

FEDERAL RESERVE SYSTEM

Centennial Bank  
Conway, Arkansas

Order Approving the Merger of Banks and  
the Establishment of Branches

Centennial Bank (“Centennial”)<sup>1</sup>, a state member bank, has requested the Board’s approval under section 18(c) of the Federal Deposit Insurance Act<sup>2</sup> (“Bank Merger Act”) to acquire the assets and assume the liabilities of Gulf State Community Bank (“Gulf State”), Carrabelle, Florida. Centennial also proposes to establish and operate branches at the locations of the acquired branches of Gulf State.

The Federal Deposit Insurance Corporation (“FDIC”) has been appointed receiver of Gulf State and has scheduled the sale of certain assets and the transfer of certain liabilities of Gulf State for November 19, 2010. The FDIC has recommended immediate action by the Board to prevent the probable failure of Gulf State. On the basis of the information before the Board, the Board finds that it must act immediately pursuant to the Bank Merger Act<sup>3</sup> to safeguard the depositors of Gulf State. Accordingly, public notice of the application and an opportunity for comment are not required by the Bank Merger Act.

Centennial, the only bank subsidiary of Home Bancshares, Inc., has total assets of approximately \$3.8 billion and operates in Arkansas and Florida, controlling total deposits of approximately \$3.0 billion.<sup>4</sup> Gulf State, with total assets of approximately \$117 million, operates only in Florida, controlling deposits of approximately \$116 million.

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<sup>1</sup> Centennial is a subsidiary of Home Bancshares, Inc., also of Conway.

<sup>2</sup> 12 U.S.C. § 1828(c).

<sup>3</sup> 12 U.S.C. § 1828(c)(3).

<sup>4</sup> These data reflect Centennial’s recent acquisitions of Bayside Savings Bank, Coastal Community Bank, and Wakulla Bank, all of Florida. For purposes of this order, insured depository institutions include commercial banks, savings banks, and savings associations.

On consummation of the proposal, Centennial would become the 34th largest insured depository institution in Florida, controlling deposits of approximately \$1.5 billion, which represent less than 1 percent of total deposits in Florida.

#### Interstate Analysis

Section 102 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (“Riegle-Neal Act”) authorizes a bank to merge with another bank under certain conditions unless, before June 1, 1997, the home state of one of the banks involved in the transaction adopted a law expressly prohibiting merger transactions involving out-of-state banks.<sup>5</sup> For purposes of the Riegle-Neal Act, the home state of Centennial is Arkansas, and the home state of Gulf State is Florida.<sup>6</sup> The Riegle-Neal Act provides an exception to certain requirements of section 102 of the act for merger transactions involving banks in default or in danger of default.<sup>7</sup> The proposal complies with all other requirements of the Riegle-Neal Act. Accordingly, approval of the proposed transaction is consistent with the Riegle-Neal Act.

#### Competitive Considerations

The Board has considered carefully the competitive effects of the proposal in light of the facts of record. The Bank Merger Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of an attempt to monopolize the business of banking in any relevant banking market. The Bank Merger Act also prohibits the Board from approving a bank acquisition that would substantially lessen competition in any relevant banking market, unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community served.<sup>8</sup>

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<sup>5</sup> See 12 U.S.C. § 1831u.

<sup>6</sup> 12 U.S.C. § 1831u(a)(4) and (g)(4).

<sup>7</sup> 12 U.S.C. § 1831u(e). The excepted requirements include provisions relating to the application and approval process.

<sup>8</sup> 12 U.S.C. § 1828(c)(5).

Centennial and Gulf State compete directly in two Florida banking markets: the Tallahassee banking market and the Franklin County banking market.<sup>9</sup> The Board has reviewed carefully the competitive effects of the proposal in both banking markets in light of all the facts of record. In particular, the Board has considered the financial condition of Gulf State and the fact that the Florida Office of Financial Regulation (“FOFR”) has placed the bank in FDIC receivership. In addition, the FDIC, as receiver for Gulf State, has selected Centennial’s bid for Gulf State in accordance with the least-cost resolution requirements in the Federal Deposit Insurance Act.<sup>10</sup>

Under the proposal, Centennial would purchase the assets and assume the liabilities of Gulf State and thereby merge Gulf State’s businesses into a viable, going concern with demonstrated capital strength and management capability. Centennial’s proposal would continue the availability of credit opportunities and banking services to the customers and communities that Gulf State served and would avoid serious economic disruption to Gulf State depositors. The FDIC actively solicited bids for Gulf State and selected Centennial’s proposal under the procedures specified by Congress in the Federal Deposit Insurance Act for resolving failed banks.<sup>11</sup> The FDIC considered this proposal and determined that Centennial’s bid represented the lowest cost to the Deposit Insurance Fund. On this basis, the Centennial proposal is the only means before the Board of achieving the public benefits discussed above.

Under these circumstances, and after careful consideration of all the facts of record, the Board concludes that the anticompetitive effects of this proposal in the relevant

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<sup>9</sup> The Tallahassee banking market is defined as Gadsden, Jefferson, Leon, and Wakulla Counties, Florida. The Franklin County banking market is defined as Franklin County, Florida.

<sup>10</sup> The least-cost procedures require the FDIC to choose the resolution method in which the total amount of the FDIC’s expenditures and obligations incurred (including any immediate or long-term obligation and any direct or contingent liability) is the least costly to the deposit insurance fund of all possible methods. See 12 U.S.C. §§ 1821, 1822, and 1823(c)-(k). Centennial was the only bidder for Gulf State.

<sup>11</sup> See 12 U.S.C. §§ 1821, 1822, and 1823(c)-(k).

markets are clearly outweighed in the public interest by the probable effect of the Centennial proposal in meeting the convenience and needs of the communities to be served in Florida.

#### Financial and Managerial Resources and Future Prospects

The Bank Merger Act requires the Board to consider the financial and managerial resources and future prospects of the companies and depository institutions involved in the proposal and certain other supervisory factors. The Board has considered these factors in light of all the facts of record, including confidential supervisory and examination information from the FOFR and federal banking supervisors of the institutions involved, and publicly reported and other financial information, including information provided by Centennial.

In evaluating financial factors in expansion proposals by banking organizations, the Board reviews the financial condition of the organizations involved on both a parent-only and consolidated basis, as well as the financial condition of the subsidiary depository institutions and significant nonbanking operations. In this evaluation, the Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. In assessing financial resources, the Board also evaluates the financial condition of the combined organization at consummation, including its capital position, asset quality, earnings prospects, and the impact of the proposed funding of the transaction.

The Board has considered carefully the financial resources of the organizations involved in the proposal. Centennial is well capitalized and would remain so on consummation of the proposal. In addition, the parent holding company of Centennial, Home Bancshares, Inc., recently raised in a public offering approximately \$150 million in additional capital, of which a sufficient portion will be downstreamed to Centennial to support the proposed and future transactions. Based on its review of the record in this case, the Board finds that Centennial has sufficient financial resources to effect the proposal. As noted, the proposed transaction is structured as a purchase of assets and assumption of liabilities from the FDIC as receiver.

The Board also has considered the managerial resources of Centennial. The Board has reviewed the examination records of Centennial, including assessments of its management, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences and those of other relevant banking supervisory agencies, including the FDIC, with both organizations and their records of compliance with applicable banking and anti-money laundering laws. The Board also has considered Centennial's plans for implementing the proposal, including its plans for managing the integration of the acquired assets and operations into the bank.

Based on all the facts of record, the Board concludes that considerations relating to the financial and managerial resources and future prospects of Centennial are consistent with approval under the Bank Merger Act, as are the other statutory factors.

#### Convenience and Needs Considerations

In acting on a proposal under the Bank Merger Act, the Board is required to consider the effects of the proposal on the convenience and needs of the communities to be served and to take into account the records of the relevant insured depository institutions under the Community Reinvestment Act ("CRA").<sup>12</sup> Centennial received a "satisfactory" rating at its most recent CRA performance evaluation by the Federal Reserve Bank of St. Louis, as of May 4, 2009. Gulf State received a "satisfactory" rating at its most recent CRA performance evaluation by the FDIC, as of February 1, 2006. After consummation of the proposal, Centennial plans to implement its CRA policies at the Gulf State branches and consumer lending operations acquired in the proposal.

As noted, the Board believes that the proposal will result in substantial benefits to the convenience and needs of the communities to be served by maintaining the availability of credit and deposit services to Gulf State customers. Centennial has represented that consummation of the proposal would allow it to provide a broader range of financial products and services to the customers of Gulf State. Based on all the facts of record, the Board concludes that considerations relating to the convenience and needs of

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<sup>12</sup> 12 U.S.C. §§ 2901-2908.

the communities to be served and the CRA performance records of the relevant depository institutions are consistent with approval.

Conclusion

Based on the foregoing and all facts of record, the Board has determined that the application should be, and hereby is, approved. In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the Bank Merger Act. The Board's approval is specifically conditioned on compliance by Centennial with the commitments made to the Board in connection with the application and the conditions imposed in this order. These commitments and conditions are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The transaction may be consummated immediately but in no event later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of St. Louis, acting pursuant to delegated authority.

By order of the Board of Governors,<sup>13</sup> effective November 19, 2010.

*(signed)*

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Robert deV. Frierson  
Deputy Secretary of the Board

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<sup>13</sup> Voting for this action: Chairman Bernanke, Vice Chair Yellen, and Governors Warsh, Duke, Tarullo, and Raskin.