HOME BANCSHARES INC
Form 10-Q
November 06, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

or

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

Commission File Number: 000-51904

HOME BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

(501) 328-4770

(Registrant s telephone number, including area code)

Not Applicable

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

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

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

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

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HOME BANCSHARES, INC.

FORM 10-Q

September 30, 2014

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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PART I: FINANCIAL INFORMATION

Item 1: Financial Statements

Home BancShares, Inc.

Consolidated Balance Sheets

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

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

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.

Consolidated Statements of Income

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

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

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.

Consolidated Statements of Comprehensive Income

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

Home BancShares, Inc.

Consolidated Statements of Stockholders Equity

Nine Months Ended September 30, 2014 and 2013

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

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

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.

Consolidated Statements of Cash Flows

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

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

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.

Condensed Notes to Consolidated Financial Statements

(Unaudited)

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

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

Operating Segments

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

Use of Estimates

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

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

Principles of Consolidation

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

Reclassifications

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

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Interim financial information

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

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

Earnings per Share

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

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

2. Business Combinations

Acquisition Florida Traditions Bank

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Acquisition Liberty Bancshares, Inc.

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

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

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

3. Investment Securities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4. Loans Receivable Not Covered by Loss Share

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

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

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

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

$135,000, respectively.

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

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5. Loans Receivable Covered by FDIC Loss Share

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

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

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

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

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6. Allowance for Loan Losses, Credit Quality and Other

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

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

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

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

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

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