HOME BANCSHARES INC
Form 10-Q
November 07, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

or

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

Commission File Number: 000-51904

HOME BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

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 x 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 x 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	x
Non-accelerated filer	¨	Smaller reporting company	¨

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

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: 27,993,142 shares as of October 31, 2012.

Table of Contents

HOME BANCSHARES, INC.

FORM 10-Q

September 30, 2012

INDEX

12.1	Computation of Ratios of Earnings to Fixed Charges
15	Awareness of Independent Registered Public Accounting Firm
31.1	CEO Certification Pursuant to 13a-14(a)/15d-14(a)
31.2	CFO Certification Pursuant to 13a-14(a)/15d-14(a)
32.1	CEO Certification Pursuant to 18 U.S.C. Section 1350
32.2	CFO Certification Pursuant to 18 U.S.C. Section 1350
101	XBRL Documents

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this Cautionary Note. Our actual results may differ significantly from those we discuss in these forward-looking statements. For other factors, risks and uncertainties that could cause our actual results to differ materially from estimates and projections contained in these forward-looking statements, see the Risk Factors section of our Form 10-K filed with the Securities and Exchange Commission on March 5, 2012.

Table of Contents

PART I: FINANCIAL INFORMATION

Item 1: Financial Statements

Home BancShares, Inc.

Consolidated Balance Sheets

(In thousands, except share data)	September 30, 2012 (Unaudited)	December 31, 2011
Assets		
Cash and due from banks	$ 86,381	$ 57,337
Interest-bearing deposits with other banks	69,248	126,967
Cash and cash equivalents	155,629	184,304
Federal funds sold	1,775	1,100
Investment securities available for sale	755,197	671,221
Loans receivable not covered by loss share	2,076,248	1,760,086
Loans receivable covered by FDIC loss share	407,416	481,739
Allowance for loan losses	(54,440)	(52,129)
Loans receivable, net	2,429,224	2,189,696
Bank premises and equipment, net	105,131	88,465
Foreclosed assets held for sale not covered by loss share	14,942	16,660
Foreclosed assets held for sale covered by FDIC loss share	31,799	35,178
FDIC indemnification asset	153,758	193,856
Cash value of life insurance	53,366	52,700
Accrued interest receivable	14,872	15,551
Deferred tax asset, net	33,680	22,850
Goodwill	77,090	59,663
Core deposit and other intangibles	9,792	8,620
Other assets	51,654	64,253
Total assets	$ 3,887,909	$ 3,604,117
Liabilities and Stockholders Equity		
Deposits:		
Demand and non-interest-bearing	$ 596,746	$ 464,581
Savings and interest-bearing transaction accounts	1,527,829	1,189,098
Time deposits	1,007,894	1,204,352
Total deposits	3,132,469	2,858,031
Securities sold under agreements to repurchase	61,499	62,319
FHLB borrowed funds	130,506	142,777
Accrued interest payable and other liabilities	24,590	22,593
Subordinated debentures	28,867	44,331
Total liabilities	3,377,931	3,130,051
Stockholders equity:		
Common stock, par value $0.01; shares authorized 50,000,000; shares issued and outstanding 28,181,477 in 2012 and 28,275,507 in 2011	282	283

Capital surplus	420,595	425,649
Retained earnings	77,190	40,130
Accumulated other comprehensive income	11,911	8,004
Total stockholders equity	509,978	474,066
Total liabilities and stockholders equity	$ 3,887,909	$ 3,604,117

See Condensed Notes to Consolidated Financial Statements.

Table of Contents

Home BancShares, Inc.

Consolidated Statements of Income

(In thousands, except per share data)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(Unaudited)			
Interest income:				
Loans	$ 39,285	$ 39,199	$ 118,156	$ 117,844
Investment securities				
Taxable	2,598	2,429	8,518	6,793
Tax-exempt	1,541	1,546	4,610	4,617
Deposits other banks	115	84	327	331
Federal funds sold	3	1	8	9
Total interest income	43,542	43,259	131,619	129,594
Interest expense:				
Interest on deposits	3,288	5,638	12,112	17,884
FHLB borrowed funds	1,040	1,250	3,334	3,768
Securities sold under agreements to repurchase	107	120	328	384
Subordinated debentures	482	539	1,527	1,620
Total interest expense	4,917	7,547	17,301	23,656
Net interest income	38,625	35,712	114,318	105,938
Provision for loan losses	167		1,500	1,250
Net interest income after provision for loan losses	38,458	35,712	112,818	104,688
Non-interest income:				
Service charges on deposit accounts	3,834	3,638	11,007	10,428
Other service charges and fees	3,119	2,489	9,366	7,375
Mortgage lending income	1,550	783	3,731	2,089
Insurance commissions	512	428	1,501	1,505
Income from title services	112	126	329	327
Increase in cash value of life insurance	200	323	671	849
Dividends from FHLB, FRB & bankers bank	182	184	532	506
Gain on sale of SBA loans	206		404	259
Gain (loss) on sale of premises and equipment, net	(5)	6	354	79
Gain (loss) on OREO, net	(222)	69	(170)	(1,032)
Gain (loss) on securities, net		5	10	5
FDIC indemnification accretion	373	1,314	1,492	4,614
Other income	765	595	2,555	2,123
Total non-interest income	10,626	9,960	31,782	29,127
Non-interest expense:				
Salaries and employee benefits	11,652	10,691	34,941	32,449
Occupancy and equipment	3,805	3,562	10,788	10,923
Data processing expense	1,137	1,185	3,599	3,607
Other operating expenses	7,387	8,298	23,463	24,474

Total non-interest expense	23,981	23,736	72,791	71,453
Income before income taxes	25,103	21,936	71,809	62,362
Income tax expense	9,008	7,624	25,726	21,788
Net income available to all stockholders	16,095	14,312	46,083	40,574
Preferred stock dividends and accretion of discount on preferred stock		488		1,828
Net income available to common stockholders	$ 16,095	$ 13,824	$ 46,083	$ 38,746
Basic earnings per common share	$ 0.58	$ 0.48	$ 1.64	$ 1.36
Diluted earnings per common share	$ 0.57	$ 0.48	$ 1.63	$ 1.35

See Condensed Notes to Consolidated Financial Statements.

Table of Contents

Home BancShares, Inc.

Consolidated Statements of Comprehensive Income

(In thousands, except per share data)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
		(unaudited)		
Net income available to all stockholders	$ 16,095	$ 14,312	$ 46,083	$ 40,574
Net unrealized gain (loss) on available-for-sale securities	2,919	5,338	6,440	13,968
Less: reclassification adjustment for realized (gains) losses included in income		(5)	(10)	(5)
Other comprehensive income (loss), before tax effect	2,919	5,333	6,430	13,963
Tax effect	(1,146)	(2,092)	(2,523)	(5,478)
Other comprehensive income (loss)	1,773	3,241	3,907	8,485
Comprehensive income	$ 17,868	$ 17,553	$ 49,990	$ 49,059

Home BancShares, Inc.

Consolidated Statements of Stockholders Equity

Nine Months Ended September 30, 2012 and 2011

(In thousands, except share data)	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2011	$ 49,456	$ 285	$ 432,962	$ (6,079)	$ 301	$ 476,925
Comprehensive income:						
Net income				40,574		40,574
Other comprehensive income:						
Unrealized gain on investment securities available for sale, net of tax effect of $5,478					8,485	8,485
Comprehensive income						49,059
Repurchase of 50,000 shares of preferred stock and common stock warrant	(50,000)		(2,206)	906		(51,300)
Accretion of discount on preferred stock	544			(544)		
Net issuance of 24,477 shares of common stock from exercise of stock options			227			227
Repurchase of 250,000 shares of common stock		(2)	(5,542)			(5,544)
Tax benefit from stock options exercised			126			126
Share-based compensation			285			285
Cash dividends Preferred stock - 5%				(1,286)		(1,286)
Cash dividends Common Stock, $0.188 per share				(5,353)		(5,353)
Balances at September 30, 2011 (unaudited)		283	425,852	28,218	8,786	463,139
Comprehensive income:						
Net income				14,167		14,167

Other comprehensive income:					
Unrealized loss on investment securities available for sale, net of tax effect of $(505)				(782)	(782)
Comprehensive income					13,385
Net issuance of 66,463 shares of common stock from exercise of stock options	1	487			488
Repurchase of 50,000 shares of common stock	(1)	(1,223)			(1,224)
Tax benefit from stock options exercised		436			436
Share-based compensation		97			97
Cash dividends Common Stock, $0.08 per share			(2,255)		(2,255)
Balances at December 31, 2011	283	425,649	40,130	8,004	474,066

See Condensed Notes to Consolidated Financial Statements.

Table of Contents

Home BancShares, Inc.

Consolidated Statements of Stockholders Equity Continued

Nine Months Ended September 30, 2012 and 2011

(In thousands, except share data)	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Total
Comprehensive income:						
Net income				46,083		46,083
Other comprehensive income:						
Unrealized gain on investment securities available for sale, net of tax effect of $2,523					3,907	3,907
Comprehensive income						49,990
Net issuance of 49,253 shares of common stock from exercise of stock options plus issuance of 4,761 bonus shares of unrestricted common stock		1	697			698
Issuance of 104,000 shares of restricted common stock		1	434			435
Repurchase of 252,044 shares of common stock		(3)	(6,557)			(6,560)
Tax benefit from stock options exercised			309			309
Share-based compensation			63			63
Cash dividends Common Stock, $0.20 per share				(9,023)		(9,023)
Balances at September 30, 2012 (unaudited)	$	$ 282	$ 420,595	$ 77,190	$ 11,911	$ 509,978

See Condensed Notes to Consolidated Financial Statements.

Table of Contents

Home BancShares, Inc.

Consolidated Statements of Cash Flows

(In thousands)	Nine Months Ended September 30, 2012	2011
	(Unaudited)	
Operating Activities		
Net income	$ 46,083	$ 40,574
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	4,460	4,943
Amortization/(accretion)	4,371	489
Share-based compensation	497	285
Tax benefits from stock options exercised	(309)	(126)
(Gain) loss on assets	(194)	645
Provision for loan losses	1,500	1,250
Deferred income tax effect	(2,106)	(8,890)
Increase in cash value of life insurance	(671)	(849)
Originations of mortgage loans held for sale	(133,247)	(82,239)
Proceeds from sales of mortgage loans held for sale	124,760	85,562
Changes in assets and liabilities:		
Accrued interest receivable	679	1,138
Indemnification and other assets	58,806	19,326
Accrued interest payable and other liabilities	(2,496)	(3,398)
Net cash provided by (used in) operating activities	102,133	58,710
Investing Activities		
Net (increase) decrease in federal funds sold	(675)	24,178
Net (increase) decrease in loans net, excluding loans acquired	81,089	79,214
Purchases of investment securities available for sale	(369,943)	(262,286)
Proceeds from maturities of investment securities available for sale	287,319	132,044
Proceeds from sale of investment securities available for sale	1,243	566
Proceeds from foreclosed assets held for sale	25,344	26,738
Proceeds from sale of SBA loans	6,250	4,524
Purchases of premises and equipment, net	(8,276)	(12,819)
Death benefits received		700
Net cash proceeds received in Vision acquisition	140,234	
Net cash provided by (used in) investing activities	162,585	(7,141)
Financing Activities		
Net increase (decrease) in deposits net, excluding deposits acquired	(249,994)	(76,749)
Net increase (decrease) in securities sold under agreements to repurchase	(820)	(12,052)
Net increase (decrease) in FHLB and other borrowed funds	(12,271)	(34,369)
Retirement of subordinated debentures	(15,733)	
Proceeds from exercise of stock options plus issuance of bonus shares of unrestricted common stock	698	227
Proceeds from issuance of common stock	1	
Repurchase of common stock	(6,560)	(5,544)
Repurchase of preferred stock and common stock warrant		(51,300)
Tax benefits from stock options exercised	309	126
Dividends paid on preferred stock		(1,286)
Dividends paid on common stock	(9,023)	(5,353)

Net cash provided by (used in) financing activities	(293,393)	(186,300)
Net change in cash and cash equivalents	(28,675)	(134,731)
Cash and cash equivalents beginning of year	184,304	287,532
Cash and cash equivalents end of period	$ 155,629	$ 152,801

See Condensed Notes to Consolidated Financial Statements.

Table of Contents

Home BancShares, Inc.

Condensed Notes to Consolidated Financial Statements

(Unaudited)

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

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

Operating Segments

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

Use of Estimates

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

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

Principles of Consolidation

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

Reclassifications

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

Table of Contents

Interim financial information

The accompanying unaudited consolidated financial statements as of September 30, 2012 and 2011 have been prepared in condensed format, and therefore do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

The information furnished in these interim statements reflects all adjustments, which are, in the opinion of management, necessary for a fair statement of the results for each respective period presented. Such adjustments are of a normal recurring nature. The results of operations in the interim statements are not necessarily indicative of the results that may be expected for any other quarter or for the full year. The interim financial information should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s 2011 Form 10-K, filed with the Securities and Exchange Commission.

Earnings per Share

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

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(In thousands)			
Net income available to common stockholders	$ 16,095	$ 13,824	$ 46,083	$ 38,746
Average shares outstanding	28,150	28,434	28,158	28,464
Effect of common stock options	191	199	186	201
Diluted shares outstanding	28,341	28,633	28,344	28,665
Basic earnings per common share	$ 0.58	$ 0.48	$ 1.64	$ 1.36
Diluted earnings per common share	$ 0.57	$ 0.48	$ 1.63	$ 1.35

2. Business Combinations

Acquisition Premier Bank

On August 14, 2012, Home BancShares, Inc. entered into an Asset Purchase Agreement (the Premier Agreement) with Premier Bank Holding Company, a Florida corporation and bank holding company (PBHC). Pursuant to the terms of and subject to the conditions set forth in the Premier Agreement, HBI has agreed to purchase all of the issued and outstanding shares of common stock (the Premier Acquired Assets) of PBHC s wholly-owned subsidiary, Premier Bank, a Florida state-chartered bank that operates in the Tallahassee, Florida area (Premier) for a cash purchase price of $1,415,000 (the Premier Acquisition). Immediately following the Premier Acquisition, HBI intends to merge Premier with and into HBI s wholly-owned subsidiary, Centennial Bank, an Arkansas state-chartered bank.

As of September 30, 2012, Premier had $272.1 million in total assets, $172.1 million in loans and $245.3 million in customer deposits. They are conducting banking business from six locations in the Florida panhandle cities of Tallahassee (five) and Quincy (one).

Table of Contents

HBI will purchase the Premier Acquired Assets free and clear of all liens, claims and encumbrances and will assume no liabilities of PBHC. The Premier Agreement anticipates PBHC has filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code (the Bankruptcy Code) in the United States Bankruptcy Court for the Northern District of Florida (the Bankruptcy Court). This transaction is pursuant to the terms of and subject to the conditions set forth in the Premier Agreement and dependent on regulatory and legal process. The Company s purchase of the Acquired Assets will be conducted under the provisions of Section 363 of the Bankruptcy Code and will be subject to the bidding procedures, which have been approved by the Bankruptcy Court, and Premier not receiving a more favorable bid at auction. Under the Agreement, HBI will be entitled to a stalking-horse bidder fee in certain circumstances, including the consummation of an acquisition of the Acquired Assets by another bidder.

The closing of the acquisition is expected to occur in fourth quarter of 2012 and is subject to a court approved final sale order relating to the acquired assets; in addition to approval of appropriate regulatory authorities.

Acquisition Vision Bank

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

Pursuant to the Vision Agreement, Centennial assumed approximately $522.8 million in customer deposits and acquired approximately $355.8 million in performing loans from Vision for the purchase price of approximately $27.9 million. Centennial did not purchase certain Vision performing loans nor any of its non-performing loans or other real estate owned. As part of the acquisition, Centennial acquired the real estate and other assets related to Vision s 17 banking offices, including eight locations in Baldwin County, Alabama, and nine locations in the Florida Panhandle counties of Bay, Gulf, Okaloosa, Santa Rosa and Walton. On July 12, 2012, the Company closed two of these branches located in Port St. Joe, Florida. These branch closures were completed to eliminate repetitive branches and maximize profitability. Included in the acquisition were the fixed assets located within the Vision offices, the safe deposit business conducted at the Vision offices, cash on hand, prepaid expenses and Vision s rights under contracts related to the Vision offices. Centennial also assumed the liabilities and obligations of Vision with respect to the safe deposit business, the assumed contracts, third-party leases for the real estate leased by Vision and equipment and operating leases related to the Vision offices. In addition, pursuant to the Vision Agreement, Park granted Centennial a put option to sell an aggregate of $7.5 million of the purchased loans back to Park at cost for a period of up to six months after the closing date. As of September 30, 2012, the Company has exercised its option to sell back 45 loans totaling approximately $7.5 million. On the closing date, Park made a cash payment to Centennial of approximately $119.5 million.

Centennial Bank has determined that the acquisition of the net assets of Vision constitute a business combination as defined by the FASB ASC Topic 805, *Business Combinations*. Accordingly, the assets acquired and liabilities assumed are presented at their fair values as required. Fair values were determined based on the requirements of FASB ASC Topic 820, *Fair Value Measurements*. In many cases, the determination of these fair values required management to make estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change. These fair value estimates are subject to change for up to one year after the closing date of the acquisition as additional information relative to closing date fair values becomes available. In addition, the tax treatment is complex and subject to interpretations that may result in future adjustments of deferred taxes as of the acquisition date.

Table of Contents

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

3. Investment Securities

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

	September 30, 2012 Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 230,582	$ 3,467	$ (70)	$ 233,979
Mortgage-backed securities	311,834	8,082	(168)	319,748
State and political subdivisions	176,708	8,391	(41)	185,058
Other securities	16,472	27	(87)	16,412
Total	$ 735,596	$ 19,967	$ (366)	$ 755,197

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

Assets, principally investment securities, having a carrying value of approximately $520.3 million and $403.2 million at September 30, 2012 and December 31, 2011, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. Also, investment securities pledged as collateral for repurchase agreements totaled approximately $61.5 million and $62.3 million at September 30, 2012 and December 31, 2011, respectively.

During the three month period ended September 30, 2012, no available for sale securities were sold. During the nine month period ended September 30, 2012 approximately $1.2 million in available for sale securities were sold. The gross realized gains and losses on the sales for the nine month period ended September 30, 2012 totaled approximately $21,000 and $11,000, respectively. The income tax expense/benefit to net security gains and losses was 39.225% of the gross amounts.

During the three-month and nine-month periods ended September 30, 2011 $561,000 of available for sale securities were sold. The gross realized gains on these sales totaled approximately $5,000. The income tax expense/benefit to net security gains and losses was 39.225% of the gross amounts.

Table of Contents

The amortized cost and estimated fair value of securities at September 30, 2012, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	$ 229,718	$ 232,108
Due after one year through five years	245,332	251,611
Due after five years through ten years	236,752	246,288
Due after ten years	23,794	25,190
Total	$ 735,596	$ 755,197

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

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

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

As of September 30, 2012, the Company had $105,000 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 64.6% 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.

Table of Contents

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 September 30, 2012 and December 31, 2011:

	September 30, 2012					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. government-sponsored enterprises	$ 21,327	$ (55)	$ 2,985	$ (15)	$ 24,312	$ (70)
Mortgage-backed securities	30,287	(167)	1,777	(1)	32,064	(168)
State and political subdivisions	9,209	(39)	882	(2)	10,091	(41)
Other securities			6,008	(87)	6,008	(87)
Total	$ 60,823	$ (261)	$ 11,652	$ (105)	$ 72,475	$ (366)

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

4. Loans Receivable Not Covered by Loss Share

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

	September 30, 2012	December 31, 2011
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 887,895	$ 698,986
Construction/land development	282,269	361,846
Agricultural	28,403	28,535
Residential real estate loans		
Residential 1-4 family	473,412	349,543
Multifamily residential	105,369	56,909
Total real estate	1,777,348	1,495,819
Consumer	35,433	37,923
Commercial and industrial	200,160	176,276
Agricultural	36,239	21,784
Other	27,068	28,284

Loans receivable not covered by loss share	$ 2,076,248	$ 1,760,086

During the three and nine-month periods ended September 30, 2012, the Company sold $3.0 million and $5.8 million of the guaranteed portions of SBA loans, which resulted in a gain of approximately $206,000 and $404,000, respectively. The Company did not sell any of the guaranteed portions of SBA loans during the three-month month period ended September 30, 2011. During the nine-month period ended September 30, 2011, the Company sold $4.2 million of the guaranteed portion of certain SBA loans, which resulted in a gain of approximately $259,000.

Mortgage loans held for sale of approximately $18.8 million and $10.3 million at September 30, 2012 and December 31, 2011, respectively, are included in residential 1-4 family loans. Mortgage loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis. Gains and losses resulting from sales of mortgage loans are recognized when the respective loans are sold to investors. Gains and losses are determined by the difference between the selling price and the carrying amount of the loans sold, net of discounts collected or paid. The Company obtains forward commitments to sell mortgage loans to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. The forward commitments acquired by the Company for mortgage loans in process of origination are not mandatory forward commitments. These commitments are structured on a best efforts basis; therefore the Company is not required to substitute another loan or to buy back the commitment if the original loan does not fund. Typically, the Company delivers the mortgage loans within a few days after the loans are funded. These commitments are derivative instruments and their fair values at September 30, 2012 and December 31, 2011 were not material.

5. Loans Receivable Covered by FDIC Loss Share

The Company evaluated loans purchased in conjunction with the 2010 acquisitions under purchase and assumption agreements with the Federal Deposit Insurance Corporation (FDIC) for impairment in accordance with the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Purchased covered loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected.

The following table reflects the carrying value of all purchased covered impaired loans as of September 30, 2012 and December 31, 2011 for the Company s FDIC-assisted transactions:

	September 30, 2012	December 31, 2011
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 175,195	$ 189,380
Construction/land development	71,958	103,535
Agricultural	2,289	3,155
Residential real estate loans		
Residential 1-4 family	130,425	148,692
Multifamily residential	10,062	8,933
Total real estate	389,929	453,695
Consumer	70	334
Commercial and industrial	16,878	26,884
Other	539	826
Loans receivable covered by FDIC loss share (1)	$ 407,416	$ 481,739

(1) These loans were not classified as nonperforming assets at September 30, 2012 and December 31, 2011, as the loans are accounted for on a pooled basis and the pools are considered to be performing. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all purchased impaired loans. Additionally, as of September 30, 2012 and December 31, 2011, $72.8 million and $118.6 million, respectively, were accruing past due loans 90 days or more.

The acquired loans were grouped into pools based on common risk characteristics and were recorded at their estimated fair values, which incorporated estimated credit losses at the acquisition dates. These loan pools are systematically reviewed by the Company to determine material changes in cash flow estimates from those identified at the time of the acquisition. Techniques used in determining risk of loss are similar to the Centennial Bank non-covered loan portfolio, with most focus being placed on those loan pools which include the larger loan relationships and those loan pools which exhibit higher risk characteristics.

Table of Contents

Changes in the carrying amount of the accretable yield for purchased impaired and non-impaired loans were as follows for the period ended September 30, 2012 for the Company s FDIC-assisted acquisitions:

	Accretable Yield	Carrying Amount of Loans
	(In thousands)	
Balance at beginning of period	$ 113,553	$ 481,739
Accretion	(26,133)	26,133
Transfers to foreclosed assets held for sale covered by FDIC loss share		(15,874)
Payments received, net		(84,582)
Balance at end of period	$ 87,420	$ 407,416

6. Allowance for Loan Losses and Credit Quality

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

	For Loans Not Covered by Loss Share	For Loans Covered by FDIC Loss Share	Total
		(In thousands)	
Allowance for loan losses:			
Beginning balance	$ 52,129	$	$ 52,129
Loans charged off	(7,054)	(354)	(7,408)
Recoveries of loans previously charged off	2,217		2,217
Net loans recovered (charged off)	(4,837)	(354)	(5,191)
Provision for loan losses before benefit attributable to FDIC loss share agreements		7,502	7,502
Benefit attributable to FDIC loss share agreements		(6,002)	(6,002)
Net provision for loan losses		1,500	1,500
Increase in FDIC indemnification asset		6,002	6,002
Balance, September 30	$ 47,292	$ 7,148	$ 54,440

17

Table of Contents

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

The following tables present the balance in the allowance for loan losses for the non-covered loan portfolio for the three-month and nine-month periods ended September 30, 2012 and the allowance for loan losses and recorded investment in loans not covered by loss share based on portfolio segment by impairment method as of September 30, 2012. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories. Additionally, the Company s discount which is accreted into income over the weighted-average life of the loans on non-covered loans acquired was $14.7 million and $2.5 million at September 30, 2012 and December 31, 2011, respectively.

	Three Months Ended September 30, 2012						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial (In thousands)	Consumer & Other	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 5,296	$ 21,158	$ 12,342	$ 7,938	$ 2,580	$ 532	$ 49,846
Loans charged off	(525)	(1,041)	(1,475)	(549)	(394)		(3,984)
Recoveries of loans previously charged off		856	430	20	124		1,430
Net loans recovered (charged off)	(525)	(185)	(1,045)	(529)	(270)		(2,554)
Provision for loan losses	2,012	(1,087)	1,687	(2,518)	198	(292)	
Balance, September 30	$ 6,783	$ 19,886	$ 12,984	$ 4,891	$ 2,508	$ 240	$ 47,292

	Nine Months Ended September 30, 2012						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial (In thousands)	Consumer & Other	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 7,945	$ 20,368	$ 12,196	$ 6,308	$ 3,258	$ 2,054	$ 52,129
Loans charged off	(838)	(1,312)	(2,670)	(758)	(1,476)		(7,054)
Recoveries of loans previously charged off	7	1,128	538	107	437		2,217
Net loans recovered (charged off)	(831)	(184)	(2,132)	(651)	(1,039)		(4,837)
Provision for loan losses	(331)	(298)	2,920	(766)	289	(1,814)	
Balance, September 30	$ 6,783	$ 19,886	$ 12,984	$ 4,891	$ 2,508	$ 240	$ 47,292

	As of September 30, 2012						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 4,704	$ 14,286	$ 8,799	$ 2,601	$ 1,488	$	$ 31,878
Loans collectively evaluated for impairment	2,079	5,600	4,185	2,290	1,020	240	15,414
Balance, September 30	$ 6,783	$ 19,886	$ 12,984	$ 4,891	$ 2,508	$ 240	$ 47,292

Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 34,991	$ 106,019	$ 31,905	$ 12,982	$ 2,219	$	$ 188,116
Loans collectively evaluated for impairment	247,278	810,279	546,876	187,178	96,521		1,888,132
Balance, September 30	$ 282,269	$ 916,298	$ 578,781	$ 200,160	$ 98,740	$	$ 2,076,248

18

Table of Contents

The following tables present the balance in the allowance for loan losses for the non-covered loan portfolio for the year ended December 31, 2011, and the allowance for loan losses and recorded investment in loans not covered by loss share based on portfolio segment by impairment method as of December 31, 2011. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories.

	Year Ended December 31, 2011						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial (In thousands)	Consumer & Other	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 12,002	$ 17,247	$ 14,297	$ 6,357	$ 1,022	$ 2,423	$ 53,348
Loans charged off	(3,397)	(665)	(2,562)	(292)	(2,636)		(9,552)
Recoveries of loans previously charged off	747	204	2,278	5,777	456		9,462
Net loans recovered (charged off)	(2,650)	(461)	(284)	5,485	(2,180)		(90)
Provision for loan losses	(1,309)	6,009	(1,185)	(5,406)	3,150	(9)	1,250
Balance, September 30	8,043	22,795	12,828	6,436	1,992	2,414	54,508
Loans charged off	(193)	(3,411)	(737)	(279)	(523)		(5,143)
Recoveries of loans previously charged off	80	74	199	40	121		514
Net loans recovered (charged off)	(113)	(3,337)	(538)	(239)	(402)		(4,629)
Provision for loan losses	15	910	(94)	111	1,668	(360)	2,250
Balance, December 31	$ 7,945	$ 20,368	$ 12,196	$ 6,308	$ 3,258	$ 2,054	$ 52,129

	As of December 31, 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	$ 4,428	$ 15,050	$ 8,485	$ 3,503	$ 2,205	$	$ 33,671
Loans collectively evaluated for impairment	3,517	5,318	3,711	2,805	1,053	2,054	18,458
Balance, December 31	$ 7,945	$					