

HOME BANCSHARES INC

Form 10-Q

August 09, 2011

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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, 2011**

or

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

Commission File Number: 000-51904

HOME BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Arkansas

71-0682831

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

719 Harkrider, Suite 100, Conway, Arkansas

72032

(Address of principal executive offices)

(Zip Code)

(501) 328-4770

(Registrant's telephone number, including area code)

Not Applicable

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

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

Yes 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

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(Do not check if a smaller
reporting company)

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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: 28,504,089 shares as of August 1, 2011.

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FORM 10-Q
June 30, 2011
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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, 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, predict, estimate, could, should, or other 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 recently enacted Dodd-Frank financial regulatory reform 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 10, 2011.

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

(In thousands, except share data)	June 30, 2011 (Unaudited)	December 31, 2010
Assets		
Cash and due from banks	\$ 48,207	\$ 49,927
Interest-bearing deposits with other banks	231,667	237,605
Cash and cash equivalents	279,874	287,532
Federal funds sold	7,595	27,848
Investment securities available for sale	541,534	469,864
Loans receivable not covered by loss share	1,812,718	1,892,374
Loans receivable covered by FDIC loss share	548,236	575,776
Allowance for loan losses	(56,784)	(53,348)
Loans receivable, net	2,304,170	2,414,802
Bank premises and equipment, net	90,128	81,939
Foreclosed assets held for sale not covered by loss share	19,855	11,626
Foreclosed assets held for sale covered by FDIC loss share	21,941	21,568
FDIC indemnification asset	211,383	227,258
Cash value of life insurance	52,101	51,970
Accrued interest receivable	12,338	16,176
Deferred tax asset, net	22,265	18,586
Goodwill	59,663	59,663
Core deposit and other intangibles	10,030	11,447
Other assets	61,592	62,367
Total assets	\$ 3,694,469	\$ 3,762,646
Liabilities and Stockholders Equity		
Deposits:		
Demand and non-interest-bearing	\$ 462,275	\$ 392,622
Savings and interest-bearing transaction accounts	1,122,034	1,108,309
Time deposits	1,315,484	1,460,867
Total deposits	2,899,793	2,961,798
Securities sold under agreements to repurchase	65,632	74,459
FHLB borrowed funds	150,124	177,270
Accrued interest payable and other liabilities	30,140	27,863
Subordinated debentures	44,331	44,331
Total liabilities	3,190,020	3,285,721

Stockholders equity:

Preferred stock; \$0.01 par value; 5,500,000 shares authorized:

Series A fixed rate cumulative perpetual; liquidation preference of \$1,000 per

share; 50,000 shares issued and outstanding at June 30, 2011 and

December 31, 2010

49,547

49,456

Common stock, par value \$0.01; shares authorized 50,000,000; shares issued

and outstanding 28,496,414 in 2011 and 28,452,411 in 2010

285

285

Capital surplus

433,306

432,962

Retained earnings (deficit)

15,766

(6,079)

Accumulated other comprehensive income

5,545

301

Total stockholders equity

504,449

476,925

Total liabilities and stockholders equity

\$ 3,694,469

\$ 3,762,646

See Condensed Notes to Consolidated Financial Statements.

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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,	
	2011	2010	2011	2010
	(Unaudited)			
Interest income:				
Loans	\$ 39,690	\$ 33,136	\$ 78,645	\$ 63,002
Investment securities				
Taxable	2,204	1,935	4,364	3,562
Tax-exempt	1,543	1,500	3,071	2,979
Deposits other banks	142	81	247	166
Federal funds sold	1	5	8	10
Total interest income	43,580	36,657	86,335	69,719
Interest expense:				
Interest on deposits	5,986	5,872	12,246	11,167
FHLB borrowed funds	1,227	2,082	2,518	4,259
Securities sold under agreements to repurchase	125	118	264	212
Subordinated debentures	543	600	1,081	1,197
Total interest expense	7,881	8,672	16,109	16,835
Net interest income	35,699	27,985	70,226	52,884
Provision for loan losses		3,750	1,250	6,850
Net interest income after provision for loan losses	35,699	24,235	68,976	46,034
Non-interest income:				
Service charges on deposit accounts	3,639	3,583	6,790	6,724
Other service charges and fees	2,602	1,899	4,886	3,537
Mortgage lending income	661	650	1,306	1,062
Mortgage servicing income		154		314
Insurance commissions	470	309	1,077	656
Income from title services	110	148	201	255
Increase in cash value of life insurance	287	348	526	776
Dividends from FHLB, FRB & bankers bank	181	142	322	268
Gain on acquisitions				9,334
Gain on sale of SBA loans		18	259	18
Gain (loss) on sale of premises and equipment, net	77	12	73	219
Gain (loss) on OREO, net	(1,007)	(404)	(1,101)	(245)
Gain (loss) on securities, net				
FDIC indemnification asset	1,463	663	3,300	736
Other income	644	698	1,528	1,211
Total non-interest income	9,127	8,220	19,167	24,865

Non-interest expense:				
Salaries and employee benefits	10,680	9,080	21,758	17,614
Occupancy and equipment	3,648	2,973	7,361	5,772
Data processing expense	1,137	954	2,422	1,816
Other operating expenses	8,391	5,983	16,176	12,343
Total non-interest expense	23,856	18,990	47,717	37,545
Income before income taxes	20,970	13,465	40,426	33,354
Income tax expense	7,424	4,508	14,164	11,516
Net income available to all stockholders	13,546	8,957	26,262	21,838
Preferred stock dividends and accretion of discount on preferred stock	670	670	1,340	1,340
Net income available to common stockholders	\$ 12,876	\$ 8,287	\$ 24,922	\$ 20,498
Basic earnings per common share	\$ 0.46	\$ 0.29	\$ 0.88	\$ 0.72
Diluted earnings per common share	\$ 0.45	\$ 0.29	\$ 0.87	\$ 0.72

See Condensed Notes to Consolidated Financial Statements.

Table of Contents**Home BancShares, Inc.****Consolidated Statements of Stockholders Equity
Six Months Ended June 30, 2011 and 2010**

(In thousands, except share data)	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2010	\$ 49,275	\$ 257	\$ 363,519	\$ 51,746	\$ 176	\$ 464,973
Comprehensive income:						
Net income				21,838		21,838
Other comprehensive income:						
Unrealized gain on investment securities available for sale, net of tax effect of \$2,173					3,367	3,367
Comprehensive income						25,205
Accretion of discount on preferred stock	91			(91)		
Net issuance of 66,205 shares of common stock from exercise of stock options		1	659			660
Disgorgement of profits			11			11
Tax benefit from stock options exercised			342			342
Share-based compensation			272			272
Cash dividends Preferred Stock - 5%				(1,249)		(1,249)
Cash dividends Common Stock, \$0.1085 per share				(3,088)		(3,088)
Stock dividend Common Stock - 10%		25	66,540	(66,576)		(11)
Balances at June 30, 2010 (unaudited)	49,366	283	431,343	2,580	3,543	487,115
Comprehensive income:						
Net income				(4,247)		(4,247)
Other comprehensive income:						
Unrealized loss on investment securities available for sale, net of tax effect of \$(2,093)					(3,242)	(3,242)
Comprehensive income						(7,489)
Accretion of discount on preferred stock	90			(90)		
		2	893			895

Net issuance of 108,693 shares of common stock from exercise of stock options							
Disgorgement of profits							
Tax benefit from stock options exercised			622				622
Share-based compensation			104				104
Cash dividends - Preferred stock - 5%					(1,251)		(1,251)
Cash dividends - Common Stock, \$0.108 per share					(3,071)		(3,071)
Balances at December 31, 2010	49,456	285	432,962		(6,079)	301	476,925
See Condensed Notes to Consolidated Financial Statements.							

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Home BancShares, Inc.
Consolidated Statements of Stockholders Equity Continued
Six Months Ended June 30, 2011 and 2010

(In thousands, except share data)	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
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

See Condensed Notes to Consolidated Financial Statements.

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

(In thousands)	Period Ended June 30,	
	2011	2010
	(Unaudited)	
Operating Activities		
Net income	\$ 26,262	\$ 21,838
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	3,307	2,605
Amortization/(accretion)	(48)	1,165
Share-based compensation	181	272
Tax benefits from stock options exercised	(66)	(342)
(Gain) loss on assets	720	(54)
Gain on acquisitions		(9,334)
Provision for loan losses	1,250	6,850
Deferred income tax effect	(7,065)	2,952
Increase in cash value of life insurance	(526)	(776)
Originations of mortgage loans held for sale	(48,968)	(54,144)
Proceeds from sales of mortgage loans held for sale	58,966	53,403
Changes in assets and liabilities:		
Accrued interest receivable	3,838	66
Other assets	19,953	7,798
Accrued interest payable and other liabilities	(7,038)	4,293
Net cash provided by (used in) operating activities	50,766	36,592
Investing Activities		
Net (increase) decrease in federal funds sold	20,253	6,174
Net (increase) decrease in loans net, excluding loans acquired	69,950	(20,653)
Purchases of investment securities available for sale	(144,039)	(65,041)
Proceeds from maturities of investment securities available for sale	79,164	76,028
Proceeds from foreclosed assets held for sale	15,207	13,294
Proceeds from sale of SBA loans	4,524	268
Sale of mortgage servicing portfolio		225
Purchases of premises and equipment, net	(2,042)	(6,846)
Death benefits received	700	1,585
Net cash proceeds received in FDIC-assisted acquisitions		71,652
Net cash provided by (used in) investing activities	43,717	76,686
Financing Activities		
Net increase (decrease) in deposits, net of deposits acquired	(62,005)	(44,134)
Net increase (decrease) in securities sold under agreements to repurchase	(8,827)	869
Net increase (decrease) in FHLB and other borrowed funds, net of acquired	(27,146)	(51,954)
Proceeds from exercise of stock options	97	660
Disgorgement of profits		11

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Tax benefits from stock options exercised	66	342
Dividends paid on preferred stock	(1,249)	(1,249)
Dividends paid on common stock	(3,077)	(3,099)
Net cash provided by (used in) financing activities	(102,141)	(98,554)
Net change in cash and cash equivalents	(7,658)	14,724
Cash and cash equivalents beginning of year	287,532	173,490
Cash and cash equivalents end of period	\$ 279,874	\$ 188,214

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.
Condensed Notes to Consolidated Financial Statements
(Unaudited)

1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Home BancShares, Inc. (the Company or HBI) is a bank holding company headquartered in Conway, Arkansas. The Company is primarily engaged in providing a full range of banking services to individual and corporate customers through its wholly owned community bank subsidiary Centennial Bank (the Bank). The Bank has locations in central Arkansas, north central Arkansas, southern Arkansas, the Florida Keys, central Florida, southwestern Florida and the Florida Panhandle. 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 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 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 income or stockholders' equity.

Table of Contents***Loans Receivable Not Covered by Loss Share and Allowance for Loan Losses***

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

The allowance for loan losses is established through a provision for loan losses charged against income. The allowance represents an amount that, in management's judgment, will be adequate to absorb probable credit losses on existing loans that may become uncollectible and probable credit losses inherent in the remainder of the loan portfolio. The amounts of provisions to the allowance for loan losses are based on management's analysis and evaluation of the loan portfolio for identification of problem credits, internal and external factors that may affect collectability, relevant credit exposure, particular risks inherent in different kinds of lending, current collateral values and other relevant factors.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows, or collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical charge-off experience and expected loss given default derived from the Bank's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

Loans considered impaired, under FASB ASC 310-10-35 (formerly SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*, as amended by SFAS No. 118, *Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures*), are loans for which, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The aggregate amount of impairment of loans is utilized in evaluating the adequacy of the allowance for loan losses and amount of provisions thereto. Losses on impaired loans are charged against the allowance for loan losses when in the process of collection it appears likely that such losses will be realized. The accrual of interest on impaired loans is discontinued when, in management's opinion, the collection of interest is doubtful, or generally when loans are 90 days or more past due. When accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans.

Loans are placed on non-accrual status when management believes that the borrower's financial condition, after giving consideration to economic and business conditions and collection efforts, is such that collection of interest is doubtful, or generally when loans are 90 days or more past due. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. Accrued interest related to non-accrual loans is generally charged against the allowance for loan losses when accrued in prior years and reversed from interest income if accrued in the current year. Interest income on non-accrual loans may be recognized to the extent cash payments are received, but payments received are usually applied to principal. Non-accrual loans are generally returned to accrual status when principal and interest payments are less than 90 days past due, the customer has made required payments for at least six months, and the Company reasonably expects to collect all principal and interest.

Trouble Debt Restructurings

The Company accounts for troubled debt restructurings (TDRs) using ASC Topic 310-40, *Troubled Debt Restructurings by Creditors*. Restructuring of a debt constitutes a troubled debt restructuring if the Company, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would

not otherwise consider. Common concessions granted to borrowers include interest rate and/or term modifications. As a result, the Bank will work with the borrower to prevent further difficulties, and ultimately to improve the likelihood of recovery on the loan.

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A loan modification does not result in a TDR unless the borrower is in financial difficulty and a concession has been granted. In determining whether a concession has been granted, the Company takes into account the extent to which the nature and amount of any additional collateral or guarantees received as part of the modifications do not serve as adequate compensation for other terms of the restructuring. If the additional collateral or guarantees received adequately compensate the Company for the concessions granted, the loan is not classified as a TDR.

Interim financial information

The accompanying unaudited consolidated financial statements as of June 30, 2011 and 2010 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 2010 Form 10-K, filed with the Securities and Exchange Commission.

Earnings per Share

Basic earnings per share are computed based on the weighted average number of shares outstanding during each year. Diluted earnings per share are computed using the weighted average common shares and all potential dilutive common shares outstanding during the period. Prior year per share amounts have been adjusted for the stock dividend which occurred in June of 2010. The following table sets forth the computation of basic and diluted earnings per common share (EPS) for the three-month and six-month periods ended June 30:

	Three Months Ended June		Six Months Ended June	
	2011	30, 2010	2011	30, 2010
	(In thousands)			
Net income available to common stockholders	\$ 12,876	\$ 8,287	\$ 24,922	\$ 20,498
Average shares outstanding	28,491	28,320	28,480	28,299
Effect of common stock options	199	266	203	255
Diluted shares outstanding	28,690	28,586	28,683	28,554
Basic earnings per common share	\$ 0.46	\$ 0.29	\$ 0.88	\$ 0.72
Diluted earnings per common share	\$ 0.45	\$ 0.29	\$ 0.87	\$ 0.72

A warrant to purchase 158,471.50 shares of common stock at \$23.664 was outstanding at June 30, 2011 and 2010. These shares of common stock were not included in the computation of diluted EPS because the exercise prices were greater than the average market price of the common shares.

2: Business Combinations**Acquisition Old Southern Bank**

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

Prior to the acquisition, Old Southern operated 7 banking centers in the Orlando, Florida metropolitan area. The Company has kept open all of these locations except for one location in downtown Orlando. Including the effects of

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purchase accounting adjustments, Centennial Bank acquired \$342.6 million in assets and assumed approximately \$328.5 million of the deposits of Old Southern. Additionally, Centennial Bank purchased covered loans with an estimated fair value of \$179.1 million, \$3.0 million of foreclosed assets and \$30.4 million of investment securities.

See Note 2 Business Combinations of Form 10-K filed with the Securities and Exchange Commission (SEC) in March 2011 for additional discussion related to the acquisition of Old Southern.

Acquisition Key West Bank

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

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

See Note 2 Business Combinations of Form 10-K filed with the SEC in March 2011 for additional discussion related to the acquisition of Key West.

Acquisition Coastal Community Bank and Bayside Savings Bank

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

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

See Note 2 Business Combinations of Form 10-K filed with the SEC in March 2011 for additional discussion related to the acquisition of Coastal and Bayside.

Acquisition Wakulla Bank

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

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

See Note 2 Business Combinations of Form 10-K filed with the SEC in March 2011 for additional discussion related to the acquisition of Wakulla.

Table of Contents***Acquisition Gulf State Community Bank***

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

Prior to the acquisition, Gulf State operated 5 banking centers in the Florida Panhandle. Including the effects of purchase accounting adjustments, Centennial Bank acquired approximately \$118.2 million in assets and assumed approximately \$97.7 million in deposits of Gulf State. Additionally, Centennial Bank purchased covered loans with an estimated fair value of \$41.2 million, non-covered loans with an estimated fair value of \$1.7 million, \$4.7 million of foreclosed assets and \$10.8 million of investment securities.

See Note 2 Business Combinations of Form 10-K filed with the SEC in March 2011 for additional discussion related to the acquisition of Gulf State.

FDIC-Assisted Acquisitions Other Matters

The Company's operating results for 2010, include the operating results of the acquired assets and assumed liabilities subsequent to the respective acquisition dates. Due to the significant fair value adjustments recorded, as well as the nature of the FDIC loss sharing agreements in place, historical results are not believed to be relevant to the Company's results, and thus no pro forma information is presented.

In an FDIC-assisted acquisition, we acquire certain assets and assume certain liabilities of the former institution under a loss share agreement with the FDIC. Any regulatory agreements or orders that existed for the former institution do not apply to the assuming institution. We, as the assuming institution, are evaluated separately by our regulators and any weaknesses of the former institution are considered in the separate evaluation. Also, the loss share agreement helps to mitigate any weaknesses that may have existed in the former institution.

3: Investment Securities

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

	June 30, 2011			
	Available for Sale			
	Amortized	Gross	Gross	Estimated
	Cost	Unrealized	Unrealized	Fair Value
		Gains	(Losses)	
		(In thousands)		
U.S. government-sponsored enterprises	\$ 243,733	\$ 2,303	\$ (125)	\$ 245,911
Mortgage-backed securities	123,528	3,401	(112)	126,817
State and political subdivisions	157,083	4,009	(334)	160,758
Other securities	8,065	51	(68)	8,048
Total	\$ 532,409	\$ 9,764	\$ (639)	\$ 541,534

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	December 31, 2010			
	Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	\$ 198,248	\$ 977	\$ (1,932)	\$ 197,293
Mortgage-backed securities	113,557	2,820	(300)	116,077
State and political subdivisions	154,706	1,458	(2,457)	153,707
Other securities	2,858		(71)	2,787
Total	\$ 469,369	\$ 5,255	\$ (4,760)	\$ 469,864

Assets, principally investment securities, having a carrying value of approximately \$336.2 million and \$268.0 million at June 30, 2011 and December 31, 2010, 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 \$65.6 million and \$74.5 million at June 30, 2011 and December 31, 2010, respectively.

During the three-month and six-month periods ended June 30, 2011 and 2010, no available for sale securities were sold.

The amortized cost and estimated fair value of securities at June 30, 2011, 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	\$ 203,791	\$ 205,793
Due after one year through five years	236,343	240,515
Due after five years through ten years	62,892	64,901
Due after ten years	29,383	30,325
Total	\$ 532,409	\$ 541,534

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.

No securities were deemed to have other-than-temporary impairment besides securities for which impairment was taken in prior periods.

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For the period ended June 30, 2011, the Company had \$210,000 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 82.7% of the Company's investment portfolio matures in five years or less. As a result, the Company has the ability and intent to hold such securities until maturity.

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, 2011 and December 31, 2010:

	June 30, 2011		June 30, 2011		Total	
	Less Than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
U.S. government-sponsored enterprises	\$ 30,458	\$ (125)	\$	\$	\$ 30,458	\$ (125)
Mortgage-backed securities	15,101	(112)			15,101	(112)
State and political subdivisions	14,208	(192)	4,578	(142)	18,786	(334)
Other securities	120		2,574	(68)	2,694	(68)
Total	\$ 59,887	\$ (429)	\$ 7,152	\$ (210)	\$ 67,039	\$ (639)

	December 31, 2010		December 31, 2010		Total	
	Less Than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
U.S. government-sponsored enterprises	\$ 126,862	\$ (1,932)	\$	\$	\$ 126,862	\$ (1,932)
Mortgage-backed securities	27,427	(300)			27,427	(300)
State and political subdivisions	57,272	(1,970)	4,069	(487)	61,341	(2,457)
Other securities			2,667	(71)	2,667	(71)
Total	\$ 211,561	\$ (4,202)	\$ 6,736	\$ (558)	\$ 218,297	\$ (4,760)

Table of Contents**4: Loans Receivable Not Covered by Loss Share and Allowance for Loan Losses**

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

	June 30, 2011	December 31, 2010
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	\$ 754,251	\$ 805,635
Construction/land development	363,310	348,768
Agricultural	26,826	26,798
Residential real estate loans		
Residential 1-4 family	348,402	371,381
Multifamily residential	48,803	59,319
Total real estate	1,541,592	1,611,901
Consumer	42,662	51,642
Commercial and industrial	173,285	184,014
Agricultural	25,929	16,549
Other	29,250	28,268
Loans receivable not covered by loss share	\$ 1,812,718	\$ 1,892,374

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The following tables present the balance in the allowance for loan losses for the three-month and six-month periods ended June 30, 2011, and the allowance for loan losses and recorded investment in loans based on portfolio segment by impairment method as of June 30, 2011. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories.

	Three Months Ended June 30, 2011							Total
	Construction Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated		
Allowance for loan losses:								
Beginning balance	\$ 11,241	\$ 17,529	\$ 13,674	\$ 6,725	\$ 1,932	\$ 2,490	\$ 53,591	
Loans charged off	(228)	(4)	(755)	(58)	(515)		(1,560)	
Recoveries of loans previously charged off	4	73	18	4,459	199		4,753	
Net loans recovered (charged off)	(224)	69	(737)	4,401	(316)		3,193	
Provision for loan losses	301	1,543	1,387	(4,007)	834	(58)		
Balance, June 30	\$ 11,318	\$ 19,141	\$ 14,324	\$ 7,119	\$ 2,450	\$ 2,432	\$ 56,784	

	Six Months Ended June 30, 2011							Total
	Construction Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial (In thousands)	Consumer & Other	Unallocated		
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) (459)	143 1,751	(536) 563	4,464 (3,702)	(1,660) 3,088		2,186 1,250	

Provision for loan losses

Balance, June 30	\$ 11,318	\$ 19,141	\$ 14,324	\$ 7,119	\$ 2,450	\$ 2,432	\$ 56,784
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As of June 30, 2011

	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	\$ 7,441	\$ 13,160	\$ 10,404	\$ 4,011	\$ 1,484	\$	\$ 36,500
Loans collectively evaluated for impairment	3,877	5,981	3,920	3,108	966	2,432	20,284
Balance, June 30	\$ 11,318	\$ 19,141	\$ 14,324	\$ 7,119	\$ 2,450	\$ 2,432	\$ 56,784

Loans receivable:

Period end amount allocated to:

Loans individually evaluated for impairment	\$ 21,692	\$ 78,291	\$ 28,921	\$ 14,303	\$ 2,836	\$	\$ 146,043
Loans collectively evaluated for impairment	341,618	702,786	368,284	158,982	95,005		1,666,675
Balance, June 30	\$ 363,310	\$ 781,077	\$ 397,205	\$ 173,285	\$ 97,841	\$	\$ 1,812,718

As of June 30, 2011, no loans acquired with deteriorated credit quality have required a provision for loan loss.

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The following tables present the balance in the allowance for loan losses for the year ended December 31, 2010, and the recorded investment in allowance for loan losses and loans based on portfolio segment by impairment method as of December 31, 2010. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories.

As of December 31, 2010

	Construction Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial (In thousands)	Consumer & Other	Unallocated	Total
Allowance for loan losses:							
Beginning balance	\$ 9,624	\$ 13,568	\$ 11,348	\$ 6,067	\$ 1,984	\$ 377	\$ 42,968
Loans charged off	(951)	(856)	(2,749)	1,636	(1,580)		(7,772)
Recoveries of loans previously charged off	54	784	383	26	321		1,568
Net loans recovered (charged off)	(897)	(72)	(2,366)	(1,610)	(1,259)		(6,204)
Provision for loan losses	1,479	(395)	5,262	325	486	(307)	6,850
Balance, June 30	10,206	13,101	14,244	4,782	1,211	70	43,614
Loans charged off	(9,323)	(15,849)	(7,982)	(22,591)	(936)		(56,681)
Recoveries of loans previously charged off	1	84	109	24	197		415
Net loans recovered (charged off)	(9,322)	(15,765)	(7,873)	(22,567)	(739)		(56,266)
Provision for loan losses	11,118	19,911	7,926	24,142	550	2,353	66,000
Balance, end of year	\$ 12,002	\$ 17,247	\$ 14,297	\$ 6,357	\$ 1,022	\$ 2,423	\$ 53,348
Period end amount allocated to:							
Loans individually	\$ 7,602	\$ 9,912	\$ 9,843	\$ 2,625	\$ 438	\$	\$ 30,420

evaluated for impairment Loans collectively evaluated for impairment	4,400	7,335	4,454	3,732	584	2,423	22,928
Balance, end of year	\$ 12,002	\$ 17,247	\$ 14,297	\$ 6,357	\$ 1,022	\$ 2,423	\$ 53,348

Loans**receivable:**

Period end
amount allocated
to:

Loans individually evaluated for impairment	\$ 25,556	\$ 69,010	\$ 35,077	\$ 16,939	\$ 1,136	\$	\$ 147,718
Loans collectively evaluated for impairment	323,212	763,423	395,623	167,075	95,323		1,744,656
Balance, end of year	\$ 348,768	\$ 832,433	\$ 430,700	\$ 184,014	\$ 96,459	\$	\$ 1,892,374

As of December 31, 2010, no loans acquired with deteriorated credit quality have required a provision for loan loss.

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The following is an aging analysis for the non-covered loan portfolio as of June 30, 2011 and December 31, 2010:

	June 30, 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 (In thousands)	Current Loans	Total Loans Receivable	
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	\$ 1,059	\$ 240	\$ 7,375	\$ 8,674	\$ 745,577	\$ 754,251	\$ 494
Construction/land development	5,253	3,277	4,509	13,039	350,271	363,310	832
Agricultural			948	948	25,878	26,826	
Residential real estate loans							
Residential 1-4 family	1,915	1,860	14,345	18,120	330,282	348,402	25
Multifamily residential		2,912		2,912	45,891	48,803	
Total real estate	8,227	8,289	27,177	43,693	1,497,899	1,541,592	1,351
Consumer	1,247	345	2,177	3,769	38,893	42,662	105
Commercial and industrial	87	147	1,824	2,058	171,227	173,285	
Agricultural and other	253		51	304	54,875	55,179	
Total	\$ 9,814	\$ 8,781	\$ 31,229	\$ 49,824	\$ 1,762,894	\$ 1,812,718	\$ 1,456

December 31, 2010

	December 31, 2010						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 (In thousands)	Current Loans	Total Loans Receivable	
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	\$ 1,903	\$ 4,833	\$ 16,535	\$ 23,271	\$ 782,338	\$ 805,635	\$
Construction/land development	5,055		6,809	11,864	336,904	348,768	1

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Agricultural			220	220	26,578	26,798	
Residential real estate loans							
Residential 1-4 family	1,513	2,354	16,530	20,397	350,984	371,381	535
Multifamily residential		2,887	5,122	8,009	51,310	59,319	
Total real estate	8,471	10,074	45,216	63,787	1,548,114	1,611,901	536
Consumer	154	60	1,342	1,556	50,086	51,642	34
Commercial and industrial	283	395	2,943	3,621	180,393	184,014	8
Agricultural and other	156	20	1	177	44,666	44,817	
Total	\$ 9,064	\$ 10,549	\$ 49,502	\$ 69,115	\$ 1,823,259	\$ 1,892,374	\$ 578

Non-accruing loans not covered by loss share at June 30, 2011 and December 31, 2010 were \$29.8 million and \$48.9 million, respectively.

The Company did not sell any of the guaranteed portions of SBA loans during the three-month 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. The Company sold \$250,000 of the guaranteed portions of SBA loans during the three-month and six-month periods ended June 30, 2010, resulting in a gain of \$18,000.

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Mortgage loans held for sale of approximately \$4.0 million and \$14.0 million at June 30, 2011 and December 31, 2010, 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, 2011 and December 31, 2010 were not material.

The following is a summary of the non-covered impaired loans as of June 30, 2011 and December 31, 2010:

	June 30, 2011							
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses	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	\$ 77,692	\$ 45,900	\$ 12,761	\$ 43,787	\$ 611	\$ 41,486	\$ 1,173	
Construction/land development	21,692	18,397	7,441	18,779	253	18,280	511	
Agricultural	598	598	399	598		598	10	
Residential real estate loans								
Residential 1-4 family	21,416	20,980	7,100	20,272	175	19,653	327	
Multifamily residential	7,505	7,505	3,304	7,390	101	7,344	282	
Total real estate	128,903	93,380	31,005	90,826	1,140	87,361	2,203	
Consumer	2,546	2,067	1,484	1,653	17	1,321	27	
Commercial and industrial	14,303	12,645	4,011	12,760	197	12,243	388	
Agricultural and other								
Total	\$ 145,752	\$ 108,092	\$ 36,500	\$ 105,239	\$ 1,354	\$ 100,925	\$ 2,618	

December 31, 2010
Allocation

Interest

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	Unpaid Contractual	Total Recorded	of Allowance for	Average Recorded	
	Principal Balance	Investment	Loan Losses (In thousands)	Investment	Recognized
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	\$ 40,078	\$ 36,884	\$ 9,697	\$ 18,366	\$ 1,922
Construction/land development	19,617	17,282	7,602	14,272	823
Agricultural	598	598	215	120	40
Residential real estate loans					
Residential 1-4 family	20,894	18,416	6,884	17,137	602
Multifamily residential	7,251	7,251	2,959	5,149	325
Total real estate	88,438	80,431	27,357	55,044	3,712
Consumer	658	658	438	799	
Commercial and industrial	11,284	11,208	2,625	6,218	749
Agricultural and other					
Total	\$ 100,380	\$ 92,297	\$ 30,420	\$ 62,061	\$ 4,461

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All of the Company's non-covered impaired loans have a specific allocation of the allowance for loan losses. Interest recognized on non-covered impaired loans during the six months ended June 30, 2011 and 2010 was approximately \$2.6 million and \$1.2 million, respectively. The amount of interest recognized on non-covered impaired loans on the cash basis is not materially different than the accrual basis.

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 and Arkansas.

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. A description 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.

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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.

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, 2011 and December 31, 2010:

	June 30, 2011			Classified Total
	Risk Rated 6	Risk Rated 7	Risk Rated 8	
	(In thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	\$ 31,460	\$ 2	\$	\$ 31,462
Construction/land development	8,377			8,377
Agricultural	948			948
Residential real estate loans				
Residential 1-4 family	22,342	179		22,521
Multifamily residential	6,058			6,058
Total real estate	69,185	181		69,366
Consumer	2,594			2,594
Commercial and industrial	3,359	56		3,415
Agricultural and other	107			107
Total	\$ 75,245	\$ 237	\$	\$ 75,482

	December 31, 2010			Total
	Risk Rated 6	Risk Rated 7	Risk Rated 8	
	(In thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	\$ 31,806	\$ 5,483	\$	\$ 37,289
Construction/land development	11,665	934		12,599
Agricultural	994			994

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Residential real estate loans				
Residential 1-4 family	23,801	740		24,541
Multifamily residential	11,170			11,170
Total real estate	79,436	7,157		86,593
Consumer	1,350			1,350
Commercial and industrial	3,588	55		3,643
Agricultural	1	2		3
Other	143			143
Total	\$ 84,518	\$ 7,214	\$	\$ 91,732

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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.

The following is a presentation of non-covered loans by class and risk rating as of June 30, 2011 and December 31, 2010:

	June 30, 2011					Classified Total	Total
	Risk Rated 1	Risk Rated 2	Risk Rated 3	Risk Rated 4	Risk Rated 5		
(In thousands)							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	\$ 399	\$ 18	\$ 388,438	\$ 283,794	\$ 50,140	\$ 31,462	\$ 754,251
Construction/land development	58		81,365	256,816	16,694	8,377	363,310
Agricultural			7,323	18,555		948	26,826
Residential real estate loans							
Residential 1-4 family	289		215,191	99,894	10,507	22,521	348,402
Multifamily residential			24,734	16,318	1,693	6,058	48,803
Total real estate	746	18	717,051	675,377	79,034	69,366	1,541,592
Consumer	8,808	883	20,763	8,124	1,490	2,594	42,662
Commercial and industrial	7,749	389	76,606	71,817	13,309	3,415	173,285
Agricultural and other	170	1,518	33,271	19,787	326	107	55,179
Total	\$ 17,473	\$ 2,808	\$ 847,691	\$ 775,105	\$ 94,159	\$ 75,482	\$ 1,812,718

	December 31, 2010					Classified Total	Total
	Risk Rated 1	Risk Rated 2	Risk Rated 3	Risk Rated 4	Risk Rated 5		
(In thousands)							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	\$ 398	\$ 22	\$ 440,989	\$ 292,391	\$ 34,545	\$ 37,289	\$ 805,635
Construction/land development	16		74,887	244,133	17,133	12,599	348,768
Agricultural			19,315	6,196	293	994	26,798
Residential real estate loans							

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Residential 1-4 family	245	12	242,036	92,998	11,549	24,541	371,381
Multifamily residential			28,539	17,915	1,695	11,170	59,319
Total real estate	660	34	805,767	653,633	65,215	86,593	1,611,901
Consumer	14,355	3,093	15,233	17,360	252	1,350	51,642
Commercial and industrial	7,967	668	81,012	75,138	15,586	3,643	184,014
Agricultural and other	144	1,270	36,028	7,223	5	146	44,817
Total	\$ 23,125	\$ 5,065	\$ 938,040	\$ 753,354	\$ 81,058	\$ 91,732	\$ 1,892,374

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The following is a presentation of non-covered TDR s by class as of June 30, 2011:

	June 30, 2011					
	Number of Loans	Pre-Modification Outstanding Balance	Rate Modification	Term Modification	Rate & Term Modification	Post-Modification Outstanding Balance
	(In thousands)					
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	28	\$ 40,408	\$ 26,465	\$ 4,083	\$ 5,767	\$ 36,315
Construction/land development	14	25,573	12,354	1,343	3,712	17,409
Residential real estate loans						
Residential 1-4 family	14	7,138	3,502	125	773	4,400
Multifamily residential	2	4,586	4,605			4,605
Total real estate	58	77,705	46,926	5,551	10,252	62,729
Commercial and industrial	4	517	158		178	336
Total	62	\$ 78,222	\$ 47,084	\$ 5,551	\$ 10,430	\$ 63,065

The following is a presentation of non-covered TDR s not in compliance with the modified terms:

	June 30, 2011	
	Number of Loans	Recorded Balance
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	4	\$ 2,703
Construction/land development	5	3,426
Residential real estate loans		
Residential 1-4 family	5	1,817
Multifamily residential		
Total real estate	14	7,946
Commercial and industrial	1	53
Total	15	\$ 7,999

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

The Company evaluated loans purchased in conjunction with the acquisitions of Old Southern, Key West, Coastal-Bayside, Wakulla and Gulf State described in Note 2, Business Combinations, 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, 2011 and December 31, 2010 for the Company's FDIC-assisted transactions:

	June 30, 2011	December 31, 2010
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	\$ 198,005	\$ 208,678
Construction/land development	128,015	127,340
Agricultural	4,108	5,454
Residential real estate loans		
Residential 1-4 family	166,136	180,914
Multifamily residential	9,113	9,176
Total real estate	505,377	531,562
Consumer	510	498
Commercial and industrial	41,423	42,443
Agricultural		63
Other	926	1,210
Loans receivable covered by FDIC loss share (1)	\$ 548,236	\$ 575,776

(1) These loans were not classified as nonperforming assets at June 30, 2011 and December 31, 2010, 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.

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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.

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, 2011 for the Company's FDIC-assisted acquisitions.

	Accretible Yield	Carrying Amount of Loans
	(In thousands)	
Balance at beginning of period	\$ 86,712	\$ 575,776
Reforecasted future interest payments for loan pools	15,184	
Income accreted	(19,456)	19,456
Payments received, gross		(46,996)
Balance at end of period	\$ 82,440	\$ 548,236

Loan pools in the Old Southern and Key West acquisitions 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 \$15.2 million. This updated forecast does not change the expected weighted average yields on the loan pools. No pools evaluated by the Company were determined to have experienced impairment in the estimated credit quality or cash flows. There were no allowances for loan losses related to the purchased impaired loans at June 30, 2011.

6: Deposits

The aggregate amount of time deposits with a minimum denomination of \$100,000 was \$769.6 million and \$845.2 million at June 30, 2011 and December 31, 2010, respectively. Interest expense applicable to certificates in excess of \$100,000 totaled \$3.1 million for the three months ended June 30, 2011 and 2010. Interest expense applicable to certificates in excess of \$100,000 totaled \$6.4 million and \$5.5 million for the six months ended June 30, 2011 and 2010, respectively. As of June 30, 2011 and December 31, 2010, brokered deposits were \$115.5 million and \$98.9 million, respectively.

Deposits totaling approximately \$228.5 million and \$267.6 million at June 30, 2011 and December 31, 2010, respectively, were public funds obtained primarily from state and political subdivisions in the United States.

7: Securities Sold Under Agreements to Repurchase

At June 30, 2011 and December 31, 2010, securities sold under agreements to repurchase totaled \$65.6 million and \$74.5 million, respectively. For the three month periods ended June 30, 2011 and June 30, 2010, securities sold under agreements to repurchase daily weighted average totaled \$68.2 million and \$60.8 million, respectively. For the six month periods ended June 30, 2011 and June 30, 2010, securities sold under agreements to repurchase daily weighted average totaled \$69.6 million and \$57.3 million, respectively.

Table of Contents**8: FHLB Borrowed Funds**

The Company's FHLB borrowed funds were \$150.1 million and \$177.3 million at June 30, 2011 and December 31, 2010, respectively. All of the outstanding balance at June 30, 2011 and December 31, 2010 were long-term advances. The FHLB advances mature from the current year to 2025 with fixed interest rates ranging from 2.020% to 5.076% and are secured by loans and investments securities. Expected maturities will differ from contractual maturities, because FHLB may have the right to call or prepay certain obligations.

Additionally, the Company had \$178.5 million and \$179.1 million at June 30, 2011 and December 31, 2010, respectively, in letters of credit under a FHLB blanket borrowing line of credit, which are used to collateralize public deposits at June 30, 2011 and December 31, 2010, respectively.

9: Income Taxes

The following is a summary of the components of the provision for income taxes for the three-month and six-month periods ended June 30:

	Three Months Ended June		Six Months Ended June	
	2011	30, 2010	2011	30, 2010
	(In thousands)			
Current:				
Federal	\$ 8,762	\$ 4,045	\$ 17,782	\$ 7,187
State	1,821	732	3,447	1,377
Total current	10,583	4,777	21,229	8,564
Deferred:				
Federal	(2,530)	(260)	(5,894)	2,460
State	(629)	(9)	(1,171)	492
Total deferred	(3,159)	(269)	(7,065)	2,952
Provision for income taxes	\$ 7,424	\$ 4,508	\$ 14,164	\$ 11,516

The reconciliation between the statutory federal income tax rate and effective income tax rate is as follows for the three-month and six-month periods ended June 30:

	Three Months Ended		Six Months Ended	
	2011	June 30, 2010	2011	June 30, 2010
Statutory federal income tax rate	35.00%	35.00%	35.00%	35.00%
Effect of nontaxable interest income	(2.89)	(4.30)	(2.99)	(3.44)
Cash value of life insurance	(0.48)	(0.90)	(0.46)	(0.82)
State income taxes, net of federal benefit	3.70	3.49	3.66	3.64
Other	0.07	0.19	(0.17)	0.15
Effective income tax rate	35.40%	33.48%	35.04%	34.53%

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The types of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts that give rise to deferred income tax assets and liabilities, and their approximate tax effects, are as follows:

	June 30, 2011	December 31, 2010
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	\$ 22,300	\$ 20,879
Deferred compensation	1,051	1,742
Stock options	338	324
Real estate owned	5,564	7,041
Loan discounts	63,319	62,269
Tax basis premium/discount on acquisitions	14,611	14,682
Deposits	606	1,163
Other	6,488	6,206
 Gross deferred tax assets	 114,277	 114,306
Deferred tax liabilities:		
Accelerated depreciation on premises and equipment	1,943	2,341
Unrealized gain on securities	3,580	194
Core deposit intangibles	1,629	2,101
Indemnification asset	82,915	89,142
FHLB dividends	873	867
Other	1,072	1,075
 Gross deferred tax liabilities	 92,012	 95,720
 Net deferred tax assets	 \$ 22,265	 \$ 18,586

10: Common Stock and Compensation Plans

During the first quarter of 2011, the Company granted 24,156 shares of restricted common stock. The restricted shares will vest equally each year over three years beginning on the first anniversary of the grant. Of the 24,156 shares of restricted stock granted, 19,906 shares are also limited by the 2009 agreement between the Company and the United States Department of Treasury (the Treasury). This Treasury agreement has additional provisions concerning the transferability of the shares and the continuation of performing substantial services for the Company. As a result of the Company repurchasing all 50,000 shares of its Series A Preferred Stock in July 2011 which the Company issued to the Treasury this limitation has been removed. The amount of annual pre-tax expense during 2011 through 2013 associated with the issuance of this restricted stock will be approximately \$172,000 per year.

Table of Contents**11: Non-Interest Expense**

The table below shows the components of non-interest expense for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Salaries and employee benefits	\$ 10,680	\$ 9,080	\$ 21,758	\$ 17,614
Occupancy and equipment	3,648	2,973	7,361	5,772
Data processing expense	1,137	954	2,422	1,816
Other operating expenses:				
Advertising	1,015	453	2,013	819
Merger expenses		258	11	1,317
Amortization of intangibles	704	583	1,417	1,062
Amortization of mortgage servicing rights		218		436
Electronic banking expense	697	496	1,356	973
Directors fees	179	181	364	326
Due from bank service charges	119	103	259	193
FDIC and state assessment	1,058	986	2,151	1,884
Insurance	408	296	779	596
Legal and accounting	462	356	909	744
Mortgage servicing expense		76		160
Other professional fees	569	368	982	681
Operating supplies	322	207	611	393
Postage	242	164	487	314
Telephone	259	152	522	290
Other expense	2,357	1,086	4,315	2,155
Total other operating expenses	8,391	5,983	16,176	12,343
Total non-interest expense	\$ 23,856	\$ 18,990	\$ 47,717	\$ 37,545

12: Concentration of Credit Risks

The Company's primary market areas are in central Arkansas, north central Arkansas, southern Arkansas, central Florida, southwestern Florida, the Florida Panhandle and the Florida Keys. The Company primarily grants loans to customers located within these geographical areas unless the borrower has an established relationship with the Company.

The diversity of the Company's economic base tends to provide a stable lending environment. Although the Company has a loan portfolio that is diversified in both industry and geographic area, a substantial portion of its debtors' ability to honor their contracts is dependent upon real estate values, tourism demand and the economic conditions prevailing in its market areas.

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13: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses and certain concentrations of credit risk are reflected in Note 4, while deposit concentrations are reflected in Note 6.

Although the Company has a diversified loan portfolio, at June 30, 2011 and December 31, 2010, non-covered commercial real estate loans represented 63.1% and 62.4% of gross non-covered loans and 226.9% and 247.7% of total stockholders' equity, respectively. Non-covered residential real estate loans represented 21.9% and 22.8% of gross non-covered loans and 78.7% and 90.3% of total stockholders' equity at June 30, 2011 and December 31, 2010, respectively.

The current economic environment presents financial institutions with unprecedented circumstances and challenges which in some cases have resulted in large declines in the fair values of investments and other assets, constraints on liquidity and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans. The financial statements have been prepared using values and information currently available to the Company.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses and capital that could negatively impact the Company's ability to meet regulatory capital requirements and maintain sufficient liquidity.

14: Commitments and Contingencies

In the ordinary course of business, the Company makes various commitments and incurs certain contingent liabilities to fulfill the financing needs of their customers. These commitments and contingent liabilities include lines of credit and commitments to extend credit and issue standby letters of credit. The Company applies the same credit policies and standards as they do in the lending process when making these commitments. The collateral obtained is based on the assessed creditworthiness of the borrower.

At June 30, 2011 and December 31, 2010, commitments to extend credit of \$280.0 million and \$257.9 million, respectively, were outstanding. A percentage of these balances are participated out to other banks; therefore, the Company can call on the participating banks to fund future draws. Since some of these commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

Outstanding standby letters of credit are contingent commitments issued by the Company, generally to guarantee the performance of a customer in third-party borrowing arrangements. The term of the guarantee is dependent upon the credit worthiness of the borrower some of which are long-term. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments. The maximum amount of future payments the Company could be required to make under these guarantees at June 30, 2011 and December 31, 2010, is \$18.0 million and \$18.7 million, respectively.

The Company and/or its subsidiary bank have various unrelated legal proceedings, most of which involve loan foreclosure activity pending, which, in the aggregate, are not expected to have a material adverse effect on the financial position and results of operations of the Company.

Table of Contents**15: Regulatory Matters**

The Bank is subject to a legal limitation on dividends that can be paid to the parent company without prior approval of the applicable regulatory agencies. Arkansas bank regulators have specified that the maximum dividend limit state banks may pay to the parent company without prior approval is 75% of the current year earnings plus 75% of the retained net earnings of the preceding year. Since the Bank is also under supervision of the Federal Reserve, it is further limited if the total of all dividends declared in any calendar year by the Bank exceeds the Bank's net profits to date for that year combined with its retained net profits for the preceding two years. During 2010 and the first six months of 2011, the Company did not request any dividends from its banking subsidiary. As a result of the Company repurchasing all 50,000 shares of its Series A Preferred Stock and the related common stock warrant in July 2011 for approximately \$51.7 million, the Company anticipates it will begin requesting a dividend equal to 75% of the current year earnings from its banking subsidiary.

The Federal Reserve Board's risk-based capital guidelines include the definitions for (1) a well-capitalized institution, (2) an adequately-capitalized institution, and (3) and undercapitalized institution. The criteria for a well-capitalized institution are: a 5% Tier 1 leverage capital ratio, a 6% Tier 1 risk-based capital ratio, and a 10% total risk-based capital ratio. As of June 30, 2011, the Bank met the capital standards for a well-capitalized institution. The Company's Tier 1 leverage capital ratio, Tier 1 risk-based capital ratio, and total risk-based capital ratio were 13.03%, 17.94%, and 19.20%, respectively, as of June 30, 2011.

16: Additional Cash Flow Information

The following is summary of the Company's additional cash flow information during the three-month and six-month periods ended:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
	(In thousands)			
Interest paid	\$ 8,109	\$ 8,921	\$ 16,612	\$ 17,294
Income taxes paid	7,500	3,400	15,350	7,350
Assets acquired by foreclosure	12,131	3,693	25,247	6,873
FDIC-assisted acquisition fixed assets acquired yet to have a cash settlement			9,381	

17: Financial Instruments

FASB ASC 820 *Fair Value Measurements and Disclosures* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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Available-for-sale securities are the only material instruments valued on a recurring basis which are held by the Company at fair value. The Company does not have any Level 1 securities. Primarily all of the Company's securities are considered to be Level 2 securities. These Level 2 securities consist of U.S. government-sponsored enterprises, mortgage-backed securities plus state and political subdivisions. As of June 30, 2011, Level 3 securities were immaterial.

Impaired loans that are collateral dependent are the only material financial assets valued on a non-recurring basis which are held by the Company at fair value. Loan impairment is reported when full payment under the loan terms is not expected. Impaired loans are carried at the net realizable value of the collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require increase, such increase is reported as a component of the provision for loan losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan is probable. Non-covered impaired loans, net of specific allowance, were \$71.6 million and \$61.9 million as of June 30, 2011 and December 31, 2010, respectively. This valuation is considered Level 3, consisting of appraisals of underlying collateral. The Company reversed approximately \$200,000 of accrued interest receivable when non-covered impaired loans were put on non-accrual status during the six months ended June 30, 2011.

Foreclosed assets held for sale are the only material non-financial assets valued on a non-recurring basis which are held by the Company at fair value, less estimated costs to sell. At foreclosure, if the fair value, less estimated costs to sell, of the real estate acquired is less than the Company's recorded investment in the related loan, a write-down is recognized through a charge to the allowance for loan losses. Additionally, valuations are periodically performed by management and any subsequent reduction in value is recognized by a charge to income. The fair value of foreclosed assets held for sale is estimated using Level 3 inputs based on appraisals of underlying collateral. As of June 30, 2011 and December 31, 2010, the fair value of foreclosed assets held for sale not covered by loss share, less estimated costs to sell was \$19.9 million and \$11.6 million, respectively.

Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating fair values of financial instruments as disclosed in these notes:

Cash and cash equivalents and federal funds sold For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Loans receivable not covered by loss share, net of non-covered impaired loans and allowance For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are assumed to approximate the carrying amounts. The fair values for fixed-rate loans are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics.

Loans receivable covered by FDIC loss share Fair values for loans are based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and current discount rates. Loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques. The discount rates used for loans are based on current market rates for new originations of comparable loans and include adjustments for liquidity concerns. The discount rate does not include a factor for credit losses as that has been included in the estimated cash flows.

FDIC indemnification asset Although this asset is a contractual receivable from the FDIC, there is no effective interest rate. The Bank will collect this asset over the next several years. The amount ultimately collected will depend on the timing and amount of collections and charge-offs on the acquired assets covered by the loss sharing agreement. While this asset was recorded at its estimated fair value at acquisition date, it is not practicable to complete a fair value analysis on a quarterly or annual basis. This would involve preparing a fair value analysis of

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the entire portfolio of loans and foreclosed assets covered by the loss sharing agreement on a quarterly or annual basis in order to estimate the fair value of the FDIC indemnification asset.

Accrued interest receivable The carrying amount of accrued interest receivable approximates its fair value.

Deposits and securities sold under agreements to repurchase The fair values of demand, savings deposits and securities sold under agreements to repurchase are, by definition, equal to the amount payable on demand and therefore approximate their carrying amounts. The fair values for time deposits are estimated using a discounted cash flow calculation that utilizes interest rates currently being offered on time deposits with similar contractual maturities.

FHLB and other borrowed funds For short-term instruments, the carrying amount is a reasonable estimate of fair value. The fair value of long-term debt is estimated based on the current rates available to the Company for debt with similar terms and remaining maturities.

Accrued interest payable The carrying amount of accrued interest payable approximates its fair value.

Subordinated debentures The fair value of subordinated debentures is estimated using the rates that would be charged for subordinated debentures of similar remaining maturities.

Commitments to extend credit, letters of credit and lines of credit The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.

The following table presents the estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

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	June 30, 2011	
	Carrying	Fair Value
	Amount	(In thousands)
Financial assets:		
Cash and cash equivalents	\$ 279,874	\$ 279,874
Federal funds sold	7,595	7,595
Loans receivable not covered by loss share, net of non-covered impaired loans and allowance	1,684,342	1,665,273
Loans receivable covered by FDIC loss share	548,236	548,236
FDIC indemnification asset	211,383	211,383
Accrued interest receivable	12,338	12,338
Financial liabilities:		
Deposits:		
Demand and non-interest bearing	\$ 462,275	\$ 462,275
Savings and interest-bearing transaction accounts	1,122,034	1,122,034
Time deposits	1,315,484	1,319,260
Securities sold under agreements to repurchase	65,632	65,632
FHLB and other borrowed funds	150,124	154,060
Accrued interest payable	2,501	2,501
Subordinated debentures	44,331	47,761
December 31, 2010		
	Carrying	Fair Value
	Amount	(In thousands)
Financial assets:		
Cash and cash equivalents	\$ 287,532	\$ 287,532
Federal funds sold	27,848	27,848
Loans receivable not covered by loss share, net of non-covered impaired loans and allowance	1,777,149	1,770,147
Loans receivable covered by FDIC loss share	575,776	575,776
FDIC indemnification asset	227,258	227,258
Accrued interest receivable	16,176	16,176
Financial liabilities:		
Deposits:		
Demand and non-interest bearing	\$ 392,622	\$ 392,622
Savings and interest-bearing transaction accounts	1,108,309	1,108,309
Time deposits	1,460,867	1,463,922
Securities sold under agreements to repurchase	74,459	74,459
FHLB and other borrowed funds	177,270	179,851
Accrued interest payable	3,004	3,004
Subordinated debentures	44,331	48,162

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In July 2010, the FASB issued ASU No. 2010-20, *Receivables (Topic 310) Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. ASU 2010-20 requires entities to provide disclosures designed to facilitate financial statement users' evaluation of (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things, a rollforward of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. The Company adopted the period end disclosures provisions of the new authoritative guidance under ASC Topic 310 in the reporting period ending December 31, 2010. Adoption of the new guidance did not have an impact on the Company's statements of income and financial condition. The Company adopted the disclosures provisions of the new authoritative guidance about activity that occurs during a reporting period on January 1, 2011; the adoption did not have an impact on the Company's statements of income and financial condition. The disclosures related to loans modified in a troubled debt restructuring were effective for the reporting periods ending after June 15, 2011. The Company adopted the troubled debt restructuring disclosures during the quarter ended June 30, 2011 and the adoption had no impact on the Company's statements of income and financial condition.

In April 2011, the FASB issued ASU No. 2011-02, *Receivables (Topic 310) A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*. ASU 2011-02 amended prior guidance to provide assistance in determining whether a modification of the terms of a receivable meets the definition of a troubled debt restructuring. The new authoritative guidance provides clarification for evaluating whether a concession has been granted and whether a debtor is experiencing financial difficulties. The new authoritative guidance was effective for the reporting periods after June 15, 2011 and was applied retrospectively to restructurings occurring on or after January 1, 2011. Adoption of the new guidance had no significant impact on the Company's statements of income and financial condition.

Presently, the Company is not aware of any other changes from the Financial Accounting Standards Board that will have a material impact on the Company's present or future financial statements.

19. Subsequent Events

On July 6, 2011, the Company repurchased all 50,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, issued by the Company to the Treasury in January 2009 in connection with the Company's participation in the Treasury's TARP Capital Purchase Program (CPP). The Series A preferred shares were repurchased by the Company pursuant to a letter agreement between the Treasury and the Company, dated July 6, 2011, for a total repurchase price of approximately \$50.4 million, including \$354,167 in dividends accrued since the Company's last quarterly dividend payment to the Treasury. This repurchase is expected to decrease the Company's leverage and total risk-based capital ratios by approximately 120 and 180 basis points, respectively. After repurchase of the Series A preferred shares, the Company's leverage and total risk-based capital ratios will continue to exceed the threshold required to remain well-capitalized under federal regulation.

On July 27, 2011, the Company repurchased the common stock purchase warrant (Warrant) issued by the Company to the Treasury on January 16, 2009 in connection with the Company's participation in the Treasury's TARP CPP. The Warrant was repurchased by the Company pursuant to a letter agreement between the Treasury and the Company, for a total repurchase price of approximately \$1.3 million. Prior to its repurchase, the Warrant allowed the Treasury to purchase up to 158,471.50 shares of the Company's common stock at an exercise price of \$23.664 per share. The repurchase price was based on the fair market value of the Warrant as agreed upon by the Company and the Treasury. With the repurchase of the Warrant, the Company has redeemed all of the securities it issued to the Treasury in connection with its participation in the CPP.

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Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders

Home BancShares, Inc.

Conway, Arkansas

We have reviewed the accompanying condensed consolidated balance sheet of Home BancShares, Inc. as of June 30, 2011 and the related condensed consolidated statements of income for the three-month and six-month periods ended June 30, 2011 and June 30, 2010 and condensed consolidated statements of stockholders' equity and cash flows for the six-month periods ended June 30, 2011 and 2010. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2010, and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated March 10, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2010, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ BKD, LLP

Little Rock, Arkansas

August 9, 2011

Table of Contents**Item 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with our Form 10-K, filed with the Securities and Exchange Commission on March 10, 2011, which includes the audited financial statements for the year ended December 31, 2010. *Unless the context requires otherwise, the terms Company, us, we, and our refer to Home BancShares, Inc. on a consolidated basis.*

General

We are a bank holding company headquartered in Conway, Arkansas, offering a broad array of financial services through our wholly owned bank subsidiary, Centennial Bank. As of June 30, 2011, we had, on a consolidated basis, total assets of \$3.69 billion, loans receivable of \$2.36 billion, total deposits of \$2.90 billion, and stockholders' equity of \$504.4 million.

We generate most of our revenue from interest on loans and investments, service charges, and mortgage banking income. Deposits and FHLB borrowed funds are our primary sources of funding. Our largest expenses are interest on our funding sources and salaries and related employee benefits. We measure our performance by calculating our return on average common equity, return on average assets, and net interest margin. We also measure our performance by our efficiency ratio, which is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income. Per share amounts have been adjusted for the 10% stock dividend which occurred in June of 2010.

Key Financial Measures

	As of or for the Three Months Ended June 30,		As of or for the Six Months Ended June 30,	
	2011	2010	2011	2010
	(Dollars in thousands, except per share data)			
Total assets	\$ 3,694,469	\$ 3,038,889	\$ 3,694,469	\$ 3,038,889
Loans receivable not covered by loss share	1,812,718	1,965,489	1,812,718	1,965,489
Loans receivable covered by FDIC loss share	548,236	218,283	548,236	218,283
Total deposits	2,899,793	2,186,492	2,899,793	2,186,492
Total stockholders' equity	504,449	487,115	504,449	487,115
Net income	13,546	8,957	26,262	21,838
Net income available to common stockholders	12,876	8,287	24,922	20,498
Basic earnings per common share	0.46	0.29	0.88	0.72
Diluted earnings per common share	0.45	0.29	0.87	0.72
Diluted earnings per common share excluding intangible amortization (1)	0.46	0.30	0.90	0.74
Annualized net interest margin - FTE	4.69%	4.30%	4.65%	4.28%
Efficiency ratio	50.39	49.39	50.54	45.68
Annualized return on average assets	1.47	1.17	1.43	1.51
Annualized return on average common equity	11.64	7.69	11.50	9.72

(1) See Table 16 - Diluted Earnings Per Share Excluding Intangible Amortization for a reconciliation to GAAP for diluted earnings per share excluding intangible amortization.

Table of Contents**Overview*****Results of Operations for Three Months Ended June 30, 2011 and 2010***

Our net income increased 51.2% to \$13.5 million for the three-month period ended June 30, 2011, from \$9.0 million for the same period in 2010. On a diluted earnings per share basis, our earnings were \$0.45 and \$0.29 for the three-month periods ended June 30, 2011 and 2010, respectively. The \$4.6 million increase in net income is primarily associated with the \$7.7 million of additional net interest income resulting from our six FDIC-assisted acquisitions plus a 39 basis point increase in net interest margin combined with new income from FDIC indemnification accretion offset by increased costs associated with the asset growth.

Our annualized return on average assets was 1.47% for the three months ended June 30, 2011, compared to 1.17% for the same period in 2010. Our annualized return on average common equity was 11.64% for the three months ended June 30, 2011, compared to 7.69% for the same period in 2010, respectively. The improvements in our ratios from 2010 to 2011 are consistent with the previously discussed changes in earnings for the three months ended June 30, 2011, compared to the same period in 2010.

Our annualized net interest margin, on a fully taxable equivalent basis, was 4.69% for the three months ended June 30, 2011, compared to 4.30% for the same period in 2010. Our ability to improve pricing on our loan portfolio and interest bearing deposits allowed the Company to expand net interest margin. Our FDIC-assisted acquisitions have helped improve the yield on the loan portfolio. For the three months ended the effective yield on non-covered loans and covered loans was 6.60% and 6.95%, respectively.

Our efficiency ratio was 50.39% for the three months ended June 30, 2011, compared to 49.39% for the same period in 2010. While we were able to improve net interest income and improve our net interest margin by 39 basis points the lack of progress in our ratio from 2010 to 2011 primarily resulted from the cost increases associated with our newly acquired FDIC-assisted branches.

Results of Operations for Six Months Ended June 30, 2011 and 2010

Our net income increased 20.3% to \$26.3 million for the six-month period ended June 30, 2011, from \$21.8 million for the same period in 2010. On a diluted earnings per share basis, our earnings were \$0.87 and \$0.72 for the six-month periods ended June 30, 2011 and 2010, respectively. During the first six months of 2010, the Company acquired Old Southern Bank and Key West Bank in FDIC-assisted acquisitions. These transactions resulted in a \$9.3 million pre-tax gain on acquisitions and \$1.3 million of merger and acquisition expenses for the first six months of 2010. Excluding the financial impact of these two items, the Company would have reported \$17.0 million or \$0.59 diluted earnings per share for the first six months of 2010. Excluding these items, our net income increased \$9.3 million or 54.8% which was a result primarily associated with our increase in net interest income from the additional earning assets obtained in our FDIC-assisted transactions combined with an improvement in net interest margin plus new income from FDIC indemnification accretion offset by increased costs associated with the asset growth.

Our annualized return on average assets was 1.43% for the six months ended June 30, 2011, compared to 1.51% for the same period in 2010. Our annualized return on average common equity was 11.50% for the six months ended June 30, 2011, compared to 9.72% for the same period in 2010, respectively. Excluding the financial impact of the net acquisition gains for the first six months of 2010; our annualized return on average assets and annualized return on average common equity was 1.18% and 7.41%, respectively. This reflects an improvement in our ratios from 2010 to 2011 consistent with the previously discussed changes in earnings for the six months ended June 30, 2011, compared to the same period in 2010.

Our annualized net interest margin, on a fully taxable equivalent basis, was 4.65% for the six months ended June 30, 2011, compared to 4.28% for the same period in 2010. Our ability to improve pricing on our loan portfolio and interest bearing deposits allowed the Company to expand net interest margin. Our FDIC-assisted acquisitions have helped improve the yield on the loan portfolio. For the six months ended the effective yield on non-covered loans and covered loans was 6.49% and 6.93%, respectively.

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Our efficiency ratio was 50.54% for the six months ended June 30, 2011, compared to 45.68% for the same period in 2010. Excluding the financial impact of the net acquisition gains for the first six months of 2010; our efficiency ratio was 49.86%. While we were able to improve net interest income and improve our net interest margin by 37 basis points the lack of progress in our ratio from 2010 to 2011 primarily resulted from the cost increases associated with our newly acquired FDIC-assisted branches.

Financial Condition as of and for the Period Ended June 30, 2011 and December 31, 2010

Our total assets as of June 30, 2011 decreased \$68.2 million, an annualized reduction of 3.65%, to \$3.69 billion from the \$3.76 billion reported as of December 31, 2010. Our loan portfolio not covered by loss share decreased by \$79.7 million, an annualized reduction of 8.49%, to \$1.81 billion as of June 30, 2011, from \$1.89 billion as of December 31, 2010. Stockholders' equity increased \$27.5 million to \$504.4 million as of June 30, 2011, compared to \$476.9 million as of December 31, 2010. The decrease in assets is primarily associated with historically low loan demand and payoffs in our non-covered and covered loan portfolios. The increase in stockholders' equity is primarily associated with the \$31.5 million of comprehensive income less the \$4.3 million of dividends paid for 2011. The annualized growth in stockholders' equity for the first six months of 2011 was 11.6%.

As of June 30, 2011, our non-performing non-covered loans decreased to \$31.2 million, or 1.72%, of total non-covered loans from \$49.5 million, or 2.62%, of total non-covered loans as of December 31, 2010. The allowance for loan losses as a percent of non-performing loans increased to 181.83% as of June 30, 2011, compared to 107.77% as of December 31, 2010. Non-performing non-covered loans in Arkansas were \$10.0 million at June 30, 2011 compared to \$23.4 million as of December 31, 2010. Non-performing non-covered loans in Florida were \$21.2 million at June 30, 2011 compared to \$26.1 million as of December 31, 2010.

As of June 30, 2011, our non-performing non-covered assets improved to \$51.1 million, or 1.75%, of total non-covered assets from \$61.2 million, or 2.08%, of total non-covered assets as of December 31, 2010. Non-performing non-covered assets in Arkansas were \$26.3 million at June 30, 2011 compared to \$28.7 million as of December 31, 2010. Non-performing non-covered assets in Florida were \$24.8 million at June 30, 2011 compared to \$32.5 million as of December 31, 2010.

Critical Accounting Policies

Overview. We prepare our consolidated financial statements based on the selection of certain accounting policies, generally accepted accounting principles and customary practices in the banking industry. These policies, in certain areas, require us to make significant estimates and assumptions. Our accounting policies are described in detail in the notes to our consolidated financial statements in Note 1 of the audited consolidated financial statements included in our Form 10-K, filed with the Securities and Exchange Commission.

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

Investments. Securities available for sale are reported at fair value with unrealized holding gains and losses reported as a separate component of stockholders' equity and other comprehensive income (loss). Securities that are held as available for sale are used as a part of our asset/liability management strategy. Securities that may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital, and other similar factors are classified as available for sale.

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Loans Receivable Not Covered by Loss Share and Allowance for Loan Losses. Substantially all of our loans receivable not covered by loss share are reported at their outstanding principal balance adjusted for any charge-offs, as it is management's intent to hold them for the foreseeable future or until maturity or payoff, except for mortgage loans held for sale. Interest income on loans is accrued over the term of the loans based on the principal balance outstanding.

The allowance for loan losses is established through a provision for loan losses charged against income. The allowance represents an amount that, in management's judgment, will be adequate to absorb probable credit losses on identifiable loans that may become uncollectible and probable credit losses inherent in the remainder of the loan portfolio. The amounts of provisions for loan losses are based on management's analysis and evaluation of the loan portfolio for identification of problem credits, internal and external factors that may affect collectability, relevant credit exposure, particular risks inherent in different kinds of lending, current collateral values and other relevant factors.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows, or collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical charge-off experience and expected loss given default derived from the Bank's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

Loans considered impaired, under FASB ASC 310-10-35 (formerly SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*, as amended by SFAS No. 118, *Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures*), are loans for which, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company applies this policy even if delays or shortfalls in payment are expected to be insignificant. The aggregate amount of impairment of loans is utilized in evaluating the adequacy of the allowance for loan losses and amount of provisions thereto. Losses on impaired loans are charged against the allowance for loan losses when in the process of collection it appears likely that such losses will be realized. The accrual of interest on impaired loans is discontinued when, in management's opinion the collection of interest is doubtful, or generally when loans are 90 days or more past due. When accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans.

Loans are placed on non-accrual status when management believes that the borrower's financial condition, after giving consideration to economic and business conditions and collection efforts, is such that collection of interest is doubtful, or generally when loans are 90 days or more past due. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. Accrued interest related to non-accrual loans is generally charged against the allowance for loan losses when accrued in prior years and reversed from interest income if accrued in the current year. Interest income on non-accrual loans may be recognized to the extent cash payments are received, although the majority of payments received are usually applied to principal. Non-accrual loans are generally returned to accrual status when principal and interest payments are less than 90 days past due, the customer has made required payments for at least six months, and we reasonably expect to collect all principal and interest.

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Acquisition Accounting, Covered Loans and Related Indemnification Asset. Beginning in 2009, the Company accounts for its acquisitions under ASC Topic 805, *Business Combinations*, which requires the use of the purchase method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date as the fair value of the loans acquired incorporates assumptions regarding credit risk. Loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820, exclusive of the shared-loss agreements with the Federal Deposit Insurance Corporation (FDIC). The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

Over the life of the acquired loans, the Company continues to estimate cash flows expected to be collected on pools of loans sharing common risk characteristics, which are treated in the aggregate when applying various valuation techniques. The Company evaluates at each balance sheet date whether the present value of its pools of loans determined using the effective interest rates has decreased and if so, recognizes a provision for loan loss in its consolidated statement of income. For any increases in cash flows expected to be collected, the Company adjusts the amount of accretable yield recognized on a prospective basis over the pool's remaining life.

Because the FDIC will reimburse the Company for certain acquired loans should the Company experience a loss, an indemnification asset is recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectability or contractual limitations. The shared-loss agreements on the acquisition date reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties.

The shared-loss agreements continue to be measured on the same basis as the related indemnified loans. Because the acquired loans are subject to the accounting prescribed by ASC Topic 310, subsequent changes to the basis of the shared-loss agreements also follow that model. Deterioration in the credit quality of the loans (immediately recorded as an adjustment to the allowance for loan losses) would immediately increase the basis of the shared-loss agreements, with the offset recorded through the consolidated statement of income. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the remaining life of the loans) decrease the basis of the shared-loss agreements, with such decrease being accreted into income over 1) the same period or 2) the life of the shared-loss agreements, whichever is shorter. Loss assumptions used in the basis of the indemnified loans are consistent with the loss assumptions used to measure the indemnification asset. Fair value accounting incorporates into the fair value of the indemnification asset an element of the time value of money, which is accreted back into income over the life of the shared-loss agreements.

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

Intangible Assets. Intangible assets consist of goodwill and core deposit intangibles. Goodwill represents the excess purchase price over the fair value of net assets acquired in business acquisitions. The core deposit intangible represents the excess intangible value of acquired deposit customer relationships as determined by valuation specialists. The core deposit intangibles are being amortized over 48 to 114 months on a straight-line basis. Goodwill is not amortized but rather is evaluated for impairment on at least an annual basis. We perform an annual impairment test of goodwill and core deposit intangibles as required by FASB ASC 350, *Intangibles - Goodwill and Other* in the fourth quarter.

Income Taxes. The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

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Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to the management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

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

Acquisitions***Acquisition Old Southern Bank***

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

Prior to the acquisition, Old Southern operated 7 banking centers in the Orlando, Florida metropolitan area. The Company has kept open all of these locations except for one location in downtown Orlando. Including the effects of purchase accounting adjustments, Centennial Bank acquired \$342.6 million in assets and assumed approximately \$328.5 million of the deposits of Old Southern. Additionally, Centennial Bank purchased covered loans with an estimated fair value of \$179.1 million, \$3.0 million of foreclosed assets and \$30.4 million of investment securities.

See Note 2 Business Combinations of Form 10-K filed with the Securities and Exchange Commission (SEC) in March 2011 for additional discussion related to the acquisition of Old Southern.

Acquisition Key West Bank

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

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

See Note 2 Business Combinations of Form 10-K filed with the SEC in March 2011 for additional discussion related to the acquisition of Key West.

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Acquisition Coastal Community Bank and Bayside Savings Bank

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

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

See Note 2 Business Combinations of Form 10-K filed with the SEC in March 2011 for additional discussion related to the acquisition of Coastal and Bayside.

Acquisition Wakulla Bank

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

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

See Note 2 Business Combinations of Form 10-K filed with the SEC in March 2011 for additional discussion related to the acquisition of Wakulla.

Acquisition Gulf State Community Bank

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

Prior to the acquisition, Gulf State operated 5 banking centers in the Florida Panhandle. Including the effects of purchase accounting adjustments, Centennial Bank acquired approximately \$118.2 million in assets and assumed approximately \$97.7 million in deposits of Gulf State. Additionally, Centennial Bank purchased covered loans with an estimated fair value of \$41.2 million, non-covered loans with an estimated fair value of \$1.7 million, \$4.7 million of foreclosed assets and \$10.8 million of investment securities.

See Note 2 Business Combinations of Form 10-K filed with the SEC in March 2011 for additional discussion related to the acquisition of Gulf State.

Table of Contents***FDIC-Assisted Acquisitions***

The acquisitions of Old Southern Bank, Key West Bank, Coastal Community Bank, Bayside Savings Bank, Wakulla Bank and Gulf State Community Bank are seen as attractive by Home BancShares. The transactions provide the ability to expand into opportunistic markets and increase market share in Florida. The transactions are anticipated to be profitable due to the pricing associated with the acquired loan portfolio and the establishment of the indemnification asset. The ability to add immediate deposit growth helps to supplement organic deposit growth. Also, reduction in the duplication of efforts and centralization of functions within the organizations is expected to lead to increased efficiencies and increased profitability. Should the acquired markets not perform as expected, the losses associated with the covered assets significantly exceed expectations, the operational efforts required to integrate the acquisitions and manage the loss share require significantly more resources than anticipated or the overall financial performance of the acquired institutions may not reach expectations and may adversely affect the overall financial performance of our Company.

FDIC-Assisted Acquisitions True Up

Our purchase and assumption agreements in connection with our FDIC-assisted acquisitions allow the FDIC to recover a portion of the loss share funds previously paid out under the indemnification agreements in the event losses fail to reach the expected loss under a claw back provision. Should the markets associated with any of the banks we acquired through FDIC-assisted transactions perform better than initially projected, the Bank is required to pay this clawback (or true-up) payment to the FDIC on a specified date following the tenth anniversary of such acquisition (the True-Up Measurement Date).

Specifically, in connection with the Old Southern and Key West acquisitions, such true-up payments would be equal to 50% of the excess, if any, of (i) 20% of a stated threshold of \$110.0 million in the case of Old Southern and \$23.0 million in the case of Key West, less (ii) the sum of (A) 25% of the asset premium (discount) plus (B) 25% of the Cumulative Shared Loss Payments (defined as the aggregate of all of the payments made or payable to Centennial Bank minus the aggregate of all of the payments made or payable to the FDIC) plus (C) the Period Servicing Amounts for any twelve-month period prior to and ending on the True-Up Measurement Date (defined as the product of the simple average of the principal amount of shared loss loans and shared loss assets (other than shared loss securities) at the beginning and end of such period times 1%).

In connection with the Coastal-Bayside, Wakulla and Gulf State acquisitions, the true-up payments would be equal to 50% of the excess, if any, of (i) 20% of an intrinsic loss estimate of \$121.0 million in the case of Coastal, \$24.0 million in the case of Bayside, \$73.0 million in the case of Wakulla and \$35.0 million in the case of Gulf State, less (ii) the sum of (A) 20% of the net loss amount (the sum of all losses less the sum of all recoveries on covered assets) plus (B) 25% of the asset premium (discount) plus (C) 3.5% of the total loans subject to loss sharing under the loss sharing agreements as specified in the schedules to the agreements.

Future Acquisitions

In our continuing evaluation of our growth plans for the Company, we believe properly priced bank acquisitions can complement our organic growth and de novo branching growth strategies. In the near term, our principal acquisition focus will be to expand our presence in Florida, Arkansas and other nearby markets through pursuing additional FDIC-assisted acquisition opportunities. While we seek to be a successful bidder to the FDIC on one or more additional failed depository institutions within our targeted markets, there is no assurance that we will be the winning bidder on other FDIC-assisted transactions.

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

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We intend to continue to open new (commonly referred to as de novo) branches in our current markets and in other attractive market areas if opportunities arise. Presently, we are evaluating additional opportunities but have no firm commitments for any additional de novo branch locations.

During 2010, Centennial Bank entered into six loss sharing agreements with the FDIC. Through these six transactions, the Company has added a net total of thirty-six branch locations in Florida. These branch locations include one in the Florida Keys, six in the Greater Orlando MSA, and twenty-nine in the Florida Panhandle, which contains seven locations in the Panama City MSA and ten locations in the Tallahassee MSA. Additionally, one legacy branch in Duck Key was closed during the fourth quarter of 2010.

During our FDIC-assisted acquisitions, the Company initially kept open all branch locations of the failed institutions. Upon acquisition, the Company has 90 days to determine its desire not to retain certain branch locations and an additional 90 days to complete the branch closure. The Company has subsequently evaluated all of the branch locations acquired from the FDIC-assisted acquisitions. As a result of the evaluation process for cost saving opportunities as part of our aspirations to maximize efficiencies, the Company notified the FDIC of its desire not to acquire certain branch locations. During the first quarter of 2011, the Company completed seven strategic branch closures. These include one branch in Port St. Joe and one grocery store branch in each of the Crawfordville and Blountstown locations. The remaining four strategic branch closures during the first quarter are branches associated with the acquisition of Gulf State Community Bank in 2010. The Company completed one additional branch closure during the second quarter associated with the Gulf State acquisition. The Company believes it has the appropriate infrastructure to service its acquired customer base with the branches retained.

Results of Operations***For Three and Six Months Ended June 30, 2011 and 2010***

Our net income increased 51.2% to \$13.5 million for the three-month period ended June 30, 2011, from \$9.0 million for the same period in 2010. On a diluted earnings per share basis, our earnings were \$0.45 and \$0.29 for the three-month periods ended June 30, 2011 and 2010, respectively. The \$4.6 million increase in net income is primarily associated with the \$7.7 million of additional net interest income resulting from our six FDIC-assisted acquisitions plus a 39 basis point increase in net interest margin combined with new income from FDIC indemnification accretion offset by increased costs associated with the asset growth.

Our net income increased 20.3% to \$26.3 million for the six-month period ended June 30, 2011, from \$21.8 million for the same period in 2010. On a diluted earnings per share basis, our earnings were \$0.87 and \$0.72 for the six-month periods ended June 30, 2011 and 2010, respectively. During the first six months of 2010, the Company acquired Old Southern Bank and Key West Bank in FDIC-assisted acquisitions. These transactions resulted in a \$9.3 million pre-tax gain on acquisitions and \$1.1 million of merger and acquisition expenses for the first six months of 2010. Excluding the financial impact of these two items, the Company would have reported \$16.8 million or \$0.59 diluted earnings per share for the first six months of 2010. Excluding these items, our net income increased \$9.5 million or 56.2% which was a result primarily associated with our increase in net interest income from the additional earning assets obtained in our FDIC-assisted transactions combined with an improvement in net interest margin plus new income from FDIC indemnification accretion offset by increased costs associated with the asset growth.

Net Interest Income

Net interest income, our principal source of earnings, is the difference between the interest income generated by earning assets and the total interest cost of the deposits and borrowings obtained to fund those assets. Factors affecting the level of net interest income include the volume of earning assets and interest-bearing liabilities, yields earned on loans and investments and rates paid on deposits and other borrowings, the level of non-performing loans and the amount of non-interest-bearing liabilities supporting earning assets. Net interest income is analyzed in the discussion and tables below on a fully taxable equivalent basis. The adjustment to convert certain income to a fully

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taxable equivalent basis consists of dividing tax-exempt income by one minus the combined federal and state income tax rate.

The Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. The Federal Funds rate, which is the cost to banks of immediately available overnight funds, began in 2008 at 4.25%. During 2008, the rate decreased by 75 basis points on January 22, 2008, 50 basis points on January 30, 2008, 75 basis points on March 18, 2008, 25 basis points on April 30, 2008 and 50 basis points to a rate of 1.50% as of October 8, 2008. The rate continued to fall 50 basis points on October 29, 2008 and 75 to 100 basis points to a low of 0.25% to 0% on December 16, 2008, where the rate has remained.

Net interest income on a fully taxable equivalent basis increased \$7.8 million, or 26.7%, to \$36.8 million for the three-month period ended June 30, 2011, from \$29.1 million for the same period in 2010. This increase in net interest income was the result of a \$7.0 million increase in interest income combined with a \$791,000 decrease in interest expense. The \$7.0 million increase in interest income was primarily the result of a higher level of earning assets combine with improved pricing of our earning assets. The higher level of earning assets resulted in an increase in interest income of \$4.5 million, while the repricing of our earning assets resulted in a \$2.5 million increase in interest income for the three-month period ended June 30, 2011. The \$791,000 decrease in interest expense for the three-month period ended June 30, 2011, is primarily the result of our interest bearing liabilities repricing in the lower interest rate environment offset by an increase in our interest bearing liabilities. The repricing of our interest bearing liabilities in the lower interest rate environment resulted in a \$1.7 million decrease in interest expense. The higher level of our interest bearing liabilities resulted in additional interest expense of \$904,000.

Net interest income on a fully taxable equivalent basis increased \$17.5 million, or 31.7%, to \$72.5 million for the six-month period ended June 30, 2011, from \$55.0 million for the same period in 2010. This increase in net interest income was the result of a \$16.7 million increase in interest income combined with a \$726,000 decrease in interest expense. The \$16.7 million increase in interest income was primarily the result of a higher level of earning assets combine with improved pricing of our earning assets. The higher level of earning assets resulted in an increase in interest income of \$12.9 million, while the repricing of our earning assets resulted in a \$3.9 million increase in interest income for the six-month period ended June 30, 2011. The \$726,000 decrease in interest expense for the six-month period ended June 30, 2011, is primarily the result of our interest bearing liabilities repricing in the lower interest rate environment offset by an increase in our interest bearing liabilities. The repricing of our interest bearing liabilities in the lower interest rate environment resulted in a \$3.5 million decrease in interest expense. The higher level of our interest bearing liabilities resulted in additional interest expense of \$2.7 million.

Net interest margin, on a fully taxable equivalent basis, was 4.69% and 4.65% for the three and six months ended June 30, 2011 compared to 4.30% and 4.28% for the same periods in 2010, respectively. The Company has worked diligently to improve pricing on the loan portfolio and interest bearing deposits during this lower rate environment. Our ability to improve pricing plus the growth associated with our FDIC-assisted acquisitions allowed the Company to expand net interest margin. For the second quarter of 2011, the effective yield on non-covered loans and covered loans was 6.60% and 6.95%, respectively. For the six months ended the effective yield on non-covered loans and covered loans was 6.49% and 6.93%, respectively.

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Tables 1 and 2 reflect an analysis of net interest income on a fully taxable equivalent basis for the three-month and six-month periods ended June 30, 2011 and 2010, as well as changes in fully taxable equivalent net interest margin for the three-month and six-month periods ended June 30, 2011, compared to the same period in 2010.

Table 1: Analysis of Net Interest Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(Dollars in thousands)			
Interest income	\$ 43,580	\$ 36,657	\$ 86,335	\$ 69,719
Fully taxable equivalent adjustment	1,117	1,067	2,225	2,117
Interest income fully taxable equivalent	44,697	37,724	88,560	71,836
Interest expense	7,881	8,672	16,109	16,835
Net interest income fully taxable equivalent	\$ 36,816	\$ 29,052	\$ 72,451	\$ 55,001
Yield on earning assets fully taxable equivalent	5.69%	5.58%	5.68%	5.59%
Cost of interest-bearing liabilities	1.15	1.57	1.18	1.62
Net interest spread fully taxable equivalent	4.54	4.01	4.50	3.97
Net interest margin fully taxable equivalent	4.69	4.30	4.65	4.28

Table 2: Changes in Fully Taxable Equivalent Net Interest Margin

	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011 v. 2010
	vs. 2010	(In thousands)
Increase (decrease) in interest income due to change in earning assets	\$ 4,505	\$ 12,856
Increase (decrease) in interest income due to change in earning asset yields	2,468	3,868
(Increase) decrease in interest expense due to change in interest-bearing liabilities	(904)	(2,725)
(Increase) decrease in interest expense due to change in interest rates paid on interest-bearing liabilities	1,695	3,451
Increase (decrease) in net interest income	\$ 7,764	\$ 17,450

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Table 3 shows, for each major category of earning assets and interest-bearing liabilities, the average amount outstanding, the interest income or expense on that amount and the average rate earned or expensed for the three-month and six-month periods ended June 30, 2011 and 2010. The table also shows the average rate earned on all earning assets, the average rate expensed on all interest-bearing liabilities, the net interest spread and the net interest margin for the same periods. The analysis is presented on a fully taxable equivalent basis. Non-accrual loans were included in average loans for the purpose of calculating the rate earned on total loans.

Table 3: Average Balance Sheets and Net Interest Income Analysis

	Three Months Ended June 30,					
	2011			2010		
	Average Balance	Income / Expense	Yield / Rate (Dollars in thousands)	Average Balance	Income / Expense	Yield / Rate
ASSETS						
Earnings assets						
Interest-bearing balances due						
from banks	\$ 234,497	\$ 142	0.24%	\$ 155,563	\$ 81	0.21%
Federal funds sold	2,030	1	0.20	5,948	5	0.34
Investment securities taxable	374,163	2,204	2.36	222,483	1,934	3.49
Investment securities non-taxable	148,566	2,500	6.75	137,420	2,427	7.08
Loans receivable	2,391,825	39,850	6.68	2,188,297	33,277	6.10
Total interest-earning assets	3,151,081	44,697	5.69	2,709,711	37,724	5.58
Non-earning assets	552,445			348,243		
Total assets	\$ 3,703,526			\$ 3,057,954		
LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities						
Interest-bearing liabilities						
Savings and interest-bearing						
transaction accounts	\$ 1,127,525	\$ 1,384	0.49%	\$ 861,757	\$ 1,305	0.61%
Time deposits	1,348,513	4,602	1.37	1,004,269	4,567	1.82
Total interest-bearing deposits	2,476,038	5,986	0.97	1,866,026	5,872	1.26
Federal funds purchased			0.00	32		0.00
Securities sold under agreement to repurchase	68,235	125	0.73	60,803	118	0.78
FHLB borrowed funds	150,154	1,227	3.28	243,544	2,082	3.43
Subordinated debentures	44,331	543	4.91	47,453	600	5.07

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Total interest-bearing liabilities	2,738,758	7,881	1.15	2,217,858	8,672	1.57
Non-interest bearing liabilities						
Non-interest bearing deposits	441,371			338,208		
Other liabilities	30,256			20,070		
Total liabilities	3,210,385			2,576,136		
Stockholders' equity	493,141			481,818		
Total liabilities and stockholders' equity	\$ 3,703,526			\$ 3,057,954		
Net interest spread			4.54%			4.01%
Net interest income and margin		\$ 36,816	4.69%		\$ 29,052	4.30%

Table of Contents**Table 3: Average Balance Sheets and Net Interest Income Analysis**

	Six Months Ended June 30,					
	2011			2010		
	Average Balance	Income / Expense	Yield / Rate (Dollars in thousands)	Average Balance	Income / Expense	Yield / Rate
ASSETS						
Earnings assets						
Interest-bearing balances due from banks	\$ 209,761	\$ 247	0.24%	\$ 148,294	\$ 166	0.23%
Federal funds sold	9,196	8	0.18	6,650	10	0.30
Investment securities taxable	356,646	4,364	2.47	208,482	3,562	3.45
Investment securities non-taxable	151,397	4,974	6.63	137,774	4,814	7.05
Loans receivable	2,415,199	78,967	6.59	2,091,764	63,284	6.10
Total interest-earning assets	3,142,199	88,560	5.68	2,592,964	71,836	5.59
Non-earning assets	556,363			313,912		
Total assets	\$ 3,698,562			\$ 2,906,876		
LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities						
Interest-bearing liabilities						
Savings and interest-bearing transaction accounts	\$ 1,116,993	\$ 2,831	0.51%	\$ 809,666	\$ 2,389	0.60%
Time deposits	1,375,386	9,415	1.38	933,745	8,778	1.90
Total interest-bearing deposits	2,492,379	12,246	0.99	1,743,411	11,167	1.29
Federal funds purchased			0.00	38		0.00
Securities sold under agreement to repurchase	69,638	264	0.76	57,319	212	0.75
FHLB borrowed funds	154,641	2,518	3.28	245,518	4,259	3.50
Subordinated debentures	44,331	1,081	4.92	47,464	1,197	5.09
Total interest-bearing liabilities	2,760,989	16,109	1.18	2,093,750	16,835	1.62
Non-interest bearing liabilities	424,343			322,157		

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Non-interest bearing deposits				
Other liabilities	26,654		16,192	
Total liabilities	3,211,986		2,432,099	
Stockholders equity	486,576		474,777	
Total liabilities and stockholders equity	\$ 3,698,562		\$ 2,906,876	
Net interest spread		4.50%		3.97%
Net interest income and margin	\$ 72,451	4.65%	\$ 55,001	4.28%

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Table 4 shows changes in interest income and interest expense resulting from changes in volume and changes in interest rates for the three-month and six-month periods ended June 30, 2011 compared to the same period in 2010, on a fully taxable basis. The changes in interest rate and volume have been allocated to changes in average volume and changes in average rates, in proportion to the relationship of absolute dollar amounts of the changes in rates and volume.

Table 4: Volume/Rate Analysis

	Three Months Ended June 30, 2011 over 2010			Six Months Ended June 30, 2011 over 2010		
	Volume	Yield/Rate	Total	Volume	Yield/Rate	Total
	(In thousands)					
Increase (decrease) in:						
Interest income:						
Interest-bearing balances due from banks	\$ 46	\$ 15	\$ 61	\$ 72	\$ 9	\$ 81
Federal funds sold	(2)	(2)	(4)	3	(5)	(2)
Investment securities taxable	1,029	(759)	270	2,018	(1,216)	802
Investment securities non-taxable	191	(118)	73	459	(299)	160
Loans receivable	3,241	3,332	6,573	10,304	5,379	15,683
Total interest income	4,505	2,468	6,973	12,856	3,868	16,724
Interest expense:						
Interest-bearing transaction and savings deposits	355	(276)	79	814	(372)	442
Time deposits	1,340	(1,305)	35	3,435	(2,798)	637
Federal funds purchased						
Securities sold under agreement to repurchase	14	(7)	7	47	5	52
FHLB borrowed funds	(767)	(88)	(855)	(1,494)	(247)	(1,741)
Subordinated debentures	(38)	(19)	(57)	(77)	(39)	(116)
Total interest expense	904	(1,695)	(791)	2,725	(3,451)	(726)
Increase (decrease) in net interest income	\$ 3,601	\$ 4,163	\$ 7,764	\$ 10,131	\$ 7,319	\$ 17,450

Provision for Loan Losses

Our management assesses the adequacy of the allowance for loan losses by applying the provisions of FASB ASC 310-10-35 (formerly Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies* and No. 114, *Accounting by Creditors for Impairment of a Loan*). Specific allocations are determined for loans considered to be impaired and loss factors are assigned to the remainder of the loan portfolio to determine an appropriate level in the allowance for loan losses. The allowance is increased, as necessary, by making a provision for loan losses. The specific allocations for impaired loans are assigned based on an estimated net realizable value after a thorough review of the credit relationship. The potential loss factors associated with the remainder of the loan portfolio are based on an internal net loss experience, as well as management's review of trends within the portfolio and related industries.

During these tough economic times, the Company continues to follow our historical conservative procedures for lending and evaluating the provision and allowance for loan losses. We have not and do not participate in higher risk lending such as subprime. Our practice continues to be primarily traditional real estate lending with strong loan-to-value ratios. While there have been declines in our collateral value, particularly Florida, these declines have been addressed in our assessment of the adequacy of the allowance for loan losses.

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Generally, commercial, commercial real estate, and residential real estate loans are assigned a level of risk at origination. Thereafter, these loans are reviewed on a regular basis. The periodic reviews generally include loan payment and collateral status, the borrowers' financial data, and key ratios such as cash flows, operating income, liquidity, and leverage. A material change in the borrower's credit analysis can result in an increase or decrease in the loan's assigned risk grade. Aggregate dollar volume by risk grade is monitored on an on-going basis.

Our management reviews certain key loan quality indicators on a monthly basis, including current economic conditions, delinquency trends and ratios, portfolio mix changes, and other information management deems necessary. This review process provides a degree of objective measurement that is used in conjunction with periodic internal evaluations. To the extent that this review process yields differences between estimated and actual observed losses, adjustments are made to the loss factors used to determine the appropriate level of the allowance for loan losses.

Our Company is primarily a real estate lender in Arkansas and Florida. As such we are subject to declines in asset quality when real estate prices fall during a recession. The recent recession has harshly impacted the real estate market in Florida. During 2008, many real estate values declined in the 20 plus percent range in Florida. The Florida real estate prices have continued to decline but the rate of decline has slowed down. The Arkansas economy in our markets has been stable over the past several years with no boom or bust. As a result, the Arkansas economy has fared much better with only low single digit declines in real estate values annually since 2008.

During the first quarter of 2008, we began to experience a decline in our asset quality, particularly in the Florida market. In 2008, non-performing non-covered loans started the year at \$3.3 million but ended the each year at \$29.9 million, \$39.9 million and \$49.5 million for 2008, 2009 and 2010, respectively. As of June 30, 2011, non-performing non-covered loans has improved downward to \$31.2 million.

The provision for loan losses represents management's determination of the amount necessary to be charged against the current period's earnings, to maintain the allowance for loan losses at a level that is considered adequate in relation to the estimated risk inherent in the loan portfolio. No provision was recorded for the three-month period ended June 30, 2011, compared to \$3.8 million recorded during the same period in 2010. Our provision for loan losses decreased \$5.6 million, or 81.8% to \$1.3 million for the six-month period ended June 30, 2011, from \$6.9 million for the same period in 2010. The net loans recovered for the three-month period ended June 30, 2011 were \$3.2 million compared to net loans charged off of \$3.0 million for the same period in 2010. The net loans recovered for the six-month period ended June 30, 2011 were \$2.2 million compared to net loans charged off of \$6.2 million for the same period in 2010. The decreased provision for loan loss is a result of the Company being in a net recovery position for the three-month and six-month periods ended June 30, 2011 versus a net charge-off position during 2010. The net recoveries were approximately \$3.5 million for Arkansas and net charge-offs were approximately \$322,000 for Florida for the three-months ended June 30, 2011. The net recoveries were approximately \$3.4 million for Arkansas and net charge-offs were approximately \$1.2 million for Florida for the six-months ended June 30, 2011.

Non-Interest Income

Total non-interest income was \$9.1 million and \$19.2 million for the three-month and six-month periods ended June 30, 2011 compared to \$8.2 million and \$24.9 million for the same periods in 2010, respectively. Excluding the gain on acquisitions during the first six months of 2010, non-interest income was \$15.5 million for the six-month period ended June 30, 2010. Our recurring non-interest income includes service charges on deposit accounts, other service charges and fees, mortgage lending, insurance, title fees, increase in cash value of life insurance, dividends and FDIC indemnification accretion.

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Table 5 measures the various components of our non-interest income for the three-month and six-month periods ended June 30, 2011 and 2010, respectively, as well as changes for the three-month and six-month periods ended June 30, 2011 compared to the same period in 2010.

Table 5: Non-Interest Income

	Three Months Ended June 30,				Six Months Ended June 30,		2011 Change from 2010	
	2011	2010	2011 Change from 2010		2011	2010	2011 Change from 2010	
	(Dollars in thousands)							
Service charges on deposit accounts	\$ 3,639	\$ 3,583	\$ 56	1.6%	\$ 6,790	\$ 6,724	\$ 66	1.0%
Other service charges and fees	2,602	1,899	703	37.0	4,886	3,537	1,349	38.1
Mortgage lending income	661	650	11	1.7	1,306	1,062	244	23.0
Mortgage servicing income		154	(154)	(100.0)		314	(314)	(100.0)
Insurance commissions	470	309	161	52.1	1,077	656	421	64.2
Income from title services	110	148	(38)	(25.7)	201	255	(54)	(21.2)
Increase in cash value of life insurance	287	348	(61)	(17.5)	526	776	(250)	(32.2)
Dividends from FHLB, FRB & bankers bank	181	142	39	27.5	322	268	54	20.1
Gain on acquisitions				0.0		9,334	(9,334)	100.0
Gain on sale of SBA loans		18	(18)	(100.0)	259	18	241	1,338.9
Gain (loss) on sale of premises and equipment, net	77	12	65	541.7	73	219	(146)	(66.7)
Gain (loss) on OREO, net	(1,007)	(404)	(603)	149.3	(1,101)	(245)	(856)	349.4
Gain (loss) on securities, net				0.0				0.0
FDIC indemnification accretion	1,463	663	800	120.7	3,300	736	2,564	348.4
Other income	644	698	(54)	(7.7)	1,528	1,211	317	26.2
Total non-interest income	\$ 9,127	\$ 8,220	\$ 907	11.0%	\$ 19,167	\$ 24,865	\$ (5,698)	(22.9)%

Non-interest income increased \$907 million, or 11.0%, to \$9.1 million for the three-month period ended June 30, 2011 from \$8.2 million for the same period in 2010. The primary factors that resulted in this increase are new income from FDIC indemnification accretion and additional service charges and fees associated with growth from our

FDIC-assisted acquisitions offset by loss on other real estate owned.

Non-interest income excluding gains on acquisitions increased \$3.6 million, or 23.4%, to \$19.2 million for the six-month period ended June 30, 2011 from \$15.5 million for the same period in 2010. The primary factors that resulted in this increase are new income from FDIC indemnification accretion and additional service charges and fees associated with growth from our FDIC-assisted acquisitions offset by loss on other real estate owned. Included in other income is a first quarter 2011 \$308,000 gain from life insurance proceeds of a former bank director.

Because the FDIC will reimburse us for certain acquired loans should we experience a loss, an indemnification asset was recorded at fair value at the acquisition date. The difference between the fair value recorded at the acquisition date and the gross reimbursements expected to be received from the FDIC are accreted into income over the life of the indemnification asset using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties.

Non-Interest Expense

Non-interest expense consists of salaries and employee benefits, occupancy and equipment, data processing, and other expenses such as advertising, amortization of intangibles, amortization of mortgage servicing rights, electronic banking expense, FDIC and state assessment, mortgage servicing and legal and accounting fees.

Table 6 below sets forth a summary of non-interest expense for the three-month and six-month periods ended June 30, 2011 and 2010, as well as changes for the three-month and six-month periods ended June 30, 2011 compared to the same period in 2010.

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	Three Months				Six Months			
	Ended June 30, 2011	2010	2011 Change from 2010		Ended June 30, 2011	2010	2011 Change from 2010	
	(Dollars in thousands)							
Salaries and employee benefits	\$ 10,680	\$ 9,080	\$ 1,600	17.6%	\$ 21,758	\$ 17,614	\$ 4,144	23.5%
Occupancy and equipment	3,648	2,973	675	22.7	7,361	5,772	1,589	27.5
Data processing expense	1,137	954	183	19.2	2,422	1,816	606	33.4
Other operating expenses:								
Advertising	1,015	453	562	124.1	2,013	819	1,194	145.8
Merger and acquisition expenses		258	(258)	(100.0)	11	1,317	(1,306)	(99.2)
Amortization of intangibles	704	583	121	20.8	1,417	1,062	355	33.4
Amortization of mortgage servicing rights		218	(218)	(100.0)		436	(436)	(100.0)
Electronic banking expense	697	496	201	40.5	1,356	973	383	39.4
Directors fees	179	181	(2)	(1.1)	364	326	38	11.7
Due from bank service charges	119	103	16	15.5	259	193	66	34.2
FDIC and state assessment	1,058	986	72	7.3	2,151	1,884	267	14.2
Insurance	408	296	112	37.8	779	596	183	30.7
Legal and accounting	462	356	106	29.8	909	744	165	22.2
Mortgage servicing expense		76	(76)	(100.0)		160	(160)	(100.0)
Other professional fees	569	368	201	54.6	982	681	301	44.2
Operating supplies	322	207	115	55.6	611	393	218	55.5
Postage	242	164	78	47.6	487	314	173	55.1
Telephone	259	152	107	70.4	522	290	232	80.0
Other expense	2,357	1,086	1,271	117.0	4,315	2,155	2,160	100.2
Total non-interest expense	\$ 23,856	\$ 18,990	\$ 4,866	25.6%	\$ 47,717	\$ 37,545	\$ 10,172	27.1%

Non-interest expense increased \$4.9 million, or 25.6%, to \$23.9 million for the three-month period ended June 30, 2011, from \$19.0 million for the same period in 2010. Non-interest expense increased \$10.2 million, or 27.1%, to \$47.7 million for the six-month period ended June 30, 2011, from \$37.5 million for the same period in 2010.

Excluding the merger and acquisition expenses, non-interest expense increased \$11.5 million or 31.7%. This increase is primarily the result of the additional operating costs associated with the branch locations acquired from the FDIC-assisted transactions in during 2010 and the normal increase in cost of doing business. We acquired 37 branch locations since we began acquiring FDIC-assisted bank in March of 2010 closing one in 2010 and eight during the first six months of 2011.

Income Taxes

The provision for income taxes increased \$2.9 million, or 64.7%, to \$7.4 million for the three-month period ended June 30, 2011, from \$4.5 million as of June 30, 2010. The provision for income taxes increased \$2.6 million, or 23.0%, to \$14.2 million for the six-month period ended June 30, 2011, from \$11.5 million as of June 30, 2010. The effective income tax rate was 35.40% and 35.04% for the three-month and six-month periods ended June 30, 2011, compared to 33.48% and 34.53% for the same periods in 2010. The primary cause of this increase is the result of our higher earnings at our marginal tax rate of 39.225%.

Table of Contents**Financial Condition as of and for the Period Ended June 30, 2011 and December 31, 2010**

Our total assets as of June 30, 2011 decreased \$68.2 million, an annualized reduction of 3.65%, to \$3.69 billion from the \$3.76 billion reported as of December 31, 2010. Our loan portfolio not covered by loss share decreased by \$79.7 million, an annualized reduction of 8.49%, to \$1.81 billion as of June 30, 2011, from \$1.89 billion as of December 31, 2010. Stockholders' equity increased \$27.5 million to \$504.4 million as of June 30, 2011, compared to \$476.9 million as of December 31, 2010. The decrease in assets is primarily associated with historically low loan demand and payoffs in our non-covered and covered loan portfolios. The increase in stockholders' equity is primarily associated with the \$31.5 million of comprehensive income less the \$4.3 million of dividends paid for 2011. The annualized growth in stockholders' equity for the first six months of 2011 was 11.6%.

Loans Receivable Not Covered by Loss Share

Our non-covered loan portfolio averaged \$1.83 billion and \$1.85 billion during the three-month and six-month periods ended June 30, 2011. Non-covered loans were \$1.81 billion as of June 30, 2011, compared to \$1.89 billion as of December 31, 2010, an annualized decrease of 8.48%. The slow down in loan growth from our historical expansion rates was not unexpected. Our customers have grown more cautious in this weaker economy.

The most significant components of the non-covered loan portfolio were commercial real estate, residential real estate, consumer, and commercial and industrial loans. These non-covered loans are primarily originated within our market areas of central Arkansas, north central Arkansas, southern Arkansas, the Florida Keys and southwest Florida, and are generally secured by residential or commercial real estate or business or personal property within our market areas. We have only made a limited amount of new loan originations within our central Florida and the Florida Panhandle markets entered into in 2010 as a result of our FDIC-assisted acquisitions. However, we did acquire \$23.3 million of non-covered loans located in the Florida Panhandle market during our 2010 FDIC acquisitions.

Certain credit markets have experienced difficult conditions and volatility during 2009, 2010 and the first six months of 2011, particularly Florida. The Florida market currently is approximately 86.6% secured by real estate and 16.8% of our loan portfolio not covered by loss share.

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

Table 7: Loan Portfolio Not Covered by Loss Share

	As of June 30, 2011	As of December 31, 2010
	(In thousands)	
Real estate:		
Commercial real estate loans:		
Non-farm/non-residential	\$ 754,251	\$ 805,635
Construction/land development	363,310	348,768
Agricultural	26,826	26,798
Residential real estate loans:		
Residential 1-4 family	348,402	371,381
Multifamily residential	48,803	59,319
Total real estate	1,541,592	1,611,901
Consumer	42,662	51,642
Commercial and industrial	173,285	184,014
Agricultural	25,929	16,549
Other	29,250	28,268
Loans receivable not covered by loss share	\$ 1,812,718	\$ 1,892,374

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Non-Covered Commercial Real Estate Loans. We originate non-farm and non-residential loans (primarily secured by commercial real estate), construction/land development loans, and agricultural loans, which are generally secured by real estate located in our market areas. Our commercial mortgage loans are generally collateralized by first liens on real estate and amortized over a 15 to 25 year period with balloon payments due at the end of one to five years. These loans are generally underwritten by assessing cash flow (debt service coverage), primary and secondary source of repayment, the financial strength of any guarantor, the strength of the tenant (if any), the borrower's liquidity and leverage, management experience, ownership structure, economic conditions and industry specific trends and collateral. Generally, we will loan up to 85% of the value of improved property, 65% of the value of raw land and 75% of the value of land to be acquired and developed. A first lien on the property and assignment of lease is required if the collateral is rental property, with second lien positions considered on a case-by-case basis.

As of June 30, 2011, non-covered commercial real estate loans totaled \$1.14 billion, or 63.1% of our non-covered loan portfolio, compared to \$1.18 billion, or 62.4% of our non-covered loan portfolio, as of December 31, 2010. This decrease is primarily related to normal loan pay downs combined with limited loan demand. Florida non-covered commercial real estate loans are approximately 9.9% of our non-covered loan portfolio.

Non-Covered Residential Real Estate Loans. We originate one to four family, owner occupied residential mortgage loans generally secured by property located in our primary market area. The majority of our non-covered residential mortgage loans consist of loans secured by owner occupied, single family residences. Non-covered residential real estate loans generally have a loan-to-value ratio of up to 90%. These loans are underwritten by giving consideration to the borrower's ability to pay, stability of employment or source of income, debt-to-income ratio, credit history and loan-to-value ratio.

As of June 30, 2011, non-covered residential real estate loans totaled \$397.2 million, or 21.9% of our non-covered loan portfolio, compared to \$430.7 million, or 22.8% of our non-covered loan portfolio, as of December 31, 2010. This decrease is primarily related to normal loan pay downs combined with limited loan demand. Florida non-covered residential real estate loans are approximately 4.6% of our non-covered loan portfolio.

Non-Covered Consumer Loans. Our non-covered consumer loan portfolio is composed of secured and unsecured loans originated by our banks. The performance of consumer loans will be affected by the local and regional economy as well as the rates of personal bankruptcies, job loss, divorce and other individual-specific characteristics.

As of June 30, 2011, our non-covered installment consumer loan portfolio totaled \$42.7 million, or 2.4% of our total non-covered loan portfolio, compared to the \$51.6 million, or 2.7% of our non-covered loan portfolio as of December 31, 2010. This decrease is associated with normal payoffs and pay downs combined with limited loan demand. Florida non-covered consumer loans are approximately 1.4% of our non-covered loan portfolio.

Non-Covered Commercial and Industrial Loans. Commercial and industrial loans are made for a variety of business purposes, including working capital, inventory, equipment and capital expansion. The terms for commercial loans are generally one to seven years. Commercial loan applications must be supported by current financial information on the borrower and, where appropriate, by adequate collateral. Commercial loans are generally underwritten by addressing cash flow (debt service coverage), primary and secondary sources of repayment, the financial strength of any guarantor, the borrower's liquidity and leverage, management experience, ownership structure, economic conditions and industry specific trends and collateral. The loan to value ratio depends on the type of collateral. Generally speaking, accounts receivable are financed at between 50% and 80% of accounts receivable less than 60 days past due. Inventory financing will range between 50% and 60% (with no work in process) depending on the borrower and nature of inventory. We require a first lien position for those loans.

As of June 30, 2011, non-covered commercial and industrial loans outstanding totaled \$173.3 million, or 9.6% of our non-covered loan portfolio, compared to \$184.0 million, or 9.7% of our non-covered loan portfolio, as of December 31, 2010. This decrease is primarily related to normal loan pay downs combined with limited loan demand. Florida non-covered commercial and industrial loans are approximately 0.5% of our non-covered loan portfolio.

Table of Contents**Total Loans Receivable****Table 8: Total Loans Receivable
As of June 30, 2011**

	Loans Receivable Not Covered by Loss Share	Loans Receivable Covered by FDIC Loss Share (In thousands)	Total Loans Receivable
Real estate:			
Commercial real estate loans			
Non-farm/non-residential	\$ 754,251	\$ 198,005	\$ 952,256
Construction/land development	363,310	128,015	491,325
Agricultural	26,826	4,108	30,934
Residential real estate loans			
Residential 1-4 family	348,402	166,136	514,538
Multifamily residential	48,803	9,113	57,916
Total real estate	1,541,592	505,377	2,046,969
Consumer	42,662	510	43,172
Commercial and industrial	173,285	41,423	214,708
Agricultural	25,929		25,929
Other	29,250	926	30,176
Total	\$ 1,812,718	\$ 548,236	\$ 2,360,954

Non-Performing Assets Not Covered by Loss Share

We classify our non-covered problem loans into three categories: past due loans, special mention loans and classified loans (accruing and non-accruing).

When management determines that a loan is no longer performing, and that collection of interest appears doubtful, the loan is placed on non-accrual status. Loans that are 90 days past due are placed on non-accrual status unless they are adequately secured and there is reasonable assurance of full collection of both principal and interest. Our management closely monitors all loans that are contractually 90 days past due, treated as special mention or otherwise classified or on non-accrual status.

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Table 9 sets forth information with respect to our non-performing non-covered assets as of June 30, 2011 and December 31, 2010. As of these dates, all non-performing non-covered restructured loans are included in non-accrual non-covered loans.

Table 9: Non-performing Assets Not Covered by Loss Share

	As of June 30, 2011	As of December 31, 2010
	(Dollars in thousands)	
Non-accrual non-covered loans	\$ 29,773	\$ 48,924
Non-covered loans past due 90 days or more (principal or interest payments)	1,456	578
Total non-performing non-covered loans	31,229	49,502
Other non-performing non-covered assets		
Non-covered foreclosed assets held for sale, net	19,855	11,626
Other non-performing non-covered assets	9	77
Total other non-performing non-covered assets	19,864	11,703
Total non-performing non-covered assets	\$ 51,093	\$ 61,205
Allowance for loan losses to non-performing non-covered loans	181.83%	107.77%
Non-performing non-covered loans to total non-covered loans	1.72	2.62
Non-performing non-covered assets to total non-covered assets	1.75	2.08

Our non-performing non-covered loans are comprised of non-accrual non-covered loans and non-covered loans that are contractually past due 90 days. Our bank subsidiary recognizes income principally on the accrual basis of accounting. When loans are classified as non-accrual, the accrued interest is charged off and no further interest is accrued, unless the credit characteristics of the loan improve. If a loan is determined by management to be uncollectible, the portion of the loan determined to be uncollectible is then charged to the allowance for loan losses. The Florida franchise contains approximately 68.14% and 52.7% of our non-performing non-covered loans as of June 30, 2011 and December 31, 2010, respectively.

Total non-performing non-covered loans improved to \$31.2 million as of June 30, 2011, compared to the \$49.5 million as of December 31, 2010. As of June 30, 2011 and December 31, 2010, non-performing non-covered loans are \$21.3 million and \$26.1 million in the Florida market, respectively.

We have reached the end of the high season in the Florida Keys, and it was the best season in recent history in terms of tourism. As a result, we had several Keys credits that have performed in a manner that we were able to return them onto an accruing basis in the first quarter, and this reduced our non-performing loans. In addition, through the completion of the legal process, we moved two Arkansas relationships in the first quarter from non-performing to non-covered foreclosed assets held for sale. We experienced continued improvement in non-performing loans and non-performing assets in the second quarter of 2011.

While we believe our allowance for loan losses is adequate at June 30, 2011, as additional facts become known about relevant internal and external factors that affect loan collectability and our assumptions, it may result in us making additions to the provision for loan losses during 2011.

Restructuring of a debt constitutes a troubled debt restructuring (TDR) if the Company, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. Common concessions granted to borrowers include interest rate and/or term modifications. As a result, the

Bank will work with the borrower to prevent further difficulties, and ultimately to improve the likelihood of recovery on the loan.

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A loan modification does not result in a TDR unless the borrower is in financial difficulty and a concession has been granted. In determining whether a concession has been granted, the Company takes into account the extent to which the nature and amount of any additional collateral or guarantees received as part of the modifications do not serve as adequate compensation for other terms of the restructuring. If the additional collateral or guarantees received adequately compensate the Company for the concessions granted, the loan is not classified as a TDR.

In this current real estate crisis that the nation in general and Florida in particular has been experiencing, it has become more common to restructure or modify the terms of certain loans under certain conditions. In those circumstances it may be beneficial to restructure the terms of a loan and work with the borrower for the benefit of both parties, versus forcing the property into foreclosure and having to dispose of it in an unfavorable and depressed real estate market. Only non-performing restructured loans are included in our non-performing non-covered loans. As of June 30, 2011, we had \$55.1 million of non-covered restructured loans that are in compliance with the modified terms and are not reported as past due or non-accrual in Table 9. Of the \$55.1 million in non-covered restructured loans, \$43.1 million are also reported as non-covered impaired loans. Our Florida market contains \$26.4 million of these non-covered restructured loans.

To facilitate this process, a loan modification that might not otherwise be considered may be granted resulting in classification as a troubled debt restructuring. These loans can involve loans remaining on non-accrual, moving to non-accrual, or continuing on an accrual status, depending on the individual facts and circumstances of the borrower. Generally, a non-accrual loan that is restructured remains on non-accrual for a period of six months to demonstrate that the borrower can meet the restructured terms. However, performance prior to the restructuring, or significant events that coincide with the restructuring, are considered in assessing whether the borrower can pay the new terms and may result in the loan being returned to an accrual status after a shorter performance period. If the borrower's ability to meet the revised payment schedule is not reasonably assured, the loan will remain in a nonaccrual status.

The majority of the Bank's loan modifications relate to commercial lending and involve reducing the interest rate, changing from a principal and interest payment to interest-only, a lengthening of the amortization period, or a combination of some or all of the three. In addition, it is common for the Bank to seek additional collateral or guarantor support when modifying a loan. The Bank continues to work with borrowers who are experiencing financial difficulties, 87.3% and 82.2% of all restructured loans are performing to the terms of the restructure as of June 30, 2011 and December 31, 2010, respectively.

Total foreclosed assets held for sale not covered by loss share were \$19.9 million as of June 30, 2011, compared to \$11.6 million as of December 31, 2010, for an increase of \$8.2 million. The foreclosed assets held for sale not covered by loss share are comprised of \$3.5 million of assets located in Florida with the remaining \$16.4 million of assets located in Arkansas. During 2011, we have only had three large foreclosed properties greater than \$1.0 million. We had one large foreclosed housing development loan in the Florida Keys and currently have one large development loan in Northwest Arkansas in foreclosure and one large multi-family property in Central Arkansas.

During April 2011, we sold the large foreclosed housing development in the Florida Keys. The carrying value of this non-covered property was \$4.0 million, and it sold for \$2.8 million resulting in a \$1.2 million loss for the second quarter of 2011.

The large development loan in Northwest Arkansas was moved into foreclosed assets during the first quarter of 2011. The carrying value of this non-covered foreclosed property is \$3.7 million. During the second quarter of 2011, we added a multi-family property in Central Arkansas into foreclosed assets. The carrying value of this property is \$3.7 million. The losses on these loans were addressed during the fourth quarter of 2010. No additional charge-offs were needed when these loans were moved into foreclosed assets during 2011. The Company does not currently anticipate any additional losses on these properties. No other foreclosed assets held for sale not covered by loss share have a carrying value greater than \$1.0 million.

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At June 30, 2011, total foreclosed assets held for sale were \$19.9 million. Table 10 shows the summary of foreclosed assets held for sale as of June 30, 2011.

Table 10: Total Foreclosed Assets Held For Sale

	Not Covered by Loss Share	June 30, 2011 Covered by FDIC Loss Share (In thousands)	Total
Commercial real estate loans			
Non-farm/non-residential	\$ 6,910	\$ 7,331	\$ 14,241
Construction/land development	4,633	4,629	9,262
Agriculture		599	599
Residential real estate loans			
Residential 1-4 family	3,563	9,382	12,945
Multifamily residential	4,749		4,749
Total	\$ 19,855	\$ 21,941	\$ 41,796

If the non-accrual non-covered loans had been accruing interest in accordance with the original terms of their respective agreements, interest income of approximately \$527,000 and \$541,000 for the three-month periods ended June 30, 2011 and 2010, respectively and \$1.3 million and \$1.1 million for the six-month periods ended June 30, 2011 and 2010, respectively would have been recorded. The interest income recognized on the non-covered non-accrual loans for the three-month and six-month periods ended June 30, 2011 and 2010 was considered immaterial.

A loan is considered impaired when it is probable that we will not receive all amounts due according to the contracted terms of the loans. Impaired loans may include non-performing loans (loans past due 90 days or more and non-accrual loans) and certain other loans identified by management that are still performing. As of June 30, 2011, average non-covered impaired loans were \$100.9 million compared to \$51.5 million as of June 30, 2010. As of June 30, 2011, non-covered impaired loans were \$108.1 million, compared to \$92.3 million as of December 31, 2010, for an increase of \$15.8 million. This increase is the result of the underlying value of collateral on non-covered loans continuing to deteriorate in the current unfavorable economic conditions, particularly in the fourth quarter of 2010. As of June 30, 2011, our Florida market accounted for \$47.6 million of the non-covered impaired loans.

We evaluated loans purchased in conjunction with the acquisitions of Old Southern, Key West and Coastal-Bayside, Wakulla and Gulf State 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. All loans acquired in these six transactions were deemed to be covered impaired loans. These loans were not classified as nonperforming assets at June 30, 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.

Non-performing loans and impaired loans are defined differently. Some loans may be included in both categories.

Table of Contents**Past Due and Non-Accrual Loans**

Table 11 shows the summary non-accrual loans as of June 30, 2011:

Table 11: Total Non-Accrual Loans

	Not Covered by Loss Share	June 30, 2011 Covered by FDIC Loss Share (In thousands)	Total
Non-accrual loans			
Commercial real estate loans			
Non-farm/non-residential	\$ 6,881	\$	\$ 6,881
Construction/land development	3,677		3,677
Agricultural	948		948
Residential real estate loans			
Residential 1-4 family	14,320		14,320
Multifamily residential			
Total real estate	25,826		25,826
Consumer	2,072		2,072
Commercial and industrial	1,824		1,824
Agricultural			
Other	51		51
Total non-accrual loans	\$ 29,773	\$	\$ 29,773

Table 12 shows the summary of accruing past due loans 90 days or more as of June 30, 2011:

Table 12: Total Loans Accruing Past Due 90 Days or More

	Not Covered by Loss Share	June 30, 2011 Covered by FDIC Loss Share (In thousands)	Total
Non-accrual loans			
Commercial real estate loans			
Non-farm/non-residential	\$ 494	\$ 32,718	\$ 33,212
Construction/land development	832	57,916	58,748
Agricultural			
Residential real estate loans			
Residential 1-4 family	25	38,640	38,665
Multifamily residential			

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Total real estate	1,351	129,274	130,625
Consumer	105	291	396
Commercial and industrial		6,183	6,183
Agricultural			
Other			
Total loans past due 90 days or more	\$ 1,456	\$ 135,748	\$ 137,204

The Company's total past due and non-accrual covered loans to total covered loans was 24.8% as of June 30, 2011.

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

Overview. The allowance for loan losses is maintained at a level which our management believes is adequate to absorb all probable losses on loans in the loan portfolio. The amount of the allowance is affected by: (i) loan charge-offs, which decrease the allowance; (ii) recoveries on loans previously charged off, which increase the allowance; and (iii) the provision of possible loan losses charged to income, which increases the allowance. In determining the provision for possible loan losses, it is necessary for our management to monitor fluctuations in the allowance resulting from actual charge-offs and recoveries and to periodically review the size and composition of the loan portfolio in light of current and anticipated economic conditions. If actual losses exceed the amount of allowance for loan losses, our earnings could be adversely affected.

As we evaluate the allowance for loan losses, we categorize it as follows: (i) specific allocations; (ii) allocations for classified assets with no specific allocation; (iii) general allocations for each major loan category; and (iv) miscellaneous allocations.

Specific Allocations. As a general rule, if a specific allocation is warranted, it is the result of an analysis of a previously classified credit or relationship. Typically, when it becomes evident through the payment history or a financial statement review that a loan or relationship is no longer supported by the cash flows of the asset and/or borrower and has become collateral dependent, we will use appraisals or other collateral analysis to determine if collateral impairment has occurred. The amount or likelihood of loss on this credit may not yet be evident, so a charge-off would not be prudent. However, if the analysis indicates that an impairment has occurred, then a specific allocation will be determined for this loan. If our existing appraisal is outdated or the collateral has been subject to significant market changes, we will obtain a new appraisal for this impairment analysis. The majority of the Company's impaired loans are collateral dependent at the present time, so third-party appraisals were used to determine the necessary impairment for these loans. Cash flow available to service debt was used for the other impaired loans. This analysis is performed each quarter in connection with the preparation of the analysis of the adequacy of the allowance for loan losses, and if necessary, adjustments are made to the specific allocation provided for a particular loan.

For collateral dependent loans, we do not consider an appraisal outdated simply due to the passage of time. However, if market or other conditions have deteriorated and we believe that the current market value of the property is not within approximately 20% of the appraised value, we will consider the appraisal outdated and order a new appraisal for the impairment analysis. The recognition of any provision or related charge-off on a collateral dependent loan is either through annual credit analysis or, many times, when the relationship becomes delinquent. If the borrower is not current, we will update our credit and cash flow analysis to determine the borrower's repayment ability. If we determine this ability does not exist and it appears that the collection of the entire principal and interest is not likely, then the loan could be placed on non-accrual status. In any case, loans are classified as non-accrual no later than 105 days past due. If the loan requires a quarterly impairment analysis, this analysis is completed in conjunction with the completion of the analysis of the adequacy of the allowance for loan losses. Any exposure identified through the impairment analysis is shown as a specific reserve on the individual impairment analysis tab of the allowance for loan losses worksheet. If it is determined that a new appraisal is required, it is ordered and will be taken into consideration during the next completion of the impairment analysis.

Between the receipt of the original appraisal and the updated appraisal, we monitor the loan's repayment history and subject the loan to examination by our internal loan review. If the loan is over \$1.0 million, our policy requires an annual credit review. In addition, we update all financial information and calculate the global repayment ability of the borrower/guarantors.

In estimating the net realizable value of the collateral, management may deem it appropriate to discount the appraisal based on the applicable circumstances. In such case, the amount charged off may result in loan principal outstanding being below fair value as presented in the appraisal.

As a general rule, when it becomes evident that the full principal and accrued interest of a loan may not be collected, or by law at 105 days past due, we will reflect that loan as nonperforming. It will remain nonperforming until it performs in a manner that it is reasonable to expect that we will collect the full principal and accrued interest.

When the amount or likelihood of a loss on a loan has been determined, a charge-off should be taken in the period it is determined. If a partial charge-off occurs, the quarterly impairment analysis will determine if the loan is still impaired, and thus continues to require a specific allocation.

Allocations for Criticized and Classified Assets with No Specific Allocation. We establish allocations for loans rated special mention through loss in accordance with the guidelines established by the regulatory agencies. A percentage rate is applied to each loan category to determine the level of dollar allocation.

General Allocations. We establish general allocations for each major loan category. This section also includes allocations to loans, which are collectively evaluated for loss such as residential real estate, commercial real estate, consumer loans and commercial and industrial loans. The allocations in this section are based on a historical review of loan loss experience and past due accounts. We give consideration to trends, changes in loan mix, delinquencies, prior losses, and other related information.

Miscellaneous Allocations. Allowance allocations other than specific, classified, and general are included in our miscellaneous section.

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Charge-offs and Recoveries. Total charge-offs decreased to \$1.6 million for the three months ended June 30, 2011, compared to \$4.1 million for the same period in 2010. Total charge-offs decreased to \$3.2 million for the six months ended June 30, 2011, compared to \$7.8 million for the same period in 2010. Total recoveries increased to \$4.8 million for the three months ended June 30, 2011, compared to \$1.1 million for the same period in 2010. Total recoveries increased to \$5.4 million for the six months ended June 30, 2011, compared to \$1.6 million for the same period in 2010. For the three months ended June 30, 2011, the net recoveries were \$3.5 million for Arkansas and net charge-offs were \$322,000 for Florida. For the six months ended June 30, 2011, the net recoveries were \$3.4 million for Arkansas and net charge-offs were \$1.2 million for Florida. The charge-offs, recoveries and net charge-offs are reflective of the proactive stance we take on asset quality issues. The Arkansas recoveries are primarily related to two debt settlement arrangements totaling \$4.4 million. The largest settlement was \$3 million received from litigation and \$1.4 million from collection action.

We have not charged off an amount less than what was determined to be the fair value of the collateral as presented in the appraisal for any period presented. Loans partially charged-off are placed on non-accrual status until it is proven that the borrower's repayment ability with respect to the remaining principal balance can be reasonably assured. This is usually established over a period of 6-12 months of timely payment performance.

See Note 4 Loans Receivable Not Covered by Loss Share and Allowance for Loan Losses to the Consolidated Financial Statements for an analysis of the allowance for loan losses.

Allocated Allowance for Loan Losses. We use a risk rating and specific reserve methodology in the calculation and allocation of our allowance for loan losses. While the allowance is allocated to various loan categories in assessing and evaluating the level of the allowance, the allowance is available to cover charge-offs incurred in all loan categories. Because a portion of our portfolio has not matured to the degree necessary to obtain reliable loss data from which to calculate estimated future losses, the unallocated portion of the allowance is an integral component of the total allowance. Although unassigned to a particular credit relationship or product segment, this portion of the allowance is vital to safeguard against the imprecision inherent in estimating credit losses.

The changes for the periods ended June 30, 2011 and December 31, 2010 in the allocation of the allowance for loan losses for the individual types of loans are primarily associated with changes in the ASC 310 calculations, both individual and aggregate, and changes in the ASC 450 calculations. These calculations are affected by changes in individual loan impairments, changes in asset quality, net charge-offs during the period and normal changes in the outstanding loan portfolio, as well any changes to the general allocation factors due to changes within the actual characteristics of the loan portfolio.

Table 13 presents the allocation of allowance for loan losses as of June 30, 2011 and December 31, 2010.

Table 13: Allocation of Allowance for Loan Losses

	As of June 30, 2011		As of December 31, 2010	
	Allowance Amount	% of loans(1)	Allowance Amount	% of loans(1)
	(Dollars in thousands)			
Real estate:				
Commercial real estate loans:				
Non-farm/non-residential	\$ 18,558	41.6%	\$ 16,874	42.6%
Construction/land development	11,318	20.0	12,002	18.5
Agricultural	583	1.5	373	1.4
Residential real estate loans:				
Residential 1-4 family	10,778	19.2	11,065	19.6
Multifamily residential	3,546	2.7	3,232	3.1
Total real estate	44,783	85.0	43,546	85.2
Consumer	2,189	2.4	815	2.7

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Commercial and industrial	7,119	9.6	6,357	9.7
Agricultural	261	1.4	207	0.9
Other		1.6		1.5
Unallocated	2,432		2,423	
Total	\$ 56,784	100.0%	\$ 53,348	100.0%

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

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Table of Contents***Investments and Securities***

Our securities portfolio is the second largest component of earning assets and provides a significant source of revenue. Securities within the portfolio are classified as held-to-maturity, available-for-sale, or trading based on the intent and objective of the investment and the ability to hold to maturity. Fair values of securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities. As of June 30, 2011, we had no held-to-maturity or trading securities.

Securities available-for-sale are reported at fair value with unrealized holding gains and losses reported as a separate component of stockholders' equity as other comprehensive income. Securities that are held as available-for-sale are used as a part of our asset/liability management strategy. Securities may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital, and other similar factors are classified as available for sale. Available-for-sale securities were \$541.5 million as of June 30, 2011, compared to \$469.9 million as of December 31, 2010. The estimated effective duration of our securities portfolio was 3.0 years as of June 30, 2011.

As of June 30, 2011, \$126.8 million, or 23.4%, of our available-for-sale securities were invested in mortgage-backed securities, compared to \$116.1 million, or 24.7%, of our available-for-sale securities as of December 31, 2010. To reduce our income tax burden, \$160.8 million, or 29.7%, of our available-for-sale securities portfolio as of June 30, 2011, was primarily invested in tax-exempt obligations of state and political subdivisions, compared to \$153.7 million, or 32.7%, of our available-for-sale securities as of December 31, 2010. Also, we had approximately \$245.9 million, or 45.4%, invested in obligations of U.S. Government-sponsored enterprises as of June 30, 2011, compared to \$197.3 million, or 42.0%, of our available-for-sale securities as of December 31, 2010.

Certain investment securities are valued at less than their historical cost. These declines are primarily the result of the rate for these investments yielding less than current market rates. Based on evaluation of available evidence, we believe the declines in fair value for these securities are temporary. It is our intent to hold these securities to recovery. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other than temporary impairment is identified.

See Note 3 Investment Securities to the Consolidated Financial Statements for the carrying value and fair value of investment securities.

Deposits

Our deposits averaged \$2.92 billion for the three-month and six-month periods ended June 30, 2011. Total deposits decreased \$62.0 million, or a decrease of 2.1%, to \$2.90 billion as of June 30, 2011, from \$2.96 billion as of December 31, 2010. Deposits are our primary source of funds. We offer a variety of products designed to attract and retain deposit customers. Those products consist of checking accounts, regular savings deposits, NOW accounts, money market accounts and certificates of deposit. Deposits are gathered from individuals, partnerships and corporations in our market areas. In addition, we obtain deposits from state and local entities and, to a lesser extent, U.S. Government and other depository institutions.

Our policy also permits the acceptance of brokered deposits. As of June 30, 2011 and December 31, 2010, brokered deposits were \$115.5 million and \$98.9 million, respectively. Included in these brokered deposits are \$54.0 million and \$51.3 million of Certificate of Deposit Account Registry Service (CDARS) as of June 30, 2011 and December 31, 2010, respectively. CDARS are deposits we have swapped our customer with other institutions. This gives our customer the potential for FDIC insurance of up to \$50 million.

The interest rates paid are competitively priced for each particular deposit product and structured to meet our funding requirements. We will continue to manage interest expense through deposit pricing. We may allow higher rate deposits to run off during this current period of limited loan demand. We believe that additional funds can be attracted and deposit growth can be realized through deposit pricing if we experience increased loan demand or other liquidity needs.

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The Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. The Federal Funds rate, which is the cost to banks of immediately available overnight funds, began in 2008 at 4.25%. During 2008, the rate decreased by 75 basis points on January 22, 2008, 50 basis points on January 30, 2008, 75 basis points on March 18, 2008, 25 basis points on April 30, 2008 and 50 basis points to a rate of 1.50% as of October 8, 2008. The rate continued to fall 50 basis points on October 29, 2008 and 75 to 100 basis points to a low of 0.25% to 0% on December 16, 2008, where the rate has remained.

Table 14 reflects the classification of the average deposits and the average rate paid on each deposit category, which is in excess of 10 percent of average total deposits, for the three-month periods ended June 30, 2011 and 2010.

Table 14: Average Deposit Balances and Rates

	Three Months Ended June 30,		2011		2010	
	Average Amount	Average Rate Paid (Dollars in thousands)	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
Non-interest-bearing transaction accounts	\$ 441,371	%	\$ 338,208	%		
Interest-bearing transaction accounts	997,509	0.50	786,705	0.63		
Savings deposits	130,016	0.43	75,052	0.45		
Time deposits:						
\$100,000 or more	556,798	1.85	643,265	1.81		
Other time deposits	791,715	1.03	361,004	1.85		
Total	\$ 2,917,409	0.82%	\$ 2,204,234	1.08%		

	Six Months Ended June 30,		2011		2010	
	Average Amount	Average Rate Paid (Dollars in thousands)	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
Non-interest-bearing transaction accounts	\$ 424,343	%	\$ 322,157	%		
Interest-bearing transaction accounts	990,007	0.52	737,165	0.61		
Savings deposits	126,986	0.44	72,501	0.43		
Time deposits:						
\$100,000 or more	562,948	1.79	585,989	1.88		
Other time deposits	812,438	1.10	347,756	1.92		
Total	\$ 2,916,722	0.85%	\$ 2,065,568	1.09%		

Securities Sold Under Agreements to Repurchase

We enter into short-term purchases of securities under agreements to resell (resale agreements) and sales of securities under agreements to repurchase (repurchase agreements) of substantially identical securities. The amounts advanced under resale agreements and the amounts borrowed under repurchase agreements are carried on the balance sheet at the amount advanced. Interest incurred on repurchase agreements is reported as interest expense. Securities sold under agreements to repurchase decreased \$8.8 million, or 11.9%, from \$74.5 million as of December 31, 2010 to \$65.6 million as of June 30, 2011.

Table of Contents***FHLB Borrowed Funds***

Our FHLB borrowed funds were \$150.1 million and \$177.3 million at June 30, 2011 and December 31, 2010, respectively. All of the outstanding balance for June 30, 2011 and December 31, 2010 were issued as long-term advances. Our remaining FHLB borrowing capacity was \$462.9 million and \$383.6 million as of June 30, 2011 and December 31, 2010, respectively. Expected maturities will differ from contractual maturities, because FHLB may have the right to call or prepay certain obligations.

Subordinated Debentures

Subordinated debentures, which consist of guaranteed payments on trust preferred securities, were \$44.3 million as of June 30, 2011 and December 31, 2010.

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

Presently, the funds raised from the trust preferred offerings qualify as Tier 1 capital for regulatory purposes, subject to the applicable limit, with the balance qualifying as Tier 2 capital.

The Company holds \$41.2 million of trust preferred securities which are currently callable without penalty based on the terms of the specific agreements. The 2009 agreement between the Company and the Treasury limited our ability to retire any of our qualifying capital. As a result, of the Company repurchasing in July 2011 all 50,000 shares of its Series A preferred stock which the Company issued to the Treasury this limitation has been removed.

Stockholders' Equity

Stockholders' equity was \$504.4 million at June 30, 2011 compared to \$476.9 million at December 31, 2010, an increase of 5.8%. As of June 30, 2011 and December 31, 2010 our common equity to asset ratio was 12.3% and 11.4%, respectively. Book value per common share was \$15.96 at June 30, 2011 compared to \$15.02 at December 31, 2010.

Stock Dividends. On April 22, 2010, our Board of Directors declared a 10% stock dividend which was paid June 4, 2010 to shareholders of record as of May 14, 2010. Except for fractional shares, the holders of our common stock received 10% additional common stock on June 4, 2010. The common shareholders did not receive fractional shares; instead they received cash at a rate equal to the closing price of a share on June 4, 2010 times the fraction of a share they otherwise would have been entitled to.

All share and per share amounts have been restated to reflect the retroactive effect of the stock dividend. After issuance, this stock dividend lowered our total capital position by approximately \$11,000 as a result of the cash paid in lieu of fractional shares. Our financial statements reflect an increase in the number of outstanding shares of common stock, an increase in surplus and reduction of retained earnings.

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Common Stock Cash Dividends. We declared cash dividends on our common stock of \$0.0540 per share for the three-month periods ended June 30, 2011 and 2010 and \$0.1080 and \$0.1085 per share for the six-month periods ended June 30, 2011 and 2010, respectively. The common stock dividend payout ratio for the six months ended June 30, 2011 and 2010 was 12.1% and 12.0%, respectively. The 2009 agreement between the Company and the Treasury limits the payment of dividends on the Common Stock to a quarterly cash dividend of not more than \$0.0545 per share. As a result of the Company repurchasing all 50,000 shares of its Series A Preferred Stock in July 2011 which the Company issued to the Treasury this limitation has been removed.

Liquidity and Capital Adequacy Requirements

Risk-Based Capital. We as well as our bank subsidiary are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and other discretionary actions by regulators that, if enforced, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Our capital amounts and classifications are also subject to qualitative judgments by the regulators as to components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require us to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes that, as of June 30, 2011 and December 31, 2010, we met all regulatory capital adequacy requirements to which we were subject.

Table 15 presents our risk-based capital ratios as of June 30, 2011 and December 31, 2010.

Table 15: Risk-Based Capital

	As of June 30, 2011 (Dollars in thousands)	As of December 31, 2010
Tier 1 capital		
Stockholders' equity	\$ 504,449	\$ 476,925
Qualifying trust preferred securities	43,000	43,000
Goodwill and core deposit intangibles, net	(68,360)	(69,609)
Unrealized (gain) loss on available-for-sale securities	(5,545)	(301)
Total Tier 1 capital	473,544	450,015
Tier 2 capital		
Qualifying allowance for loan losses	33,283	33,948
Total Tier 2 capital	33,283	33,948
Total risk-based capital	\$ 506,827	\$ 483,963
Average total assets for leverage ratio	\$ 3,635,166	\$ 3,703,818
Risk weighted assets	\$ 2,639,125	\$ 2,696,406
Ratios at end of period		
Leverage ratio	13.03%	12.15%

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Tier 1 risk-based capital	17.94	16.69
Total risk-based capital	19.20	17.95
Minimum guidelines		
Leverage ratio	4.00%	4.00%
Tier 1 risk-based capital	4.00	4.00
Total risk-based capital	8.00	8.00

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As of the most recent notification from regulatory agencies, our bank subsidiary was well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, our banking subsidiary and we must maintain minimum leverage, Tier 1 risk-based capital, and total risk-based capital ratios as set forth in the table. There are no conditions or events since that notification that we believe have changed the bank subsidiary's category.

Non-GAAP Financial Measurements

We had \$69.7 million, \$71.1 million, and \$59.4 million total goodwill, core deposit intangibles and other intangible assets as of June 30, 2011, December 31, 2010 and June 30, 2010, respectively. Because of our level of intangible assets and related amortization expenses, management believes diluted earnings per share excluding intangible amortization, tangible book value per common share, return on average assets excluding intangible amortization, return on average tangible common equity excluding intangible amortization and tangible common equity to tangible assets are useful in evaluating our company. These calculations, which are similar to the GAAP calculation of diluted earnings per share, book value, return on average assets, return on average common equity, and common equity to assets, are presented in Tables 16 through 20, respectively. Per share amounts have been adjusted for the stock dividend which occurred in June of 2010.

Table 16: Diluted Earnings Per Share Excluding Intangible Amortization

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
	(In thousands, except per share data)			
GAAP net income available to common stockholders	\$ 12,876	\$ 8,287	\$ 24,922	\$ 20,498
Intangible amortization after-tax	428	354	861	645
Earnings available to common stockholders excluding intangible amortization	\$ 13,304	\$ 8,641	\$ 25,783	\$ 21,143
GAAP diluted earnings per common share	\$ 0.45	\$ 0.29	\$ 0.87	\$ 0.72
Intangible amortization after-tax	0.01	0.01	0.03	0.02
Diluted earnings per common share excluding intangible amortization	\$ 0.46	\$ 0.30	\$ 0.90	\$ 0.74

Table 17: Tangible Book Value Per Share

	As of	As of
	June 30, 2011	December 31, 2010
	(Dollars in thousands, except per share data)	
Book value per common share: A/B	\$ 15.96	\$ 15.02
Tangible book value per common share: (A-C-D)/B	13.52	12.52
(A) Total common equity	\$ 454,902	\$ 427,469
(B) Common shares outstanding	28,496	28,452
(C) Goodwill	59,663	59,663

(D) Core deposit and other intangibles	67	10,030	11,447
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Table of Contents**Table 18: Return on Average Assets Excluding Intangible Amortization**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(Dollars in thousands)			
Return on average assets: A/C	1.47%	1.17%	1.43%	1.51%
Return on average assets excluding intangible amortization: B/(C-D)	1.54	1.25	1.51	1.59
(A) Net income available to all stockholders	\$ 13,546	\$ 8,957	\$ 26,262	\$ 21,838
Intangible amortization after-tax	428	354	861	645
(B) Earnings excluding intangible amortization	\$ 13,974	\$ 9,311	\$ 27,123	\$ 22,483
(C) Average assets	\$ 3,703,526	\$ 3,057,954	\$ 3,698,562	\$ 2,906,876
(D) Average goodwill, core deposits and other intangible assets	70,031	59,731	70,384	58,897

Table 19: Return on Average Tangible Common Equity Excluding Intangible Amortization

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(Dollars in thousands)			
Return on average common equity: A/C	11.64%	7.69%	11.50%	9.72%
Return on average tangible common equity excluding intangible amortization: B/(C-D)	14.28	9.30	14.18	11.63
(A) Net income available to common stockholders	\$ 12,876	\$ 8,287	\$ 24,922	\$ 20,498
(B) Earnings available to common stockholders excluding intangible amortization	13,304	8,641	25,783	21,143
(C) Average common equity	443,622	432,480	437,080	425,462
(D) Average goodwill, core deposits and other intangible assets	70,031	59,731	70,384	58,897

Table 20: Tangible Common Equity to Tangible Assets

	As of June 30, 2011	As of December 31, 2010
		(Dollars in thousands)
Equity to assets: B/A	13.65%	12.68%
Common equity to assets: C/A	12.31	11.36
Tangible common equity to tangible assets: (C-D-E)/(A-D-E)	10.63	9.65
(A) Total assets	\$ 3,694,469	\$ 3,762,646
(B) Total equity	504,449	476,925
(C) Total common equity	454,902	427,469

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(D) Goodwill		59,663	59,663
(E) Core deposit and other intangibles		10,030	11,447
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Table of Contents**Recently Issued Accounting Pronouncements**

See Note 18 to the Consolidated Financial Statements for a discussion of certain recently issued and recently adopted accounting pronouncements.

Item 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***Liquidity and Market Risk Management***

Liquidity Management. Liquidity refers to the ability or the financial flexibility to manage future cash flows to meet the needs of depositors and borrowers and fund operations. Maintaining appropriate levels of liquidity allows us to have sufficient funds available for reserve requirements, customer demand for loans, withdrawal of deposit balances and maturities of deposits and other liabilities. Our primary source of liquidity at our holding company is dividends paid by our bank subsidiary. Applicable statutes and regulations impose restrictions on the amount of dividends that may be declared by our bank subsidiary. Further, any dividend payments are subject to the continuing ability of the bank subsidiary to maintain compliance with minimum federal regulatory capital requirements and to retain its characterization under federal regulations as a well-capitalized institution.

Our bank subsidiary has potential obligations resulting from the issuance of standby letters of credit and commitments to fund future borrowings to our loan customers. Many of these obligations and commitments to fund future borrowings to our loans customers are expected to expire without being drawn upon, therefore the total commitment amounts do not necessarily represent future cash requirements affecting our liquidity position.

Liquidity needs can be met from either assets or liabilities. On the asset side, our primary sources of liquidity include cash and due from banks, federal funds sold, available-for-sale investment securities and scheduled repayments and maturities of loans. We maintain adequate levels of cash and cash equivalents to meet our day-to-day needs. As of June 30, 2011, our cash and cash equivalents were \$279.9 million, or 7.6% of total assets, compared to \$287.5 million, or 7.6% of total assets, as of December 31, 2010. Our investment securities and federal funds sold were \$549.1 million as of June 30, 2011 and \$497.7 million as of December 31, 2010.

We may occasionally use our Fed funds lines of credit in order to temporarily satisfy short-term liquidity needs. We have Fed funds lines with three other financial institutions pursuant to which we could have borrowed up to \$12.5 million on an unsecured basis as of June 30, 2011 and December 31, 2010. These lines may be terminated by the respective lending institutions at any time.

We also maintain lines of credit with the Federal Home Loan Bank. Our FHLB borrowed funds were \$150.1 million and \$177.3 million at June 30, 2011 and December 31, 2010, respectively. All of the outstanding balances were issued as long-term advances. Our FHLB borrowing capacity was \$462.9 million and \$383.6 million as of June 30, 2011 and December 31, 2010.

We believe that we have sufficient liquidity to satisfy our current operations.

Market Risk Management. Our primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on a large portion of our assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which possess a short term to maturity. We do not hold market risk sensitive instruments for trading purposes. The information provided should be read in connection with our audited consolidated financial statements.

Asset/Liability Management. Our management actively measures and manages interest rate risk. The asset/liability committees of the boards of directors of our holding company and bank subsidiary are also responsible for approving our asset/liability management policies, overseeing the formulation and implementation of strategies to improve balance sheet positioning and earnings, and reviewing our interest rate sensitivity position.

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One of the tools that our management uses to measure short-term interest rate risk is a net interest income simulation model. This analysis calculates the difference between net interest income forecasted using base market rates and using a rising and a falling interest rate scenario. The income simulation model includes various assumptions regarding the re-pricing relationships for each of our products. Many of our assets are floating rate loans, which are assumed to re-price immediately, and proportional to the change in market rates, depending on their contracted index. Some loans and investments include the opportunity of prepayment (embedded options), and accordingly the simulation model uses indexes to estimate these prepayments and reinvest their proceeds at current yields. Our non-term deposit products re-price more slowly, usually changing less than the change in market rates and at our discretion.

This analysis indicates the impact of changes in net interest income for the given set of rate changes and assumptions. It assumes the balance sheet remains static and that its structure does not change over the course of the year. It does not account for all factors that impact this analysis, including changes by management to mitigate the impact of interest rate changes or secondary impacts such as changes to our credit risk profile as interest rates change.

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

Interest Rate Sensitivity. Our primary business is banking and the resulting earnings, primarily net interest income, are susceptible to changes in market interest rates. It is management's goal to maximize net interest income within acceptable levels of interest rate and liquidity risks.

A key element in the financial performance of financial institutions is the level and type of interest rate risk assumed. The single most significant measure of interest rate risk is the relationship of the repricing periods of earning assets and interest-bearing liabilities. The more closely the repricing periods are correlated, the less interest rate risk we assume. We use repricing gap and simulation modeling as the primary methods in analyzing and managing interest rate risk.

Gap analysis attempts to capture the amounts and timing of balances exposed to changes in interest rates at a given point in time. Our gap position as of June 30, 2011 was asset sensitive with a one-year cumulative repricing gap of 11.5%. During these periods, the amount of change our asset base realizes in relation to the total change in market interest rate exceeds that of the liability base.

We have a portion of our securities portfolio invested in mortgage-backed securities. Mortgage-backed securities are included based on their final maturity date. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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Table 21 presents a summary of the repricing schedule of our interest-earning assets and interest-bearing liabilities (gap) as of June 30, 2011.

Table 21: Interest Rate Sensitivity

	Interest Rate Sensitivity Period						Over 5 Years	Total
	0-30 Days	31-90 Days	91-180 Days	181-365 Days	1-2 Years	2-5 Years		
(Dollars in thousands)								
Earning assets								
Interest-bearing deposits due from banks	\$ 231,667	\$	\$	\$	\$	\$	\$	\$ 231,667
Federal funds sold	7,595							7,595
Investment securities	24,587	27,334	22,874	64,726	76,123	113,789	212,101	541,534
Loans receivable	550,541	222,022	264,488	458,310	455,689	302,936	50,184	2,304,170
Total earning assets	814,390	249,356	287,362	523,036	531,812	416,725	262,285	3,084,966
Interest-bearing liabilities								
Interest-bearing transaction and savings deposits	40,481	80,962	121,443	242,886	212,090	212,108	212,064	1,112,034
Time deposits	161,367	191,991	200,279	385,746	263,234	112,766	101	1,315,484
Federal funds purchased								
Securities sold under repurchase agreements	55,787				1,313	3,938	4,594	65,632
FHLB borrowed funds	19	7,238	149	2,182	10,268	55,657	74,611	150,124
Subordinated debentures	25,773			3,093			15,465	44,331
Total interest-bearing liabilities	283,427	280,191	321,871	633,907	486,905	384,469	306,835	2,697,605
Interest rate sensitivity gap	\$ 530,963	\$ (30,835)	\$ (34,509)	\$ (110,871)	\$ 44,907	\$ 32,256	\$ (44,550)	\$ 387,361

Cumulative interest rate sensitivity gap	\$ 530,963	\$ 500,128	\$ 465,619	\$ 354,748	\$ 399,655	\$ 431,911	\$ 387,361
Cumulative rate sensitive assets to rate sensitive liabilities	287.3%	188.7%	152.6%	123.3%	119.9%	118.1%	114.4%
Cumulative gap as a % of total earning assets	17.2%	16.2%	15.1%	11.5%	13.0%	14.0%	12.6%

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Item 4: CONTROLS AND PROCEDURES

Article I. Evaluation of Disclosure Controls

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, the Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Additionally, our disclosure controls and procedures were also effective in ensuring that information required to be disclosed in our Exchange Act report is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer to allow timely decisions regarding required disclosures.

Article II. Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal controls over financial reporting during the quarter ended June 30, 2011, which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

There are no material pending legal proceedings, other than ordinary routine litigation incidental to its business, to which Home BancShares, Inc. or its subsidiaries are a party or of which any of their property is the subject.

Item 1A. Risk Factors

There were no material changes from the risk factors set forth in Part I, Item 1A, Risk Factors, of our Form 10-K for the year ended December 31, 2010. See the discussion of our risk factors in the Form 10-K, as filed with the SEC. The risks described are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3: Defaults Upon Senior Securities

Not applicable.

Item 4: (Reserved)

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Item 5: Other Information

Not applicable.

Item 6: Exhibits

- 12.1 Computation of Ratios of Earnings to Fixed Charges*
- 15 Awareness of Independent Registered Public Accounting Firm*
- 31.1 CEO Certification Pursuant Rule 13a-14(a)/15d-14(a)*
- 31.2 CFO Certification Pursuant Rule 13a-14(a)/15d-14(a)*
- 32.1 CEO Certification Pursuant 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes Oxley Act of 2002*
- 32.2 CFO Certification Pursuant 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes Oxley Act of 2002*
- 101.INS XBRL Instance Document*
- 101.SCH XBRL Taxonomy Extension Schema Document*
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document*
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document*
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document*
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document*

* Filed herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HOME BANCSHARES, INC.

(Registrant)

Date: August 9, 2011

/s/ C. Randall Sims
C. Randall Sims, Chief Executive Officer

Date: August 9, 2011

/s/ Randy E. Mayor
Randy E. Mayor, Chief Financial Officer

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