

HOME BANCSHARES INC
Form 10-Q
August 06, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended June 30, 2015**

or

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

Commission File Number: 000-51904

HOME BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Arkansas
(State or other jurisdiction of
incorporation or organization)

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

719 Harkrider, Suite 100, Conway, Arkansas
(Address of principal executive offices)

72032
(Zip Code)

(501) 328-4770

(Registrant's telephone number, including area code)

Not Applicable

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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

Common Stock Issued and Outstanding: 67,774,533 shares as of July 31, 2015.

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HOME BANCSHARES, INC.

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June 30, 2015

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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 27, 2015.

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

(In thousands, except share data)	June 30, 2015 (Unaudited)	December 31, 2014
Assets		
Cash and due from banks	\$ 116,682	\$ 105,438
Interest-bearing deposits with other banks	87,729	7,090
Cash and cash equivalents	204,411	112,528
Federal funds sold		250
Investment securities available-for-sale	1,080,000	1,067,287
Investment securities held-to-maturity	336,993	356,790
Loans receivable not covered by loss share	5,499,028	4,817,314
Loans receivable covered by FDIC loss share	159,891	240,188
Allowance for loan losses	(60,258)	(55,011)
Loans receivable, net	5,598,661	5,002,491
Bank premises and equipment, net	209,425	206,912
Foreclosed assets held for sale not covered by loss share	16,539	16,951
Foreclosed assets held for sale covered by FDIC loss share	4,472	7,871
FDIC indemnification asset	15,874	28,409
Cash value of life insurance	75,015	74,444
Accrued interest receivable	24,447	24,075
Deferred tax asset, net	62,088	65,227
Goodwill	322,728	325,423
Core deposit and other intangibles	19,816	20,925
Other assets	103,913	93,689
Total assets	\$ 8,074,382	\$ 7,403,272
Liabilities and Stockholders Equity		
Deposits:		
Demand and non-interest-bearing	\$ 1,406,051	\$ 1,203,306
Savings and interest-bearing transaction accounts	3,099,522	2,974,850
Time deposits	1,372,463	1,245,815
Total deposits	5,878,036	5,423,971
Securities sold under agreements to repurchase	150,746	176,465
FHLB borrowed funds	866,907	697,957

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Accrued interest payable and other liabilities	56,166	28,761
Subordinated debentures	60,826	60,826
Total liabilities	7,012,681	6,387,980
Stockholders equity:		
Common stock, par value \$0.01; shares authorized 100,000,000 in 2015 and 2014; shares issued and outstanding 67,774,390 in 2015 and 67,570,610 in 2014	677	676
Capital surplus	780,731	781,328
Retained earnings	274,409	226,279
Accumulated other comprehensive income	5,884	7,009
Total stockholders equity	1,061,701	1,015,292
Total liabilities and stockholders equity	\$ 8,074,382	\$ 7,403,272

See Condensed Notes to Consolidated Financial Statements.

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

(In thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Unaudited)			
Interest income:				
Loans	\$ 82,360	\$ 75,404	\$ 157,847	\$ 150,417
Investment securities				
Taxable	5,130	4,762	10,673	9,232
Tax-exempt	2,774	2,379	5,526	4,696
Deposits other banks	44	29	135	53
Federal funds sold	3	12	11	28
Total interest income	90,311	82,586	174,192	164,426
Interest expense:				
Interest on deposits	3,311	3,095	6,569	6,479
Federal funds purchased	1		2	
FHLB borrowed funds	1,053	952	2,103	1,898
Securities sold under agreements to repurchase	163	168	335	350
Subordinated debentures	334	328	663	656
Total interest expense	4,862	4,543	9,672	9,383
Net interest income	85,449	78,043	164,520	155,043
Provision for loan losses	5,381	6,115	9,168	13,053
Net interest income after provision for loan losses	80,068	71,928	155,352	141,990
Non-interest income:				
Service charges on deposit accounts	6,056	6,193	11,474	12,104
Other service charges and fees	6,499	5,978	12,715	11,664
Trust fees	1,186	323	1,618	759
Mortgage lending income	2,955	1,801	4,887	3,314
Insurance commissions	640	934	1,207	2,350
Income from title services	36	53	70	103
Increase in cash value of life insurance	295	281	603	569
Dividends from FHLB, FRB, Bankers bank & other	419	501	834	817
Gain on acquisitions			1,635	
Gain (loss) on sale of premises and equipment, net	21	445	29	454
Gain (loss) on OREO, net	(263)	859	230	1,398
Gain (loss) on securities, net			4	

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FDIC indemnification accretion/(amortization), net	(2,202)	(6,622)	(6,158)	(11,366)
Other income	1,385	793	2,549	1,554
Total non-interest income	17,027	11,539	31,697	23,720
Non-interest expense:				
Salaries and employee benefits	22,056	18,813	41,446	37,746
Occupancy and equipment	6,678	6,251	12,727	12,477
Data processing expense	3,063	1,793	5,482	3,586
Other operating expenses	11,453	11,763	24,308	24,168
Total non-interest expense	43,250	38,620	83,963	77,977
Income before income taxes	53,845	44,847	103,086	87,733
Income tax expense	19,939	16,418	38,061	31,967
Net income	\$ 33,906	\$ 28,429	\$ 65,025	\$ 55,766
Basic earnings per share	\$ 0.50	\$ 0.44	\$ 0.96	\$ 0.86
Diluted earnings per share	\$ 0.50	\$ 0.43	\$ 0.96	\$ 0.85

See Condensed Notes to Consolidated Financial Statements.

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

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Unaudited)			
Net income	\$ 33,906	\$ 28,429	\$ 65,025	\$ 55,766
Net unrealized (loss) gain on available-for-sale securities	(6,905)	6,870	(1,855)	14,523
Less: reclassification adjustment for realized (gains) losses included in income			4	
Other comprehensive (loss) income, before tax effect	(6,905)	6,870	(1,851)	14,523
Tax effect	2,709	(2,695)	726	(5,697)
Other comprehensive (loss) income	(4,196)	4,175	(1,125)	8,826
Comprehensive income	\$ 29,710	\$ 32,604	\$ 63,900	\$ 64,592

Home BancShares, Inc.**Consolidated Statements of Stockholders Equity****Six Months Ended June 30, 2015 and 2014**

(In thousands, except share data)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2014	\$ 651	\$ 708,058	\$ 136,386	\$ (4,140)	\$ 840,955
Comprehensive income:					
Net income			55,766		55,766
Other comprehensive income (loss)				8,826	8,826
Net issuance of 18,784 shares of common stock from exercise of stock options		97			97
Disgorgement of profits		25			25
Tax benefit from stock options exercised		196			196
Share-based compensation		1,140			1,140
Cash dividends Common Stock, \$0.15 per share			(9,770)		(9,770)

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Balances at June 30, 2014 (unaudited)	651	709,516	182,382	4,686	897,235
Comprehensive income:					
Net income			57,297		57,297
Other comprehensive income (loss)				2,323	2,323
Net issuance of 101,577 shares of common stock from exercise of stock options	1	476			477
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
Issuance of 1,020,824 shares of common stock from acquisition of Broward, net of issuance costs of approximately \$116	10	30,121			30,131
Tax benefit from stock options exercised		1,029			1,029
Share-based compensation	1	932			933
Cash dividends - Common Stock, \$0.20 per share			(13,400)		(13,400)
Balances at December 31, 2014	676	781,328	226,279	7,009	1,015,292
Comprehensive income:					
Net income			65,025		65,025
Other comprehensive income (loss)				(1,125)	(1,125)
Net issuance of 162,528 shares of common stock from exercise of stock options	1	116			117
Repurchase of 67,332 shares of common stock	(1)	(2,014)			(2,015)
Tax benefit from stock options exercised		83			83
Share-based compensation	1	1,218			1,219
Cash dividends - Common Stock, \$0.25 per share			(16,895)		(16,895)
Balances at June 30, 2015 (unaudited)	\$ 677	\$ 780,731	\$ 274,409	\$ 5,884	\$ 1,061,701

See Condensed Notes to Consolidated Financial Statements.

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

(In thousands)	Six Months Ended June 30,	
	2015	2014
	(Unaudited)	
Operating Activities		
Net income	\$ 65,025	\$ 55,766
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	5,191	4,988
Amortization/(accretion)	11,967	16,170
Share-based compensation	1,219	1,140
Tax benefits from stock options exercised	(83)	(196)
(Gain) loss on assets	(255)	(1,852)
Gain on acquisitions	(1,635)	
Provision for loan losses	9,168	13,053
Deferred income tax effect	3,864	10,563
Increase in cash value of life insurance	(603)	(569)
Originations of mortgage loans held for sale	(129,259)	(107,389)
Proceeds from sales of mortgage loans held for sale	122,069	107,993
Changes in assets and liabilities:		
Accrued interest receivable	(372)	2,097
Indemnification and other assets	(3,842)	25,322
Accrued interest payable and other liabilities	27,488	17,165
Net cash provided by (used in) operating activities	109,942	144,251
Investing Activities		
Net (increase) decrease in federal funds sold	250	3,425
Net (increase) decrease in loans, excluding loans acquired	(283,216)	63,544
Purchases of investment securities available-for-sale	(126,016)	(73,910)
Proceeds from maturities of investment securities available-for-sale	108,079	138,930
Proceeds from sale of investment securities available-for-sale	931	
Purchases of investment securities held-to-maturity	(6,556)	(99,212)
Proceeds from maturities of investment securities held-to-maturity	25,212	7,962
Proceeds from foreclosed assets held for sale	16,135	24,954
Proceeds from sale of insurance book of business	2,938	
Purchases of premises and equipment, net	(7,675)	(3,504)
Return of investment on cash value of life insurance	27	
Net cash proceeds (paid) received market acquisitions	140,820	
Net cash provided by (used in) investing activities	(129,071)	62,189

Financing Activities

Net increase (decrease) in deposits, excluding deposits acquired	(13,509)	(201,037)
Net increase (decrease) in securities sold under agreements to repurchase	(25,719)	(16,382)
Net increase (decrease) in FHLB borrowed funds	168,950	(1,551)
Proceeds from exercise of stock options	117	97
Repurchase of common stock	(2,015)	
Disgorgement of profits		25
Tax benefits from stock options exercised	83	196
Dividends paid on common stock	(16,895)	(9,770)
Net cash provided by (used in) financing activities	111,012	(228,422)
Net change in cash and cash equivalents	91,883	(21,982)
Cash and cash equivalents beginning of year	112,528	165,534
Cash and cash equivalents end of period	\$ 204,411	\$ 143,552

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 (sometimes referred to as Centennial or the Bank). The Bank has branch locations in Arkansas, Florida and South Alabama and a loan production office in New York City. 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, and checking and savings accounts. The individual bank branches have similar operating and economic characteristics. While the chief decision maker monitors the revenue streams of the various products, services and branch locations, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the community banking services and branch locations are considered by management to be aggregated into one reportable operating segment, community banking.

Use of Estimates

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

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

Principles of Consolidation

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

Reclassifications

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

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The accompanying unaudited consolidated financial statements as of June 30, 2015 and 2014 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 2014 Form 10-K, filed with the Securities and Exchange Commission.

Earnings per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Net income	\$ 33,906	\$ 28,429	\$ 65,025	\$ 55,766
Average shares outstanding	67,632	65,140	67,611	65,131
Effect of common stock options	283	405	301	392
Average diluted shares outstanding	67,915	65,545	67,912	65,523
Basic earnings per share	\$ 0.50	\$ 0.44	\$ 0.96	\$ 0.86
Diluted earnings per share	\$ 0.50	\$ 0.43	\$ 0.96	\$ 0.85

2. Business Combinations***Acquisition of Pool of National Commercial Real Estate Loans***

On April 1, 2015, the Company's wholly-owned bank subsidiary, Centennial, entered into an agreement with AM PR LLC, an affiliate of J.C. Flowers & Co. (collectively, the Seller) to purchase a pool of national commercial real estate loans totaling approximately \$289.1 million for a purchase price of 99% of the total principal value of the acquired loans. The purchase of the loans was completed on April 1, 2015. The acquired loans were originated by the former Doral Bank within its Doral Property Finance portfolio (DPF Portfolio) and were transferred to the Seller by Banco Popular of Puerto Rico (Popular) upon its acquisition of the assets and liabilities of Doral Bank from the Federal Deposit Insurance Corporation (FDIC), as receiver for the failed Doral Bank. This pool of loans is now housed in a

division of Centennial known as the Centennial Commercial Finance Group (Centennial CFG). The Centennial CFG is responsible for servicing the acquired loan pool and originating new loan production.

In connection with this acquisition of loans, the Company opened a loan production office on April 23, 2015 in New York City. Through the loan production office, Centennial CFG plans to build out a national lending platform focusing on commercial real estate plus commercial and industrial loans.

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On February 27, 2015, the Company's banking subsidiary, Centennial acquired all the deposits and substantially all the assets of Doral Bank's Florida Panhandle operations (Doral Florida) through an alliance agreement with Popular who was the successful lead bidder with the FDIC on the failed Doral Bank of San Juan, Puerto Rico. The acquisition provided the Company with loans of approximately \$37.9 million net of loan discounts, deposits of approximately \$466.3 million, plus a \$428.2 million cash settlement to balance the transaction. There is no loss-share with the FDIC in the acquired assets.

Prior to the acquisition, Doral Florida operated five branch locations in Panama City, Panama City Beach and Pensacola, Florida plus a loan production office in Tallahassee, Florida. At the time of acquisition, Centennial operated 29 branch locations in the Florida Panhandle. As a result, the Company closed all five branch locations during the July 2015 systems conversion and returned the facilities back to the FDIC.

The Company has determined that the acquisition of the net assets of Doral Florida 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:

	Doral Bank's Florida Panhandle operations Acquired Fair Value As Recorded from FDIC Adjustments by HBI (Dollars in thousands)		
Assets			
Cash and due from banks	\$ 1,688	\$ 428,214	\$ 429,902
Loans receivable not covered by loss share	42,244	(4,300)	37,944
Total loans receivable	42,244	(4,300)	37,944
Core deposit intangible		1,363	1,363
Total assets acquired	\$ 43,932	\$ 425,277	\$ 469,209
Liabilities			
Deposits			
Demand and non-interest-bearing	\$ 3,130	\$	\$ 3,130
Savings and interest-bearing transaction accounts	119,865		119,865
Time deposits	343,271	1,308	344,579
Total deposits	466,266	1,308	467,574
Total liabilities assumed	\$ 466,266	\$ 1,308	\$ 467,574

Pre-tax gain on acquisition	\$ 1,635
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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 \$428.2 million adjustment is the cash settlement received from Popular for the net equity received, assets discount bid and other customary closing adjustments.

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.

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The Company evaluated \$36.9 million 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*, and were recorded with a \$3.4 million discount. As a result, the fair value discount on these loans is being accreted into interest income over the weighted-average life of the loans using a constant yield method. The remaining approximately \$5.3 million of 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*, and were recorded with a \$950,000 discount. These purchased credit impaired loans will recognize interest income through accretion of the difference between the carrying amount of the loans and the expected cash flows.

Core deposit intangible This intangible asset represents the value of the relationships that Doral Florida 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 \$1.4 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 Bank was able to reset deposit rates. However, the Bank did not lower the deposit rates as low as the market rates currently offered. As a result, a \$1.3 million fair value adjustment was applied for time deposits because the estimated weighted-average interest rate of Doral Florida's certificates of deposits were still estimated to be above the current market rates after the rate reset.

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

The Company's operating results for the period ended June 30, 2015, 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 Doral Florida total assets acquired excluding the cash settlement received is less than 1% of total assets 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 of Broward Financial Holdings, Inc.

On October 23, 2014, the Company completed its acquisition of Broward Financial Holdings, Inc. (*Broward*), parent company of Broward Bank of Commerce, pursuant to a previously announced definitive agreement and plan of merger whereby a wholly-owned acquisition subsidiary (*Acquisition Sub II*) of HBI merged with and into Broward, resulting in Broward becoming a wholly-owned subsidiary of HBI. Immediately thereafter, Broward Bank of Commerce was merged into Centennial. Under the terms of the Agreement and Plan of Merger dated July 30, 2014 by and among HBI, Centennial, Broward, Broward Bank of Commerce and Acquisition Sub II, HBI issued 1,020,824 shares of its common stock valued at approximately \$30.2 million as of October 23, 2014, plus \$3.3 million in cash in exchange for all outstanding shares of Broward common stock. HBI has also agreed to pay the Broward shareholders, at an undetermined date, up to approximately \$751,000 in additional consideration. The amount and timing of the additional payment, if any, will depend on future payments received or losses incurred by Centennial from certain current Broward Bank of Commerce loans. At June 30, 2015 and December 31, 2014, the Company had recorded a fair value of zero for the potential additional consideration.

Prior to the acquisition, Broward Bank of Commerce operated two banking locations in Fort Lauderdale, Florida. Including the effects of the purchase accounting adjustments, Broward had approximately \$184.4 million in total assets, \$121.1 million in total loans after \$3.0 million of loan discounts, and \$134.2 million in deposits.

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As of the acquisition date, Broward's common equity totaled \$20.4 million and the Company paid a purchase price to the Broward shareholders of approximately \$33.6 million for the Broward acquisition. As a result, the Company paid a multiple of 1.62 of Broward's book value per share and tangible book value per share.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2014 for an additional discussion regarding the acquisition of Broward.

Table of Contents**Acquisition of Florida Traditions Bank**

On July 17, 2014, the Company completed the acquisition of all of the issued and outstanding shares of common stock of Florida Traditions Bank (Traditions) and merged Traditions into Centennial. Under the terms of the Agreement and Plan of Merger dated April 25, 2014, by and among the Company, Centennial, and Traditions, the shareholders of Traditions received approximately \$39.5 million of the Company's common stock valued at the time of closing, 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. Including the effects of the purchase accounting adjustments, Traditions had \$310.5 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.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2014 for an additional discussion regarding the acquisition of Traditions.

3. Investment Securities

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

	June 30, 2015			Estimated Fair Value
	Available-for-Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	
(In thousands)				
U.S. government-sponsored enterprises	\$ 355,102	\$ 2,917	\$ (479)	\$ 357,540
Mortgage-backed securities	489,467	4,259	(1,411)	492,315
State and political subdivisions	178,700	4,918	(596)	183,022
Other securities	47,049	381	(307)	47,123
Total	\$ 1,070,318	\$ 12,475	\$ (2,793)	\$ 1,080,000

	Held-to-Maturity			Estimated Fair Value
	Gross			
	Amortized Cost	Unrealized Gains	Unrealized (Losses)	
(In thousands)				
U.S. government-sponsored enterprises	\$ 7,808	\$ 11	\$ (6)	\$ 7,813
Mortgage-backed securities	148,546	595	(293)	148,848
State and political subdivisions	180,639	3,188	(471)	183,356

Total	\$ 336,993	\$ 3,794
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