743)	(7,004)	(1,431)	(7,585)	(9,016)
Increase (decrease) in net interest income	\$ 36,882	\$ 9,970	\$ 46,852	\$ 13,457	\$ 896	\$ 14,353

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 \$991,000, \$1.5 million and zero provision for covered loans for years ended December 31, 2013, 2012 and 2011, respectively.

The \$991,000 of provision for loan losses for the year ended December 31, 2013 is a result of the quarterly 2013 impairment testing on the estimated cash flows of the covered loans. This testing established that six pools evaluated had experienced material projected credit deterioration. As a result of this projection, we 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, we were able to increase the related indemnification asset by \$3.5 million resulting in a net provision for loan losses of \$991,000.

The \$1.5 million of provision for loan losses for the year ended December 31, 2012 is a result of impairment testing on the estimated cash flows of the covered loans during the second and third quarters of 2012 which established that four pools evaluated had experienced material projected credit deterioration. As a result of this projection, we recorded a \$7.5 million provision for loan losses to the allowance for loan losses related to the purchased impaired loans at December 31, 2012. Since these loans are covered by loss share with the FDIC, we were able to increase the related indemnification asset by \$6.0 million resulting in a net provision for loan losses of \$1.5 million.

Our provision for loan losses for non-covered loans increased \$2.9 million for the year ended December 31, 2013 to \$4.2 million from \$1.3 million for the year ended December 31, 2012. The net loans charged off for non-covered loans for the years ended December 31, 2013, 2012 and 2011 were \$10.3 million, \$8.2 million and \$4.7 million. For the years ended December 31, 2013, 2012 and 2011, approximately \$1.8 million, \$5.0 million and \$6.5 million, respectively, of the net charge offs are from our Florida market. The remaining \$8.5 million and \$3.2 million predominately related to net charge-offs on loans in our Arkansas market for the years ended December 31, 2013 and 2012, respectively. The remaining \$1.8 million predominately relates to net recoveries on loans in our Arkansas market for the year ended December 31, 2011. See "Allowance for Loan Losses" in the Management's Discussion and Analysis for an additional discussion of Arkansas, Florida and Alabama charge-offs.

Our current or historical provision levels should not be relied upon as a predictor or indicator of future levels going forward. More specifically, the Company anticipates an increase in the provision for loan losses for non-covered loans during 2014 versus 2013. This expected increase is not an indication of an anticipated decline in asset quality but a reflection of the migration of the Liberty 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 loans had any allocation of the allowance for loan losses at year end. This is the result of all loans acquired from Liberty being recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820. However, as the acquired Liberty loans payoff and the Liberty footprint originates loan productions, it will become necessary to establish an allowance which represents an amount that, in management's judgment, will be adequate to absorb probable credit losses on this loan production.

Table of Contents**Non-Interest Income**

Total non-interest income was \$40.4 million in 2013, compared to \$48.0 million in 2012 and \$41.3 million in 2011. Our recurring non-interest income includes service charges on deposit accounts, other service charges and fees, mortgage lending, insurance, title fees, increase in cash value of life insurance, dividends and FDIC indemnification accretion/amortization.

Table 5 measures the various components of our non-interest income for the years ended December 31, 2013, 2012, and 2011, respectively, as well as changes for the years 2013 compared to 2012 and 2012 compared to 2011.

Table 5: Non-Interest Income

	Years Ended December 31,			2013 Change		2012 Change	
	2013	2012	2011	from 2012		from 2011	
(Dollars in thousands)							
Service charges on deposit accounts	\$ 17,870	\$ 15,069	\$ 14,087	\$ 2,801	18.6%	\$ 982	7.0%
Other service charges and fees	16,002	12,428	9,929	3,574	28.8	2,499	25.2
Mortgage lending income	5,988	5,192	2,993	796	15.3	2,199	73.5
Insurance commissions	2,420	1,869	1,856	551	29.5	13	0.7
Income from title services	523	462	448	61	13.2	14	3.1
Increase in cash value of life insurance	836	873	1,128	(37)	(4.2)	(255)	(22.6)
Dividends from FHLB, FRB, Bankers bank & other	1,028	1,167	680	(139)	(11.9)	487	71.6
Gain on acquisitions		5,205		(5,205)	(100.0)	5,205	100.0
Gain on sale of SBA loans	135	404	259	(269)	(66.6)	145	56.0
Gain (loss) on sale of premises and equipment, net	397	324	73	73	22.5	251	343.8
Gain (loss) on OREO, net	1,651	(49)	(638)	1,700	3,469.4	589	92.3
Gain (loss) on securities, net	111	9	2,248	102	1,133.3	(2,239)	(99.6)
FDIC indemnification accretion/ (amortization), net	(10,401)	1,721	5,517	(12,122)	(704.4)	(3,796)	(68.8)
Other income	3,805	3,295	2,729	510	15.5	566	20.7
Total non-interest income	\$ 40,365	\$ 47,969	\$ 41,309	\$ 7,604	(15.9)%	\$ 6,660	16.1%

Non-interest income excluding gains on acquisitions decreased \$2.4 million, or 5.6%, to \$40.4 million for the year ended December 31, 2013 from \$42.8 million for the same period in 2012.

The primary factors that resulted in the 2013 decrease was an increase in amortization on our FDIC indemnification asset offset by improvements related to service charges on deposits, other service charges and fees, mortgage lending income, insurance commissions, changes in OREO gains and other income.

Because the FDIC will reimburse us for certain acquired loans should we experience a loss, an indemnification asset was recorded at fair value at the acquisition date. The difference between the fair value recorded at the acquisition date

and the gross reimbursements expected to be received from the FDIC are accreted into income over the life of the indemnification asset using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties. Because of this time value of money type accretion, the accretion amounts are higher in initial periods and decline during future periods. In addition, we have seen further reductions as pools evaluated by the Company are determined to have a materially projected credit improvement. Improvements in credit quality decrease the basis in the related indemnification assets. This positive event reduces the indemnification asset. This reduction is amortized over the weighted average life of the loans or the life of the shared-loss agreements, whichever is shorter. This amortization will be shown as a reduction to FDIC indemnification non-interest income going forward.

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

The increase in service charges on deposit accounts is primarily from our 2012 and 2013 acquisitions.

The increase in other service charges and fees is primarily from our 2012 and 2013 acquisitions. Included in this growth was approximately \$269,000 of trust fees associated with the 69 days in which Liberty was part of the Company.

Table of Contents

The increase in mortgage lending income is primarily related to mortgage lending activities resulting from the historically low rate environment during 2013 plus additional volume from the 2012 and 2013 acquisitions.

The decrease in FDIC indemnification accretion/amortization, net is primarily associated with the impairment testing on the estimated cash flows of the covered loans during 2013 including the payoff of one covered loan pool. As a result of the impairment testing, those loans were determined to have a materially projected credit improvement. Improvements in credit quality decrease the basis in the related indemnification asset. This positive event will reduce the indemnification asset by approximately \$20.9 million of which \$10.3 million was recognized for the year ended December 31, 2013. The \$20.9 million is being amortized over the weighted average life of the shared-loss agreement. As a result of the covered pool payoff, \$1.9 million of unexpected 2013 cash flows were recognized as an adjustment to yield on loans for 2013. This positive event reduced the indemnification asset by approximately \$1.5 million of which the entire amount was recognized as a reduction of earnings 2013 and is included in the \$10.3 million.

The increase in insurance is primarily from internal growth and our Liberty acquisition.

The increase in other income is primarily from \$326,000 of tax-free life insurance proceeds during 2013.

The proceeds were in connection with two former associates who were not currently with the Company. Non-interest income excluding gains on acquisitions increased \$1.5 million, or 3.5%, to \$42.8 million for the year ended December 31, 2012 from \$41.3 million for the same period in 2011.

The primary factors that resulted in this increase include improvements related to service charges on deposits, other service charges and fees, mortgage lending income, changes in OREO gains and losses, gain on sales and other income offset by the expected reduction in income from FDIC indemnification accretion and gain on securities.

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

The \$3.5 million increase in service charges on deposit accounts and other service charges and fees is primarily from our acquisitions of Vision, Heritage and Premier plus increased inter-change transaction activity.

The \$2.2 million increase in mortgage lending income is primarily related to increased mortgage lending activities resulting from the historically low rate environment during 2012 plus additional volume from the acquisitions of Vision, Heritage and Premier.

The \$487,000 increase in dividends from FHLB, FRB, Bankers bank and other is primarily from a non-recurring dividend of approximately \$463,000 from our investment in a private equity and venture capital firm which invests in small and lower middle market companies located in Arkansas and across the Midwest and Southeast United States.

A \$359,000 gain on sale of premises and equipment was realized on the sale of an adjacent property next to one of our existing branch locations during 2012.

During 2011, we were able record a gain from the collection of \$2.2 million in insurance proceeds on fraudulent bonds charged off in 2010.

The increase in other income is primarily from our acquisition of Vision plus new rental income. In the Florida Keys we were able to lease out part of our excess facilities capacity. This lease produced approximately \$231,000 of rental income during 2012.

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 years ended December 31, 2013, 2012, and 2011, as well as changes for the years ended 2013 compared to 2012 and 2012 compared to 2011.

Table 6: Non-Interest Expense

	Years Ended December 31,			2013 Change		2012 Change	
	2013	2012	2011	from 2012		from 2011	
	(Dollars in thousands)						
Salaries and employee benefits	\$ 58,394	\$ 47,289	\$ 42,825	\$ 11,105	23.5%	\$ 4,464	10.4%
Occupancy and equipment	17,168	14,500	14,197	2,668	18.4	303	2.1
Data processing expense	5,393	4,930	4,601	463	9.4	329	7.2
Other operating expenses:							
Advertising	1,829	2,447	4,270	(618)	(25.3)	(1,823)	(42.7)
Merger and acquisition expenses	18,378	7,157	145	11,221	156.8	7,012	4,835.9
Amortization of intangibles	3,624	2,761	2,827	863	31.3	(66)	(2.3)
Electronic banking expense	4,207	3,175	2,733	1,032	32.5	442	16.2
Directors fees	767	807	811	(40)	(5.0)	(4)	(0.5)
Due from bank service charges	616	536	496	80	14.9	40	8.1
FDIC and state assessment	2,849	2,313	4,283	536	23.2	(1,970)	(46.0)
Insurance	2,449	1,774	1,673	675	38.0	101	6.0
Legal and accounting	1,393	1,065	1,603	328	30.8	(538)	(33.6)
Other professional fees	1,928	1,655	1,954	273	16.5	(299)	(15.3)
Operating supplies	1,439	1,134	1,168	305	26.9	(34)	(2.9)
Postage	945	896	942	49	5.5	(46)	(4.9)
Telephone	1,260	1,074	977	186	17.3	97	9.9
Other expense	10,668	8,855	9,217	1,813	20.5	(362)	(3.9)
Total non-interest expense	\$ 133,307	\$ 102,368	\$ 94,722	\$ 30,939	30.2%	\$ 7,646	8.1%

Non-interest expense, excluding merger expenses, increased \$19.7 million, or 20.7%, to \$114.9 million for the year ended December 31, 2013, from \$95.2 million for the same period in 2012. These increases primarily result from additional expense associated with the acquisitions during 2012 and 2013. These acquisitions have grown the Company from \$3.60 billion in total assets as of December 31, 2011 to \$6.81 billion as of December 31, 2013. The decrease in advertising is primarily the result of management at its discretion deciding to spend a reduced amount of advertising during 2013.

Non-interest expense excluding merger expenses increased \$634,000, or 0.7%, to \$95.2 million for the year ended December 31, 2012, from \$94.6 million for the same period in 2011.

Additional details on some of the more significant 2012 changes from 2011 are as follows:

A \$4.5 million increase in personnel costs primarily resulting from additional expense associated with the acquisitions of Vision, Heritage and Premier during 2012.

The \$1.8 million decrease in advertising is primarily the result of management at its discretion deciding to spend a reduced amount of advertising during 2012.

The \$2.0 million decrease in FDIC and state assessment is primarily a result of our successful efforts to decrease net charge-offs during 2011 as compared to 2010. The FDIC and state assessment is calculated in part based upon our level of net charge-offs during the prior year.

Table of Contents***Income Taxes***

The provision for income taxes increased \$2.5 million, or 7.1%, to \$38.0 million for the year ended December 31, 2013, from \$35.4 million for 2012. The provision for income taxes increased \$5.8 million, or 19.7%, to \$35.4 million for the year ended December 31, 2012, from \$29.6 million for 2011. The effective tax rate for the years ended December 31, 2013, 2012 and 2011 were 36.3%, 36.0% and 35.1%, respectively.

The higher effective income tax rate for 2013 is primarily associated with our higher pre-tax income for 2013. During 2012, we recorded \$98.5 million of pre-tax income compared to \$104.5 million in 2013 or an increase of \$6.0 million. The increased pre-tax income at our marginal tax rate of 39.225% resulted in an increase of income taxes of approximately \$2.4 million or 93.6% of the change for 2013.

The higher effective income tax rate for 2012 is primarily associated with our higher pre-tax income for 2012. During 2011, we recorded \$84.3 million of pre-tax income compared to \$98.5 million in 2012 or an increase of \$14.1 million. The increased pre-tax income at our marginal tax rate of 39.225% resulted in an increase of income taxes of approximately \$5.5 million or 95.0% of the change for 2012.

Financial Conditions as of and for the Years Ended December 31, 2013 and 2012

Our total assets increased \$2.57 billion, an increase of 60.6%, to \$6.81 billion as of December 31, 2013, from \$4.24 billion as of December 31, 2012. Excluding the \$2.82 billion of assets acquired from our 2013 acquisition of Liberty, our total assets as of December 31, 2013 decreased \$249.6 million, a decline of 5.9%. Our loan portfolio not covered by loss share increased \$1.86 billion, an increase of 79.9%, to \$4.19 billion as of December 31, 2013, from \$2.33 billion as of December 31, 2012. Excluding the \$1.73 billion of loans acquired during the year from our 2013 acquisition of Liberty, our loan portfolio not covered by loss share increased by \$131.6 million, an increase 5.6%. The increase in the non-covered loan portfolio is primarily associated with the improved loan demand from historical lows in the prior years. Our loan portfolio covered by loss share decreased by \$102.4 million, a reduction of 26.6%, to \$282.5 million as of December 31, 2013, from \$384.9 million as of December 31, 2012. The decrease in the covered loan portfolio is the result of pay downs and payoffs since no covered loans were acquired during 2013. Stockholders equity increased \$325.5 million, an increase of 63.1%, to \$841.0 million as of December 31, 2013, compared to \$515.5 million as of December 31, 2012. The increase in stockholders equity is primarily associated with the \$290.1 million of common stock issued to the Liberty shareholders combined with the \$50.4 million of comprehensive income less the \$17.0 million of dividends paid for 2013.

Our total assets increased \$638.0 million, an increase of 17.7%, to \$4.24 billion as of December 31, 2012, from \$3.60 billion as of December 31, 2011. Excluding the \$1.02 billion of assets acquired from our 2012 acquisitions of Vision, Heritage and Premier, our total assets as of December 31, 2012 decreased \$381.1 million, a decline of 10.6%. Our loan portfolio not covered by loss share increased \$571.1 million, an increase of 32.4%, to \$2.33 billion as of December 31, 2012, from \$1.76 billion as of December 31, 2011. Excluding the \$571.0 million of loans acquired during the year from our 2012 acquisitions of Vision, Heritage and Premier, our loan portfolio not covered by loss share increased slightly by \$70,000, an increase of less than 0.01%. Our loan portfolio covered by loss share decreased by \$96.9 million, a reduction of 20.1%, to \$384.9 million as of December 31, 2012, from \$481.7 million as of December 31, 2011. Stockholders equity increased \$41.4 million, an increase of 8.7%, to \$515.5 million as of December 31, 2012, compared to \$474.1 million as of December 31, 2011. The decrease in loans is primarily associated with historically low loan demand and payoffs in our non-covered and covered loan portfolios. The increase in stockholders equity is primarily associated with the \$67.0 million of comprehensive income less the \$16.3 million of dividends paid for 2012 and \$13.5 million used to repurchase 910,896 shares (split adjusted) of common stock.

Table of Contents**Loan Portfolio*****Loans Receivable Not Covered by Loss Share***

Our non-covered loan portfolio averaged \$2.67 billion during 2013, \$2.06 billion during 2012 and \$1.83 billion during 2011. Non-covered loans were \$4.19 billion, \$2.33 billion and \$1.76 billion as of December 31, 2013, 2012 and 2011, respectively. Excluding the \$1.73 billion of loans acquired from Liberty our non-covered loan portfolio increased \$131.6 million or 5.6% from 2012 to 2013. Excluding the \$571.0 million of loans acquired from Vision, Heritage and Premier our, non-covered loan portfolio increased \$11.7 million or less than 1% from 2011 to 2012. The loan growth for 2013 as compared to the previous year indicates improvements in the economic environment. In prior years we experienced lower loan demand and payoffs in our non-covered portfolios as our customers grew more cautious in the weaker economy. These concerns appear to be subsiding.

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 \$3.31 billion, \$772.3 million and \$160.0 million as of December 31, 2013 in Arkansas, Florida and Alabama, respectively.

As of December 31, 2013, we had \$344.3 million of construction/land development loans which were collateralized by land. This consisted of \$187.0 million for raw land and \$157.3 million for land with commercial and/or residential lots.

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

Table 7: Non-Covered Loan Portfolio

	As of December 31,				
	2013	2012	2011	2010	2009
	(In thousands)				
Real estate:					
Commercial real estate loans:					
Non-farm/non-residential	\$ 1,739,668	\$ 1,019,039	\$ 698,986	\$ 805,635	\$ 808,983
Construction/land development	562,667	254,800	361,846	348,768	368,723
Agricultural	81,618	32,513	28,535	26,798	33,699
Residential real estate loans:					
Residential 1-4 family	913,332	549,269	349,543	371,381	382,504
Multifamily residential	213,232	129,742	56,909	59,319	62,609
Total real estate	3,510,517	1,985,363	1,495,819	1,611,901	1,656,518
Consumer	69,570	37,462	37,923	51,642	39,084
Commercial and industrial	511,421	256,908	176,276	184,014	219,847
Agricultural	37,129	19,825	21,784	16,549	10,280
Other	65,800	31,641	28,284	28,268	24,556

Loans receivable not covered by loss share \$ 4,194,437 \$ 2,331,199 \$ 1,760,086 \$ 1,892,374 \$ 1,950,285

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.

Table of Contents

As of December 31, 2013, non-covered commercial real estate loans totaled \$2.38 billion, or 56.8% of our non-covered loan, which is comparable to \$1.31 billion, or 56.0% of our non-covered loan portfolio, as of December 31, 2012. Our Florida and Alabama total non-covered commercial real estate loans are approximately 10.2% and 2.0% of our total 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 area. 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 December 31, 2013, non-covered residential real estate loans totaled \$1.13 billion, or 26.9% of our non-covered loan portfolio, compared to the \$679.0 million, or 29.1% of our non-covered loan portfolio, as of December 31, 2012. Our Florida and Alabama total non-covered residential real estate loans are approximately 5.7% and 1.4% of our total 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 economy as well as the rates of personal bankruptcies, job loss, divorce and other individual-specific characteristics.

As of December 31, 2013, our non-covered installment consumer loan portfolio totaled \$69.6 million, or 1.7% of our total non-covered loan portfolio, compared to the \$37.5 million, or 1.6% of our non-covered loan portfolio as of December 31, 2012. 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.

As of December 31, 2013, non-covered commercial and industrial loans outstanding totaled \$511.4 million, or 12.2% of our non-covered loan portfolio, compared to \$256.9 million, or 11.0% of our non-covered loan portfolio, as of December 31, 2012. Our Florida and Alabama total non-covered commercial and industrial loans are less than 1% of our non-covered loan portfolio.

Table of Contents**Total Loans Receivable**

Table 8 presents total loans receivable by category.

Table 8: Total Loans Receivable

As of December 31, 2013

	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	\$ 1,739,668	\$ 117,164	\$ 1,856,832
Construction/land development	562,667	48,388	611,055
Agricultural	81,618	1,232	82,850
Residential real estate loans			
Residential 1-4 family	913,332	98,403	1,011,735
Multifamily residential	213,232	10,378	223,610
Total real estate	3,510,517	275,565	3,786,082
Consumer	69,570	20	69,590
Commercial and industrial	511,421	5,852	517,273
Agricultural	37,129		37,129
Other	65,800	1,079	66,879
Total	\$ 4,194,437	\$ 282,516	\$ 4,476,953

Table 9 presents the distribution of the maturity of our total loans as of December 31, 2013. The table also presents the portion of our loans that have fixed interest rates and interest rates that fluctuate over the life of the loans based on changes in the interest rate environment.

The loans acquired during our acquisitions accrete interest income through accretion of the difference between the carrying amount of the loans and the expected cash flows. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the weighted average life of the loans) decrease the basis of the shared-loss agreements, with such decrease being accreted into income over 1) the same period or 2) the life of the shared-loss agreements, whichever is shorter.

Table of Contents**Table 9: Maturity of Loans**

	One Year or Less	Over One Year Through Five Years	Over Five Years	Total
	(In thousands)			
Real estate:				
Commercial real estate loans:				
Non-farm/non-residential	\$ 46,687	\$ 1,418,659	\$ 391,486	\$ 1,856,832
Construction/land development	23,339	532,740	54,976	611,055
Agricultural	2,133	66,252	14,465	82,850
Residential real estate loans				
Residential 1-4 family	20,077	716,079	275,579	1,011,735
Multifamily residential	814	194,433	28,363	223,610
Total real estate	93,050	2,928,163	764,869	3,786,082
Consumer	773	66,741	2,076	69,590
Commercial and industrial	9,581	466,973	40,719	517,273
Agricultural	618	36,398	113	37,129
Other	659	57,907	8,313	66,879
Total loans receivable	\$ 104,681	\$ 3,556,182	\$ 816,090	\$ 4,476,953
Non-covered with fixed interest rates	\$ 49,721	\$ 2,844,980	\$ 432,805	\$ 3,327,506
Non-covered with floating interest rates	6,364	324,537	244,585	575,486
Acquired loans with accretable yield	48,596	386,665	138,700	573,961
Total	\$ 104,681	\$ 3,556,182	\$ 816,090	\$ 4,476,953

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 10 below:

Allowance for loan losses for non-covered loans to 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 10 sets forth information with respect to our non-performing non-covered assets as of December 31, 2013, 2012, 2011, 2010, and 2009. As of these dates, all non-performing non-covered restructured loans are included in non-accrual non-covered loans.

Table 10: Non-performing Assets Not Covered by Loss Share

	As of December 31,				
	2013	2012	2011	2010	2009
	(Dollars in thousands)				
Non-accrual non-covered loans	\$ 15,133	\$ 21,336	\$ 26,496	\$ 48,924	\$ 37,056
Non-covered loans past due 90 days or more (principal or interest payments)	23,141	5,937	993	578	2,889
Total non-performing non-covered loans	38,274	27,273	27,489	49,502	39,945
Other non-performing non-covered assets					
Non-covered foreclosed assets held for sale, net	29,869	20,393	16,660	11,626	16,484
Other non-performing non-covered assets	281	164	8	77	371
Total other non-performing non-covered assets	30,150	20,557	16,668	11,703	16,855
Total non-performing non-covered assets	\$ 68,424	\$ 47,830	\$ 44,157	\$ 61,205	\$ 56,800
Allowance for loan losses for non-covered loans to non-performing non-covered loans	101.95%	165.62%	189.64%	107.77%	107.57%
Non-performing non-covered loans to total non-covered loans	0.91	1.17	1.56	2.62	2.05
Non-performing non-covered assets to total non-covered assets	1.07	1.30	1.53	2.08	2.12

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 contained approximately 53.1% and 55.6% of our non-performing non-covered loans as of December 31, 2013 and 2012, respectively.

Total non-performing non-covered loans were \$38.3 million as of December 31, 2013, compared to \$27.3 million as of December 31, 2012 for an increase of \$11.0 million. Of the \$11.0 million increase in non-performing loans, \$5.8 million is from an increase in non-performing loans in our Arkansas market and a \$5.2 million from a increase in non-performing loans in our Florida market. Non-performing loans at December 31, 2013 are \$17.9 million, \$20.3 million and \$7,000 in the Arkansas, Florida and Alabama markets, respectively. The \$17.9 million of non-performing loans in Arkansas included approximately \$13.0 million of non-performing loans at December 31, 2013 in connection with the Liberty acquisition.

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 at December 31, 2013, 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.

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.

Table of Contents

During the real estate crisis in the latter years of the last decade, for the Nation in general and Florida in particular, it has become more common to restructure or modify the terms of certain loans under certain conditions. 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 December 31, 2013, we had \$42.6 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 10. Our Florida market contains \$26.1 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 nonaccrual 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 December 31, 2013, the amount of troubled debt restructurings was \$43.5 million, a decrease of 28.6% from \$60.9 million at December 31, 2012. As of December 31, 2013 and 2012, 98.0% and 94.4%, 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 \$29.9 million as of December 31, 2013, compared to \$20.4 million as of December 31, 2012 for an increase of \$9.5 million. The foreclosed assets held for sale not covered by loss share are comprised of \$25.6 million of assets located in Arkansas with the remaining \$4.3 million of assets located in Florida. As of December 31, 2013, there were no foreclosed assets not covered by loss share in Alabama.

During 2013, we had five non-covered foreclosed properties with a carrying value greater than \$1.0 million. Four of these properties were acquired in the Liberty acquisition and hold an aggregate carrying value of \$11.9 million at December 31, 2013. 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 December 31, 2013. The Company does not currently anticipate any additional losses on this property. As of December 31, 2013, no other foreclosed assets held for sale not covered by loss share have a carrying value greater than \$1.0 million.

Total foreclosed assets held for sale not covered by loss share were \$20.4 million as of December 31, 2012, compared to \$16.7 million as of December 31, 2011 for an increase of \$3.7 million. The foreclosed assets held for sale not covered by loss share are comprised of \$7.9 million of assets located in Florida with the remaining \$12.5 million of assets located in Arkansas as of December 31, 2012. During 2012, we only had one non-covered foreclosed property with a carrying value greater than \$1.0 million. This was the development loan in Northwest Arkansas.

Table of Contents

Table 11 shows the summary of foreclosed assets held for sale as of December 31, 2013, 2012, 2011, 2010 and 2009.

Table 11: Total Foreclosed Assets Held For Sale

	As of December 31, 2013			As of December 31, 2012		
	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	\$ 8,422	\$ 9,677	\$ 18,099	\$ 7,532	\$ 9,024	\$ 16,556
Construction/land development	17,675	5,517	23,192	7,343	13,586	20,929
Agricultural		651	651		599	599
Residential real estate loans						
Residential 1-4 family	3,772	5,154	8,926	5,518	8,317	13,835
Total foreclosed assets held for sale	\$ 29,869	\$ 20,999	\$ 50,868	\$ 20,393	\$ 31,526	\$ 51,919

	As of December 31, 2011			As of December 31, 2010		
	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	\$ 8,159	\$ 10,166	\$ 18,325	\$ 5,697	\$ 6,196	\$ 11,893
Construction/land development	4,822	14,796	19,618	3,489		3,489
Agricultural	525	599	1,124			
Residential real estate loans						
Residential 1-4 family	3,154	9,617	12,771	2,176	15,372	17,548
Multifamily residential				264		264
Total foreclosed assets held for sale	\$ 16,660	\$ 35,178	\$ 51,838	\$ 11,626	\$ 21,568	\$ 33,194

	As of December 31, 2009 (In thousands)
Commercial real estate loans	
Non-farm/non-residential	\$ 2,439
Construction/land development	2,244
Agricultural	
Residential real estate loans	

Residential 1-4 family		2,080
Total foreclosed assets held for sale	\$	6,763

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 December 31, 2013, average non-covered impaired loans were \$104.1 million compared to \$133.5 million as of December 31, 2012. As of December 31, 2013, non-covered impaired loans were \$106.5 million compared to \$127.2 million as of December 31, 2012 for a decrease of \$20.7 million. This decrease is primarily associated with the improvements in loan balances with a specific allocation and loans categorized as TDR s. As of December 31, 2013, our Florida and Alabama markets accounted for approximately \$55.6 million and \$114,000 of the non-covered impaired loans, respectively.

Table of Contents

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 December 31, 2013 and December 31, 2012, 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.

Past Due and Non-Accrual Loans

Table 12 shows the summary non-accrual loans as of December 31, 2013, 2012, 2011, 2010 and 2009:

Table 12: Total Non-Accrual Loans

	As of December 31, 2013			As of December 31, 2012		
	Covered by Loss Share	Not 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	\$ 5,093	\$	\$ 5,093	\$ 3,659	\$	\$ 3,659
Construction/land development	1,080		1,080	2,680		2,680
Agricultural	89		89	140		140
Residential real estate loans						
Residential 1-4 family	7,283		7,283	9,972		9,972
Multifamily residential	1		1	3,215		3,215

Edgar Filing: HOME BANCSHARES INC - Form 10-K

Total real estate	13,546		13,546	19,666		19,666
Consumer	124		124	593		593
Commercial and industrial	1,463		1,463	1,077		1,077
Agricultural						
Other						
Total non-accrual loans	\$ 15,133	\$	\$ 15,133	\$ 21,336	\$	\$ 21,336

Table of Contents

	As of December 31, 2011			As of December 31, 2010		
	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	\$ 7,055	\$	\$ 7,055	\$ 16,535	\$	\$ 16,535
Construction/land development	2,226		2,226	6,808		6,808
Agricultural	178		178	220		220
Residential real estate loans						
Residential 1-4 family	12,867		12,867	15,995		15,995
Multifamily residential				5,122		5,122
Total real estate	22,326		22,326	44,680		44,680
Consumer	1,369		1,369	1,308		1,308
Commercial and industrial	1,598		1,598	2,935		2,935
Agricultural						
Other	1,203		1,203	1		1
Total non-accrual loans	\$ 26,496	\$	\$ 26,496	\$ 48,924	\$	\$ 48,924

	As of December 31, 2009 (In thousands)
Real estate:	
Commercial real estate loans	
Non-farm/non-residential	\$ 10,068
Construction/land development	4,951
Agricultural	115
Residential real estate loans	
Residential 1-4 family	16,962
Multifamily residential	
Total real estate	32,096
Consumer	177
Commercial and industrial	4,772
Agricultural	11
Other	
Total non-accrual loans	\$ 37,056

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 \$1.2 million for the year ended December 31, 2013, \$1.5 million in 2012, and \$2.5 million in 2011 would have been recorded. Interest income recognized on the non-accrual

non-covered loans for the years ended December 31, 2013, 2012 and 2011 was considered immaterial.

Table of Contents

Table 13 shows the summary of accruing past due loans 90 days or more as of December 31, 2013, 2012, 2011, 2010 and 2009:

Table 13: Total Loans Accruing Past Due 90 Days or More

	As of December 31, 2013			As of December 31, 2012		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	\$ 7,914	\$ 15,287	\$ 23,201	\$ 1,437	\$ 32,227	\$ 33,664
Construction/land development	4,879	8,410	13,289	1,296	14,962	16,258
Agricultural		162	162		548	548
Residential real estate loans						
Residential 1-4 family	6,492	10,177	16,669	2,589	20,005	22,594
Multifamily residential	1	357	358			
Total real estate	19,286	34,393	53,679	5,322	67,742	73,064
Consumer	100		100	95		95
Commercial and industrial	3,755	825	4,580	520	3,121	3,641
Other		624	624			
Total loans accruing past due 90 days or more	\$ 23,141	\$ 35,842	\$ 58,983	\$ 5,937	\$ 70,863	\$ 76,800

	As of December 31, 2011			As of December 31, 2010		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	\$	\$ 34,765	\$ 34,765	\$	\$ 32,695	\$ 32,695
Construction/land development		42,808	42,808	1	45,920	45,921
Agricultural		328	328		1,407	1,407
Residential real estate loans						
Residential 1-4 family	750	35,452	36,202	535	25,164	25,699
Multifamily residential	92		92			

Edgar Filing: HOME BANCSHARES INC - Form 10-K

Total real estate	842	113,353	114,195	536	105,186	105,722
Consumer	132	265	397	34	335	369
Commercial and industrial	19	4,995	5,014	8	4,740	4,748
Total loans accruing past due 90 days or more	\$ 993	\$ 118,613	\$ 119,606	\$ 578	\$ 110,261	\$ 110,839

**As of
December 31, 2009
(In thousands)**

Real estate:	
Commercial real estate loans	
Non-farm/non-residential	\$
Construction/land development	
Agricultural	
Residential real estate loans	
Residential 1-4 family	1
Multifamily residential	2,888
Total real estate	2,889
Consumer	
Commercial and industrial	
Total loans accruing past due 90 days or more	\$ 2,889

Table of Contents

The Company's total covered loans accruing past due 90 days or more and non-accrual covered loans to total covered loans was 12.7% and 18.4% as of December 31, 2013 and 2012, respectively.

Allowance for Loan Losses

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 with no specific allocation; (iii) general allocations for each major loan category; 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 milion, 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 increased by approximately \$1.83 billion from \$1.94 billion at December 31, 2012 to \$3.77 billion at December 31, 2013. 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 decreased from 0.81% at December 31, 2012 to 0.65% at December 31, 2013. These changes are primarily the result of the significant loan growth from the Liberty acquisition without a related allowance for loan losses being carried over in the acquisition. As a result virtually none of the Liberty loans had any allocation of the allowance for loan losses at year end.

Charge-offs and Recoveries. Total non-covered charge-offs increased to \$14.2 million for the year ended December 31, 2013, compared to \$10.8 million for the same period in 2012. Total non-covered recoveries increased to \$3.9 million for the year ended December 31, 2013, compared to \$2.6 million for the same period in 2012. For the year ended December 31, 2013, the net charge-offs were \$8.5 million for Arkansas, \$1.8 million for Florida, and \$22,000 for Alabama, respectively, equaling a net charge-off position of \$10.3 million.

During 2013, there were \$14.2 million in charge-offs and \$3.9 million in recoveries. While the charge-offs and recoveries consisted of many relationships, there were three individual relationships consisting of charge-offs greater than \$1.0 million. Two relationships were Arkansas relationships consisting of real estate loans for \$3.0 million and \$1.4 million totaling \$4.4 million of debt. The total amount of charge-offs related to these relationships was \$3.6 million, which consists of approximately \$807,000 of residential 1-4 family, \$1.3 million of multifamily residential and \$1.5 million of non-farm/non-residential during the year ended 2013. The remaining loan relationship was a Florida relationship consisting of a non-farm/non-residential real estate loan totaling approximately \$6.7 million of debt. The total amount of the charge-off associated with this relationship was \$1.1 million during 2013.

During 2012, there were \$10.8 million in charge-offs and \$2.6 million 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 14 shows the allowance for loan losses, charge-offs and recoveries for non-covered loans as of and for the years ended December 31, 2013, 2012, 2011, 2010 and 2009.

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

	As of December 31,				
	2013	2012	2011	2010	2009
	(Dollars in thousands)				
Balance, beginning of year	\$ 45,170	\$ 52,129	\$ 53,348	\$ 42,968	\$ 40,385
Loans charged off					
Real estate:					
Commercial real estate loans:					
Non-farm/non-residential	4,054	1,384	3,850	16,705	2,762
Construction/land development	998	1,086	3,590	10,274	1,714
Agricultural			226		
Residential real estate loans:					
Residential 1-4 family	3,972	4,328	2,005	10,731	3,101
Multifamily residential	2,336	95	1,294		97
Total real estate	11,360	6,893	10,965	37,710	7,674
Consumer	926	865	2,464	2,500	1,523
Commercial and industrial	537	1,342	571	24,227	1,222
Agricultural					
Other	1,374	1,693	695	16	50
Total loans charged off	14,197	10,793	14,695	64,453	10,469
Recoveries of loans previously charged off					
Real estate:					
Commercial real estate loans:					
Non-farm/non-residential	2,070	970	212	800	268
Construction/land development	34	9	827	55	67
Agricultural	1	234	66	68	204
Residential real estate loans:					
Residential 1-4 family	880	674	510	492	761
Multifamily residential	102	4	1,967		
Total real estate	3,087	1,891	3,582	1,415	1,300
Consumer	145	134	183	501	435
Commercial and industrial	72	124	5,817	50	149
Agricultural					
Other	556	435	394	17	18
Total recoveries	3,860	2,584	9,976	1,983	1,902
Net (recoveries) loans charged off	10,337	8,209	4,719	62,470	8,567

Edgar Filing: HOME BANCSHARES INC - Form 10-K

Provision for loan losses	4,189	1,250	3,500	72,850	11,150
Balance, end of year	\$ 39,022	\$ 45,170	\$ 52,129	\$ 53,348	\$ 42,968
Net charge-offs on loans not covered by loss share to average non-covered loans	0.39%	0.40%	0.26%	3.19%	0.43%
Allowance for loan losses for non-covered loans to					
total non-covered loans ⁽¹⁾	0.93	1.94	2.96	2.83	2.20
Allowance for loan losses for non-covered loans to net charge-offs	377	550	1,105	85	502

(1) See Management's Discussion and Analysis of Financial Condition and Results of Operations Table 28, for additional information on non-GAAP tabular disclosure.

Table of Contents

Allocated Allowance for Loan Losses. 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 December 31, 2013 and 2012 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 as any changes to the general allocation factors due to changes within the actual characteristics of the loan portfolio.

Table 15 presents the allocation of allowance for loan losses for non-covered loans as of the dates indicated.

Table 15: Allocation of Allowance for Loan Losses for Non-Covered Loans

	2013		2012		As of December 31, 2011		2010		2009	
	Allowance Amount	% of loans ⁽¹⁾	Allowance Amount	% of loans ⁽¹⁾	Allowance Amount	% of loans ⁽¹⁾	Allowance Amount	% of loans ⁽¹⁾	Allowance Amount	% of loans ⁽¹⁾
(Dollars in thousands)										
Real estate:										
Commercial real estate loans:										
Non-farm/non-residential	\$ 14,848	41.4%	\$ 19,781	43.7%	\$ 20,160	39.7%	\$ 16,874	42.6%	\$ 13,284	41.5%
Construction/land development	6,282	13.4	5,816	10.9	7,945	20.6	12,002	18.5	9,624	18.9
Agricultural	252	1.9	193	1.4	208	1.6	373	1.4	284	1.7
Residential real estate loans:										
Residential 1-4 family	6,072	21.8	10,467	23.6	9,586	19.9	11,065	19.6	10,654	19.6
Multifamily residential	2,817	5.1	3,346	5.6	2,610	3.2	3,232	3.1	694	3.2
Total real estate	30,271	83.6	39,603	85.2	40,509	85.0	43,546	85.2	34,540	84.9
Consumer	632	1.7	894	1.6	1,780	2.2	815	2.7	1,705	2.0
Commercial and industrial	1,933	12.2	3,870	11.0	6,308	10.0	6,357	9.7	6,067	11.3
Agricultural	1,931	0.9	394	0.8	1,478	1.2	207	0.9	279	0.5
Other		1.6		1.4		1.6		1.5		1.3
Unallocated	4,255		409		2,054		2,423		377	

Total	\$ 39,022	100.0%	\$ 45,170	100.0%	\$ 52,129	100.0%	\$ 53,348	100.0%	\$ 42,968	100.0%
-------	-----------	--------	-----------	--------	-----------	--------	-----------	--------	-----------	--------

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

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

Allowance for loan losses for covered loans were \$4.8 million and \$5.5 million at December 31, 2013 and 2012, respectively.

Total charge-offs for covered loans increased to \$5.3 million for the year ended December 31, 2013, compared to \$2.0 million for the same period in 2012. Total recoveries for covered loans increased to \$200,000 for the year ended December 31, 2013, compared to \$2,000 for the same period in 2012. There were \$991,000 and \$1.5 million of provision for loan losses taken on covered loans during the year ended December 31, 2013 and 2012, respectively.

Investment Securities

Our securities portfolio is the second largest component of earning assets and provides a significant source of revenue. Securities within the portfolio are classified as held-to-maturity, available-for-sale, or trading based on the intent and objective of the investment and the ability to hold to maturity. Fair values of securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities. As of December 31, 2013 we had \$114.6 million of held-to-maturity securities. All of the held-to-maturity securities were invested in state and political subdivisions as of December 31, 2013. As of December 31, 2012, we had no held-to-maturity or trading securities.

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 December 31, 2013, compared to \$726.2 million as of December 31, 2012. The estimated effective duration of our securities portfolio was 3.5 years as of December 31, 2013.

As of December 31, 2013, \$461.6 million, or 39.3%, of our available-for-sale securities were invested in mortgage-backed securities, compared to \$325.3 million, or 44.8%, of our available-for-sale securities as of December 31, 2012. To reduce our income tax burden, \$195.5 million, or 16.6%, of our available-for-sale securities portfolio as of December 31, 2013, was primarily invested in tax-exempt obligations of state and political subdivisions, compared to \$190.6 million, or 26.3%, of our available-for-sale securities as of December 31, 2012. Also, we had approximately \$463.5 million, or 39.4%, invested in obligations of U.S. Government-sponsored enterprises as of December 31, 2013, compared to \$190.7 million, or 26.3%, of our available-for-sale securities as of December 31, 2012.

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.

During 2010, we became aware that fraudulent rural improvement district bonds had been sold to various financial institutions in Arkansas. As a result of the fraud the Board of Directors authorized a \$3.6 million other than temporary charge to our investment securities. During 2011, we were able record a gain from the collection of \$2.2 million in insurance proceeds on these bonds.

Table of Contents

Table 16 presents the carrying value and fair value of investment securities for each of the years indicated.

Table 16: Investment Securities

	As of December 31,							
	2013				2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)							
Available-for-sale								
U.S. government-sponsored enterprises	\$ 467,535	\$ 1,330	\$ (5,324)	\$ 463,541	\$ 187,811	\$ 3,011	\$ (76)	\$ 190,746
Mortgage-backed securities	462,510	3,343	(4,265)	461,588	316,770	8,751	(180)	325,341
State and political subdivisions	196,472	3,085	(4,045)	195,512	182,515	8,219	(96)	190,638
Other securities	55,780	216	(1,153)	54,843	19,379	138	(19)	19,498
Total	\$ 1,182,297	\$ 7,974	\$ (14,787)	\$ 1,175,484	\$ 706,475	\$ 20,119	\$ (371)	\$ 726,223
Held-to-maturity								
State and political subdivisions	\$ 114,621	\$ 361	\$ (1,081)	\$ 113,901	\$	\$	\$	\$
Total	\$ 114,621	\$ 361	\$ (1,081)	\$ 113,901	\$	\$	\$	\$

	As of December 31,			
	2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Available-for-sale				
U.S. government- sponsored enterprises	\$ 344,789	\$ 3,587	\$ (380)	\$ 347,996
Mortgage-backed securities	138,383	4,054	(173)	142,264
State and political subdivisions	160,567	6,531	(29)	167,069
Other securities	14,310		(418)	13,892
Total	\$ 658,049	\$ 14,172	\$ (1,000)	\$ 671,221
Held-to-maturity				
State and political subdivisions	\$	\$	\$	\$

Total	\$	\$	\$	\$
-------	----	----	----	----

Table of Contents

Table 17 reflects the amortized cost and estimated fair value of debt securities as of December 31, 2013, by contractual maturity and the weighted average yields (for tax-exempt obligations on a fully taxable equivalent basis) of those securities. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

Table 17: Maturity Distribution of Investment Securities

	As of December 31, 2013				Total Amortized Cost	Total Fair Value
	1 Year or Less	1 Year Through 5 Years	5 Years Through 10 Years	Over 10 Years		
Available-for-sale						
U.S. Government-sponsored enterprises	\$ 321,624	\$ 131,402	\$ 14,405	\$ 104	\$ 467,535	\$ 463,541
Mortgage-backed securities	30,877	257,642	153,383	20,608	462,510	461,588
State and political subdivisions	47,121	74,758	73,170	1,423	196,472	195,512
Other securities	17,584	10,728	20,404	7,064	55,780	54,843
Total	\$ 417,206	\$ 474,530	\$ 261,362	\$ 29,199	\$ 1,182,297	\$ 1,175,484
Percentage of total	35.3%	40.1%	22.1%	2.5%	100.0%	
Weighted average yield	1.8%	2.4%	3.1%	2.9%	2.4%	
Held-to-maturity						
State and political subdivisions	\$ 29,344	\$ 63,468	\$ 21,068	\$ 741	\$ 114,621	\$ 113,901
Total	\$ 29,344	\$ 63,468	\$ 21,068	\$ 741	\$ 114,621	\$ 113,901
Percentage of total	25.6%	55.4%	18.4%	0.6%	100.0%	
Weighted average yield	5.9%	4.8%	5.4%	6.9%	5.2%	

Deposits

Our deposits averaged \$3.74 billion for the year ended December 31, 2013, and \$3.22 billion for 2012. Total deposits increased \$1.91 billion, or 54.8%, to \$5.39 billion as of December 31, 2013, from \$3.48 billion as of December 31, 2012. The acquisition of \$2.13 billion of deposits in the Liberty transaction was the primary cause for this increase. 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 December 31, 2013 and 2012, brokered deposits were \$100.4 million and \$56.9 million, respectively. Included in these brokered deposits are \$41.2 million and \$52.5 million of Certificate of Deposit Account Registry Service (CDARS) as of December 31, 2013 and 2012, 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.

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 of Contents

Table 18 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 years ended December 31, 2013, 2012, and 2011.

Table 18: Average Deposit Balances and Rates

	Years Ended December 31,					
	2013		2012		2011	
	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
(Dollars in thousands)						
Non-interest-bearing transaction accounts	\$ 761,540	%	\$ 569,017	%	\$ 443,781	%
Interest-bearing transaction accounts	1,697,840	0.19	1,333,572	0.25	1,001,372	0.46
Savings deposits	241,657	0.08	167,521	0.15	131,426	0.36
Time deposits:						
\$100,000 or more	551,757	0.67	639,889	0.77	778,856	1.28
Other time deposits	486,489	0.54	508,183	1.28	540,012	1.47
Total	\$ 3,739,283	0.26%	\$ 3,218,182	0.47%	\$ 2,895,447	0.79%

Table 19 presents our maturities of large denomination time deposits as of December 31, 2013 and 2012.

Table 19: Maturities of Large Denomination Time Deposits (\$100,000 or more)

	As of December 31,			
	2013		2012	
	Balance	Percent	Balance	Percent
(Dollars in thousands)				
Maturing				
Three months or less	\$ 259,571	29.3%	\$ 159,143	29.0%
Over three months to six months	190,062	21.5	126,844	23.1
Over six months to 12 months	249,724	28.2	148,601	27.1
Over 12 months	185,299	21.0	114,528	20.8
Total	\$ 884,656	100.0%	\$ 549,116	100.0%

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 increased \$94.7 million, or 142.9%, from \$66.3 million as of December 31, 2012 to \$161.0 million as of December 31, 2013. This increase is primarily the result of the Liberty acquisition.

FHLB Borrowings

Our FHLB borrowed funds were \$350.7 million and \$130.4 million at December 31, 2013 and December 31, 2012, respectively. At December 31, 2013, \$130.3 million and \$220.4 million of the outstanding balances were short-term and long-term advances, respectively. All of the outstanding balance for December 31, 2012 was long-term advances. Our remaining FHLB borrowing capacity was \$373.5 million and \$640.5 million as of December 31, 2013 and December 31, 2012, 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.

Table of Contents***Subordinated Debentures***

Subordinated debentures, which consist of guaranteed payments on trust preferred securities, were \$60.8 million and \$28.9 million as of December 31, 2013 and 2012, respectively.

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

Presently, the funds raised from the trust preferred offerings qualify as Tier 1 capital for regulatory purposes, subject to the applicable limit, with the balance qualifying as Tier 2 capital. The Board of Governors of the Federal Reserve System recently announced the planned implementation of Basel III capital rules. Under these rules trust preferred securities will be phased out as Tier 1 capital for future periods.

The Company holds \$60.8 million of trust preferred securities which are currently callable without penalty based on the terms of the specific agreements. We acquired \$57.7 million of trust preferred securities during the Liberty acquisition. Since these trust preferred securities are being phased out of Tier 1 capital, we decided to begin the process of redeeming these instruments. During 2013, the Company paid off \$25.8 million of subordinated debentures. As a result of the leveraging from the Liberty acquisition, we have decided to postpone any future redemptions until the holding company builds additional Tier 1 capital and cash.

Stockholders' Equity

Stockholders' equity was \$841.0 million at December 31, 2013 compared to \$515.5 million at December 31, 2012, an increase of 63.1%. As of December 31, 2013 and 2012 our equity to asset ratio was 12.3% and 12.2% respectively. Book value per share was \$12.92 at December 31, 2013 compared to \$9.17 (split adjusted) at December 31, 2012, a 40.9% increase.

Increase in Authorized Shares of 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.

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.

Common Stock Cash Dividends. We declared cash dividends on our common stock of \$0.290, \$0.290 and \$0.134 per share (split adjusted) for the years ended December 31, 2013, 2012 and 2011, respectively. During 2012, we paid four regular quarterly cash dividends totaling \$0.225 per share (split adjusted) and one special cash dividend during December 2012 of \$0.065 per share (split adjusted). The common stock dividend payout ratio for the year ended December 31, 2013, 2012 and 2011 was 25.51%, 25.89% and 13.90%, respectively.

Table of Contents

Stock Repurchase Program. The Company did not utilize a portion of its previously approved stock repurchase program during 2013. During 2012, the Company utilized a portion of this stock repurchase program. This program authorized the repurchase of 2,376,000 shares of the Company's common stock. For 2012, the Company repurchased a total of 910,896 shares with a weighted average stock price of \$14.86 per share. The 2012 earnings were used to fund these repurchases. The total shares repurchased to date under the program are 1,510,896 shares. The remaining balance available for repurchase is 865,104 shares at December 31, 2013. All share and per share amounts were restated for the 2-for-1 stock split during June 2013.

Liquidity and Capital Adequacy Requirements

Parent Company Liquidity. The primary sources for payment of our operating expenses and dividends are current cash on hand (\$6.0 million as of December 31, 2013) and dividends received from our bank subsidiary.

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 December 31, 2013 and 2012, we met all regulatory capital adequacy requirements to which we were subject.

Table 20 presents our risk-based capital ratios as of December 31, 2013 and 2012.

Table 20: Risk-Based Capital

	As of December 31,	
	2013	2012
	(Dollars in thousands)	
Tier 1 capital		
Stockholders' equity	\$ 840,955	\$ 515,473
Qualifying trust preferred securities	59,000	28,000
Goodwill and core deposit intangibles, net	(323,272)	(96,785)
Unrealized (gain) loss on available-for-sale securities	4,140	(12,001)
Deferred tax assets	(31,330)	(3,529)
Total Tier 1 capital	549,493	431,158
Tier 2 capital		
Qualifying allowance for loan losses	43,815	38,807

Edgar Filing: HOME BANCSHARES INC - Form 10-K

Total Tier 2 capital	43,815	38,807
Total risk-based capital	\$ 593,308	\$ 469,965
Average total assets for leverage ratio	\$ 5,859,902	\$ 3,939,206
Risk weighted assets	\$ 5,051,558	\$ 3,092,707
Ratios at end of year		
Leverage ratio	9.38%	10.95%
Tier 1 risk-based capital	10.88	13.94
Total risk-based capital	11.75	15.20
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

Table of Contents

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.

Table 21 presents actual capital amounts and ratios as of December 31, 2013 and 2012, for our bank subsidiary and us.

Table 21: Capital and Ratios

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
As of December 31, 2013						
Leverage ratios:						
Home BancShares	\$ 549,493	9.38%	\$ 234,325	4.00%	\$ N/A	N/A%
Centennial Bank	514,943	7.96	258,765	4.00	323,457	5.00
Tier 1 capital ratios:						
Home BancShares	\$ 549,493	10.88%	\$ 202,019	4.00%	\$ N/A	N/A%
Centennial Bank	514,943	10.17	202,534	4.00	303,801	6.00
Total risk-based capital ratios:						
Home BancShares	\$ 593,308	11.75%	\$ 403,954	8.00%	\$ N/A	N/A%
Centennial Bank	558,758	11.03	405,264	8.00	506,580	10.00
As of December 31, 2012						
Leverage ratios:						
Home BancShares	\$ 431,158	10.95%	\$ 157,501	4.00%	\$ N/A	N/A%
Centennial Bank	387,752	9.84	157,623	4.00	197,028	5.00
Tier 1 capital ratios:						
Home BancShares	\$ 431,158	13.94%	\$ 123,718	4.00%	\$ N/A	N/A%
Centennial Bank	387,752	12.57	123,390	4.00	185,084	6.00
Total risk-based capital ratios:						
Home BancShares	\$ 469,965	15.20%	\$ 247,350	8.00%	\$ N/A	N/A%
Centennial Bank	426,454	13.83	246,683	8.00	308,354	10.00

Off-Balance Sheet Arrangements and Contractual Obligations

In the normal course of business, we enter into a number of financial commitments. Examples of these commitments include but are not limited to operating lease obligations, FHLB advances, lines of credit, subordinated debentures, unfunded loan commitments and letters of credit.

Commitments to extend credit and letters of credit are legally binding, conditional agreements generally having certain expiration or termination dates. These commitments generally require customers to maintain certain credit standards and are established based on management's credit assessment of the customer. The commitments may expire without being drawn upon. Therefore, the total commitment does not necessarily represent future requirements.

Table of Contents

Table 22 presents the funding requirements of our most significant financial commitments, excluding interest, as of December 31, 2013.

Table 22: Funding Requirements of Financial Commitments

	Payments Due by Period				Total
	Less than One Year	One- Three Years	Three- Five Years	Greater than Five Years	
	(In thousands)				
Operating lease obligations	\$ 2,717	\$ 4,253	\$ 3,215	\$ 3,269	\$ 13,454
FHLB advances	165,568	68,404	112,342	4,347	350,661
Subordinated debentures				60,826	60,826
Loan commitments	387,738	89,554	62,963	83,235	623,489
Letters of credit	20,064	877	439	6	21,386

Non-GAAP Financial Measurements

We had \$324.0 million, \$97.7 million, and \$68.3 million total goodwill, core deposit intangibles and other intangible assets as of December 31, 2013, 2012 and 2011, respectively. Because of our level of intangible assets and related amortization expenses, management believes diluted earnings per common share excluding intangible amortization, tangible book value per common share, return on average assets excluding intangible amortization, return on average tangible common equity excluding intangible amortization and tangible common equity to tangible assets are useful in evaluating our company. These calculations, which are similar to the GAAP calculation of diluted earnings per common share, book value, return on average assets, return on average common equity, and common equity to assets, are presented in Tables 23 through 27, 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 23: Diluted Earnings Per Common Share Excluding Intangible Amortization

	Years Ended December 31,		
	2013	2012	2011
	(In thousands, except per share data)		
GAAP net income available to common stockholders	\$ 66,520	\$ 63,022	\$ 52,913
Intangible amortization after-tax	2,202	1,678	1,718
Earnings available to common stockholders excluding intangible amortization	\$ 68,722	\$ 64,700	\$ 54,631
GAAP diluted earnings per common share	\$ 1.14	\$ 1.11	\$ 0.92
Intangible amortization after-tax	0.04	0.03	0.03
Diluted earnings per common share excluding intangible amortization	\$ 1.18	\$ 1.14	\$ 0.95

Table of Contents**Table 24: Tangible Book Value Per Common Share**

	Years Ended December 31,		
	2013	2012	2011
	(Dollars in thousands, except per share data)		
Book value per common share: A/B	\$ 12.92	\$ 9.17	\$ 8.38
Tangible book value per common share:			
(A-C-D)/B	7.94	7.43	7.18
(A) Total common equity	\$ 840,955	\$ 515,473	\$ 474,066
(B) Common shares outstanding	65,082	56,213	56,552
(C) Goodwill	301,736	85,681	59,663
(D) Core deposit and other intangibles	22,298	12,061	8,620

Table 25: Return on Average Assets Excluding Intangible Amortization

	Years Ended December 31,		
	2013	2012	2011
	(Dollars in thousands)		
Return on average assets: A/C	1.43%	1.58%	1.50%
Return on average assets excluding intangible amortization: B/(C-D)	1.52	1.66	1.57
(A) Net income	\$ 66,520	\$ 63,022	\$ 54,741
Intangible amortization after-tax	2,202	1,678	1,718
(B) Earnings excluding intangible amortization	\$ 68,722	\$ 64,700	\$ 56,459
(C) Average assets	\$ 4,654,215	\$ 3,978,723	\$ 3,658,256
(D) Average goodwill, core deposits and other intangible assets	139,735	86,349	69,675

Table 26: Return on Average Tangible Common Equity Excluding Intangible Amortization

	Years Ended December 31,		
	2013	2012	2011
	(Dollars in thousands)		
Return on average common equity: A/C	11.27%	12.75%	11.77%
Return on average tangible common equity: B/(C-D)	15.26	15.87	14.39
(A) Net income available to common stockholders	\$ 66,520	\$ 63,022	\$ 52,913
(B) Earnings available to common stockholders excluding intangible amortization	68,722	64,700	54,631
(C) Average common equity	590,064	494,118	449,401

Edgar Filing: HOME BANCSHARES INC - Form 10-K

(D) Average goodwill, core deposits and other intangible assets	139,735	86,349	69,675
---	---------	--------	--------

81

Table of Contents**Table 27: Tangible Common Equity to Tangible Assets**

	Years Ended December 31,		
	2013	2012	2011
	(Dollars in thousands)		
Equity to assets: B/A	12.35%	12.15%	13.15%
Tangible equity to tangible assets: (B-C-D)/(A-C-D)	7.97	10.08	11.48
(A) Total assets	\$ 6,811,861	\$ 4,242,130	\$ 3,640,117
(B) Total equity	840,955	515,473	474,066
(C) Goodwill	301,736	85,681	59,663
(D) Core deposit and other intangibles	22,298	12,061	8,620

We have \$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. We had \$488.0 million of purchased non-covered loans, which included \$81.7 million of discount for credit losses on non-covered loans acquired at December 31, 2012. 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. Therefore, management believes the 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 is useful in evaluating our Company. This calculation, which is similar to the GAAP calculation of allowance for loan losses for non-covered loans to total non-covered loans, is presented in Table 28 below.

Table 28: Allowance for Loan Losses for Non-Covered Loans to Total Non-Covered Loans

	As of December 31, 2013		
	Non-Covered Loans	Purchased Non-Covered Loans	Total
	(Dollars in thousands)		
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
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	N/A	7.87%	N/A

non-covered loans acquired (D/B)

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

	As of December 31, 2012		
	Non-Covered Loans	Purchased Non-Covered Loans	Total
	(Dollars in thousands)		
Loan balance reported (A)	\$ 1,843,249	\$ 487,950	\$ 2,331,199
Loan balance reported plus discount (B)	1,843,249	569,667	2,412,916
Allowance for loan losses for non-covered loans (C)	\$ 45,170	\$	\$ 45,170
Discount for credit losses on non-covered loans acquired (D)		81,717	81,717
Total allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired (E)	\$ 45,170	\$ 81,717	\$ 126,887
Allowance for loan losses for non-covered loans to total non-covered loans (C/A)	2.45%	N/A	1.94%
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	14.34%	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	5.26%

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 29 presents selected unaudited quarterly financial information for 2013 and 2012.

Table 29: Quarterly Results

	2013 Quarters				
	First	Second	Third	Fourth	Total
	(In thousands, except per share data)				
Income statement data:					
Total interest income	\$ 48,148	\$ 48,085	\$ 49,176	\$ 71,717	\$ 217,126
Total interest expense	3,799	3,244	2,826	4,662	14,531
Net interest income	44,349	44,841	46,350	67,055	202,595
Provision for loan losses		850		4,330	5,180
Net interest income after provision for loan losses	44,349	43,991	46,350	62,725	197,415

Edgar Filing: HOME BANCSHARES INC - Form 10-K

Total non-interest income	9,025	9,805	9,318	12,217	40,365
Total non-interest expense	25,863	25,855	26,715	54,874	133,307
Income before income taxes	27,511	27,941	28,953	20,068	104,473
Income tax expense	9,963	10,282	10,590	7,118	37,953
Net income	\$ 17,548	\$ 17,659	\$ 18,363	\$ 12,950	\$ 66,520
Per share data ⁽¹⁾ :					
Basic earnings per common share	\$ 0.31	\$ 0.32	\$ 0.33	\$ 0.19	\$ 1.15
Diluted earnings per common share	0.31	0.31	0.33	0.19	1.14
Diluted earnings per common share excluding intangible amortization	0.32	0.32	0.33	0.21	1.18

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

Table of Contents

	2012 Quarters				
	First	Second	Third	Fourth	Total
(In thousands, except per share data)					
Income statement data:					
Total interest income	\$ 42,988	\$ 45,089	\$ 43,542	\$ 45,516	\$ 177,135
Total interest expense	6,454	5,930	4,917	4,234	21,535
Net interest income	36,534	39,159	38,625	41,282	155,600
Provision for loan losses		1,333	167	1,250	2,750
Net interest income after provision for loan losses	36,534	37,826	38,458	40,032	152,850
Total non-interest income	10,103	11,053	10,626	16,187	47,969
Total non-interest expense	24,386	24,424	23,981	29,577	102,368
Income before income taxes	22,251	24,455	25,103	26,642	98,451
Income tax expense	7,753	8,965	9,008	9,703	35,429
Net income	\$ 14,498	\$ 15,490	\$ 16,095	\$ 16,939	\$ 63,022
Per share data ⁽¹⁾ :					
Basic earnings	\$ 0.25	\$ 0.28	\$ 0.29	\$ 0.30	\$ 1.12
Diluted earnings	0.26	0.27	0.28	0.30	1.11
Diluted earnings excluding intangible amortization	0.26	0.28	0.29	0.31	1.14

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

Recent Accounting Pronouncements

See Note 26 to the Consolidated Financial Statements for a discussion of certain recent accounting pronouncements.

Item 7A. 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 December 31, 2013, our cash and cash equivalents were \$165.5 million, or 2.4% of total assets, compared to \$231.9 million, or 5.5% of total assets, as of December 31, 2012. Our available-for-sale investment securities and federal funds sold were \$1.18 billion as of December 31, 2013 and \$743.4 million as of December 31, 2012.

Table of Contents

Our investment portfolio is comprised of approximately 75.9% or \$979.3 million of securities which mature in less than five years. As of December 31, 2013 and 2012, \$1.13 billion and \$532.8 million, respectively, of securities were pledged as collateral for various public fund deposits and securities sold under agreements to repurchase.

Our commercial and real estate lending activities are concentrated in loans with maturities of less than five years. As of December 31, 2013 and 2012, approximately \$673.8 million, or 15.1%, and \$1.29 billion, or 47.3%, respectively, of our total loans matured within one year and/or had adjustable interest rates. A loan is considered fixed rate if the loan is currently at its adjustable floor or ceiling. Additionally, we maintain loan participation agreements with other financial institutions in which we could participate out loans for additional liquidity should the need arise.

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 December 31, 2013, our total deposits were \$5.39 billion, or 79.2% of total assets, compared to \$3.48 billion, or 82.1% of total assets, as of December 31, 2012. We attract our deposits primarily from individuals, businesses, 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 December 31, 2013 and 2012. 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 \$350.7 million and \$130.4 million at December 31, 2013 and 2012, respectively. At December 31, 2013, \$130.3 million and \$220.4 million of the outstanding balance were short-term and long-term advances, respectively. All of the outstanding balance at December 31, 2012 was long-term advances. Our FHLB borrowing capacity was \$373.5 million and \$640.5 million as of December 31, 2013 and 2012, 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.

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.

Table of Contents

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

For the rising and falling interest rate scenarios, the base market interest rate forecast was increased and decreased over twelve months by 200 and 100 basis points, respectively. At December 31, 2013, our net interest margin exposure related to these hypothetical changes in market interest rates was within the current guidelines established by us.

Table 30 presents our sensitivity to net interest income as of December 31, 2013.

Table 30: Sensitivity of Net Interest Income

Interest Rate Scenario	Percentage Change from Base
Up 200 basis points	5.04%
Up 100 basis points	2.52
Down 100 basis points	(5.06)
Down 200 basis points	(11.56)

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 December 31, 2013 was asset sensitive with a one-year cumulative repricing gap of 92.1%. 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 31 presents a summary of the repricing schedule of our interest-earning assets and interest-bearing liabilities (gap) as of December 31, 2013.

Table 31: 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	
Earning assets								
Interest-bearing								
deposits due								
from banks	\$ 61,529	\$	\$	\$	\$	\$	\$	\$ 61,529
Federal funds								
sold	4,275							4,275
Investment								
securities	57,510	89,639	42,738	81,972	168,448	468,246	381,552	1,290,105
Loans								
receivable	761,685	405,920	489,415	798,350	846,034	999,601	132,133	4,433,138
Total earning								
assets	884,999	495,559	532,153	880,322	1,014,482	1,467,847	513,685	5,789,047
Interest-bearing								
liabilities								
Savings and								
interest-bearing								
transaction								
accounts	115,316	230,632	345,948	691,895	481,052	471,078	456,502	2,792,423
Time deposits	198,695	242,188	374,759	446,319	239,213	103,918	4,370	1,609,462
Federal funds								
purchased								
Securities sold								
under								
repurchase								
agreements	160,984							160,984
FHLB								
borrowed funds	70,223	25,196	30,352	40,572	53,297	127,114	3,907	350,661
Subordinated								
debentures	60,826							60,826
Total								
interest-bearing								
liabilities	606,044	498,016	751,059	1,178,786	773,562	702,110	464,779	4,974,356
	\$ 278,955	\$ (2,457)	\$ (218,906)	\$ (298,464)	\$ 240,920	\$ 765,737	\$ 48,906	\$ 814,691

Interest rate sensitivity gap							
Cumulative interest rate sensitivity gap	\$ 278,955	\$ 276,498	\$ 57,592	\$ (240,872)	\$ 48	\$ 765,785	\$ 814,691
Cumulative rate sensitive assets to rate sensitive liabilities							
	146.0%	125.0%	103.1%	92.1%	100.0%	117.0%	116.4%
Cumulative gap as a % of total earning assets							
	4.8%	4.8%	1.0%	(4.2)%	0.0%	13.2%	14.1%

Table of Contents

Item 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
Management's Report on Internal Control Over Financial Reporting

The management of Home BancShares, Inc. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of the Company's financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Accordingly, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth in *Internal Control - Integrated Framework* (1992 edition) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As permitted by SEC guidance, management excluded from its assessment the operations of the Liberty Bancshares, Inc. acquisition made during 2013, which is described in Note 2 of the Consolidated Financial Statements. The total assets of the entity acquired in this acquisition represented approximately 41% of the Company's total consolidated assets as of December 31, 2013. Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2013 is effective based on the specified criteria.

BKD, LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2013. The report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2013, is included herein.

Table of Contents

Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders

Home BancShares, Inc.

Conway, Arkansas

We have audited the accompanying consolidated balance sheets of Home BancShares, Inc. (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2013. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Home BancShares, Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Home BancShares, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework* (1992 edition) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 28, 2014, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ **BKD, LLP**

Little Rock, Arkansas

February 28, 2014

Table of Contents

Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders

Home BancShares, Inc.

Conway, Arkansas

We have audited Home BancShares, Inc.'s (the Company) internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework* (1992 edition) issued by the *Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

As permitted, the Company excluded the operations of the acquisition of Liberty Bancshares, Inc. (Liberty) acquired during 2013, which is described in Note 2 of the consolidated financial statements, from the scope of management's report on internal control over financial reporting. As such, Liberty has also been excluded from the scope of our audit of internal control over financial reporting.

In our opinion, Home BancShares, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework* (1992 edition) issued by the *Committee of Sponsoring Organizations of the Treadway Commission (COSO)*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Home BancShares, Inc. and our report dated February 28, 2014, expressed an unqualified opinion thereon.

/s/ **BKD, LLP**

Little Rock, Arkansas

February 28, 2014

Table of Contents

Home BancShares, Inc.
Consolidated Balance Sheets

(In thousands, except share data)	December 31,	
	2013	2012
Assets		
Cash and due from banks	\$ 104,005	\$ 101,972
Interest-bearing deposits with other banks	61,529	129,883
Cash and cash equivalents	165,534	231,855
Federal funds sold	4,275	17,148
Investment securities available-for-sale	1,175,484	726,223
Investment securities held-to-maturity	114,621	
Loans receivable not covered by loss share	4,194,437	2,331,199
Loans receivable covered by FDIC loss share	282,516	384,884
Allowance for loan losses	(43,815)	(50,632)
Loans receivable, net	4,433,138	2,665,451
Bank premises and equipment, net	197,224	113,883
Foreclosed assets held for sale not covered by loss share	29,869	20,393
Foreclosed assets held for sale covered by FDIC loss share	20,999	31,526
FDIC indemnification asset	89,611	139,646
Cash value of life insurance	63,501	59,219
Accrued interest receivable	22,944	16,305
Deferred tax asset, net	89,412	46,998
Goodwill	301,736	85,681
Core deposit and other intangibles	22,298	12,061
Other assets	81,215	75,741
Total assets	\$ 6,811,861	\$ 4,242,130
Liabilities and Stockholders Equity		
Liabilities:		
Deposits:		
Demand and non-interest-bearing	\$ 991,161	\$ 666,414
Savings and interest-bearing transaction accounts	2,792,423	1,784,047
Time deposits	1,609,462	1,032,991
Total deposits	5,393,046	3,483,452
Securities sold under agreements to repurchase	160,984	66,278
FHLB borrowed funds	350,661	130,388
Accrued interest payable and other liabilities	5,389	17,672
Subordinated debentures	60,826	28,867
Total liabilities	5,970,906	3,726,657

Stockholders equity:

Common stock, par value \$0.01; shares authorized 100,000,000 shares in 2013 and 50,000,000 shares in 2012; shares issued and outstanding 65,081,853 in 2013 and 56,213,054 (split adjusted) in 2012	651	281
Capital surplus	708,058	416,354
Retained earnings	136,386	86,837
Accumulated other comprehensive income (loss)	(4,140)	12,001
Total stockholders equity	840,955	515,473
Total liabilities and stockholders equity	\$ 6,811,861	\$ 4,242,130

See accompanying notes.

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

(In thousands, except per share data⁽¹⁾)	Year Ended December 31,		
	2013	2012	2011
Interest income:			
Loans	\$ 198,536	\$ 159,359	\$ 155,954
Investment securities			
Taxable	12,298	11,226	9,244
Tax-exempt	6,009	6,154	6,179
Deposits other banks	254	379	418
Federal funds sold	29	17	11
Total interest income	217,126	177,135	171,806
Interest expense:			
Interest on deposits	9,744	14,989	22,968
Federal funds purchased	4	1	
FHLB borrowed funds	3,841	4,364	4,940
Securities sold under agreements to repurchase	424	407	483
Subordinated debentures	518	1,774	2,160
Total interest expense	14,531	21,535	30,551
Net interest income	202,595	155,600	141,255
Provision for loan losses	5,180	2,750	3,500
Net interest income after provision for loan losses	197,415	152,850	137,755
Non-interest income:			
Service charges on deposit accounts	17,870	15,069	14,087
Other service charges and fees	16,002	12,428	9,929
Mortgage lending income	5,988	5,192	2,993
Insurance commissions	2,420	1,869	1,856
Income from title services	523	462	448
Increase in cash value of life insurance	836	873	1,128
Dividends from FHLB, FRB, Bankers bank & other	1,028	1,167	680
Gain on acquisitions		5,205	
Gain on sale of SBA loans	135	404	259
Gain (loss) on sale of premises and equipment, net	397	324	73
Gain (loss) on OREO, net	1,651	(49)	(638)
Gain (loss) on securities, net	111	9	2,248
FDIC indemnification accretion/(amortization), net	(10,401)	1,721	5,517
Other income	3,805	3,295	2,729

Edgar Filing: HOME BANCSHARES INC - Form 10-K

Total non-interest income	40,365	47,969	41,309
Non-interest expense:			
Salaries and employee benefits	58,394	47,289	42,825
Occupancy and equipment	17,168	14,500	14,197
Data processing expense	5,393	4,930	4,601
Other operating expenses	52,352	35,649	33,099
Total non-interest expense	133,307	102,368	94,722
Income before income taxes	104,473	98,451	84,342
Income tax expense	37,953	35,429	29,601
Net income available to all stockholders	66,520	63,022	54,741
Preferred stock dividends and accretion of discount on preferred stock			1,828
Net income available to common stockholders	\$ 66,520	\$ 63,022	\$ 52,913
Basic earnings per common share	\$ 1.15	\$ 1.12	\$ 0.93
Diluted earnings per common share	\$ 1.14	\$ 1.11	\$ 0.92

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

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

(In thousands)	Year Ended December 31,		
	2013	2012	2011
Net income available to all stockholders	\$ 66,520	\$ 63,022	\$ 54,741
Net unrealized gain (loss) on available-for-sale securities	(26,450)	6,586	14,924
Less: reclassification adjustment for realized (gains) losses included in income	(111)	(9)	(2,248)
Other comprehensive income (loss), before tax effect	(26,561)	6,577	12,676
Tax effect	10,420	(2,580)	(4,973)
Other comprehensive income (loss)	(16,141)	3,997	7,703
Comprehensive income	\$ 50,379	\$ 67,019	\$ 62,444

Home BancShares, Inc.**Consolidated Statements of Stockholders Equity****Years Ended December 31, 2013, 2012 and 2011**

(In thousands, except share data⁽¹⁾)	Preferred Stock	Common Stock	Capital Surplus	Accumulated		Total
				Retained Earnings (Deficit)	Other Comprehensive Income (Loss)	
Balances at January 1, 2011	\$ 49,456	\$ 285	\$ 432,962	\$ (6,079)	\$ 301	\$ 476,925
Comprehensive income:						
Net income				54,741		54,741
Other comprehensive income (loss)					7,703	7,703
Repurchase of 50,000 shares of preferred stock and common stock warrant	(50,000)		(2,206)	906		(51,300)
Accretion of discount on preferred stock	544			(544)		
Net issuance of 181,880 shares of common stock from exercise of stock options		1	714			715
Repurchase of 600,000 shares of common stock		(3)	(6,765)			(6,768)
Tax benefit from stock options exercised			562			562
Share-based compensation			382			382
Cash dividends - Preferred Stock 5%				(1,286)		(1,286)
Cash dividends - Common Stock, \$0.134 per share				(7,608)		(7,608)

Edgar Filing: HOME BANCSHARES INC - Form 10-K

Balances at December 31, 2011	283	425,649	40,130	8,004	474,066
Comprehensive income:					
Net income			63,022		63,022
Other comprehensive income (loss)				3,997	3,997
Net issuance of 355,414 shares of common stock from exercise of stock options plus issuance of 9,522 bonus shares of unrestricted common stock	2	1,956			1,958
Repurchase of 910,896 shares of common stock	(5)	(13,544)			(13,549)
Tax benefit from stock options exercised		1,377			1,377
Share-based compensation	1	916			917
Cash dividends - Common Stock, \$0.29 per share			(16,315)		(16,315)
Balances at December 31, 2012	281	416,354	86,837	12,001	515,473
Comprehensive income:					
Net income			66,520		66,520
Other comprehensive income (loss)				(16,141)	(16,141)
Net issuance of 86,201 shares of common stock from exercise of stock options	1	430			431
Two for one 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		836			836
Share-based compensation		1,298			1,298
Cash dividends - Common Stock, \$0.29 per share			(16,971)		(16,971)
Balances at December 31, 2013	\$	\$ 651	\$ 708,058	\$ (4,140)	\$ 840,955

(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 accompanying notes.

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

(In thousands)	Year Ended December 31,		
	2013	2012	2011
Operating Activities			
Net income available to all stockholders	\$ 66,520	\$ 63,022	\$ 54,741
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	7,225	5,990	5,681
Amortization/(accretion)	(1,214)	6,696	1,506
Share-based compensation	1,298	917	382
Tax benefits from stock options exercised	(836)	(1,377)	(562)
(Gain) loss on assets	(2,620)	(121)	1,145
Gain on acquisitions		(5,205)	
Provision for loan losses	5,180	2,750	3,500
Deferred income tax effect	24,160	(434)	(9,237)
Increase in cash value of life insurance	(836)	(873)	(1,128)
Originations of mortgage loans held for sale	(228,382)	(182,763)	(116,873)
Proceeds from sales of mortgage loans held for sale	210,184	171,067	120,565
Changes in assets and liabilities:			
Accrued interest receivable	3,816	(754)	625
Indemnification and other assets	64,647	68,295	37,039
Accrued interest payable and other liabilities	(36,105)	(9,531)	(4,708)
Net cash provided by (used in) operating activities	113,037	117,679	92,676
Investing Activities			
Net (increase) decrease in federal funds sold	17,473	(5,027)	26,748
Net (increase) decrease in loans, excluding loans acquired	(56,242)	66,493	168,532
Purchases of investment securities available-for-sale	(364,055)	(427,667)	(408,251)
Proceeds from maturities of investment securities available-for-sale	226,208	384,505	214,258
Proceeds from sale of investment securities available-for-sale	282,451	1,623	1,116
Purchases of investment securities held-to-maturity	(19,052)		
Proceeds from foreclosed assets held for sale	59,607	38,806	25,576
Proceeds from sale of SBA loans	2,085	6,250	4,524
Purchases of premises and equipment, net	(12,715)	(13,518)	(13,022)
Death benefits received	540		700
Net cash proceeds (paid) received market acquisitions	(52,134)	205,190	
Net cash proceeds received FDIC-assisted acquisitions		105,645	
Net cash provided by (used in) investing activities	84,166	362,300	20,181
Financing Activities			
Net increase (decrease) in deposits, excluding deposits acquired	(222,907)	(364,810)	(103,767)

Edgar Filing: HOME BANCSHARES INC - Form 10-K

Net increase (decrease) in securities sold under agreements to repurchase	11,330	(421)	(12,140)
Net increase (decrease) in FHLB borrowed funds	(10,666)	(25,668)	(34,493)
Retirement of subordinated debentures	(25,000)	(15,000)	
Repurchase of common stock		(13,549)	(6,768)
Repurchase of preferred stock and common stock warrant			(51,300)
Proceeds from exercise of stock options	431	1,958	715
Common stock issuance costs market acquisitions	(577)		
Tax benefits from stock options exercised	836	1,377	562
Dividends paid on preferred stock			(1,286)
Dividends paid on common stock	(16,971)	(16,315)	(7,608)
Net cash provided by (used in) financing activities	(263,524)	(432,428)	(216,085)
Net change in cash and cash equivalents	(66,321)	47,551	(103,228)
Cash and cash equivalents beginning of year	231,855	184,304	287,532
Cash and cash equivalents end of year	\$ 165,534	\$ 231,855	\$ 184,304

See accompanying notes.

Table of Contents

Home BancShares, Inc.

Notes to Consolidated Financial Statements

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***Cash and Cash Equivalents***

Cash and cash equivalents consist of cash on hand, demand deposits with banks and interest-bearing deposits with other banks.

Investment Securities

Interest on investment securities is recorded as income as earned. Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains or losses on the sale of securities are determined using the specific identification method.

Management determines the classification of securities as available-for-sale, held-to-maturity, or trading at the time of purchase 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 Company has no trading securities.

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, net of taxes. Securities that are held as available-for-sale are used as a part of HBI's 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.

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

Loans Receivable Not Covered by Loss Share and Allowance for Loan Losses

Loans receivable not covered by loss share that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balance adjusted for any charge-offs, deferred fees or costs on originated loans. Interest income on loans is accrued over the term of the loans based on the principal balance outstanding. Loan origination fees and direct origination costs are capitalized and recognized as adjustments to yield on the related loans.

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 existing loans that may become uncollectible and probable credit losses inherent in the remainder of the loan portfolio. The amounts of provisions to the allowance 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 classified loans less than \$1.0 million 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 accounted for under FASB ASC 310-30, *Loans Acquired with Deteriorated Credit Quality*, after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

Table of Contents

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 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 borrower may be unable to meet payments as they become due. When accrual of interest is discontinued, all unpaid accrued interest is reversed.

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, but payments received are usually applied to principal. Non-accrual loans are generally returned to accrual status after being current for a period of at least six months. An exception to this six-month period can be made if it can be proven that the borrower has historically demonstrated repayment performance consistent with the terms of the loan and the Company expects to collect all principal and interest.

Acquisition Accounting, Covered Loans and Related Indemnification Asset

The Company accounts for its acquisitions under ASC Topic 805, *Business Combinations*, which requires the use of the purchase 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. Loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820, 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 acquired loans, the Company continues to estimate cash flows expected to be collected on individual loans or on pools of loans sharing common risk characteristics and are treated in the aggregate when applying various valuation techniques. The Company evaluates at each balance sheet date whether the present value of its loans determined using the effective interest rates has significantly decreased and if so, recognizes a provision for loan loss in its consolidated statement of income. For any significant increases in cash flows expected to be collected, the Company adjusts the amount of accretable yield recognized on a prospective basis over the loans or pools' weighted average 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.

Table of Contents

The shared-loss agreements continue to be measured on the same basis as the related indemnified loans subject to contractual limitations of the loss share agreements. 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. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the weighted average life of the loans or pools) decrease the basis of the shared-loss agreements, with such decrease being amortized against non-interest 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 in other assets until cash is received from the FDIC.

For further discussion of the Company's acquisitions and loan accounting, see Note 2 and Note 5 to the consolidated financial statements.

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 less cost to sell 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.

Because the FDIC will reimburse the Company for covered foreclosed assets should the Company experience a loss, an indemnification asset is recorded at fair value at the acquisition date and as covered loans move into foreclosure status. The indemnification asset is measured on the same basis as the foreclosed assets, subject to collectability. The shared-loss agreements reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties.

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

Bank Premises and Equipment

Bank premises and equipment are carried at cost or fair market value at the date of acquisition less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Accelerated depreciation methods are used for tax purposes. Leasehold improvements are capitalized and amortized by the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements whichever is shorter. The assets' estimated useful lives for book purposes are as follows:

Bank premises	15-40 years
---------------	-------------

Furniture, fixtures, and equipment

3-15 years

98

Table of Contents***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. The Company performed its annual impairment test of goodwill and core deposit intangibles during 2013, 2012 and 2011, as required by FASB ASC 350, *Intangibles Goodwill and Other*. The 2013 tests indicated no impairment of the Company's goodwill and a \$173,000 impairment of core deposit intangibles in connection with the acquisition of Heritage Bank. This amount was expensed during the fourth quarter of 2013. The 2012 and 2011 tests indicated no impairment of the Company's goodwill or core deposit intangibles.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase consist of obligations of the Company to other parties. At the point funds deposited by customers become investable, those funds are used to purchase securities owned by the Company and held in its general account with the designation of Customers' Securities. A third party maintains control over the securities underlying overnight repurchase agreements. The securities involved in these transactions are generally U.S. Treasury or Federal Agency issues. Securities sold under agreements to repurchase generally mature on the banking day following that on which the investment was initially purchased and are treated as collateralized financing transactions which are recorded at the amounts at which the securities were sold plus accrued interest. Interest rates and maturity dates of the securities involved vary and are not intended to be matched with funds from customers.

Derivative Financial Instruments

The Company may enter into derivative contracts for the purposes of managing exposure to interest rate risk. The Company records all derivatives on the consolidated balance sheet at fair value. Historically the Company's policy has been not to invest in derivative type investments.

The Company has executed two back-to-back interest rate swap agreements associated with one borrower in the loan portfolio. Though the Company is not applying hedge accounting, the swaps are identical offsets of one another, thereby resulting in a net income impact of zero. They are being adjusted to the fair value in accordance with FASB ASC 815, *Derivatives and Hedging*. The notional amount of the loans was \$18.1 million at December 31, 2013 and \$18.7 million at December 31, 2012. The impact to the 2013 and 2012 financial statements was \$806,000 and \$1.6 million, respectively, in other assets with a corresponding amount in other liabilities.

Stock Options

The Company accounts for stock options in accordance with FASB ASC 718, *Compensation Stock Compensation*, which establishes standards for the accounting for transactions in which an entity (i) exchanges its equity instruments for goods and services, or (ii) incurs liabilities in exchange for goods and services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of the equity instruments. FASB ASC 718 requires that such transactions be recognized as compensation cost in the income statement based on their fair values on the measurement date, which is generally the date of the grant.

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.

Table of Contents

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

Earnings per Share

Basic earnings per share are computed based on the weighted average number of shares outstanding during each year. Diluted earnings per share are computed using the weighted average common shares and all potential dilutive common shares outstanding during the period. All share and per share amounts have been restated to reflect the effect of the 2-for-1 stock split during June 2013. The following table sets forth the computation of basic and diluted earnings per share (EPS) for the years ended December 31:

	2013	2012	2011
	(In thousands, except per share data)		
Net income available to all stockholders	\$ 66,520	\$ 63,022	\$ 54,741
Less: Preferred stock dividends and accretion of discount on preferred stock			1,828
Net income available to common stockholders	\$ 66,520	\$ 63,022	\$ 52,913
Average common shares outstanding	57,908	56,274	56,832
Effect of common stock options	344	356	392
Diluted common shares outstanding	58,252	56,630	57,224
Basic earnings per common share	\$ 1.15	\$ 1.12	\$ 0.93
Diluted earnings per common share	\$ 1.14	\$ 1.11	\$ 0.92

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 making it the 2nd largest bank holding company headquartered in Arkansas.

Table of Contents

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

	Acquired from Liberty	Liberty Bank Fair Value Adjustments (Dollars in thousands)	As Recorded by HBI
Assets			
Cash and due from banks	\$ 26,101	\$ (30,005)	\$ (3,904)
Interest-bearing deposits with other banks	4,270	(52,500)	(48,230)
Federal funds sold	4,600		4,600
Investment securities	731,249	(9,802)	721,447
Loans not covered by loss share	1,835,644	(104,042)	1,731,602
Allowance for loan losses	(21,964)	21,964	
Total loans receivable	1,813,680	(82,078)	1,731,602
Bank premises and equipment, net	82,879	(5,425)	77,454
Foreclosed assets held for sale not covered by loss share	34,795	(9,115)	25,680
Cash value of life insurance	3,669		3,669
Accrued interest receivable	10,455		10,455
Deferred tax asset	9,268	46,886	56,154
Goodwill	88,499	127,556	216,055
Core deposit intangible	1,488	12,373	13,861
Other assets	11,906	(1,456)	10,450
Total assets acquired	\$ 2,822,859	\$ (3,566)	\$ 2,819,293
Liabilities			
Deposits			
Demand and non-interest-bearing	\$ 233,943	\$	\$ 233,943
Savings and interest-bearing transaction accounts	1,017,805		1,017,805
Time deposits	881,666	(913)	880,753
Total deposits	2,133,414	(913)	2,132,501
Securities sold under agreements to repurchase	83,376		83,376
FHLB borrowed funds	226,203	4,736	230,939
Accrued interest payable and other liabilities	4,231	20,427	24,658
Subordinated debentures	57,733		57,733
Total liabilities assumed	2,504,957	24,250	2,529,207

Equity			
Preferred stock	52,500	(52,500)	
Common stock	12	76	88
Capital surplus	167,089	122,909	289,998
Retained earnings	110,995	(110,995)	
Accumulated other comprehensive income	(4,340)	4,340	
Less: Treasury stock	(8,354)	8,354	
Total equity assumed	317,902	(27,816)	290,086
Total liabilities and equity assumed	\$ 2,822,859	\$ (3,566)	\$ 2,819,293

Table of Contents

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

Cash and due from banks, interest-bearing deposits with other banks and federal funds sold The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets. The \$30.0 million adjustment is the cash settlement paid to Liberty on the closing date. The Company also paid off the Liberty \$52.5 million SBLF preferred stock at the acquisition date.

Investment securities Investment securities were acquired from Liberty with a \$9.8 million adjustment to market value based upon quoted market prices. This adjustment is primarily the result of marking the held-to-maturity securities to fair market value.

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

Bank premises and equipment Bank premises and equipment were acquired from Liberty with a \$5.4 million adjustment to market value. This represents the difference between current appraisal completed in connection with the acquisition and book value acquired.

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

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

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

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

Goodwill The consideration paid as a result of the acquisition exceeded the fair value of the assets acquired; therefore, the Company recorded \$216.1 million of goodwill.

Core deposit intangible This intangible asset represents the value of the relationships that Liberty Bank had with its deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the deposit base, and the net maintenance cost attributable to customer deposits. The Company recorded \$13.9 million of core deposit intangible.

Deposits The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition equal the amount payable on demand at the acquisition date. The \$913,000 fair value adjustment applied for time deposits is because the estimated weighted average interest rate of Liberty's certificates of deposits were estimated to be slightly below the current market rates.

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

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

Accrued interest payable and other liabilities The fair value used represents the accrual of certain costs including change in control agreements which were incurred in connection with the merger.

Subordinated debentures Subordinated debentures were acquired from Liberty at market value.

Table of Contents

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

The unaudited pro-forma combined consolidated financial information presents how the combined financial information of HBI and LBI might have appeared had the businesses actually been combined. The following schedule represents the unaudited pro-forma combined financial information as of the years ended December 31, 2013 and 2012, assuming the acquisition was completed as of January 1, 2013 and 2012, respectively:

	December 31,	
	2013	2012
	(In thousands, except per share data)	
Total interest income	\$ 301,799	\$ 289,532
Total non-interest income	63,593	70,837
Net income available to all shareholders	84,827	81,288
Basic earnings per common share	\$ 1.27	\$ 1.25
Diluted earnings per common share	1.27	1.24

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

Acquisition Premier Bank

On December 1, 2012, Home BancShares, Inc. completed the acquisition of all the issued and outstanding shares of common stock of Premier Bank, a Florida state-chartered bank with its principal office located in Tallahassee, Florida (Premier), pursuant to an Asset Purchase Agreement (the Premier Agreement) with Premier Bank Holding Company, a Florida corporation and bank holding company (PBHC), dated August 14, 2012. The Company has merged Premier with and into the Company s wholly-owned subsidiary, Centennial Bank, an Arkansas state-chartered bank.

Prior to the acquisition, Premier conducted banking business from six locations in the Florida panhandle cities of Tallahassee (five) and Quincy (one). The Company paid a purchase price to PBHC of \$1,415,000 for the Premier acquisition.

The acquisition was conducted in accordance with the provisions of Section 363 of the United States Bankruptcy Code (the Bankruptcy Code) pursuant to a voluntary petition for relief under Chapter 11 of the Bankruptcy Code filed by PBHC with the United States Bankruptcy Court for the Northern District of Florida (the Bankruptcy Court) on August 14, 2012. The sale of Premier by PBHC was subject to certain bidding procedures approved by the Bankruptcy Court. No qualifying competing bids were received. The Bankruptcy Court entered a final order on November 29, 2012 approving the sale of Premier to the Company pursuant to and in accordance with the Premier Agreement.

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

Table of Contents

The following schedule is a breakdown of the assets acquired and liabilities assumed as of the acquisition date:

	Acquired from PBHC	Premier Bank Fair Value Adjustments	As Recorded by HBI
	(Dollars in thousands)		
Assets			
Cash and due from banks	\$ 5,020	\$ (1,415)	\$ 3,605
Interest-bearing deposits with other banks	61,351		61,351
Investment securities	11,518	(15)	11,503
Federal funds sold	4,005		4,005
Loans not covered by loss share	167,663	(29,528)	138,135
Allowance for loan losses	(4,305)	4,305	
Total loans receivable	163,358	(25,223)	138,135
Bank premises and equipment, net	6,942	(1,872)	5,070
Foreclosed assets held for sale not covered by loss share	11,117	(3,509)	7,608
Deferred tax asset		15,047	15,047
Goodwill		8,591	8,591
Core deposit intangible		1,946	1,946
Cash value of life insurance	5,655		5,655
Other assets	2,254		2,254
Total assets acquired	\$ 271,220	\$ (6,450)	\$ 264,770
Liabilities			
Deposits			
Demand and non-interest-bearing	\$ 149,782	\$	\$ 149,782
Savings and interest-bearing transaction accounts	13,085		13,085
Time deposits	83,432		83,432
Total deposits	246,299		246,299
Securities sold under agreements to repurchase	4,380		4,380
FHLB borrowed funds	13,000	279	13,279
Other liabilities	812		812
Total liabilities assumed	264,491	279	264,770
Equity	6,729	(6,729)	
Total equity assumed	6,729	(6,729)	
Total liabilities and equity assumed	\$ 271,220	\$ (6,450)	\$ 264,770

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

Cash and due from banks, interest-bearing deposits with other banks and federal funds sold The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets. The \$1.4 million adjustment is the cash settlement paid to PBHC on the closing date.

Investment securities Investment securities were acquired from Premier with only a slight adjustment to market value.

Table of Contents

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

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

Deferred tax asset The deferred tax asset of \$15.0 million as of acquisition date is made up of \$3.7 million of deferred tax asset associated with Premier's legacy deferred tax asset and \$11.3 million associated with fair value adjustments made as a result of the acquisition. These amounts are related to the differences between the financial statement and tax bases of assets acquired and liabilities assumed in this transaction. The Company was able to reverse \$3.7 million of Premier's legacy tax valuation allowance because of the higher earnings expectations of the combined entities.

Goodwill The consideration paid as a result of the acquisition exceeded the fair value of the assets received; therefore, the Company recorded \$8.6 million of goodwill.

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

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

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

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

FHLB borrowed funds The fair value of FHLB borrowed funds is estimated based on borrowing rates currently available to the Company for borrowings with similar terms and maturities. These borrowings were paid off shortly after acquisition at their carrying values.

The Company's operating results for 2012, include the operating results of the acquired assets and assumed liabilities subsequent to the acquisition date. Due to the significant fair value adjustments recorded and the fact Premier was acquired under bankruptcy proceedings, historical results are not believed to be relevant to the Company's results, and thus no pro-forma information is presented.

Acquisition Heritage Bank of Florida

On November 2, 2012, Centennial Bank acquired all the deposits and substantially all the assets of Heritage Bank of Florida (Heritage) from the FDIC. This transaction did not include any non-performing loans or other real estate owned of Heritage. In connection with the Heritage acquisition, Centennial Bank opted not to enter into a loss sharing agreement with the FDIC.

Prior to the acquisition, Heritage operated three banking offices located in Tampa, Lutz and Wesley Chapel, Florida. Excluding the effects of the purchase accounting adjustments, Centennial Bank acquired approximately \$184.6 million in assets plus a cash settlement to balance the transaction, approximately \$135.8 million in performing loans excluding loan discounts and approximately \$219.5 million of deposits.

Table of Contents

Centennial Bank did not acquire the real estate, banking facilities, furniture and equipment of Heritage as part of the purchase and assumption agreement but exercised its option to purchase these assets at fair market value from the FDIC. Fair market values for the real estate, facilities, furniture and equipment were based on current appraisals. Centennial Bank leased these facilities and equipment from the FDIC until it exercised its option. In the first quarter of 2013, Centennial Bank purchased \$3.1 million of bank premises and equipment from the FDIC.

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

The following schedule is a breakdown of the assets acquired and liabilities assumed as of the acquisition date:

	Heritage Bank of Florida		
	Acquired from FDIC	Fair Value Adjustments	As Recorded by HBI
	(Dollars in thousands)		
Assets			
Cash and due from banks	\$ 6,945	\$ 82,350	\$ 89,295
Interest-bearing deposits with other banks	16,350		16,350
Federal funds sold	7,016		7,016
Loans receivable not covered by loss share	135,810	(43,199)	92,611
Total loans receivable	135,810	(43,199)	92,611
Core deposit intangible		1,066	1,066
Other assets	18,471		18,471
Total assets acquired	\$ 184,592	\$ 40,217	\$ 224,809
Liabilities			
Deposits			
Demand and non-interest-bearing	\$ 93,697	\$	\$ 93,697
Savings and interest-bearing transaction accounts	6,018		6,018
Time deposits	119,785		119,785
Total deposits	219,500		219,500
Other liabilities	104		104
Total liabilities assumed	\$ 219,604	\$	\$ 219,604
Pre-tax gain on acquisition			\$ 5,205

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

Cash and due from banks, interest-bearing deposits with other banks and federal funds sold The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets. The \$82.4 million adjustment is the first cash settlement received from the FDIC on Monday following the closing weekend.

Table of Contents

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

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

Deposits The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition equal the amount payable on demand at the acquisition date. No fair value adjustment was applied for time deposits as the Bank was able to reset deposit rates to market rates currently offered.

The Company's operating results for the period ended December 31, 2012, include the operating results of the acquired assets and assumed liabilities subsequent to the November 2, 2012 acquisition date. Due to the significant fair value adjustments recorded and its nature as an FDIC-assisted transaction, Heritage's historical results are not believed to be relevant to the Company's results, and thus no pro-forma information is presented.

Acquisition Vision Bank

On February 16, 2012, Centennial Bank completed the acquisition of operating assets and liabilities of Vision Bank, a Florida state-chartered bank with its principal office located in Panama City, Florida (Vision), pursuant to a Purchase and Assumption Agreement (the Vision Agreement), dated November 16, 2011, between the Company, Centennial, Park National Corporation, parent company of Vision (Park), and Vision. As a result of the acquisition, the Company had an opportunity to increase its deposit base and reduce transaction costs. The Company also reduced costs through economies of scale.

Pursuant to the Vision Agreement, Centennial assumed approximately \$522.8 million in customer deposits and acquired approximately \$355.8 million in performing loans from Vision for the purchase price of approximately \$27.9 million. Centennial did not purchase certain Vision performing loans nor any of its non-performing loans or other real estate owned. As part of the acquisition, Centennial acquired the real estate and other assets related to Vision's 17 banking offices, including eight locations in Baldwin County, Alabama, and nine locations in the Florida Panhandle counties of Bay, Gulf, Okaloosa, Santa Rosa and Walton. On July 12, 2012, the Company closed two of these branches located in Port St. Joe, Florida. These branch closures were completed to eliminate repetitive branches and maximize profitability. Included in the acquisition were the fixed assets located within the Vision offices, the safe deposit business conducted at the Vision offices, cash on hand, prepaid expenses and Vision's rights under contracts related to the Vision offices. Centennial also assumed the liabilities and obligations of Vision with respect to the safe deposit business, the assumed contracts, third-party leases for the real estate leased by Vision and equipment and operating leases related to the Vision offices. In addition, pursuant to the Vision Agreement, Park granted Centennial a put option to sell an aggregate of \$7.5 million of the purchased loans back to Park at cost for a period of up to six months after the closing date. The Company has exercised its option to sell back 45 loans totaling approximately \$7.5 million. On the closing date, Park made a cash payment to Centennial of approximately \$119.5 million.

Centennial Bank has determined that the acquisition of the net assets of Vision constitute a business combination as defined by the FASB ASC Topic 805, *Business Combinations*. Accordingly, the assets acquired and liabilities assumed are presented at their fair values as required. Fair values were determined based on the requirements of

FASB ASC Topic 820, *Fair Value Measurements*. In many cases, the determination of these fair values required management to make estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change.

Table of Contents

The following schedule is a breakdown of the assets acquired and liabilities assumed as of the acquisition date:

	Vision Bank		
	Acquired from Park	Fair Value Adjustments	As Recorded by HBI
	(Dollars in thousands)		
Assets			
Cash and due from banks	\$ 20,711	\$ 119,523	\$ 140,234
Loans receivable	355,750	(15,453)	340,297
Total loans receivable	355,750	(15,453)	340,297
Bank premises and equipment, net	12,496		12,496
Deferred tax asset		11,247	11,247
Goodwill		17,427	17,427
Core deposit intangible		3,190	3,190
Other assets	4,612		4,612
Total assets acquired	\$ 393,569	\$ 135,934	\$ 529,503
Liabilities			
Deposits			
Demand and non-interest-bearing	\$ 78,073	\$	\$ 78,073
Savings and interest-bearing transaction accounts	273,134		273,134
Time deposits	171,627	1,598	173,225
Total deposits	522,834	1,598	524,432
Other liabilities	5,071		5,071
Total liabilities assumed	\$ 527,905	\$ 1,598	\$ 529,503

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

Cash and due from banks The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets. The \$119.5 million adjustment is the cash settlement received from Park on the closing date.

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

Core deposit intangible This intangible asset represents the value of the relationships that Vision Bank had with its deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology

that gave appropriate consideration to expected customer attrition rates, cost of the deposit base, and the net maintenance cost attributable to customer deposits.

Deferred tax asset The deferred tax asset of \$11.2 million as of acquisition date is solely related to the differences between the financial statement and tax bases of assets acquired and liabilities assumed in this transaction.

Goodwill The consideration paid as a result of the acquisition exceeded the fair value of the assets received; therefore, the Company recorded \$17.4 million of goodwill.

Deposits The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition equal the amount payable on demand at the acquisition date. The Bank could not reset deposit rates to current market rates even though the rates were above market; therefore, a \$1.6 million fair value adjustment was recorded for time deposits.

Table of Contents

The Company's operating results for 2012, include the operating results of the acquired assets and assumed liabilities subsequent to the acquisition date. Due to the significant fair value adjustments recorded, as well as not obtaining any non-performing assets and certain performing loans, historical results are not believed to be relevant to the Company's results, and thus no pro-forma information is presented.

For the year ended December 31, 2011, Vision has reported in its call report a net loss before income taxes, extraordinary items and other adjustments of approximately \$28.7 million. On a carve-out basis factoring in only the assets and liabilities acquired or assumed by Centennial, the acquired portion of Vision would have resulted in net income before income taxes, extraordinary items and other adjustments for 2011 of approximately \$8.8 million. The primary differences are Vision's provision for loan losses, which will not carry over due to Centennial not acquiring Vision's non-performing loans, and certain non-interest expenses which also will not carry over to Centennial.

FDIC-Assisted Acquisitions Other Matters

In an FDIC-assisted acquisition, we may acquire certain assets and assume certain liabilities of the former institution with or without a loss share agreement with the FDIC. Any regulatory agreements or orders that existed for the former institution do not apply to the assuming institution. We, as the assuming institution, are evaluated separately by our regulators and any weaknesses of the former institution are considered in the separate evaluation. Also, the loss share agreement helps to mitigate any weaknesses that may have existed in the former institution.

3. Investment Securities

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

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

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

Total	\$ 114,621	\$ 361	\$ (1,081)	\$ 113,901
-------	------------	--------	------------	------------

109

Table of Contents

	December 31, 2012			Estimated Fair Value
	Amortized Cost	Available-for-Sale Gross Unrealized Gains	Available-for-Sale Gross Unrealized (Losses)	
		(In thousands)		
U.S. government-sponsored enterprises	\$ 187,811	\$ 3,011	\$ (76)	\$ 190,746
Mortgage-backed securities	316,770	8,751	(180)	325,341
State and political subdivisions	182,515	8,219	(96)	190,638
Other securities	19,379	138	(19)	19,498
Total	\$ 706,475	\$ 20,119	\$ (371)	\$ 726,223

Assets, principally investment securities, having an amortized cost of approximately \$1.13 billion and \$532.8 million at December 31, 2013 and 2012, 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 \$161.0 million and \$66.3 million at December 31, 2013 and 2012, respectively.

The amortized cost and estimated fair value of securities classified as available-for-sale and held-to-maturity at December 31, 2013, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
		(In thousands)		
Due in one year or less	\$ 417,206	\$ 413,113	\$ 29,344	\$ 29,178
Due after one year through five years	474,530	473,381	63,468	62,876
Due after five years through ten years	261,362	259,358	21,068	21,100
Due after ten years	29,199	29,632	741	747
Total	\$ 1,182,297	\$ 1,175,484	\$ 114,621	\$ 113,901

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 year ended December 31, 2013, \$167,000 of available-for-sale securities were sold. The gross realized gains on these sales totaled approximately \$111,000. There were no losses on the available-for-sale securities sold. The income tax expense/benefit to net security gains and losses was 39.225% of the gross amounts.

During the year ended December 31, 2012, \$1.6 million of available-for-sale securities were sold. The gross realized gains and losses on these sales totaled approximately \$21,000 and \$12,000, respectively. The income tax expense/benefit to net security gains and losses was 39.225% of the gross amounts.

During the year ended December 31, 2011, \$1.1 million of available-for-sale securities were sold. The gross realized gains on these sales totaled approximately \$5,000. The income tax expense/benefit to net security gains and losses was 39.225% of the gross amounts.

During 2010, we became aware that fraudulent rural improvement district bonds had been sold to various financial institutions in Arkansas. As a result of the fraud, the Board of Directors authorized a \$3.6 million other than temporary impairment charge to our investment securities. During 2011, we were able record a gain from the collection of \$2.2 million in insurance proceeds on these bonds.

Table of Contents

There were no securities classified as held-to-maturity at December 31, 2012 and 2011. At December 31, 2013, there were \$114.6 million of held-to-maturity securities.

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.

For the year ended December 31, 2013, the Company had approximately \$711,000 in unrealized losses, which were 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 75.9% 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.

For the year ended December 31, 2012, the Company had approximately \$54,000 in unrealized losses, which were 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 62.8% of the Company's investment portfolio matures in five years or less. As a result, the Company has the ability and intent to hold such securities until maturity.

The following shows gross unrealized losses and estimated fair value of investment securities classified as available-for-sale and held-to-maturity with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position as of December 31, 2013 and 2012:

	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)

	December 31, 2012					
	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	\$ 26,002	\$ (22)	\$ 10,477	\$ (54)	\$ 36,479	\$ (76)
Mortgage-backed securities	36,675	(180)			36,675	(180)
State and political subdivisions	15,797	(96)			15,797	(96)
Other securities	1,973	(19)			1,973	(19)
Total	\$ 80,447	\$ (317)	\$ 10,477	\$ (54)	\$ 90,924	\$ (371)

Table of Contents

Income earned on securities for the years ended is as follows:

	2013	December 31, 2012	2011
	(In thousands)		
Taxable:			
Available-for-sale	\$ 12,277	\$ 11,226	\$ 9,244
Held-to-maturity	21		
Tax-exempt:			
Available-for-sale	5,358	6,154	6,179
Held-to-maturity	651		
Total	\$ 18,307	\$ 17,380	\$ 15,423

4. Loans Receivable Not Covered by Loss Share

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

	December 31, 2013	2012
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	\$ 1,739,668	\$ 1,019,039
Construction/land development	562,667	254,800
Agricultural	81,618	32,513
Residential real estate loans		
Residential 1-4 family	913,332	549,269
Multifamily residential	213,232	129,742
Total real estate	3,510,517	1,985,363
Consumer	69,570	37,462
Commercial and industrial	511,421	256,908
Agricultural	37,129	19,825
Other	65,800	31,641
Loans receivable not covered by loss share	\$ 4,194,437	\$ 2,331,199

During the year ended December 31, 2013, the Company sold \$2.0 million of the guaranteed portion of certain SBA loans, which resulted in a gain of approximately \$135,000. During the year ended December 31, 2012, the Company sold \$5.8 million of the guaranteed portion of certain SBA loans, which resulted in a gain of approximately \$404,000.

Mortgage loans held for resale of approximately \$30.5 million and \$22.0 million at December 31, 2013 and 2012, 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 December 31, 2013 and 2012 were not material.

Table of Contents

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*. The fair value discount is being accreted into interest income over the weighted average life of the loans using a constant yield method. 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*. These purchased non-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 Company evaluated loans purchased in conjunction with the acquisition of Vision in accordance with the provisions of FASB ASC Topic 310-20. None of the purchased non-covered loans were considered impaired at the date of acquisition. The fair value discount is being accreted into interest income over the weighted average life of the loans using a constant yield method.

The Company evaluated loans purchased in conjunction with the acquisitions of Heritage and Premier for impairment in accordance with the provisions of FASB ASC Topic 310-30. These purchased non-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.

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 December 31, 2013 and December 31, 2012 for the Company:

	December 31, 2013	December 31, 2012
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	\$ 117,164	\$ 164,723
Construction/land development	48,388	66,713
Agricultural	1,232	2,282
Residential real estate loans		
Residential 1-4 family	98,403	125,625
Multifamily residential	10,378	9,567
Total real estate	275,565	368,910
Consumer	20	39
Commercial and industrial	5,852	14,668
Other	1,079	1,267

Loans receivable covered by FDIC loss share	\$ 282,516	\$ 384,884
---	------------	------------

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 December 31, 2013 and 2012, \$35.8 million and \$70.9 million, respectively, were accruing loans past due 90 days or more.

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

The following table presents a summary of changes in the allowance for loan losses for the non-covered and covered loan portfolios for the year ended December 31, 2013:

	For Loans Not Covered by Loss Share	For Loans Covered by FDIC Loss Share	Total
	(In thousands)		
Allowance for loan losses:			
Beginning balance	\$ 45,170	\$ 5,462	\$ 50,632
Loans charged off	14,197	5,314	19,511
Recoveries of loans previously charged off	3,860	200	4,060
Net loans recovered (charged off)	(10,337)	(5,114)	(15,451)
Provision for loan losses for non-covered loans	4,189		4,189
Provision for loan losses before benefit attributable to FDIC loss share agreements		4,445	4,445
Benefit attributable to FDIC loss share agreements		(3,454)	(3,454)
Net provision for loan losses for covered loans		991	991
Increase in FDIC indemnification asset		3,454	3,454
Balance, December 31	\$ 39,022	\$ 4,793	\$ 43,815

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 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. Additionally, the Company's discounts for credit losses on non-covered loans acquired were \$174.6 million, \$81.7 million and \$2.5 million at December 31, 2013, 2012 and 2011, respectively.

	Year Ended December 31, 2013						
	Other		Residential	Commercial	Consumer	Unallocated	Total
	Construction/	Real					
	Land	Estate	Real Estate & Industrial	& Industrial	& Other		
Development							
Allowance for loan losses:							
Beginning balance	\$ 5,816	\$ 19,974	\$ 13,813	\$ 3,870	\$ 1,288	\$ 409	\$ 45,170
Loans charged off	(998)	(4,054)	(6,308)	(537)	(2,300)		(14,197)
Recoveries of loans previously charged off	34	2,071	982	72	701		3,860
Net loans recovered (charged off)	(964)	(1,983)	(5,326)	(465)	(1,599)		(10,337)
Provision for loan losses	1,430	(2,891)	402	(1,472)	2,874	3,846	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	Commercial	Consumer	Unallocated	Total
	Construction/	Real					
	Land	Estate	Real Estate	& Industrial	& Other		
Development							
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	\$ 3,826	\$ 8,359	\$ 2,347	\$ 5	\$	\$	\$ 14,537
Loans collectively evaluated for impairment	2,456	6,741	6,542	1,928	2,563	4,255	24,485
	\$ 6,282	\$ 15,100	\$ 8,889	\$ 1,933	\$ 2,563	\$ 4,255	\$ 39,022

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

Table of Contents

The following tables present the balance in the allowance for loan losses for the non-covered loan portfolio for the year ended December 31, 2012, 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, 2012. 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, 2012							Total
	Other		Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated		
	Construction/	Commercial						
	Land Development	Real Estate	Real Estate	& Industrial	& Other			
Allowance for loan losses:								
Beginning balance	\$ 7,945	\$ 20,368	\$ 12,196	\$ 6,308	\$ 3,258	\$ 2,054	\$ 52,129	
Loans charged off	(1,086)	(1,384)	(4,423)	(1,342)	(2,558)		(10,793)	
Recoveries of loans previously charged off	9	1,204	678	124	569		2,584	
Net loans recovered (charged off)	(1,077)	(180)	(3,745)	(1,218)	(1,989)		(8,209)	
Provision for loan losses	(1,052)	(214)	5,362	(1,220)	19	(1,645)	1,250	
Balance, December 31	\$ 5,816	\$ 19,974	\$ 13,813	\$ 3,870	\$ 1,288	\$ 409	\$ 45,170	

	As of December 31, 2012							Total
	Other		Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated		
	Construction/	Commercial						
	Land Development	Real Estate	Real Estate	& Industrial	& Other			
Allowance for loan losses:								
Period end amount allocated to:								
Loans individually evaluated for impairment	\$ 4,070	\$ 14,215	\$ 9,365	\$ 1,421	\$ 338	\$	\$ 29,409	
Loans collectively evaluated for impairment	1,746	5,759	4,448	2,449	950	409	15,761	
Balance, December 31	\$ 5,816	\$ 19,974	\$ 13,813	\$ 3,870	\$ 1,288	\$ 409	\$ 45,170	
Loans receivable:								
Period end amount allocated to:								
	\$ 28,181	\$ 93,610	\$ 33,994	\$ 3,690	\$ 746	\$	\$ 160,221	

Loans individually evaluated for impairment							
Loans collectively evaluated for impairment	210,333	862,128	559,066	227,447	83,932		1,942,906
Loans evaluated for impairment balance, December 31	238,514	955,738	593,060	231,137	84,678		2,103,127
Purchased credit impaired loans acquired	16,286	95,814	85,951	25,771	4,250		228,072
Balance, December 31	\$ 254,800	\$ 1,051,552	\$ 679,011	\$ 256,908	\$ 88,928	\$	\$ 2,331,199

Table of Contents

The following tables present the balance in the allowance for loan losses for the year ended December 31, 2011, and the allowance for loan losses and recorded investment in loans based on portfolio segment by impairment method as of December 31, 2011. 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, 2011

	Other		Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	Construction Development	Commercial Estate					
Allowance for loan losses:							
Beginning balance	\$ 12,002	\$ 17,247	\$ 14,297	\$ 6,357	\$ 1,022	\$ 2,423	\$ 53,348
Loans charged off	(3,590)	(4,076)	(3,299)	(571)	(3,159)		(14,695)
Recoveries of loans previously charged off	827	278	2,477	5,817	577		9,976
Net loans recovered (charged off)	(2,763)	(3,798)	(822)	5,246	(2,582)		(4,719)
Provision for loan losses	(1,294)	6,919	(1,279)	(5,295)	4,818	(369)	3,500
Balance, December 31	\$ 7,945	\$ 20,368	\$ 12,196	\$ 6,308	\$ 3,258	\$ 2,054	\$ 52,129

As of December 31, 2011

	Other		Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	Construction Development	Commercial Estate					
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	\$ 4,428	\$ 15,050	\$ 8,485	\$ 3,503	\$ 2,205	\$	\$ 33,671
Loans collectively evaluated for impairment	3,517	5,318	3,711	2,805	1,053	2,054	18,458
Balance, December 31	\$ 7,945	\$ 20,368	\$ 12,196	\$ 6,308	\$ 3,258	\$ 2,054	\$ 52,129

Loans receivable:
Period end amount allocated to:

Edgar Filing: HOME BANCSHARES INC - Form 10-K

Loans individually evaluated for impairment	\$ 25,534	\$ 105,517	\$ 29,818	\$ 9,535	\$ 2,798	\$	\$ 173,202
Loans collectively evaluated for impairment	336,312	622,004	376,634	166,741	85,193		1,586,884
Balance, December 31	\$ 361,846	\$ 727,521	\$ 406,452	\$ 176,276	\$ 87,991	\$	\$ 1,760,086

Table of Contents

The following is an aging analysis for the non-covered loan portfolio for the year ended December 31, 2013 and December 31, 2012:

	December 31, 2013						
	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due	Current Loans	Total Loans Receivable	Accruing Loans Past Due 90 Days or More
(In thousands)							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	\$ 4,849	\$ 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
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

	December 31, 2012						
	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due	Current Loans	Total Loans Receivable	Accruing Loans Past Due 90 Days or More
(In thousands)							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	\$ 8,670	\$ 399	\$ 5,096	\$ 14,165	\$ 1,004,874	\$ 1,019,039	\$ 1,437
Construction/land development							
	374	732	3,976	5,082	249,718	254,800	1,296

Edgar Filing: HOME BANCSHARES INC - Form 10-K

Agricultural			140	140	32,373	32,513	
Residential real estate loans							
Residential 1-4 family	3,724	1,978	12,561	18,263	531,006	549,269	2,589
Multifamily residential	157	4,439	3,215	7,811	121,931	129,742	
Total real estate	12,925	7,548	24,988	45,461	1,939,902	1,985,363	5,322
Consumer	780	187	688	1,655	35,807	37,462	95
Commercial and industrial	1,310	254	1,597	3,161	253,747	256,908	520
Agricultural and other	262	116		378	51,088	51,466	
Total	\$ 15,277	\$ 8,105	\$ 27,273	\$ 50,655	\$ 2,280,544	\$ 2,331,199	\$ 5,937

Non-accruing loans not covered by loss share at December 31, 2013 and December 31, 2012 were \$15.1 million and \$21.3 million, respectively.

Table of Contents

The following is a summary of the non-covered impaired loans as of December 31, 2013, 2012 and 2011:

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

Edgar Filing: HOME BANCSHARES INC - Form 10-K

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
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.

Table of Contents

	December 31, 2012				
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses (In thousands)	Year Ended Average Recorded Investment	Interest Recognized
Loans without a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	\$ 7,574	\$ 7,571	\$	\$ 2,478	\$ 73
Construction/land development				1,314	
Agricultural					
Residential real estate loans					
Residential 1-4 family	353	353		712	4
Multifamily residential					
Total real estate	7,927	7,924		4,504	77
Consumer					
Commercial and industrial	292	292		134	2
Agricultural and other					
Total loans without a specific valuation allowance	8,219	8,216		4,638	79
Loans with a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	67,378	66,060	14,215	71,882	3,755
Construction/land development	20,592	20,366	4,070	19,489	956
Agricultural				7	1
Residential real estate loans					
Residential 1-4 family	19,364	19,138	6,852	20,518	806
Multifamily residential	10,515	10,515	2,513	7,716	353
Total real estate	117,849	116,079	27,650	119,612	5,871
Consumer					
Commercial and industrial	752	746	338	1,078	51
Commercial and industrial	2,219	2,144	1,421	7,232	411
Agricultural and other				962	21
Total loans with a specific valuation allowance	120,820	118,969	29,409	128,884	6,354
Total impaired loans					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	74,952	73,631	14,215	74,360	3,828
Construction/land development	20,592	20,366	4,070	20,803	956
Agricultural				7	1
Residential real estate loans					

Edgar Filing: HOME BANCSHARES INC - Form 10-K

Residential 1-4 family	19,717	19,491	6,852	21,230	810
Multifamily residential	10,515	10,515	2,513	7,716	353
Total real estate	125,776	124,003	27,650	124,116	5,948
Consumer	752	746	338	1,078	51
Commercial and industrial	2,511	2,436	1,421	7,366	413
Agricultural and other				962	21
Total impaired loans	\$ 129,039	\$ 127,185	\$ 29,409	\$ 133,522	\$ 6,433

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, 2012.

Table of Contents

	December 31, 2011				
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses (In thousands)	Year Ended Average Recorded Investment	Interest Recognized
Loans without a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	\$ 1,338	\$ 1,338	\$	\$ 2,810	\$ 77
Construction/land development	6,236	6,236		1,456	80
Agricultural					
Residential real estate loans					
Residential 1-4 family	246	246		428	12
Multifamily residential					
Total real estate	7,820	7,820		4,694	169
Consumer					
Commercial and industrial	393	218		165	5
Agricultural and other					
Total loans without a specific valuation allowance	8,213	8,038		4,859	174
Loans with a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	78,978	74,290	15,050	58,222	3,020
Construction/land development	15,364	15,190	4,428	22,010	1,043
Agricultural					
Residential real estate loans					
Residential 1-4 family	25,173	22,560	6,272	21,157	788
Multifamily residential	6,577	6,576	2,213	7,039	349
Total real estate	126,092	118,616	27,963	108,907	5,210
Consumer					
Commercial and industrial	1,611	1,596	1,002	1,348	46
Commercial and industrial	10,319	8,569	3,503	11,170	730
Agricultural and other					
Commercial and industrial	1,203	1,203	1,203	241	
Total loans with a specific valuation allowance	139,225	129,984	33,671	121,666	5,986
Total impaired loans					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	80,316	75,628	15,050	61,032	3,097
Construction/land development	21,600	21,426	4,428	23,466	1,123
Agricultural					
Residential real estate loans					

Edgar Filing: HOME BANCSHARES INC - Form 10-K

Residential 1-4 family	25,419	22,806	6,272	21,585	800
Multifamily residential	6,577	6,576	2,213	7,039	349
Total real estate	133,912	126,436	27,963	113,601	5,379
Consumer	1,611	1,596	1,002	1,348	46
Commercial and industrial	10,537	8,787	3,503	11,335	735
Agricultural and other	1,203	1,203	1,203	241	
Total impaired loans	\$ 147,263	\$ 138,022	\$ 33,671	\$ 126,525	\$ 6,160

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, 2011.

Interest recognized on non-covered impaired loans during the years ended December 31, 2013, 2012 and 2011 was approximately \$3.9 million, \$6.4 million and \$6.2 million, respectively. The amount of interest recognized on non-covered impaired loans on the cash basis is not materially different than the accrual basis.

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 December 31, 2013 and December 31, 2012:

	December 31, 2013			
	Risk Rated 6	Risk Rated 7	Risk Rated 8	Classified Total
	(In thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	\$ 55,874	\$ 1	\$	\$ 55,875
Construction/land development	19,140			19,140
Agricultural	89			89
Residential real estate loans				
Residential 1-4 family	12,747	196		12,943
Multifamily residential	2,064			2,064
Total real estate	89,914	197		90,111
Consumer	454			454
Commercial and industrial	2,620	2		2,622
Agricultural and other	32			32
Total	\$ 93,020	\$ 199	\$	\$ 93,219

	December 31, 2012			
	Risk Rated 6	Risk Rated 7	Risk Rated 8	Classified Total
	(In thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	\$ 55,906	\$ 14	\$	\$ 55,920
Construction/land development	17,805			17,805
Agricultural	140			140
Residential real estate loans				
Residential 1-4 family	19,172	319		19,491
Multifamily residential	5,272			5,272
Total real estate	98,295	333		98,628
Consumer	1,495			1,495
Commercial and industrial	3,226	15		3,241

Agricultural and other		39			39
Total		\$ 103,055	\$ 348	\$	\$ 103,403

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 December 31, 2013 and December 31, 2012:

	December 31, 2013					Classified Total	Total
	Risk Rated 1	Risk Rated 2	Risk Rated 3	Risk Rated 4	Risk Rated 5		
(In thousands)							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	\$ 3	\$ 3,135	\$ 1,039,110	\$ 462,957	\$ 28,380	\$ 55,875	\$ 1,589,460
Construction/land development							
Agricultural	54	94	198,228	303,590	11,732	19,140	532,838
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
Total real estate	505	3,375	2,095,733	999,425	59,796	90,111	3,248,945
Consumer	15,566	32	42,647	7,244	848	454	66,791
Commercial and industrial	25,809	5,845	300,108	151,986	3,229	2,622	489,599
Agricultural and other	675	7,138	74,676	14,462	674	32	97,657
Total risk rated loans	\$ 42,555	\$ 16,390	\$ 2,513,164	\$ 1,173,117	\$ 64,547	\$ 93,219	\$ 3,902,992
Purchased credit impaired loans acquired							291,445
Total non-covered loans							\$ 4,194,437

	December 31, 2012					Classified Total	Total
	Risk Rated 1	Risk Rated 2	Risk Rated 3	Risk Rated 4	Risk Rated 5		
(In thousands)							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	\$ 7	\$ 53	\$ 483,816	\$ 350,768	\$ 34,354	\$ 55,920	\$ 924,918
Construction/land development							
Agricultural	41	116	65,215	147,908	7,429	17,805	238,514
Residential real estate loans							
Residential 1-4 family	461	155	305,369	131,698	14,873	19,491	472,047
Multifamily residential			23,760	86,459	5,521	5,272	121,012

Edgar Filing: HOME BANCSHARES INC - Form 10-K

Total real estate	509	324	889,080	736,594	62,177	98,628	1,787,312
Consumer	8,785	105	14,771	7,865	658	1,495	33,679
Commercial and industrial	10,431	1,248	119,599	94,713	1,905	3,241	231,137
Agricultural and other	244	2,517	28,755	19,443	1	39	50,999
Total risk rated loans	\$ 19,969	\$ 4,194	\$ 1,052,205	\$ 858,615	\$ 64,741	\$ 103,403	\$ 2,103,127
Purchased credit impaired loans acquired							228,072
Total non-covered loans							\$ 2,331,199

Table of Contents

The following is a presentation of non-covered TDRs by class as of December 31, 2013 and 2012:

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

	December 31, 2012					
	Pre- Modification Number of Loans	Outstanding Balance	Rate Modification	Term Modification	Rate & Term Modification	Post- Modification Outstanding Balance
(In thousands)						
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	34	\$ 48,672	\$ 22,710	\$ 11,198	\$ 10,449	\$ 44,357
Construction/land development	3	9,117	6,489	1,688		8,177
Residential real estate loans						
Residential 1-4 family	11	4,621	3,337	348	623	4,308
Multifamily residential	2	4,213	3,377			3,377
Total real estate	50	66,623	35,913	13,234	11,072	60,219
Commercial and industrial	5	683	6	272	385	663
Total	55	\$ 67,306	\$ 35,919	\$ 13,506	\$ 11,457	\$ 60,882

The following is a presentation of non-covered TDRs on non-accrual status because they are not in compliance with the modified terms:

	December 31, 2013		December 31, 2012	
	Number of Loans	Recorded Balance	Number of Loans	Recorded Balance
	(In thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential		\$ 2		\$ 761
Construction/land development				
Residential real estate loans				
Residential 1-4 family	4	854	5	2,665
Total real estate	4	854	7	3,426
Commercial and industrial				
Total	4	\$ 854	7	\$ 3,426

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

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.

During the quarterly 2012 impairment testing on the estimated cash flows of the covered loans, the Company established that four pools evaluated had experienced material projected credit deterioration. As a result, the Company recorded a \$7.5 million provision for loan losses to the allowance for loan losses related to the purchased impaired loans during the year ended December 31, 2012. Since these loans are covered by loss share with the FDIC, the Company was able to increase the related indemnification asset by \$6.0 million resulting in a net provision for loan losses of \$1.5 million.

The following tables present the balance in the allowance for loan losses for the covered loan portfolio for 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. Allocation of a portion of the allowance to one type of loan does not preclude its availability to absorb losses in other categories.

	Year Ended December 31, 2013					Total
	Other		Residential Real Estate	Consumer		
	Construction Land Development	Commercial Real Estate		Commercial & Industrial Other	Unallocated	
						(In thousands)
Allowance for loan losses:						
Beginning balance	\$ 1,169	\$ 4,005	\$ 228	\$ 60	\$	\$ 5,462
Loans charged off	(905)	(3,426)	(826)	(157)		(5,314)
Recoveries of loans previously charged off	15	13	172			200
Net loans recovered (charged off)	(890)	(3,413)	(654)	(157)		(5,114)
Provision for loan losses before benefit attributable to FDIC loss share agreements	1,428	246	2,539	232		4,445
Benefit attributable to FDIC loss share agreements	(1,118)	44	(2,165)	(215)		(3,454)
Net provision for loan losses	310	290	374	17		991
Increase in FDIC indemnification asset	1,118	(44)	2,165	215		3,454
Balance, December 31	\$ 1,707	\$ 838	\$ 2,113	\$ 135	\$	\$ 4,793

As of December 31, 2013

	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	\$	\$	\$	\$	\$	\$	\$
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
Balance, December 31	\$ 1,707	\$ 838	\$ 2,113	\$ 135	\$	\$	\$ 4,793
Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	\$	\$	\$	\$	\$	\$	\$
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
Balance, December 31	\$ 48,388	\$ 118,396	\$ 108,781	\$ 5,852	\$ 1,099	\$	\$ 282,516

Table of Contents

The following tables present the balance in the allowance for loan losses for the covered loan portfolio for the period ended December 31, 2012, 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, 2012. Allocation of a portion of the allowance to one type of loan does not preclude its availability to absorb losses in other categories.

	Year Ended December 31, 2012						Total
	Other		Residential Real Estate	Consumer		Unallocated	
	Construction Land Development	Commercial Real Estate		Commercial & Industrial	Other		
	(In thousands)						
Allowance for loan losses:							
Beginning balance	\$	\$	\$	\$	\$	\$	\$
Loans charged off	(648)	(970)	(132)	(14)	(278)		(2,042)
Recoveries of loans previously charged off			2				2
Net loans recovered (charged off)	(648)	(970)	(130)	(14)	(278)		(2,040)
Provision for loan losses before benefit attributable to FDIC loss share agreements	1,817	4,975	358	74	278		7,502
Benefit attributable to FDIC loss share agreements	(1,454)	(3,980)	(286)	(60)	(222)		(6,002)
Net provision for loan losses	363	995	72	14	56		1,500
Increase in FDIC indemnification asset	1,454	3,980	286	60	222		6,002
Balance, December 31	\$ 1,169	\$ 4,005	\$ 228	\$ 60	\$	\$	\$ 5,462

	As of December 31, 2012						Total
	Other		Residential Real Estate	Consumer		Unallocated	
	Construction Land Development	Commercial Real Estate		Commercial & Industrial	Other		
	(In thousands)						
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	\$	\$	\$	\$	\$	\$	\$
Loans collectively evaluated for impairment							

Loans evaluated for
impairment balance,
December 31

Purchased credit impaired loans acquired	1,169	4,005	228	60		5,462
Balance, December 31	\$ 1,169	\$ 4,005	\$ 228	\$ 60	\$	\$ 5,462

Loans receivable:

Period end amount allocated
to:

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

Loans evaluated for
impairment balance,
December 31

Purchased credit impaired loans acquired	66,713	167,005	135,192	14,668	1,306	384,884
Balance, December 31	\$ 66,713	\$ 167,005	\$ 135,192	\$ 14,668	\$ 1,306	\$ 384,884

The following is a summary of the non-covered purchased credit impaired loans acquired in the Liberty acquisition during 2013 as of the date of acquisition:

	Liberty (In thousands)
Contractually required principal and interest at acquisitions	\$ 172,482
Non-accretable difference (expected losses and foregone interest)	41,935
Cash flows expected to be collected at acquisition	130,547
Accretable yield	10,076
Basis in acquired loans at acquisition	\$ 120,471

Table of Contents

As of the respective acquisition date, the estimates of contractually required payments receivable, including interest, for all non-covered purchased credit impaired loans acquired in the Liberty transaction was \$172.5 million. The cash flows expected to be collected as of the acquisition dates for these loans were \$130.5 million, including interest. These amounts were determined based upon the estimated remaining lives of the underlying loans, which includes the effects of estimated prepayments.

Changes in the carrying amount of the accretible yield for purchased credit impaired loans acquired were as follows for the year ended December 31, 2013 for the Company's covered and non-covered acquisitions:

	Accretible Yield	Carrying Amount of Loans
	(In thousands)	
Balance at beginning of period	\$ 127,371	\$ 612,956
Reforecasted future interest payments for loan pools	8,988	
Accretion	(56,081)	56,081
Acquisition of Liberty	10,076	120,471
Adjustment to yield	29,627	
Transfers to foreclosed assets held for sale		(10,476)
Payments received, net		(205,071)
Balance at end of period	\$ 119,981	\$ 573,961

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 \$9.0 million. This updated forecast does not change the expected weighted average yields on the loan pools.

During 2013, thirteen FDIC loss sharing 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 \$29.7 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 asset and increase our FDIC true-up liability. This positive event will reduce the indemnification asset by approximately \$20.9 million and increase our FDIC true-up liability by \$2.9 million. The \$20.9 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 \$2.9 million will be expensed over the remaining true-up measurement date as other non-interest expense. This will result in approximately \$5.9 million of pre-tax net income being recognized going forward which may or may not be symmetrical depending on the weighted average life of the loans.

Table of Contents**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 December 31, 2013 and 2012, were as follows:

	December 31, 2013	December 31, 2012
	(In thousands)	
<u>Goodwill</u>		
Balance, beginning of period	\$ 85,681	\$ 59,663
Vision and Premier acquisitions		26,018
Liberty acquisition	216,055	
Balance, end of period	\$ 301,736	\$ 85,681

	December 31, 2013	December 31, 2012
	(In thousands)	
<u>Core Deposit and Other Intangibles</u>		
Balance, beginning of period	\$ 12,061	\$ 8,620
Acquisitions	13,861	6,202
Amortization expense	(3,624)	(2,761)
Balance, end of year	\$ 22,298	\$ 12,061

The carrying basis and accumulated amortization of core deposits and other intangibles at December 31, 2013 and 2012 were:

	December 31,	
	2013	2012
	(In thousands)	
Gross carrying amount	\$ 43,524	\$ 29,663
Accumulated amortization	(21,226)	(17,602)
Net carrying amount	\$ 22,298	\$ 12,061

Core deposit and other intangible amortization expense for the years ended December 31, 2013, 2012 and 2011 was approximately \$3.6 million, \$2.8 million and \$2.8 million, respectively. Core deposit and other intangibles are tested annually for impairment during the fourth quarter. During the 2013 review, the Company's core deposit and other intangibles for Heritage Bank were considered impaired and an approximately \$173,000 impairment adjustment was made for the year ended December 31, 2013. Including all of the mergers completed as of December 31, 2013, 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 December 31, 2013 and \$85.7 million at December 31, 2012. 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 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 December 31, 2013 and December 31, 2012 other assets were \$81.2 million and \$75.7 million, respectively.

Table of Contents

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 \$19.1 million and \$45.2 million at December 31, 2013 and December 31, 2012, 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 holding in Federal Home Loan Bank, Federal Reserve Bank, Bankers Bank and other miscellaneous holdings. The equity securities without a readily determinable fair value were \$52.6 million and \$20.2 million at December 31, 2013 and December 31, 2012, respectively.

9. Deposits

The aggregate amount of time deposits with a minimum denomination of \$100,000 was \$877.4 million and \$549.1 million at December 31, 2013 and 2012, respectively. Interest expense applicable to certificates in excess of \$100,000 totaled \$4.1 million, \$7.8 million and \$9.9 million for the years ended December 31, 2013, 2012 and 2011, respectively. As of December 31, 2013 and 2012, brokered deposits were \$100.4 million and \$56.9 million, respectively.

The following is a summary of the scheduled maturities of all time deposits at December 31, 2013 (in thousands):

One month or less.	\$ 198,695
Over 1 month to 3 months	242,188
Over 3 months to 6 months	374,759
Over 6 months to 12 months	446,319
Over 12 months to 2 years	239,213
Over 2 years to 3 years	68,291
Over 3 years to 5 years	35,627
Over 5 years	4,370
Total time deposits	\$ 1,609,462

Deposits totaling approximately \$1.02 billion and \$484.4 million at December 31, 2013 and 2012, respectively, were public funds obtained primarily from state and political subdivisions in the United States.

10. Securities Sold Under Agreements to Repurchase

At December 31, 2013 and 2012, securities sold under agreements to repurchase totaled \$161.0 million and \$66.3 million, respectively. For the years ended December 31, 2013 and 2012, securities sold under agreements to repurchase daily weighted average totaled \$88.1 million and \$67.0 million, respectively.

11. FHLB Borrowed Funds

The Company's FHLB borrowed funds were \$350.7 million and \$130.4 million at December 31, 2013 and 2012, respectively. At December 31, 2013, \$130.3 million and \$220.4 million of the outstanding balances were short-term and long-term advances, respectively. All of the outstanding balance for December 31, 2012 was long-term advances. 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.

Table of Contents

Additionally, the Company had \$191.0 million and \$90.5 million at December 31, 2013 and 2012, respectively, in letters of credit under a FHLB blanket borrowing line of credit, which are used to collateralize public deposits at December 31, 2013 and 2012, respectively.

Maturities of borrowings with original maturities exceeding one year at December 31, 2013, are as follows (in thousands):

2014	\$ 35,316
2015	52,919
2016	15,485
2017	658
2018	111,684
Thereafter	4,347
	\$ 220,409

12. Subordinated Debentures

Subordinated debentures at December 31, 2013 and 2012 consisted of guaranteed payments on trust preferred securities with the following components:

	As of December 31,	
	2013	2012
	(In thousands)	
Subordinated debentures, issued in 2003, due 2033, fixed at 6.40%, during the first five years and at a floating rate of 3.15% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	\$	\$ 20,619
Subordinated debentures, issued in 2003, due 2033, floating rate of 3.15% above the three-month LIBOR rate, reset quarterly, currently callable without penalty		5,155
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	
Subordinated debentures, issued in 2005, due 2035, fixed rate of 5.836% 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	
	16,495	

Edgar Filing: HOME BANCSHARES INC - Form 10-K

Subordinated debentures, issued in 2004, due 2034, fixed rate of 4.29% during the first five years and at a floating rate of 2.50% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty

Total	\$ 60,826	\$ 28,867
-------	-----------	-----------

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

Presently, the funds raised from the trust preferred offerings qualify as Tier 1 capital for regulatory purposes, subject to the applicable limit, with the balance qualifying as Tier 2 capital. The Board of Governors of the Federal Reserve System recently announced the planned implementation of Basel III capital rules. Under these rules trust preferred securities will be phased out as Tier 1 capital for future periods.

The Company holds \$60.8 million of trust preferred securities which are currently callable without penalty based on the terms of the specific agreements. We acquired \$57.7 million of trust preferred securities during the Liberty acquisition. Since these trust preferred securities are being phased out of Tier 1 capital, we decided to begin the process of redeeming these instruments. During 2013, the Company paid off \$25.8 million of subordinated debentures. As a result of the leveraging from the Liberty acquisition, we have decided to postpone any future redemptions until the holding company builds additional Tier 1 capital and cash.

13. Income Taxes

The following is a summary of the components of the provision (benefit) for income taxes:

	Year Ended December 31,		
	2013	2012	2011
	(In thousands)		
Current:			
Federal	\$ 11,507	\$ 30,041	\$ 32,751
State	2,286	5,822	6,087
Total current	13,793	35,863	38,838
Deferred:			
Federal	20,156	(363)	(7,821)
State	4,004	(71)	(1,416)
Total deferred	24,160	(434)	(9,237)
Provision for income taxes	\$ 37,953	\$ 35,429	\$ 29,601

The reconciliation between the statutory federal income tax rate and effective income tax rate is as follows:

	Year Ended December 31,		
	2013	2012	2011
Statutory federal income tax rate	35.00%	35.00%	35.00%
Effect of nontaxable interest income	(2.25)	(2.47)	(2.87)
Cash value of life insurance	(0.27)	(0.30)	(0.47)
State income taxes, net of federal benefit	3.93	3.80	3.60
Other	(0.08)	(0.04)	(0.16)
Effective income tax rate	36.33%	35.99%	35.10%

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:

	December 31, 2013	December 31, 2012
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	\$ 17,213	\$ 19,999
Deferred compensation	3,230	1,331
Stock options	277	231
Real estate owned	11,145	9,211
Loan discounts	65,639	51,946
Tax basis premium/discount on acquisitions	20,671	23,914
Unrealized loss on securities available-for-sale	2,673	
Deposits	14	485
Investments	2,568	
Other	6,978	7,239
Gross deferred tax assets	130,408	114,356
Deferred tax liabilities:		
Accelerated depreciation on premises and equipment	3,616	377
Unrealized gain on securities available-for-sale		7,747
Core deposit intangibles	5,650	1,506
Indemnification asset	29,074	54,009
FHLB dividends	1,602	889
Other	1,054	2,830
Gross deferred tax liabilities	40,996	67,358
Net deferred tax assets	\$ 89,412	\$ 46,998

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and the states of Arkansas, Alabama and Florida. With a few exceptions, the Company is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2010. The Internal Revenue Service (IRS) commenced an examination of the Company's U.S. income tax return for 2008 in the second quarter of 2011 that was completed in the fourth quarter of 2012. The IRS did not propose any significant adjustments to the Company's tax return.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties in income tax expense. During the years ended December 31, 2013, 2012 and 2011, the Company did not recognize any significant interest or penalties. The Company did not have any interest or penalties accrued at December 31, 2013, 2012 and 2011.

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.

Table of Contents**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 December 31, 2013, the Company had approximately 1,594,000 shares of common stock remaining available for grants or issuance under the plan and approximately 2,560,000 shares reserved for issuance of common stock.

The intrinsic value of the stock options outstanding at December 31, 2013, 2012, and 2011 was \$26.8 million, \$8.6 million and \$8.3 million, respectively. The intrinsic value of the stock options vested at December 31, 2013, 2012 and 2011 was \$22.1 million, \$8.2 million and \$8.1 million, respectively.

The intrinsic value of the stock options exercised during 2013, 2012 and 2011 was \$2.2 million, \$3.8 million, and \$1.5 million, respectively.

Total unrecognized compensation cost, net of income tax benefit, related to non-vested awards, which are expected to be recognized over the vesting periods, was approximately \$879,000 as of December 31, 2013.

The table below summarized the transactions under the Company's stock option plans at December 31, 2013, 2012 and 2011 and changes during the years then ended:

	2013		2012		2011	
	Shares	Weighted Average Price	Shares	Weighted Average Price	Shares	Weighted Average Price
	(000)	Exercisable	(000)	Exercisable	(000)	Exercisable
Outstanding, beginning of year	871	\$ 6.66	1,138	\$ 5.68	1,320	\$ 5.44
Granted	184	21.24	90	13.13		
Forfeited	(3)	8.60	(2)	4.65		
Exercised	(86)	5.01	(355)	5.17	(182)	3.94
Outstanding, end of year	966	9.57	871	6.66	1,138	5.68
Exercisable, end of year	710	\$ 6.20	766	\$ 5.86	1,100	\$ 5.56

Stock-based compensation expense for stock-based compensation awards granted is based on the grant date fair value. For stock option awards, the fair value is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. Additionally, there may be other factors that would otherwise have a significant effect on the value of employee stock options granted but are not considered by the model. Accordingly, while management believes that the Black-Scholes option-pricing model provides a reasonable estimate of fair value, the model does not necessarily provide the best single measure of fair value for the Company's employee stock options. The weighted-average fair value of options granted during the year ended December 31, 2013 and 2012, were \$4.50 per share and \$3.59 per share (split adjusted), respectively. 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.

Table of Contents

The assumptions used in determining the fair value of 2013 and 2012 stock option grants were as follows:

	For the Year Ended December 31, 2013	For the Year Ended December 31, 2012
Expected dividend yield	1.42%	1.52%
Expected stock price volatility	22.09%	30.56%
Risk-free interest rate	1.33%	1.47%
Expected life of options	6.5 years	6.5 years

The following is a summary of currently outstanding and exercisable options at December 31, 2013:

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	14	1.29	\$ 3.32	14	\$ 3.32
\$ 3.92 to \$4.34	48	1.54	4.24	48	4.24
\$ 4.78 to \$4.92	88	1.53	4.82	88	4.82
\$ 5.33 to \$5.33	199	1.85	5.33	199	5.33
\$ 5.54 to \$5.54	199	2.20	5.54	199	5.54
\$ 8.54 to \$8.60	81	4.04	8.57	81	8.57
\$ 9.25 to \$9.31	10	3.40	9.29	10	9.29
\$ 10.16 to \$11.37	55	3.30	10.33	55	10.33
\$ 13.12 to \$13.12	88	8.06	13.12	16	13.12
\$ 17.25 to \$34.80	184	9.30	21.24		
	966			710	

The table below summarized the activity for the Company's restricted stock issued and outstanding at December 31, 2013, 2012 and 2011 and changes during the years then ended:

	2013	2012	2011
	(In thousands)		
Beginning of year	269	98	44
Issued	35	208	64
Vested	(32)	(36)	(10)
Forfeited	(16)		
End of year	256	269	98

Amount of expense for twelve months ended	\$ 1,086	\$ 780	\$ 351
---	----------	--------	--------

The restricted stock issued through 2011 will vest equally each year over three years beginning on the first anniversary of the issuance. The only exception to this vesting is for 4,999 shares of restricted common stock issued during 2009. These restricted shares will vest equally each year over three years beginning on the third anniversary of the issuance.

On August 2, 2012, 208,000 shares (split adjusted) of restricted common stock were issued to our named executive officers and certain other employees of the Company. These shares include 86,000 shares (split adjusted) subject to time vesting (Restricted Shares) and 122,000 shares (split adjusted) subject to performance based vesting (Performance Shares).

Table of Contents

The Restricted Shares will cliff vest on the third annual anniversary of the grant date. 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 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 the previously discussed performance-based vesting.

The Company did not utilize a portion of its previously approved stock repurchase program during 2013. This program authorized the repurchase of 2,376,000 shares (split adjusted) of the Company's common stock. The Company repurchased for 2012 a total of 890,896 shares (split adjusted) with a weighted average stock price of \$14.86 per share (split adjusted). The 2012 earnings were used to fund these repurchases. 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 December 31, 2013.

15. Non-Interest Expense

The table below shows the components of non-interest expense for years ended December 31:

	2013	2012	2011
	(In thousands)		
Salaries and employee benefits	\$ 58,394	\$ 47,289	\$ 42,825
Occupancy and equipment	17,168	14,500	14,197
Data processing expense	5,393	4,930	4,601
Other operating expenses:			
Advertising	1,829	2,447	4,270
Merger and acquisition expenses	18,378	7,157	145
Amortization of intangibles	3,624	2,761	2,827
Electronic banking expense	4,207	3,175	2,733
Directors' fees	767	807	811
Due from bank service charges	616	536	496
FDIC and state assessment	2,849	2,313	4,283
Insurance	2,449	1,774	1,673
Legal and accounting	1,393	1,065	1,603
Other professional fees	1,928	1,655	1,954
Operating supplies	1,439	1,134	1,168
Postage	945	896	942

Edgar Filing: HOME BANCSHARES INC - Form 10-K

Telephone	1,260	1,074	977
Other expense	10,668	8,855	9,217
Total other operating expenses	52,352	35,649	33,099
Total non-interest expense	\$ 133,307	\$ 102,368	\$ 94,722

Table of Contents**16. Employee Benefit Plans*****401(k) Plan***

The Company has a retirement savings 401(k) plan in which substantially all employees may participate. The Company matches employees' contributions based on a percentage of salary contributed by participants. While the plan also allows for discretionary employer contributions, no discretionary contributions were made for the years ended 2013, 2012 and 2011. The Company's expense for the plan was approximately \$702,000, \$604,000 and \$522,000 in 2013, 2012 and 2011, respectively, which is included in salaries and employee benefits expense.

Chairman's Retirement Plan

On April 20, 2007, the Company's Board of Directors approved a Chairman's Retirement Plan for John W. Allison, the Company's Chairman and CEO. The Chairman's Retirement Plan provides a supplemental retirement benefit of \$250,000 a year for 10 consecutive years or until Mr. Allison's death, whichever occurs later. During 2011, Mr. Allison reached the age of 65 and became 100% vested in the plan. Therefore, he began receiving the supplemental retirement benefit due to him. He received \$250,000, \$250,000 and \$125,000 of this benefit during 2013, 2012 and 2011, respectively. An expense of approximately \$176,000, \$181,000 and \$372,000 was accrued for 2013, 2012 and 2011 for this plan, respectively.

17. Related Party Transactions

In the ordinary course of business, loans may be made to officers and directors and their affiliated companies at substantially the same terms as comparable transactions with other borrowers. At December 31, 2013 and 2012, related party loans were approximately \$30.5 million and \$33.0 million, respectively. New loans and advances on prior commitments made to the related parties were \$14.4 million and \$14.0 million for the years ended December 31, 2013 and 2012, respectively. Repayments of loans made by the related parties were \$16.9 million and \$14.0 million for the years ended December 31, 2013 and 2012, respectively.

At December 31, 2013 and 2012, directors, officers, and other related interest parties had demand, non-interest-bearing deposits of approximately \$13.5 million and \$23.5 million, respectively, savings and interest-bearing transaction accounts of approximately \$1.1 million and \$838,000, respectively, and time certificates of deposit of approximately \$10.5 million and \$6.2 million, respectively.

During 2013, 2012 and 2011, rent expense totaling approximately \$98,000, \$97,000 and \$97,000, respectively, was paid to related parties.

18. Leases

The Company leases certain premises and equipment under noncancelable operating leases with terms up to 15 years which are charged to expense over the lease term as it becomes payable. The Company's leases do not have rent holidays. In addition, any rent escalations are tied to the consumer price index or contain nominal increases and are not included in the calculation of current lease expense due to the immaterial amount. At December 31, 2013, the minimum rental commitments under these noncancelable operating leases are as follows (in thousands):

2014	\$ 2,717
------	----------

Edgar Filing: HOME BANCSHARES INC - Form 10-K

2015	2,328
2016	1,925
2017	1,809
2018	1,406
Thereafter	3,269
	\$ 13,454

Table of Contents

19. 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.

20. 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 December 31, 2013 and 2012, non-covered commercial real estate loans represented 56.8% and 56.0% of gross non-covered loans and 283.5% and 253.4% of total stockholders equity, respectively. Non-covered residential real estate loans represented 26.9% and 29.1% of gross non-covered loans and 134.0% and 131.7% of total stockholders' equity at December 31, 2013 and 2012, respectively.

Approximately 90.5% of the Company's loans as of December 31, 2013, 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 84.6% of its loans as real estate loans primarily in Arkansas, Florida and South Alabama.

The current economic environment presents financial institutions with unprecedented circumstances and challenges which in some cases have resulted 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 current economic conditions, 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.

21. 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 December 31, 2013 and 2012, commitments to extend credit of \$623.5 million and \$407.1 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.

Table of Contents

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 December 31, 2013 and 2012, is \$21.4 million and \$16.4 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 subsidiaries.

22. 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 December 31, 2013 and 2012, Level 3 securities were immaterial. In addition, there were no material transfers between hierarchy levels during 2013, 2012 and 2011.

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 \$91.9 million and \$97.8 million as of December 31, 2013 and 2012, respectively. This valuation is considered Level 3, consisting of appraisals of underlying collateral. The Company reversed approximately \$632,000 and \$495,000 of accrued interest receivable when non-covered impaired loans were put on non-accrual status during the year ended December 31, 2013 and 2012, respectively.

Table of Contents

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 December 31, 2013 and 2012, the fair value of non-covered foreclosed assets held for sale not covered by loss share, less estimated costs to sell was \$29.9 million and \$20.4 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 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.

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.

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.

Table of Contents

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.

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

Edgar Filing: HOME BANCSHARES INC - Form 10-K

Savings and interest-bearing transaction accounts	2,792,423	2,792,423	1
Time deposits	1,609,462	1,606,664	3
Federal funds purchased			N/A
Securities sold under agreements to repurchase	160,984	160,984	1
FHLB borrowed funds	350,661	357,674	2
Accrued interest payable	1,252	1,252	1
Subordinated debentures	60,826	60,826	3

Table of Contents

	December 31, 2012		
	Carrying Amount	Fair Value	Level
	(In thousands)		
Financial assets:			
Cash and cash equivalents	\$ 231,855	\$ 231,855	1
Federal funds sold	17,148	17,148	1
Loans receivable not covered by loss share, net of non-covered impaired loans and allowance	2,188,253	2,202,859	3
Loans receivable covered by FDIC loss share, net of allowance	379,422	379,422	3
FDIC indemnification asset	139,646	139,646	3
Accrued interest receivable	16,305	16,305	1
Financial liabilities:			
Deposits:			
Demand and non-interest-bearing	\$ 666,414	\$ 666,414	1
Savings and interest-bearing transaction accounts	1,784,047	1,784,047	1
Time deposits	1,032,991	1,037,235	3
Federal funds purchased			N/A
Securities sold under agreements to repurchase	66,278	66,278	1
FHLB borrowed funds	130,388	139,654	2
Accrued interest payable	1,243	1,243	1
Subordinated debentures	28,867	28,911	3

23. 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 2013, the Company requested approximately \$41.2 million in regular dividends from its banking subsidiary. This dividend is equal to approximately 75% of the current year earnings December 2012 through August 2013 from its banking subsidiary.

During October 2013, the Company requested a regulatory approved \$50.0 million special dividend from the Bank in order to facilitate the acquisition of Liberty Bancshares, Inc. Since the Company exceeded the regulatory dividend limit for 2013 after the special dividend, the Company did not request additional dividends from its banking subsidiary during the remainder of 2013. The Company anticipates resuming dividends of approximately 75% of the net income from its banking subsidiary during 2014.

The Company's banking subsidiary is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Company's regulators could require adjustments to

regulatory capital not reflected in the consolidated financial statements.

Table of Contents

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes that, as of December 31, 2013, the Company meets all capital adequacy requirements to which it is subject.

As of the most recent notification from regulatory agencies, the subsidiary was well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and its subsidiary must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institutions' categories.

The Company's actual capital amounts and ratios along with the Company's bank subsidiary are presented in the following table.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
As of December 31, 2013						
Leverage ratios:						
Home BancShares	\$ 549,493	9.38%	\$ 234,325	4.00%	\$ N/A	N/A%
Centennial Bank	514,943	7.96	258,765	4.00	323,457	5.00
Tier 1 capital ratios:						
Home BancShares	\$ 549,493	10.88%	\$ 202,019	4.00%	\$ N/A	N/A%
Centennial Bank	514,943	10.17	202,534	4.00	303,801	6.00
Total risk-based capital ratios:						
Home BancShares	\$ 593,308	11.75%	\$ 403,954	8.00%	\$ N/A	N/A%
Centennial Bank	558,758	11.03	405,264	8.00	506,580	10.00
As of December 31, 2012						
Leverage ratios:						
Home BancShares	\$ 431,158	10.95%	\$ 157,501	4.00%	\$ N/A	N/A%
Centennial Bank	387,752	9.84	157,623	4.00	197,028	5.00
Tier 1 capital ratios:						
Home BancShares	\$ 431,158	13.94%	\$ 123,718	4.00%	\$ N/A	N/A%
Centennial Bank	387,752	12.57	123,390	4.00	185,084	6.00
Total risk-based capital ratios:						
Home BancShares	\$ 469,965	15.20%	\$ 247,350	8.00%	\$ N/A	N/A%
Centennial Bank	426,454	13.83	246,683	8.00	308,354	10.00

24. Additional Cash Flow Information

The following is summary of the Company's additional cash flow information during the years ended:

2013 2012 2011

	(In thousands)		
Interest paid	\$ 14,960	\$ 22,823	\$ 31,430
Income taxes paid	26,045	35,570	37,150
Assets acquired by foreclosure	31,133	31,117	42,714

Table of Contents**25. Condensed Financial Information (Parent Company Only)****Condensed Balance Sheets**

(In thousands)	December 31,	
	2013	2012
Assets		
Cash and cash equivalents	\$ 6,000	\$ 35,779
Investments in wholly-owned subsidiaries	892,102	503,126
Investments in unconsolidated subsidiaries	1,826	867
Other assets	4,196	6,923
Total assets	\$ 904,124	\$ 546,695
Liabilities		
Subordinated debentures	\$ 60,826	\$ 28,867
Other liabilities	2,343	2,355
Total liabilities	63,169	31,222
Stockholders Equity		
Common stock	651	281
Capital surplus	708,058	416,354
Retained earnings	136,386	86,837
Accumulated other comprehensive income (loss)	(4,140)	12,001
Total stockholders equity	840,955	515,473
Total liabilities and stockholders equity	\$ 904,124	\$ 546,695

Condensed Statements of Income

(In thousands)	Years Ended December 31,		
	2013	2012	2011
Income			
Dividends from banking subsidiary	\$ 91,178	\$ 48,366	\$ 39,760
Other income	18	55	65
Total income	91,196	48,421	39,825
Expenses			
	5,055	4,909	5,089
Income before income taxes and equity in undistributed net income of subsidiaries	86,141	43,512	34,736
Tax benefit for income taxes	2,024	1,910	1,912

Edgar Filing: HOME BANCSHARES INC - Form 10-K

Income before equity in undistributed net income of subsidiaries	88,165	45,422	36,648
Equity in undistributed net income of subsidiaries	(21,645)	17,600	18,093
Net income	\$ 66,520	\$ 63,022	\$ 54,741

Table of Contents**Condensed Statements of Cash Flows**

(In thousands)	Years Ended December 31,		
	2013	2012	2011
Cash flows from operating activities			
Net income	\$ 66,520	\$ 63,022	\$ 54,741
Items not requiring (providing) cash			
Amortization			
Loss on investment securities			
Share-based compensation	1,298	917	36
Tax benefit from stock options exercised	(836)	(1,377)	(562)
Equity in undistributed income of subsidiaries	21,645	(17,600)	(18,093)
Changes in other assets	1,674	(1,049)	2,102
Changes in other liabilities	(1,819)	1,181	410
Net cash provided by (used in) operating activities	88,482	45,094	38,634
Cash flows from investing activities			
Purchase of Premier Bank		(1,415)	
Purchase of Liberty Bank	(76,980)		
Net cash provided by (used in) investing activities	(76,980)	(1,415)	
Cash flows from financing activities			
Repurchase of preferred stock and common stock warrant			(51,300)
Proceeds from exercise of stock options	431	1,958	1,061
Common stock issuance costs — market acquisitions	(577)		
Retirement of subordinated debentures	(25,000)	(15,000)	
Tax benefit from stock options exercised	836	1,377	562
Repurchase of common stock		(13,549)	(6,768)
Dividends paid	(16,971)	(16,315)	(8,894)
Net cash provided by (used in) financing activities	(41,281)	(41,529)	(65,339)
Increase (decrease) in cash and cash equivalents	(29,779)	2,150	(26,705)
Cash and cash equivalents, beginning of year	35,779	33,629	60,334
Cash and cash equivalents, end of year	\$ 6,000	\$ 35,779	\$ 33,629

Table of Contents**26. Recent Accounting Pronouncements**

In October 2012, the FASB issued an update, ASU 2012-06, *Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution*, to address the diversity in treatment with respect to indemnification assets recognized in connection with a government-assisted acquisition of a financial institution and the related asset subject to indemnification. When a reporting entity recognizes an indemnification asset as a result of a government-assisted acquisition of a financial institution, a change in the cash flows expected to be collected on the indemnified asset will result in a change in the value of such asset and should also result in a change in the respective indemnification asset. The update clarifies that the reporting entity should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement, which is the lesser of the term of the indemnification agreement or the remaining life of the indemnified assets. The new authoritative guidance became effective for reporting periods after January 1, 2013. ASU 2012-06 did not impact or change the impairment tests or results for the year ended 2013; the Company was already following the guidance provided for in this new standard.

In February 2013, the FASB issued an update, ASU 2013-02, *Comprehensive Income (Topic 220): Reporting Items Reclassified Out of Accumulated Other Comprehensive Income*, which requires disclosure of amounts reclassified out of accumulated other comprehensive income in their entirety, by component, on the face of the statement of comprehensive income or in the notes to the financial statements. Amounts that are not required to be classified in their entirety to net income must be cross-referenced to other disclosures that provide additional detail. ASU 2013-02 is effective prospectively for fiscal years and interim periods beginning after January 1, 2013, and did not have an impact on the Company's financial position or results of operations.

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.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No items are reportable.

Item 9A. CONTROLS AND PROCEDURES**Evaluation of Disclosure Controls and Procedures.**

An evaluation as of the end of the period covered by this annual report was carried out under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, which are defined under SEC rules as controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective. As a result of this evaluation, there were no significant changes in the Company's internal controls or in other factors that could significantly affect those controls subsequent to the date of evaluation.

Management's Report on Internal Control Over Financial Reporting

The information required by Item 308(a) and 308(b) of Regulation S-K regarding management's annual report on internal control over financial reporting and the audit report of the independent registered public accounting firm is contained in Item 8. Financial Statements and Supplementary Data and is incorporated herein by this reference.

Table of Contents

Changes in Internal Control Over Financial Reporting

The Company's management, including the Company's Chief Executive Officer and its Chief Financial Officer regularly review our disclosure controls and procedures and make changes intended to ensure the quality of our financial reporting. On October 24, 2013, we completed our acquisition of Liberty Bancshares, Inc., and as a result, we extended our oversight and monitoring processes that support our internal control over financial reporting during the fourth quarter of 2013, to include the operations of Liberty. Otherwise, there were no changes in our internal control over financial reporting during the Company's fourth quarter of its 2013 fiscal year that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. OTHER INFORMATION

No items are reportable.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A.

Item 11. EXECUTIVE COMPENSATION

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A.

Table of Contents**PART IV****Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

The following documents are filed as part of this report:

(a) 1 and 2. Financial Statements and any Financial Statement Schedules

The financial statements and financial statement schedules listed in the accompanying index to the consolidated financial statements and financial statement schedules are filed as part of this report.

(b) Listing of Exhibits.

Exhibit No.

12.1	Computation of Ratios of Earnings to Fixed Charges*
23.1	Consent of BKD, LLP*
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 Section 13 or 15(d) 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.

By: /s/ C. Randall Sims
C. Randall Sims
Chief Executive Officer

Date: February 28, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities indicated as of February 28, 2014.

/s/ John W. Allison
John W. Allison
Chairman of the Board of
Directors

/s/ C. Randall Sims
C. Randall Sims
Chief Executive Officer and
Director (Principal Executive
Officer)

/s/ Randy E. Mayor
Randy E. Mayor
Chief Financial Officer,
Treasurer and Director
(Principal Financial Officer)

/s/ Milburn Adams
Milburn Adams
Director

/s/ Robert H. Adcock, Jr.
Robert H. Adcock, Jr.
Vice Chairman of the Board
and
Director

/s/ Richard H. Ashley
Richard H. Ashley
Director

/s/ Dale A. Bruns
Dale A. Bruns
Director

/s/ Richard A. Buckheim
Richard A. Buckheim
Director

/s/ Jack E. Engelkes
Jack E. Engelkes
Director

/s/ James G. Hinkle
James G. Hinkle
Director

/s/ Alex R. Lieblong
Alex R. Lieblong
Director

/s/ Brian S. Davis
Brian S. Davis
Chief Accounting Officer
and Investor Relations
Officer
(Principal Accounting
Officer)