

HOME BANCSHARES INC
Form 10-Q
August 07, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended June 30, 2012

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)

Edgar Filing: HOME BANCSHARES INC - Form 10-Q

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

(501) 328-4770

(Registrant's telephone number, including area code)

Not Applicable

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

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

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

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

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: 28,081,160 shares as of July 31, 2012.

Table of Contents

HOME BANCSHARES, INC.

FORM 10-Q

June 30, 2012

INDEX

	Page No.
Part I: Financial Information	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets June 30, 2012 (Unaudited) and December 31, 2011</u>	4
<u>Consolidated Statements of Income (Unaudited) Three and six months ended June 30, 2012 and 2011</u>	5
<u>Consolidated Statements of Comprehensive Income (Unaudited) Three and six months ended June 30, 2012 and 2011</u>	6
<u>Consolidated Statements of Stockholders' Equity (Unaudited) Six months ended June 30, 2012 and 2011</u>	7
<u>Consolidated Statements of Cash Flows (Unaudited) Six months ended June 30, 2012 and 2011</u>	8
<u>Condensed Notes to Consolidated Financial Statements (Unaudited)</u>	9-38
<u>Report of Independent Registered Public Accounting Firm</u>	39
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	40-73
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	73-75
<u>Item 4. Controls and Procedures</u>	76
Part II: Other Information	
<u>Item 1. Legal Proceedings</u>	76
<u>Item 1A. Risk Factors</u>	76
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	76
<u>Item 3. Defaults Upon Senior Securities</u>	76
<u>Item 4. (Reserved)</u>	76
<u>Item 5. Other Information</u>	77
<u>Item 6. Exhibits</u>	77
<u>Signatures</u>	78
<u>Exhibit List</u>	
12.1 Computation of Ratios of Earnings to Fixed Charges	
15 Awareness of Independent Registered Public Accounting Firm	
31.1 CEO Certification Pursuant to 13a-14(a)/15d-14(a)	
31.2 CFO Certification Pursuant to 13a-14(a)/15d-14(a)	
32.1 CEO Certification Pursuant to 18 U.S.C. Section 1350	
32.2 CFO Certification Pursuant to 18 U.S.C. Section 1350	
101 XBRL Documents	

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, 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, consider, expect, project, predict, 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 continued 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 Wall Street Reform and Consumer Protection Act and regulations to be 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 and FDIC indemnification 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 March 5, 2012.

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

(In thousands, except share data)	June 30, 2012 (Unaudited)	December 31, 2011
Assets		
Cash and due from banks	\$ 71,078	\$ 57,337
Interest-bearing deposits with other banks	287,452	126,967
Cash and cash equivalents	358,530	184,304
Federal funds sold	575	1,100
Investment securities available for sale	712,820	671,221
Loans receivable not covered by loss share	2,035,487	1,760,086
Loans receivable covered by FDIC loss share	432,422	481,739
Allowance for loan losses	(56,511)	(52,129)
Loans receivable, net	2,411,398	2,189,696
Bank premises and equipment, net	100,694	88,465
Foreclosed assets held for sale not covered by loss share	14,481	16,660
Foreclosed assets held for sale covered by FDIC loss share	35,008	35,178
FDIC indemnification asset	162,439	193,856
Cash value of life insurance	53,167	52,700
Accrued interest receivable	14,834	15,551
Deferred tax asset, net	31,115	22,850
Goodwill	77,090	59,663
Core deposit and other intangibles	10,486	8,620
Other assets	73,768	64,253
Total assets	\$ 4,056,405	\$ 3,604,117
Liabilities and Stockholders Equity		
Deposits:		
Demand and non-interest-bearing	\$ 597,374	\$ 464,581
Savings and interest-bearing transaction accounts	1,521,869	1,189,098
Time deposits	1,174,286	1,204,352
Total deposits	3,293,529	2,858,031
Securities sold under agreements to repurchase	66,620	62,319
FHLB borrowed funds	140,523	142,777
Accrued interest payable and other liabilities	15,967	22,593
Subordinated debentures	44,331	44,331
Total liabilities	3,560,970	3,130,051
Stockholders equity:		
Common stock, par value \$0.01; shares authorized 50,000,000; shares issued and outstanding 28,078,767 in 2012 and 28,275,507 in 2011	281	283

Edgar Filing: HOME BANCSHARES INC - Form 10-Q

Capital surplus	420,538	425,649
Retained earnings	64,478	40,130
Accumulated other comprehensive income	10,138	8,004
Total stockholders equity	495,435	474,066
Total liabilities and stockholders equity	\$ 4,056,405	\$ 3,604,117

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		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
	(Unaudited)			
Interest income:				
Loans	\$ 40,365	\$ 39,690	\$ 78,871	\$ 78,645
Investment securities				
Taxable	3,060	2,204	5,920	4,364
Tax-exempt	1,534	1,543	3,069	3,071
Deposits other banks	127	142	212	247
Federal funds sold	3	1	5	8
Total interest income	45,089	43,580	88,077	86,335
Interest expense:				
Interest on deposits	4,164	5,986	8,824	12,246
FHLB borrowed funds	1,134	1,227	2,294	2,518
Securities sold under agreements to repurchase	111	125	221	264
Subordinated debentures	521	543	1,045	1,081
Total interest expense	5,930	7,881	12,384	16,109
Net interest income	39,159	35,699	75,693	70,226
Provision for loan losses	1,333		1,333	1,250
Net interest income after provision for loan losses	37,826	35,699	74,360	68,976
Non-interest income:				
Service charges on deposit accounts	3,668	3,639	7,173	6,790
Other service charges and fees	3,223	2,602	6,247	4,886
Mortgage lending income	1,277	661	2,181	1,306
Insurance commissions	438	470	989	1,077
Income from title services	129	110	217	201
Increase in cash value of life insurance	214	287	471	526
Dividends from FHLB, FRB & bankers bank	175	181	350	322
Gain on sale of SBA loans	198		198	259
Gain (loss) on sale of premises and equipment, net	359	77	359	73
Gain (loss) on OREO, net	159	(1,007)	52	(1,101)
Gain (loss) on securities, net	(9)		10	
FDIC indemnification accretion	449	1,463	1,119	3,300
Other income	773	644	1,790	1,528
Total non-interest income	11,053	9,127	21,156	19,167
Non-interest expense:				
Salaries and employee benefits	11,903	10,680	23,289	21,758
Occupancy and equipment	3,552	3,648	6,983	7,361
Data processing expense	1,371	1,137	2,462	2,422
Other operating expenses	7,598	8,391	16,076	16,176

Edgar Filing: HOME BANCSHARES INC - Form 10-Q

Total non-interest expense	24,424	23,856	48,810	47,717
Income before income taxes	24,455	20,970	46,706	40,426
Income tax expense	8,965	7,424	16,718	14,164
Net income available to all stockholders	15,490	13,546	29,988	26,262
Preferred stock dividends and accretion of discount on preferred stock		670		1,340
Net income available to common stockholders	\$ 15,490	\$ 12,876	\$ 29,988	\$ 24,922
Basic earnings per common share	\$ 0.55	\$ 0.46	\$ 1.06	\$ 0.88
Diluted earnings per common share	\$ 0.55	\$ 0.45	\$ 1.06	\$ 0.87

See Condensed Notes to Consolidated Financial Statements.

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

(In thousands, except per share data)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Net income	\$ 15,490	\$ 13,546	\$ 29,988	\$ 26,262
Net unrealized gain (loss) on available-for-sale securities	4,417	7,512	3,521	8,630
Less: reclassification adjustment for realized (gains) losses included in income	9		(10)	
Other comprehensive (loss) income, before tax effect	4,426	7,512	3,511	8,630
Tax effect	(1,736)	(2,947)	(1,377)	(3,386)
Other comprehensive (loss) income	2,690	4,565	2,134	5,244
Comprehensive income	\$ 18,180	\$ 18,111	\$ 32,122	\$ 31,506

Table of Contents**Home BancShares, Inc.****Consolidated Statements of Stockholders' Equity****Six Months Ended June 30, 2012 and 2011**

(In thousands, except share data)	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2011	\$ 49,456	\$ 285	\$ 432,962	\$ (6,079)	\$ 301	\$ 476,925
Comprehensive income:						
Net income				26,262		26,262
Other comprehensive income:						
Unrealized gain on investment securities available for sale, net of tax effect of \$3,386					5,244	5,244
Comprehensive income						31,506
Accretion of discount on preferred stock	91			(91)		
Net issuance of 11,847 shares of common stock from exercise of stock options			97			97
Tax benefit from stock options exercised			66			66
Share-based compensation			181			181
Cash dividends Preferred stock 5%				(1,249)		(1,249)
Cash dividends Common Stock, \$0.108 per share				(3,077)		(3,077)
Balances at June 30, 2011 (unaudited)	49,547	285	433,306	15,766	5,545	504,449
Comprehensive income:						
Net income				28,479		28,479
Other comprehensive income:						
Unrealized gain on investment securities available for sale, net of tax effect of \$1,587					2,459	2,459
Comprehensive income						30,938
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	453			(453)		
Net issuance of 79,093 shares of common stock from exercise of stock options			1	617		618
Repurchase of 300,000 shares of common stock		(3)	(6,765)			(6,768)
Tax benefit from stock options exercised			496			496
Share-based compensation			201			201
Cash dividends Preferred stock 5%				(37)		(37)
Cash dividends Common Stock, \$0.16 per share				(4,531)		(4,531)
Balances at December 31, 2011		283	425,649	40,130	8,004	474,066
Comprehensive income:						
Net income				29,988		29,988
Other comprehensive income:						
Unrealized loss on investment securities					2,134	2,134

Edgar Filing: HOME BANCSHARES INC - Form 10-Q

available for sale, net of tax effect of \$1,377

Comprehensive income						32,122
Net issuance of 36,733 shares of common stock from						
exercise of stock options plus issuance of 4,761						
bonus shares of unrestricted common stock			545			545
Repurchase of 238,234 shares of common stock	(2)	(6,109)				(6,111)
Tax benefit from stock options exercised			221			221
Share-based compensation			232			232
Cash dividends Common Stock, \$0.20 per share				(5,640)		(5,640)
Balances at June 30, 2012 (unaudited)	\$	\$ 281	\$ 420,538	\$ 64,478	\$	10,138 \$ 495,435

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,	
	2012	2011
	(Unaudited)	
Operating Activities		
Net income	\$ 29,988	\$ 26,262
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	2,956	3,307
Amortization/(accretion)	2,568	(48)
Share-based compensation	232	181
Tax benefits from stock options exercised	(221)	(66)
(Gain) loss on assets	(420)	720
Provision for loan losses	1,333	1,250
Deferred income tax effect	1,605	(7,065)
Increase in cash value of life insurance	(471)	(526)
Originations of mortgage loans held for sale	(74,377)	(48,968)
Proceeds from sales of mortgage loans held for sale	68,959	58,966
Changes in assets and liabilities:		
Accrued interest receivable	717	3,838
Other assets	27,637	19,953
Accrued interest payable and other liabilities	(11,476)	(7,038)
Net cash provided by (used in) operating activities	49,030	50,766
Investing Activities		
Net (increase) decrease in federal funds sold	525	20,253
Net (increase) decrease in loans net, excluding loans acquired	103,961	69,950
Purchases of investment securities available for sale	(254,059)	(144,039)
Proceeds from maturities of investment securities available for sale	212,375	79,164
Proceeds from sale of investment securities available for sale	1,243	
Proceeds from foreclosed assets held for sale	18,119	15,207
Proceeds from sale of SBA loans	3,000	4,524
Purchases of premises and equipment, net	(2,330)	(2,042)
Death benefits received		700
Net cash proceeds received in Vision acquisition	140,234	
Net cash provided by (used in) investing activities	223,068	43,717
Financing Activities		
Net increase (decrease) in deposits net, excluding deposits acquired	(88,934)	(62,005)
Net increase (decrease) in securities sold under agreements to repurchase	4,301	(8,827)
Net increase (decrease) in FHLB and other borrowed funds	(2,254)	(27,146)
Proceeds from exercise of stock options plus issuance of bonus shares of unrestricted common stock	545	97
Repurchase of common stock	(6,111)	
Tax benefits from stock options exercised	221	66
Dividends paid on preferred stock		(1,249)
Dividends paid on common stock	(5,640)	(3,077)
Net cash provided by (used in) financing activities	(97,872)	(102,141)

Edgar Filing: HOME BANCSHARES INC - Form 10-Q

Net change in cash and cash equivalents	174,226	(7,658)
Cash and cash equivalents beginning of year	184,304	287,532
Cash and cash equivalents end of period	\$ 358,530	\$ 279,874

See Condensed Notes to Consolidated Financial Statements.

Table of Contents

Home BancShares, Inc.

Condensed Notes to Consolidated Financial Statements

(Unaudited)

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Home BancShares, Inc. (the Company or HBI) is a bank holding company headquartered in Conway, Arkansas. The Company is primarily engaged in providing a full range of banking services to individual and corporate customers through its wholly owned community bank subsidiary Centennial Bank (the Bank or Centennial). The Bank has locations in central Arkansas, north central Arkansas, southern Arkansas, the Florida Keys, central Florida, southwestern Florida, the Florida Panhandle and Baldwin County, 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 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 subsidiary. Significant intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications

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

Table of Contents**Interim financial information**

The accompanying unaudited consolidated financial statements as of June 30, 2012 and 2011 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 2011 Form 10-K, filed with the Securities and Exchange Commission.

Earnings per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Net income available to common stockholders	\$ 15,490	\$ 12,876	\$ 29,988	\$ 24,922
Average shares outstanding	28,095	28,491	28,162	28,480
Effect of common stock options	188	199	183	203
Diluted shares outstanding	28,283	28,690	28,345	28,683
Basic earnings per common share	\$ 0.55	\$ 0.46	\$ 1.06	\$ 0.88
Diluted earnings per common share	\$ 0.55	\$ 0.45	\$ 1.06	\$ 0.87

2. Business Combinations

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 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 has an opportunity to increase its deposit base and reduce transaction costs. The Company also expects to reduce costs through economies of scale.

Table of Contents

Pursuant to the 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 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. As of June 30, 2012, the Company has exercised its option to sell back two loans with an unpaid principal balance of approximately \$169,000. 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. These fair value estimates are subject to change for up to one year after the closing date of the acquisition as additional information relative to closing date fair values becomes available. In addition, the tax treatment is complex and subject to interpretations that may result in future adjustments of deferred taxes as of the acquisition date.

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

	Acquired from Park	Vision Bank Fair Value Adjustments (Dollars in thousands)	As Recorded by HBI
Assets			
Cash and due from banks	\$ 20,711	\$ 119,523	\$ 140,234
Loans receivable	355,750		355,750
Loans receivable discount		(15,453)	(15,453)
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 intangibles		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

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 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.

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, 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.

Table of Contents**3. Investment Securities**

The amortized cost and estimated fair value of investment securities were as follows:

	Amortized Cost	June 30, 2012 Available for Sale		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized (Losses)	
		(In thousands)		
U.S. government-sponsored enterprises	\$ 269,084	\$ 3,659	\$ (143)	\$ 272,600
Mortgage-backed securities	242,329	5,940	(180)	248,089
State and political subdivisions	168,237	7,748	(60)	175,925
Other securities	16,487	26	(307)	16,206
Total	\$ 696,137	\$ 17,373	\$ (690)	\$ 712,820

	Amortized Cost	December 31, 2011 Available for Sale		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized (Losses)	
		(In thousands)		
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

Assets, principally investment securities, having a carrying value of approximately \$506.4 million and \$403.2 million at June 30, 2012 and December 31, 2011, 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 \$66.6 million and \$62.3 million at June 30, 2012 and December 31, 2011, respectively.

During the three and six month periods ended June 30, 2012, approximately \$192,000 and \$1.2 million, respectively, in available for sale securities were sold. The gross realized losses on the sales for the three month period ended June 30, 2012 totaled approximately \$9,000. The gross realized gains and losses on the sales for the six month period ended June 30, 2012 totaled approximately \$21,000 and \$11,000, respectively. The income tax expense/benefit to net security gains and losses was 39.225% of the gross amounts.

During the three and six month periods ended June 30, 2011, no available for sale securities were sold.

The amortized cost and estimated fair value of securities at June 30, 2012, 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	
	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	\$ 246,844	\$ 249,110

Edgar Filing: HOME BANCSHARES INC - Form 10-Q

Due after one year through five years	239,849	245,547
Due after five years through ten years	178,924	186,229
Due after ten years	30,520	31,934
Total	\$ 696,137	\$ 712,820

Table of Contents

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.

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

During the six month period ended June 30, 2012, no securities were deemed to have other-than-temporary impairment besides securities for which impairment was taken in prior periods.

As of June 30, 2012, the Company had \$19,000 in unrealized losses, which have been in continuous loss positions for more than twelve months. Excluding impairment write downs taken in prior periods, the Company's assessments indicated that the cause of the market depreciation was primarily the change in interest rates and not the issuer's financial condition, or downgrades by rating agencies. In addition, approximately 69.9% 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.

The following shows gross unrealized losses and estimated fair value of investment securities available for sale, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position as of June 30, 2012 and December 31, 2011:

	Less Than 12 Months		June 30, 2012 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. government-sponsored enterprises	\$ 15,308	\$ (129)	\$ 5,782	\$ (14)	\$ 21,090	\$ (143)
Mortgage-backed securities	20,148	(180)			20,148	(180)
State and political subdivisions	6,414	(55)	1,205	(5)	7,619	(60)
Other securities	7,805	(307)	120		7,925	(307)
Total	\$ 49,675	\$ (671)	\$ 7,107	\$ (19)	\$ 56,782	\$ (690)

	Less Than 12 Months		December 31, 2011 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. government-sponsored enterprises	\$ 89,714	\$ (363)	\$ 2,569	\$ (17)	\$ 92,283	\$ (380)
Mortgage-backed securities	22,626	(173)			22,626	(173)
State and political subdivisions	1,478	(4)	1,999	(25)	3,477	(29)
Other securities	13,392	(418)			13,392	(418)
Total	\$ 127,210	\$ (958)	\$ 4,568	\$ (42)	\$ 131,778	\$ (1,000)

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

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

	June 30, 2012	December 31, 2011
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	\$ 856,334	\$ 698,986
Construction/land development	269,371	361,846
Agricultural	28,570	28,535
Residential real estate loans		
Residential 1-4 family	481,018	349,543
Multifamily residential	106,206	56,909
Total real estate	1,741,499	1,495,819
Consumer	37,146	37,923
Commercial and industrial	197,278	176,276
Agricultural	31,741	21,784
Other	27,823	28,284
 Loans receivable not covered by loss share	 \$ 2,035,487	 \$ 1,760,086

During the three and six-month periods ended June 30, 2012, the Company sold \$2.8 million of the guaranteed portions of SBA loans, which resulted in a gain of approximately \$198,000. The Company did not sell any of the guaranteed portions of SBA loans during the three-month period ended June 30, 2011. During the six-month period ended June 30, 2011, the Company sold \$4.2 million of the guaranteed portion of certain SBA loans, which resulted in a gain of approximately \$259,000.

Mortgage loans held for sale of approximately \$15.7 million and \$10.3 million at June 30, 2012 and December 31, 2011, respectively, are included in residential 1-4 family loans. Mortgage loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis. Gains and losses resulting from sales of mortgage loans are recognized when the respective loans are sold to investors. Gains and losses are determined by the difference between the selling price and the carrying amount of the loans sold, net of discounts collected or paid. The Company obtains forward commitments to sell mortgage loans to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. The forward commitments acquired by the Company for mortgage loans in process of origination are not mandatory forward commitments. These commitments are structured on a best efforts basis; therefore the Company is not required to substitute another loan or to buy back the commitment if the original loan does not fund. Typically, the Company delivers the mortgage loans within a few days after the loans are funded. These commitments are derivative instruments and their fair values at June 30, 2012 and December 31, 2011 were not material.

Table of Contents**5. Loans Receivable Covered by FDIC Loss Share**

The Company evaluated loans purchased in conjunction with the 2010 acquisitions of under purchase and assumption agreements with the Federal Deposit Insurance Corporation (FDIC) for impairment in accordance with the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. 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 covered impaired loans as of June 30, 2012 and December 31, 2011 for the Company's FDIC-assisted transactions:

	June 30, 2012	December 31, 2011
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	\$ 187,802	\$ 189,380
Construction/land development	74,989	103,535
Agricultural	2,737	3,155
Residential real estate loans		
Residential 1-4 family	136,498	148,692
Multifamily residential	10,216	8,933
Total real estate	412,242	453,695
Consumer	71	334
Commercial and industrial	19,541	26,884
Other	568	826
Loans receivable covered by FDIC loss share (1)	\$ 432,422	\$ 481,739

- (1) These loans were not classified as nonperforming assets at June 30, 2012 and December 31, 2011, as the loans are accounted for on a pooled basis and the pools are considered to be performing. 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. Additionally, as of June 30, 2012 and December 31, 2011, \$82.6 million and \$118.6 million, respectively, were accruing past due loans 90 days or more.

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.

Table of Contents

Changes in the carrying amount of the accretible yield for purchased impaired and non-impaired loans were as follows for the period ended June 30, 2012 for the Company's FDIC-assisted acquisitions.

	Accretible Yield (In thousands)	Carrying Amount of Loans (In thousands)
Balance at beginning of period	\$ 113,553	\$ 481,739
Reforecasted future interest payments for loan pools	2,141	
Accretion	(17,887)	17,887
Transfers to foreclosed assets held for sale covered by FDIC loss share		(13,844)
Payments received, net		(53,360)
Balance at end of period	\$ 97,807	\$ 432,422

The loan pools were evaluated by the Company and are currently forecasted to have a slower run-off than originally expected. As a result, the Company has reforecast the total accretible yield expectations for those loan pools by \$2.1 million. This updated forecast does not change the expected weighted average yields on the loan pools.

6. Allowance for Loan Losses and Credit Quality

The following table presents a summary of changes in the allowance for loan losses for the non-covered and covered loan portfolios for the period ended June 30, 2012:

	For Loans Not Covered by Loss Share	For Loans Covered by FDIC Loss Share (In thousands)	Total
Allowance for loan losses:			
Beginning balance	\$ 52,129	\$	\$ 52,129
Loans charged off	(3,070)		(3,070)
Recoveries of loans previously charged off	787		787
Net loans recovered (charged off)	(2,283)		(2,283)
Provision for loan losses before benefit attributable to FDIC loss share agreements		6,665	6,665
Benefit attributable to FDIC loss share agreements		(5,332)	(5,332)
Net provision for loan losses		1,333	1,333
Increase in FDIC indemnification asset		5,332	5,332
Balance, June 30	\$ 49,846	\$ 6,665	\$ 56,511

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

The following tables present the balance in the allowance for loan losses for the non-covered loan portfolio for the three-month and six-month periods ended June 30, 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 June 30, 2012. 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 which is accreted into income over the weighted-average life of the loans on non-covered loans acquired was \$16.1 million and \$2.5 million at June 30, 2012 and December 31, 2011, respectively.

	Three Months Ended June 30, 2012						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
Allowance for loan losses:							
Beginning balance	\$ 9,408	\$ 18,779	\$ 12,697	\$ 6,944	\$ 3,100	\$ 86	\$ 51,014
Loans charged off	(267)	(212)	(480)	(3)	(639)		(1,601)
Recoveries of loans previously charged off	3	248	68	7	107		433
Net loans recovered (charged off)	(264)	36	(412)	4	(532)		(1,168)
Provision for loan losses	(3,848)	2,343	57	990	12	446	
Balance, June 30	\$ 5,296	\$ 21,158	\$ 12,342	\$ 7,938	\$ 2,580	\$ 532	\$ 49,846

	Six Months Ended June 30, 2012						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
Allowance for loan losses:							
Beginning balance	\$ 7,945	\$ 20,368	\$ 12,196	\$ 6,308	\$ 3,258	\$ 2,054	\$ 52,129
Loans charged off	(313)	(271)	(1,195)	(209)	(1,082)		(3,070)
Recoveries of loans previously charged off	7	272	108	87	313		787
Net loans recovered (charged off)	(306)	1	(1,087)	(122)	(769)		(2,283)
Provision for loan losses	(2,343)	789	1,233	1,752	91	(1,522)	
Balance, June 30	\$ 5,296	\$ 21,158	\$ 12,342	\$ 7,938	\$ 2,580	\$ 532	\$ 49,846

	As of June 30, 2012						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	\$ 3,124	\$ 15,234	\$ 7,806	\$ 5,522	\$ 1,487	\$	\$ 33,173
Loans collectively evaluated for impairment	2,172	5,924	4,536	2,416	1,093	532	16,673
Balance, June 30	\$ 5,296	\$ 21,158	\$ 12,342	\$ 7,938	\$ 2,580	\$ 532	\$ 49,846

Edgar Filing: HOME BANCSHARES INC - Form 10-Q

Loans receivable:

Period end amount allocated to:

Loans individually evaluated for impairment	\$ 35,364	\$ 102,301	\$ 30,882	\$ 12,984	\$ 2,219	\$	\$ 183,750
Loans collectively evaluated for impairment	234,007	782,603	556,342	184,294	94,491		1,851,737
Balance, June 30	\$ 269,371	\$ 884,904	\$ 587,224	\$ 197,278	\$ 96,710	\$	\$ 2,035,487

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, 2011, 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, 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						Total
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	
(In thousands)							
Allowance for loan losses:							
Beginning balance	\$ 12,002	\$ 17,247	\$ 14,297	\$ 6,357	\$ 1,022	\$ 2,423	\$ 53,348
Loans charged off	(231)	(20)	(784)	(152)	(1,995)		(3,182)
Recoveries of loans previously charged off	6	163	248	4,616	335		5,368
Net loans recovered (charged off)	(225)	143	(536)	4,464	(1,660)		2,186
Provision for loan losses	(459)	1,751	563	(3,702)	3,088	9	1,250
Balance, June 30	11,318	19,141	14,324	7,119	2,450	2,432	56,784
Loans charged off	(3,359)	(4,056)	(2,515)	(419)	(1,164)		(11,513)
Recoveries of loans previously charged off	821	115	2,229	1,201	242		4,608
Net loans recovered (charged off)	(2,538)	(3,941)	(286)	782	(922)		(6,905)
Provision for loan losses	(835)	5,168	(1,842)	(1,593)	1,730	(378)	2,250
Balance, December 31	\$ 7,945	\$ 20,368	\$ 12,196	\$ 6,308	\$ 3,258	\$ 2,054	\$ 52,129

	As of December 31, 2011						Total
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	
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:							
Loans individually evaluated for impairment	\$ 25,534	\$ 105,516	\$ 29,818	\$ 9,535	\$ 2,798	\$	\$ 173,201
Loans collectively evaluated for impairment	336,312	622,005	376,634	166,741	85,193		1,586,885
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 as of June 30, 2012 and December 31, 2011:

	June 30, 2012						Accruing Loans Past Due 90 Days or More
	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	
	(In thousands)						
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	\$ 2,729	\$ 1,773	\$ 6,030	\$ 10,532	\$ 845,802	\$ 856,334	\$
Construction/land development	1,817	863	2,862	5,542	263,829	269,371	770
Agricultural			159	159	28,411	28,570	
Residential real estate loans							
Residential 1-4 family	4,371	2,525	13,158	20,054	460,964	481,018	534
Multifamily residential		1,316		1,316	104,890	106,206	
Total real estate	8,917	6,477	22,209	37,603	1,703,896	1,741,499	1,304
Consumer	384	193	845	1,422	35,724	37,146	22
Commercial and industrial	821	54	1,879	2,754	194,524	197,278	
Agricultural and other	577	16	1,203	1,796	57,768	59,564	
Total	\$ 10,699	\$ 6,740	\$ 26,136	\$ 43,575	\$ 1,991,912	\$ 2,035,487	\$ 1,326

	December 31, 2011						Accruing Loans Past Due 90 Days or More
	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	
	(In thousands)						
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	\$ 764	\$ 1,758	\$ 7,055	\$ 9,577	\$ 689,409	\$ 698,986	\$
Construction/land development	848	650	2,226	3,724	358,122	361,846	
Agricultural			178	178	28,357	28,535	
Residential real estate loans							
Residential 1-4 family	2,064	251	13,617	15,932	333,611	349,543	750
Multifamily residential			92	92	56,817	56,909	92
Total real estate	3,676	2,659	23,168	29,503	1,466,316	1,495,819	842
Consumer	656	268	1,501	2,425	35,498	37,923	132
Commercial and industrial	234	211	1,617	2,062	174,214	176,276	19
Agricultural and other	176	17	1,203	1,396	48,672	50,068	
Total	\$ 4,742	\$ 3,155	\$ 27,489	\$ 35,386	\$ 1,724,700	\$ 1,760,086	\$ 993

Edgar Filing: HOME BANCSHARES INC - Form 10-Q

Non-accruing loans not covered by loss share at June 30, 2012 and December 31, 2011 were \$24.8 million and \$26.5 million, respectively.

Table of Contents

The following is a summary of the non-covered impaired loans as of June 30, 2012 and December 31, 2011:

	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses	June 30, 2012 Three Months Ended		Six Months Ended	
				Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
(In thousands)							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	\$ 76,659	\$ 72,081	\$ 15,234	\$ 72,201	\$ 960	\$ 74,860	\$ 1,960
Construction/land development	16,596	16,220	3,124	19,077	205	19,252	501
Agricultural	33	33		17	1	11	1
Residential real estate loans Residential 1-4 family							
Multifamily residential	23,227	20,571	5,227	21,893	169	21,343	401
	6,658	6,658	2,579	6,617	84	6,603	166
Total real estate	123,173	115,563	26,164	119,805	1,419	122,069	3,029
Consumer	737	712	344	1,156	12	1,302	26
Commercial and industrial	13,830	12,253	5,522	11,016	172	10,217	324
Agricultural and other	1,203	1,203	1,143	1,203		1,203	21
Total	\$ 138,943	\$ 129,731	\$ 33,173	\$ 133,180	\$ 1,603	\$ 134,791	\$ 3,400

	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses	December 31, 2011 Year Ended		
				Average Recorded Investment	Interest Recognized	
(In thousands)						
Real estate:						
Commercial real estate loans						
Non-farm/non-residential		\$ 80,316	\$ 80,179	\$ 15,050	\$ 52,757	\$ 2,913
Construction/land development		21,600	19,606	4,428	19,077	963
Agricultural					479	10
Residential real estate loans Residential 1-4 family						
Multifamily residential		25,419	20,243	6,272	19,914	858
		6,577	6,576	2,213	7,039	350
Total real estate		133,912	126,604	27,963	99,266	5,094
Consumer		1,611	1,596	1,002	1,348	46
Commercial and industrial		10,537	8,619	3,503	10,984	730
Agricultural and other		1,203	1,203	1,203	241	
Total		\$ 147,263	\$ 138,022	\$ 33,671	\$ 111,839	\$ 5,870

All of the Company's non-covered impaired loans have a specific allocation of the allowance for loan losses, with the exception of certain troubled debt restructurings (TDR) where the discounted cash flows under the restructuring are greater than or equal to those under the original terms of the loan. Interest recognized on non-covered impaired loans during the three months ended June 30, 2012 and 2011 was approximately

Edgar Filing: HOME BANCSHARES INC - Form 10-Q

\$1.6 million and \$1.4 million, respectively. Interest recognized on non-covered impaired loans during the six months ended June 30, 2012 and 2011 was approximately \$3.4 million and \$2.6 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 by class as of June 30, 2012 and December 31, 2011:

	June 30, 2012			Classified Total
	Risk Rated 6	Risk Rated 7	Risk Rated 8	
(In thousands)				
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	\$ 53,063	\$	\$	\$ 53,063
Construction/land development	5,824	26		5,850
Agricultural	159			159
Residential real estate loans				
Residential 1-4 family	21,832	110		21,942
Multifamily residential	4,880			4,880
Total real estate	85,758	136		85,894
Consumer	1,688			1,688
Commercial and industrial	12,461	16		12,477
Agricultural and other	1,251			1,251
Total	\$ 101,158	\$ 152	\$	\$ 101,310

	December 31, 2011			Classified Total
	Risk Rated 6	Risk Rated 7	Risk Rated 8	
(In thousands)				
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	\$ 44,813	\$	\$	\$ 44,813
Construction/land development	6,718			6,718
Agricultural	178			178
Residential real estate loans				
Residential 1-4 family	22,376	382		22,758
Multifamily residential	4,884			4,884
Total real estate	78,969	382		79,351
Consumer	2,224			2,224
Commercial and industrial	8,947	55		9,002
Agricultural and other	1,253			1,253
Total	\$ 91,393	\$ 437	\$	\$ 91,830

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 \$250,000 that are rated 5 or worse are individually assessed for impairment on a quarterly basis. Loans rated 6-8 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 June 30, 2012 and December 31, 2011:

	June 30, 2012					Classified Total	Total
	Risk Rated 1	Risk Rated 2	Risk Rated 3	Risk Rated 4 (In thousands)	Risk Rated 5		
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	\$ 9	\$ 57	\$ 393,419	\$ 365,547	\$ 44,239	\$ 53,063	\$ 856,334
Construction/land development	298	524	87,952	149,341	25,406	5,850	269,371
Agricultural			11,003	17,408		159	28,570
Residential real estate loans							
Residential 1-4 family	376	153	309,178	137,657	11,712	21,942	481,018
Multifamily residential			34,665	64,883	1,778	4,880	106,206
Total real estate	683	734	836,217	734,836	83,135	85,894	1,741,499
Consumer	9,466	139	17,109	7,751	993	1,688	37,146
Commercial and industrial	12,450	1,245	88,982	79,000	3,124	12,477	197,278
Agricultural and other	26	2,300	25,602	30,383	2	1,251	59,564
Total	\$ 22,625	\$ 4,418	\$ 967,910	\$ 851,970	\$ 87,254	\$ 101,310	\$ 2,035,487

	December 31, 2011					Classified Total	Total
	Risk Rated 1	Risk Rated 2	Risk Rated 3	Risk Rated 4 (In thousands)	Risk Rated 5		
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	\$ 48	\$ 14	\$ 341,027	\$ 258,252	\$ 54,832	\$ 44,813	\$ 698,986
Construction/land development	8	405	93,913	246,520	14,282	6,718	361,846
Agricultural			10,495	17,862		178	28,535
Residential real estate loans							