

HOME BANCSHARES INC  
Form 10-K  
March 04, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-K**

(Mark One)

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Fiscal Year Ended December 31, 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  
(State or other jurisdiction of  
incorporation or organization)

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

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719 Harkrider, Suite 100,

Conway, Arkansas  
(Address of principal executive offices)

72032  
(Zip Code)

(501) 328-4770

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---------------------|---|
| None                | N/A                                       |

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$0.01 per share

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 "accelerated filer", "large accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) 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

The aggregate market value of the registrant's common stock, par value \$0.01 per share, held by non-affiliates on June 30, 2012, was \$666.6 million based upon the last trade price as reported on the NASDAQ Global Select Market of \$30.58.

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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: 28,112,874 shares as of March 1, 2013.

Documents incorporated by reference: Part III is incorporated by reference from the registrant's Proxy Statement relating to its 2012 Annual Meeting to be held on April 18, 2013.

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**HOME BANCSHARES, INC.**

**FORM 10-K**

**December 31, 2012**

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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, could, expect, project, predict, estimate, could, should, would, and similar expressions, you should consider them as identifying forward-looking statements, although we may use other phrasing. These forward-looking statements involve risks and uncertainties and are based on our beliefs and assumptions, and on the information available to us at the time that these disclosures were prepared. These forward-looking statements involve risks and uncertainties and may not be realized due to a variety of factors, including, but not limited to, the following:

the effects of future economic conditions, including inflation or a continued decrease in commercial real estate and residential housing values;

governmental monetary and fiscal policies, as well as legislative and regulatory changes;

the impact of the Dodd-Frank financial regulatory reform act and regulations issued thereunder;

the risks of changes in interest rates or the level and composition of deposits, loan demand and the values of loan collateral, securities and interest sensitive assets and liabilities;

the effects of terrorism and efforts to combat it;

credit risks;

the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in our market area and elsewhere, including institutions operating regionally, nationally and internationally, together with competitors offering banking products and services by mail, telephone and the Internet;

the effect of any mergers, acquisitions or other transactions to which we or our subsidiaries may from time to time be a party, including our ability to successfully integrate any businesses that we acquire;

the failure of assumptions underlying the establishment of our allowance for loan losses; and

the failure of assumptions underlying the estimates of the fair values for our covered assets 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 "Risk Factors".



**Table of Contents****PART I****Item 1. BUSINESS****Company Overview**

Home BancShares, Inc. ( Home BancShares, which may also be referred to in this document as we, us or the Company ) is a Conway, Arkansas headquartered bank holding company registered under the federal Bank Holding Company Act of 1956. The Company's common stock is traded through the NASDAQ Global Select Market under the symbol HOMB. We are primarily engaged in providing a broad range of commercial and retail banking and related financial services to businesses, real estate developers and investors, individuals and municipalities through our 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, the Florida Panhandle and South Alabama. Although the Company has a diversified loan portfolio, at December 31, 2012 and 2011, commercial real estate loans represented 56.7% and 61.8% of gross loans and 298.8% and 292.2% of total stockholders' equity, respectively. The Company's total assets, total deposits, total revenue and net income for each of the past three years are as follows:

|  | <b>As of or for the Years Ended December 31,</b> |              |              |
|--|--|--------------|--------------|
|  | <b>2012</b>                                      | <b>2011</b>  | <b>2010</b>  |
|  | (In thousands)                                   |              |              |
| Total assets   | \$ 4,242,130                                     | \$ 3,604,117 | \$ 3,762,646 |
| Total deposits   | 3,483,452  | 2,858,031    | 2,961,798    |
| Total revenue (interest income plus non-interest income) | 225,104  | 213,115      | 216,171      |
| Net income available to all stockholders                 | 63,022   | 54,741       | 17,591       |

Home BancShares acquires, organizes and invests in community banks that serve attractive markets. Our community banking team is built around experienced bankers with strong local relationships. The Company was formed in 1998 by an investor group led by John W. Allison, our Chairman, and Robert H. Bunny Adcock, Jr., our Vice Chairman. After obtaining a bank charter, we established First State Bank in Conway, Arkansas, in 1999. We acquired Community Bank, Bank of Mountain View and Centennial Bank in 2003, 2005 and 2008, respectively. Home BancShares and its founders were also involved in the formation of Twin City Bank and Marine Bank, both of which we acquired in 2005. During 2008 and 2009, we merged all of our banks into one charter and adopted Centennial Bank as the common name. In 2010, we acquired six banks in Florida through Federal Deposit Insurance Corporation assisted transactions with loss share, including Old Southern Bank, Key West Bank, Coastal Community Bank, Bayside Savings Bank, Wakulla Bank and Gulf State Community Bank. In 2012, we acquired three banks headquartered in Florida including Vision Bank, Premier Bank and Heritage Bank of Florida ( Heritage Bank ). Heritage Bank was acquired through a Federal Deposit Insurance Corporation (FDIC) assisted transaction without loss share. Vision Bank, which provided us our first branch locations in Alabama, was integrated during 2012. The conversions for Heritage Bank and Premier Bank are scheduled to be completed during the first and second quarters of 2013, respectively.

We believe many individuals and businesses prefer banking with a locally managed community bank capable of providing flexibility and quick decisions. The execution of our community banking strategy has allowed us to rapidly build our network of banking operations through acquisitions. The following are the financial details concerning our acquisitions during the previous five years.

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*Centennial Bank* On January 1, 2008, we acquired Centennial Bancshares, Inc. and its subsidiary, Centennial Bank. Centennial Bank had total assets of \$234.1 million, loans of \$192.8 million and total deposits of \$178.8 million on the date of acquisition. The consideration for the merger was \$25.4 million, which was paid approximately 4.6%, or \$1.2 million, in cash and 95.4%, or \$24.3 million, in shares of our common stock. In connection with the acquisition, \$3.0 million of the purchase price, consisting of \$139,000 in cash and 154,502 shares of our common stock, was placed in escrow related to possible losses from identified loans and an IRS examination. In the first quarter of 2008, the IRS examination was completed which resulted in \$1.0 million of the escrow proceeds being released. In the fourth quarter of 2009, approximately \$334,000 of losses from the escrowed loans was identified. After we were reimbursed 100% for those losses, the remaining escrow funds were released. In addition to the consideration given at the time of the merger, the merger agreement provided for additional contingent consideration to Centennial's stockholders of up to a maximum of \$4.0 million, which could be paid in cash or our common stock at the election of the former Centennial accredited stockholders, based upon the 2008 earnings performance. The final contingent consideration was computed and agreed upon in the amount of \$3.1 million on March 11, 2009. We paid this amount to the former Centennial stockholders on a pro rata basis on March 12, 2009. All of the former Centennial stockholders elected to receive the contingent consideration in cash. As a result of this transaction, we recorded total goodwill of \$15.4 million and a core deposit intangible of \$694,000 during 2008 and 2009.

*Merger of Charters and Adoption of Centennial Bank Name* In December 2008, we began the process of combining the charters of our banks and adopting Centennial Bank as the common name. First State Bank and Marine Bank began the process by consolidating and adopting Centennial Bank as its new name. Community Bank and Bank of Mountain View followed and were completed in the first quarter of 2009, and Twin City Bank and the original Centennial Bank finished the process in June of 2009. All of our banks now have the same name, logo and charter, allowing for a more customer-friendly banking experience and seamless transactions across our entire banking network. We remain committed, however, to our community banking philosophy and will continue to rely on local community bank boards and management built around experienced bankers with strong local relationships.

*FDIC 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. 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 the Company's Note 2 Business Combinations in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2010 for an additional discussion for the acquisition of Old Southern.

*FDIC 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 in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2010 for an additional discussion for the acquisition of Key West.



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*FDIC 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 in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2010 for an additional discussion for the acquisition of Coastal and Bayside.

*FDIC 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 in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2010 for an additional discussion for the acquisition of Wakulla.

*FDIC 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 in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2010 for an additional discussion for the acquisition of Gulf State.

*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.

Prior to the acquisition, Vision conducted banking business from 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. Including the effects of the purchase accounting adjustments, Centennial Bank acquired approximately \$529.5 million in assets, approximately \$340.3 million in performing loans including loan discounts and approximately \$524.4 million of deposits.

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See Note 2 Business Combinations in the Notes to Consolidated Financial Statements for an additional discussion for the acquisition of Vision Bank.

*FDIC Acquisition Heritage Bank* On November 2, 2012, Centennial Bank acquired all the deposits and substantially all the assets of Heritage Bank from the FDIC. This transaction did not include any non-performing loans or other real estate owned of Heritage. In connection with the Heritage acquisition, Centennial Bank opted to not enter into a loss-sharing agreement with the FDIC.

Prior to the acquisition, Heritage operated three banking offices located in Tampa, Lutz and Wesley Chapel, Florida. Including the effects of the purchase accounting adjustments, Centennial Bank acquired approximately \$224.8 million in assets plus a cash settlement to balance the transaction, approximately \$92.6 million in performing loans including loan discounts and approximately \$219.5 million of deposits.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements for an additional discussion for the acquisition of Heritage Bank.

*Acquisition Premier Bank* On December 1, 2012, Home BancShares, Inc. completed the acquisition of all of the issued and outstanding shares of common stock of Premier Bank, a Florida state-chartered bank with its principal office located in Tallahassee, Florida ( Premier ), pursuant to an Asset Purchase Agreement (the Premier Agreement ) with Premier Bank Holding Company, a Florida corporation and bank holding company ( PBHC ), dated August 14, 2012. The Company has merged Premier with and into the Company s wholly-owned subsidiary, Centennial Bank, an Arkansas state-chartered bank. The Company paid a purchase price to PBHC of \$1,415,000 for the Acquisition.

The Acquisition was conducted in accordance with the provisions of Section 363 of the United States Bankruptcy Code (the Bankruptcy Code ) pursuant to a voluntary petition for relief under Chapter 11 of the Bankruptcy Code filed by PBHC with the United States Bankruptcy Court for the Northern District of Florida (the Bankruptcy Court ) on August 14, 2012. The sale of Premier by PBHC was subject to certain bidding procedures approved by the Bankruptcy Court. No qualifying competing bids were received. The Bankruptcy Court entered a final order on November 29, 2012 approving the sale of Premier to the Company pursuant to and in accordance with the Premier Agreement.

Prior to the acquisition, Premier conducted banking business from six locations in the Florida panhandle cities of Tallahassee (five) and Quincy (one). Including the effects of the purchase accounting adjustments, Centennial Bank acquired approximately \$264.8 million in assets, approximately \$138.1 million in loans including loan discounts and approximately \$246.3 million of deposits.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements for an additional discussion for the acquisition of Premier Bank.

**Table of Contents****Our Management Team**

The following table sets forth, as of December 31, 2012, information concerning the individuals who are our executive officers.

| <b>Name</b>          | <b>Age</b> | <b>Positions Held with</b>                                 | <b>Positions Held with</b>                         |
|----------------------|------------|--|--|
|                      |            | <b>Home BancShares, Inc.</b>                               | <b>Centennial Bank</b>                             |
| John W. Allison      | 66         | Chairman of the Board                                      | Chairman of the Board                              |
| C. Randall Sims      | 58         | Chief Executive Officer and<br>Director                    | Chief Executive Officer, President and<br>Director |
| Randy E. Mayor       | 47         | Chief Financial Officer,<br>Treasurer and Director         | Chief Financial Officer and Director               |
| Brian S. Davis       | 47         | Chief Accounting Officer and<br>Investor Relations Officer |  |
| Kevin D. Hester      | 49         | Chief Lending Officer                                      | Chief Lending Officer and Director                 |
| Robert F. Birch, Jr. | 62         |  | Regional President                                 |
| Tracy M. French      | 51         |  | Regional President                                 |

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### **Our Growth Strategy**

Our goals are to achieve growth in earnings per share and to create and build stockholder value. Our growth strategy entails the following:

*Organic growth* We believe our current branch network provides us with the capacity to grow within our existing market areas. We also believe we are well positioned to attract new business and additional experienced personnel as a result of ongoing changes in our competitive markets. We believe the Tampa and Central Florida market, entered into as a result of our FDIC acquisitions, will give us new opportunities for organic growth. The Tampa and Orlando MSA has approximately \$36.4 billion in deposits of which we have a market share of less than 1%. While these locations provide opportunities, organic loan growth will continue to be challenging in the current economic environment.

*Strategic acquisitions* 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 continue to expand our presence in Arkansas and other nearby markets, in Alabama and in Florida, through pursuing FDIC-assisted acquisition opportunities and non FDIC-assisted bank acquisitions. We are continually evaluating potential bank acquisitions to determine what is in the best interests of our Company. Our goal in making these decisions is to maximize the return to our shareholders and enhancing our franchise.

*De novo branching* As opportunities arise, we will continue to open new (commonly referred to as *de novo*) branches in our current markets and in other attractive market areas. During 2012, no *de novo* branches were opened. During 2013 we currently have plans for one additional *de novo* branch location on Highway 30A in Seagrove, Florida.

### **Community Banking Philosophy**

Our community banking philosophy consists of four basic principles:

manage our community banking franchise with experienced bankers and community bank boards who are empowered to make customer-related decisions quickly;

provide exceptional service and develop strong customer relationships;

pursue the business relationships of our board of directors, community bank boards, executive officers, stockholders, and customers to actively promote our community bank; and

maintain our commitment to the communities we serve by supporting civic and nonprofit organizations.

These principles which make up our community banking philosophy are the driving force for our business. As we streamlined our legacy business into a unified banking network, we preserved lending authority with local management in most cases by using advisory boards that maintain an integral connection to the communities we serve. These advisory boards are empowered with lending authority of up to \$6 million in their respective geographic areas. This allows us to capitalize on the strong relationships that our community bank board members and officers have in their respective communities to maintain and grow our business. Through experienced and empowered local bankers and board members, we are committed to maintaining a community banking experience for our customers.

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### **Operating Goals**

Our operating goals focus on maintaining strong credit quality, increasing profitability, finding experienced bankers, and maintaining a fortress balance sheet:

*Maintain strong credit quality* Credit quality is our first priority. We employ a set of credit standards designed to ensure the proper management of credit risk. Our management team plays an active role in monitoring compliance with these credit standards in the different communities served by Centennial Bank. We have a centralized loan review process, which we believe enables us to take prompt action on potential problem loans. This centralized review process also applies to our banking operations in Florida, where the majority of our current non-performing loans are located, and provides for close monitoring of the quality of our Florida loans. Historically, these efforts have been supplemented by the relocation of our former director of loan review from our corporate headquarters in Arkansas to Florida to monitor our Florida operations and collections directly. In addition, in 2010 we promoted the chief lending officer of our Conway region to the chief lending officer of the Company. In 2011, we were able to hire an experienced banker in the Florida market. He came to us from Capital Bank (formerly TIB), where he was formerly President, and has a significant amount of experience in the Florida Keys. He has assumed the CLO role in the Keys, and is providing strong lending management and business development in this area of the company. Also, one of our existing experienced bankers has been relocated from Arkansas to the Panhandle of Florida. While we have experienced management in Florida, the weak market has not allowed for a complete resolution of problem loans. During the past few years we have taken an aggressive approach to resolving problem loans, including those problem loans acquired in the FDIC acquisitions. This approach is paying dividends, as we are experiencing reductions in levels of past due and non-accruing covered loans. We are committed to maintaining high credit quality standards.

*Continue to improve profitability* We will continue to strive to improve our profitability and achieve high performance ratios as we continue to utilize the available capacity of our newer branches and employees. During 2010, we acquired six FDIC-assisted transactions and have now incorporated them into our operating environment. We also completed one FDIC-assisted acquisition and two market acquisitions during 2012, fully integrating one of the three to date. As we work out the problem loans in our special assets department, we plan to emphasize business development and relationship enhancement in lending and retail areas in these newly acquired markets. Our efficiency ratio has improved from 56.0% for the year ended 2009 to 47.9% for the year ended 2012. Efficiency ratio 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. These improvements in operating efficiency are being driven by, among other factors, improvements in our net interest margin, growth in fee income and the streamlining of processes in our lending and retail operations and improvements in our purchasing power.

*Attract and motivate experienced bankers* We believe a major factor in our success has been our ability to attract and motivate bankers who have experience in and knowledge of their local communities. Historically, our hiring and retaining experienced relationship bankers has been integral to our ability to grow quickly when entering new markets.

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*Maintain a fortress balance sheet* We intend to maintain a strong balance sheet through a focus on four key governing principles: (1) maintain strong loan loss reserves; (2) remain well capitalized; (3) pursue high performance metrics including return on tangible equity (ROTE), return on assets (ROA), efficiency ratio and net interest margin; and (4) retain liquidity at the bank holding company level that can be utilized should attractive acquisition opportunities be identified or for internal capital needs. We strive to maintain capital levels significantly above the regulatory capital requirements, without the need for additional capital, as a result of our focus on these governing principles, which allows us to take advantage of acquisition opportunities as they become available whether FDIC-assisted transactions or market transactions.

**Our Market Areas**

As of December 31, 2012, we conducted business principally through 43 branches located in Central Arkansas, 2 branches in North Central Arkansas, 2 branches in Southern Arkansas, 9 branches in the Florida Keys, 9 branches in Central Florida, 3 branches in Southwestern Florida, 33 branches in the Florida Panhandle and 7 branches in South Alabama. Our branch footprint includes markets in which we are the deposit market share leader as well as markets where we believe we have opportunities for deposit market share growth.

Our Arkansas market has experienced less volatility than our Florida market over the previous years, which has served to offset the weakness experienced in our Florida market. The national economic downturn from a few years ago has led to increases in defaults and foreclosures, and increases in the number and dollars of loan modifications primarily in the Florida market. While market conditions in our Florida markets have begun to improve they remain challenging. In addition, while the values of real estate collateral supporting many loans have begun to rebound slightly, many remain depressed and may continue to be lower for some time.

**Lending Activities**

We originate loans primarily secured by single and multi-family real estate, residential construction and commercial buildings. In addition, we make loans to small and medium-sized commercial businesses as well as to consumers for a variety of purposes.

Our loan portfolio as of December 31, 2012, was comprised as follows:

|                                      | <b>Loans<br/>Receivable<br/>Not<br/>Covered<br/>by Loss<br/>Share</b> | <b>Loans<br/>Receivable<br/>Covered<br/>by FDIC<br/>Loss Share<br/>(Dollars in thousands)</b> | <b>Total<br/>Loans<br/>Receivable</b> | <b>Percentage<br/>of<br/>portfolio</b> |
|--------------------------------------|---|---|---------------------------------------|--|
| <b>Real estate:</b>                  |   |   |                                       |  |
| <b>Commercial real estate loans</b>  |   |   |                                       |  |
| Non-farm/non-residential             | \$ 1,019,039  | \$ 164,723  | \$ 1,183,762                          | 43.6%                                  |
| Construction/land development        | 254,800   | 66,713  | 321,513                               | 11.8                                   |
| Agricultural                         | 32,513  | 2,282   | 34,795                                | 1.3                                    |
| <b>Residential real estate loans</b> |   |   |                                       |  |
| Residential 1-4 family               | 549,269   | 125,625   | 674,894                               | 24.9                                   |
| Multifamily residential              | 129,742   | 9,567   | 139,309                               | 5.1                                    |
| <b>Total real estate</b>             | <b>1,985,363</b>  | <b>368,910</b>  | <b>2,354,273</b>                      | <b>86.7</b>                            |
| Consumer                             | 37,462  | 39  | 37,501                                | 1.4                                    |
| Commercial and industrial            | 256,908   | 14,668  | 271,576                               | 10.0                                   |
| Agricultural                         | 19,825  |   | 19,825                                | 0.7                                    |
| Other                                | 31,641  | 1,267   | 32,908                                | 1.2                                    |
| <b>Total</b>                         | <b>\$ 2,331,199</b>   | <b>\$ 384,884</b>   | <b>\$ 2,716,083</b>                   | <b>100.0%</b>                          |

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*Real Estate Non-farm/Non-residential.* Non-farm/non-residential real estate loans consist primarily of loans secured by income-producing properties, such as shopping/retail centers, hotel/motel properties, office buildings, and industrial/warehouse properties. Commercial lending on income-producing property typically involves higher loan principal amounts, and the repayment of these loans is dependent, in large part, on sufficient income from the properties collateralizing the loans to cover operating expenses and debt service. This category of loans also includes specialized properties such as churches, marinas, and nursing homes. Additionally, we make commercial mortgage loans to entities to operate in these types of properties, and the repayment of these loans is dependent, in large part, on the cash flow generated by these entities in the operations of the business. Often, a secondary source of repayment will include the sale of the subject collateral. When this is the case, it is generally our practice to obtain an independent appraisal of this collateral within the Interagency Appraisal and Evaluation Guidelines.

*Real Estate Construction/Land Development.* This category of loans includes loans to residential and commercial developers to purchase raw land and to develop this land into residential and commercial land developments. In addition, this category includes construction loans for all of the types of real estate loans made by the Bank, including both commercial and residential. These loans are generally secured by a first lien on the real estate being purchased or developed. Often, the primary source of repayment will be the sale of the subject collateral. When this is the case, it is generally our practice to obtain an independent appraisal of this collateral within the Interagency Appraisal and Evaluation Guidelines.

*Real Estate Residential.* Our residential mortgage loan program primarily originates loans to individuals for the purchase of residential property. We generally do not retain long-term, fixed-rate residential real estate loans in our portfolio due to interest rate and collateral risks. Residential mortgage loans to individuals retained in our loan portfolio primarily consisted of 44.5% owner occupied 1-4 family properties and 41.9% non-owner occupied 1-4 family properties (rental). The primary source of repayment for these loans is generally the income and/or assets of the individual to whom the loan is made. Often, a secondary source of repayment will include the sale of the subject collateral. When this is the case, it is generally our practice to obtain an independent appraisal of this collateral within the Interagency Appraisal and Evaluation Guidelines.

*Consumer.* While our focus is on service to small and medium-sized businesses, we also make a variety of loans to individuals for personal, family and household purposes, including secured and unsecured installment and term loans. The primary source of repayment for these loans is generally the income and/or assets of the individual to whom the loan is made. When secured, we may independently assess the value of the collateral provided using a third-party valuation source.

*Commercial and Industrial.* Our commercial and industrial loan portfolio primarily consisted of 36.6% inventory/AR financing, 20.8% equipment/vehicle financing and 42.6% other, including letters of credit at less than 1%. This category includes loans to smaller business ventures, credit lines for working capital and short-term inventory financing, for example. These loans are typically secured by the assets of the business, and are supplemented by personal guaranties of the principals and often mortgages on the principals' primary residences. The primary source of repayment may be conversion of the assets into cash flow, as in inventory and accounts receivable, or may be cash flow generated by operations, as in equipment/vehicle financing. Assessing the value of inventory can involve many factors including, but not limited to, type, age, condition, level of conversion and marketability, and can involve applying a discount factor or obtaining an independent valuation, based on the assessment of the above factors. Assessing the value of accounts receivable can involve many factors including, but not limited to, concentration, aging, and industry, and can involve applying a discount factor or obtaining an independent valuation, based on the assessment of the above factors. Assessing the value of equipment/vehicles may involve a third-party valuation source, where applicable.

*Credit Risks.* The principal economic risk associated with each category of the loans that we make is the creditworthiness of the borrower and the ability of the borrower to repay the loan. General economic conditions and the strength of the services and retail market segments affect borrower creditworthiness. General factors affecting a commercial borrower's ability to repay include interest rates, inflation and the demand for the commercial borrower's products and services as well as other factors affecting a borrower's customers, suppliers and employees.

Risks associated with real estate loans also include fluctuations in the value of real estate, new job creation trends, tenant vacancy rates, and in the case of commercial borrowers, the quality of the borrower's management. Consumer loan repayments depend upon the borrower's financial stability and are more likely to be adversely affected by divorce, job loss, illness and other personal hardships.

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*Lending Policies.* We have established common loan documentation procedures and policies, based on the type of loan, for our bank subsidiary. The board of directors periodically reviews these policies for validity. In addition, it has been and will continue to be our practice to attempt to independently verify information provided by our borrowers, including assets and income. We have not made loans similar to those commonly referred to as no doc or stated income loans. We focus on the primary and secondary methods of repayment, and prepare global cash flows where appropriate. There are legal restrictions on the dollar amount of loans available for each lending relationship. The Arkansas Banking Code provides that no loan relationship may exceed 20% of a bank's risk based capital, and we are in compliance with this restriction. In addition, we are not dependent upon any single lending relationship for an amount exceeding 10% of our revenues. As of December 31, 2012, the maximum amount outstanding to a single borrower was \$57.8 million. As a community lender, we believe from time to time it is in our best interest to agree to modifications or restructurings. These modifications/restructurings can take the form of a reduction in interest rate, a move to interest-only from principal and interest payments, or a lengthening in the amortization period or any combination thereof. Occasionally, we will modify/restructure a single loan by splitting it into two loans following the interagency guidance involving the workout of commercial real estate loans. The loan representing the portion that is supported by the current cash flow of the borrower or project will remain on the Bank's books, while the new loan representing the portion that cannot be serviced by the current cash flow is charged-off. Furthermore, we may make an additional loan or loans to a borrower or related interest of a borrower who is past due more than 90 days. These circumstances will be very limited in nature, and when approved by the appropriate lending authority, will likely involve obtaining additional collateral that will improve the collectability of the overall relationship. It is our belief that judicious usage of these tools can improve the quality of our loan portfolio by providing our borrowers an improved probability of survival during difficult economic times.

*Loan Approval Procedures.* Our bank subsidiary has supplemented our common loan policies to establish their own loan approval procedures as follows:

*Individual Authorities.* The board of directors of Centennial Bank establishes the authorization levels for individual loan officers on a case-by-case basis. Generally, the more experienced a loan officer, the higher the authorization level. The approval authority for individual loan officers ranges from \$25,000 to \$500,000 for secured loans and from \$1,000 to \$100,000 for unsecured loans.

*Officers' Loan Committees.* Our bank subsidiary also gives its Officers' Loan Committees loan approval authority. Credits in excess of individual loan limits are submitted to the region's Officers' Loan Committee. The Officers' Loan Committee consists of members of the senior management team of that region and is chaired by that region's chief lending officer. The regional Officers' Loan Committees have approval authority up to \$1.0 million secured and \$100,000 unsecured.

*Directors' Loan Committee.* Each region throughout our bank subsidiary has a Directors' Loan Committee consisting of outside directors and senior lenders of that region. Generally, each region requires a majority of outside directors be present to establish a quorum. Generally, this committee is chaired either by the Regional Chief Lending Officer or the Regional President. The regional Directors' Loan Committees have approval authority up to \$6.0 million secured and \$500,000 unsecured.

*Executive Loan Committee* The Board of Directors of Centennial Bank established the Executive Loan Committee consisting of three outside Board members and members of Executive Management. This committee requires five voting members to establish a quorum, including at least two of the outside Board members, and is chaired by the Chief Lending Officer of the Bank. The Executive Loan Committee has approval authority up to the in-house consolidated lending limit of \$20 million.

Currently, our board of directors has established an in-house consolidated lending limit of \$20.0 million to any one borrowing relationship without obtaining the approval of both our Chairman and our director Richard H. Ashley. We have eleven separate relationships that exceed this in-house limit, of which none are to a related party.



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### **Deposits and Other Sources of Funds**

Our principal source of funds for loans and investing in securities is core deposits. We offer a wide range of deposit services, including checking, savings, money market accounts and certificates of deposit. We obtain most of our deposits from individuals and small businesses, and municipalities in our market areas. We believe that the rates we offer for core deposits are competitive with those offered by other financial institutions in our market areas. Additionally, our policy also permits the acceptance of brokered deposits. Secondary sources of funding include advances from the Federal Home Loan Banks of Dallas and Atlanta, the Federal Reserve Bank Discount Window and other borrowings. These secondary sources enable us to borrow funds at rates and terms which, at times, are more beneficial to us.

### **Other Banking Services**

Given customer demand for increased convenience and account access, we offer a range of products and services, including 24-hour internet banking and voice response information, cash management, overdraft protection, direct deposit, safe deposit boxes, United States savings bonds and automatic account transfers. We earn fees for most of these services. We also receive ATM transaction fees from transactions performed by our customers participating in a shared network of automated teller machines and a debit card system that our customers can use throughout the United States, as well as in other countries.

### **Insurance**

Centennial Insurance Agency, Inc. is an independent insurance agency, originally founded in 1959 and purchased July 1, 2000, by Centennial Bank. Centennial Insurance Agency writes policies for commercial and personal lines of business. It is subject to regulation by the Arkansas Insurance Department. The offices of Centennial Insurance Agency are located in Jacksonville, Cabot, and Conway, Arkansas.

Cook Insurance Agency, Inc. is an independent insurance agency, originally founded in 1913 and acquired November 19, 2010, by Centennial Bank during the FDIC acquisition of Gulf State Community Bank. Cook Insurance Agency writes policies for commercial and personal lines of business. It is subject to regulation by the Florida Insurance Department. The offices of Cook Insurance Agency are located in Apalachicola and Crawfordville, Florida.

The Company may merge the book of business of Cook Insurance Agency into the Centennial Insurance Agency at some point in the future.

### **Trust Services**

Centennial Trust provides trust services, focusing primarily on personal trusts, corporate trusts and employee benefit trusts. In the fourth quarter of 2006, we made a strategic decision to enter into an agent agreement for the management of our trust services to a non-affiliated third party. This change was to improve the overall profitability of our trust efforts. Centennial Trust still has ownership rights to the trust assets under management.

### **Competition**

As of December 31, 2012, we conducted business through 108 branches in our primary market areas of Pulaski, Faulkner, Lonoke, Stone, Saline, White, Dallas, Cleveland, Conway, and Cleburne Counties in Arkansas and Monroe, Franklin, Bay, Leon, Wakulla, Orange, Calhoun, Gulf, Seminole, Charlotte, Lake, Liberty, Collier, Walton, Okaloosa, Santa Rosa, Hillsborough, Pasco and Gadsden Counties in Florida and Baldwin County in Alabama. Many other commercial banks, savings institutions and credit unions have offices in our primary market areas. These institutions include many of the largest banks operating in Arkansas and Florida, including some of the largest banks in the country. Many of our competitors serve the same counties we do. Our competitors often have greater resources, have broader geographic markets, have higher lending limits, offer various services that we may not currently offer and may better afford and make broader use of media advertising, support services and electronic technology than we do. To offset these competitive disadvantages, we depend on our reputation as having greater personal service, consistency, and flexibility and the ability to make credit and other business decisions quickly.

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### **Employees**

On December 31, 2012, we had 926 full-time equivalent employees. Except for employees acquired in acquisitions, we expect that our 2013 staffing levels will approximate those at year end 2012. We consider our employee relations to be good, and we have no collective bargaining agreements with any employees.

### **SUPERVISION AND REGULATION**

#### **General**

We and our bank subsidiary are subject to extensive state and federal banking regulations that impose restrictions on and provide for general regulatory oversight of our company and its operations. These laws generally are intended to protect depositors, the deposit insurance fund of the Federal Deposit Insurance Corporation ( FDIC ) and the banking system as a whole, and not stockholders. The following discussion describes the material elements of the regulatory framework that applies to us.

#### **Financial Regulatory Reform**

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ), which contains a comprehensive set of provisions designed to govern the practices and oversight of financial institutions and other participants in the financial markets. The Dodd-Frank Act made extensive changes in the regulation of financial institutions and their holding companies. It requires various federal agencies to adopt a broad range of new rules and regulations, and to prepare numerous studies and reports for Congress. These studies could potentially result in additional legislative or regulatory action.

The Dodd-Frank Act includes provisions that, among other things:

Centralized responsibility for consumer financial protection by creating the Bureau of Consumer Financial Protection, which is responsible for implementing, examining, and enforcing compliance with federal consumer financial laws, including mortgage disclosure laws.

Created the Financial Stability Oversight Council that provides comprehensive monitoring to ensure the stability of our nation s financial system.

Provided mortgage reform provisions regarding a customer s ability to repay, restricting variable-rate lending by requiring that the ability to repay variable-rate loans be determined by using the maximum rate that will apply during the first five years of a variable-rate loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions.

Changed the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminated the ceiling on the size of the Deposit Insurance Fund ( DIF ), and increased the floor on the size of the DIF, which generally will require an increase in the level of assessments for institutions with assets in excess of \$10 billion.

Made permanent the \$250,000 limit for federal deposit insurance and provided unlimited federal deposit insurance until January 1, 2013 for noninterest-bearing demand transaction accounts at all insured depository institutions.

Implemented corporate governance revisions, including with regard to executive compensation and proxy access by shareholders, which apply to all public companies, not just financial institutions.

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Repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transactions and other accounts.

Amended the Electronic Funds Transfer Act to, among other things, give the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over \$10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer.

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**Home BancShares**

We are a bank holding company registered under the federal Bank Holding Company Act of 1956 (the "Bank Holding Company Act") and are subject to supervision, regulation and examination by the Federal Reserve Board. The Bank Holding Company Act and other federal laws subject bank holding companies to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations.

*Acquisitions of Banks.* The Bank Holding Company Act requires every bank holding company to obtain the Federal Reserve Board's prior approval before:

acquiring direct or indirect ownership or control of any voting shares of any bank if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the bank's voting shares;

acquiring all or substantially all of the assets of any bank; or

merging or consolidating with any other bank holding company.

Under the Bank Holding Company Act, if well capitalized and well managed, we, as well as other bank holding companies located within the states in which we operate, may purchase a bank located outside of those states. Conversely, a well-capitalized and well managed bank holding company located outside of the states in which we operate may purchase a bank located inside those states. In each case, however, restrictions may be placed on the acquisition of a bank that has only been in existence for a limited amount of time or will result in specified concentrations of deposits.

*Permitted Activities.* A bank holding company is generally permitted under the Bank Holding Company Act to engage in or acquire direct or indirect control of more than 5% of the voting shares of any company engaged in the following activities:

banking or managing or controlling banks; and

any activity that the Federal Reserve Board determines to be so closely related to banking as to be a proper incident to the business of banking.

Activities that the Federal Reserve Board has found to be so closely related to banking as to be a proper incident to the business of banking include: factoring accounts receivable; making, acquiring, brokering or servicing loans and usual related activities; leasing personal or real property; operating a non-bank depository institution, such as a savings association; trust company functions; financial and investment advisory activities; conducting discount securities brokerage activities; underwriting and dealing in government obligations and money market instruments; providing specified management consulting and counseling activities; performing selected data processing services and support services; acting as agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions; and performing selected insurance underwriting activities.

*Support of Subsidiary Institutions.* Under the Dodd-Frank Act and Federal Reserve Board policy, we are required to act as a source of financial strength for our bank subsidiary and to commit resources to support the bank. Under current federal law, the Federal Reserve may require us to make capital injections into our bank subsidiary and may charge us with engaging in unsafe and unsound practices if we fail to commit resources to our bank subsidiary or if we undertake actions that the Federal Reserve believes might jeopardize our ability to commit resources to the bank. As a result, an obligation to support our bank subsidiary may be required at times when, without this requirement, we might not be inclined to provide it.

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*Safe and Sound Banking Practices.* Bank holding companies are not permitted to engage in unsafe and unsound banking practices. The Federal Reserve Board's Regulation Y, for example, generally requires a holding company to give the Federal Reserve Board prior notice of any redemption or repurchase of its own equity securities, if the consideration to be paid, together with the consideration paid for any repurchases or redemptions in the preceding year, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve Board may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. Depending upon the circumstances, the Federal Reserve Board could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

The Federal Reserve Board has broad authority to prohibit activities of bank holding companies and their non-banking subsidiaries which represent unsafe and unsound banking practices or which constitute violations of laws or regulations, and can assess civil money penalties for certain activities conducted on a knowing and reckless basis, if those activities caused a substantial loss to a depository institution. The penalties can be as high as \$1 million for each day the activity continues.

*Annual Reporting; Examinations.* We are required to file annual reports with the Federal Reserve Board, and such additional information as the Federal Reserve Board may require pursuant to the Bank Holding Company Act. The Federal Reserve Board may examine a bank holding company or any of its subsidiaries, and charge the company for the cost of such examination.

*Capital Adequacy Requirements.* The Federal Reserve Board has adopted a system using risk-based capital guidelines to evaluate the capital adequacy of bank holding companies having \$500 million or more in assets on a consolidated basis. We currently have consolidated assets in excess of \$500 million, and are therefore subject to the Federal Reserve Board's capital adequacy guidelines.

Under the guidelines, specific categories of assets are assigned different risk weights, based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a risk-weighted asset base. The guidelines require a minimum total risk-based capital ratio of 8.0% (of which at least 4.0% is required to consist of Tier 1 capital elements). Total capital is the sum of Tier 1 and Tier 2 capital. As of December 31, 2012, our Tier 1 risk-based capital ratio was 13.94% and our total risk-based capital ratio was 15.20%. Well capitalized is a Tier 1 and total risk-based capital ratio in excess of 6% and 10%, respectively. Thus, we are considered well capitalized for regulatory purposes.

In addition to the risk-based capital guidelines, the Federal Reserve Board uses a leverage ratio as an additional tool to evaluate the capital adequacy of bank holding companies. The leverage ratio is a company's Tier 1 capital divided by its average total consolidated assets. Certain highly-rated bank holding companies may maintain a minimum leverage ratio of 3.0%, but other bank holding companies are required to maintain a leverage ratio of at least 4.0%. Well capitalized is a leverage ratio in excess of 5%. As of December 31, 2012, our leverage ratio was 10.95%.

The federal banking agencies' risk-based and leverage ratios are minimum supervisory ratios generally applicable to banking organizations that meet certain specified criteria. The federal bank regulatory agencies may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. Federal Reserve Board guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions, substantially above the minimum supervisory levels, without significant reliance on intangible assets.

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The Dodd-Frank Act includes certain provisions concerning the capital regulations of the federal banking agencies. These provisions, often referred to as the Collins Amendment, are intended to subject bank holding companies to the same capital requirements as their bank subsidiaries and to eliminate or significantly reduce the use of hybrid capital instruments, especially trust preferred securities, as regulatory capital. Under the Collins Amendment, trust preferred securities issued by a company, such as our Company, with total consolidated assets of less than \$15 billion before May 19, 2010 and treated as regulatory capital are grandfathered, but any such securities issued later are not eligible as regulatory capital. The banking regulators must develop regulations setting minimum risk-based and leverage capital requirements for holding companies and banks on a consolidated basis that are no less stringent than the generally applicable requirements in effect for depository institutions under the prompt corrective action regulations discussed below. The banking regulators also must seek to make capital standards countercyclical so that the required levels of capital increase in times of economic expansion and decrease in times of economic contraction.

On June 6, 2012, the Federal Reserve Board and the other federal bank regulatory agencies issued a series of proposed rules that would revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to make them consistent with the agreements that were reached by the Basel Committee on Banking Supervision in *Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems* and certain provisions of the Dodd-Frank Act. The proposed rules would apply to all depository institutions, bank holding companies with total consolidated assets of \$500 million or more and savings and loan holding companies (collectively, banking organizations). Among other things, the proposed rules establish a new common equity tier 1 minimum capital requirement (4.5% of risk-weighted assets) and a higher minimum tier 1 risk-based capital requirement (6% of risk-weighted assets) and assign higher risk weightings to exposures that are more than 90 days past due or are on nonaccrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property. The proposed rules also require unrealized gains and losses on certain securities holdings to be included for purposes of calculating regulatory capital requirements. The proposed rules limit a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a capital conservation buffer consisting of a specified amount of common equity tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule was expected to become effective on January 1, 2013; however, due to the volume of public comments received, the agencies subsequently indicated that the final rule would not be in effect on January 1, 2013. The changes set forth in the proposed rules would be phased in, becoming fully effective January 1, 2019.

**Subsidiary Bank**

*General.* Our bank subsidiary, Centennial Bank, is chartered as an Arkansas state bank and is a member of the Federal Reserve System, making it primarily subject to regulation and supervision by both the Federal Reserve Board and the Arkansas State Bank Department. In addition, our bank subsidiary is subject to various requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be granted and the interest that they may charge, and limitations on the types of investments they may make and on the types of services they may offer. Various consumer laws and regulations also affect the operations of our bank subsidiary.

*Prompt Corrective Action.* The Federal Deposit Insurance Corporation Improvement Act of 1991 establishes a system of prompt corrective action to resolve the problems of undercapitalized financial institutions. Under this system, the federal banking regulators have established five capital categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) in which all institutions are placed. Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. The federal banking agencies have specified by regulation the relevant capital level for each category.

An institution that is categorized as undercapitalized, significantly undercapitalized or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except under an accepted capital restoration plan or with FDIC approval. The regulations also establish procedures for downgrading an institution to a lower capital category based on supervisory factors other than capital.

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*FDIC Insurance and Assessments.* Centennial Bank's deposit accounts are insured up to applicable limits by the FDIC. The Dodd-Frank Act permanently increased the deposit coverage limit to \$250,000 per depositor retroactive to January 1, 2008. The Dodd-Frank also temporarily extended unlimited deposit insurance coverage for noninterest-bearing deposit accounts through December 31, 2012.

The FDIC imposes an assessment against institutions for deposit insurance. This assessment is based primarily on the risk category of the institution and certain risk adjustments specified by the FDIC, with riskier institutions paying higher assessments.

In May 2009, the FDIC imposed a special assessment of five basis points of each insured institution's assets less its Tier 1 capital, not to exceed ten basis points of the institution's domestic deposits, as of June 30, 2009. Based on our deposit levels at June 30, 2009, we paid a special assessment amount of approximately \$1.2 million.

On November 12, 2009, the FDIC adopted a final rule requiring insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012, in lieu of a second FDIC special assessment. The prepaid assessments for these periods were collected on December 30, 2009, along with the regular quarterly risk-based deposit insurance assessment for the third quarter of 2009. On December 30, 2009, the Company prepaid approximately \$10.0 million for Centennial Bank, which was expensed over the three-year prepayment period.

In October 2010, the FDIC adopted a new restoration program for the DIF to help bolster the DIF reserve ratio to 1.35% by September 2020 as required by the Dodd-Frank Act. The plan provides that, at least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required.

On February 7, 2011, the FDIC approved a final rule implementing changes to the deposit insurance assessment system, as authorized by the Dodd-Frank Act, which became effective on April 1, 2011. The final rule, among other things, changed the assessment base for insured depository institutions from adjusted domestic deposits to the institution's average consolidated total assets during an assessment period less average tangible equity capital (Tier 1 capital) during that period. The rule revised the assessment rate schedule so that it ranges from 2.5 basis points for the least risky institutions to 45 basis points for the riskiest institutions. The rule also suspended indefinitely the requirement of the FDIC to pay dividends from the DIF when it reaches 1.5% of insured deposits. In lieu of the dividends, the FDIC adopted progressively lower assessment rate schedules when the reserve ratio exceeds 1.15%, 2.0% and 2.5%, respectively.

*Community Reinvestment Act.* The Community Reinvestment Act requires, in connection with examinations of financial institutions, that federal banking regulators evaluate the record of each financial institution in meeting the credit needs of its local community, including low and moderate-income neighborhoods. These facts are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on our bank subsidiary. Additionally, we must publicly disclose the terms of various Community Reinvestment Act-related agreements. Our bank subsidiary received a satisfactory CRA rating from the FDIC at its last examination.

*Other Regulations.* Interest and other charges collected or contracted for by our bank subsidiary are subject to state usury laws and federal laws concerning interest rates.

*Loans to Insiders.* Sections 22(g) and (h) of the Federal Reserve Act and its implementing regulation, Regulation O, place restrictions on loans by a bank to executive officers, directors, and principal stockholders. Under Section 22(h), loans to a director, an executive officer and to a greater than 10% stockholder of a bank and certain of their related interests, or insiders, and insiders of affiliates, may not exceed, together with all other outstanding loans to such person and related interests, the bank's loans-to-one-borrower limit (generally equal to 15% of the institution's unimpaired capital and surplus). Section 22(h) also requires that loans to insiders and to insiders of affiliates be made on terms substantially the same as offered in comparable transactions to other persons, unless the loans are made pursuant to a benefit or compensation program that (i) is widely available to employees of the bank and (ii) does not give preference to insiders over other employees of the bank. Section 22(h) also requires prior Board of Director's approval for certain loans, and the aggregate amount of extensions of credit by a bank to all insiders cannot exceed the institution's unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers.

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*Capital Requirements.* Our bank subsidiary is also subject to certain restrictions on the payment of dividends as a result of the requirement that it maintain adequate levels of capital in accordance with guidelines promulgated from time to time by applicable regulators. The regulating agencies consider a bank's capital levels when taking action on various types of applications and when conducting supervisory activities related to the safety and soundness of individual banks and the banking system. The Federal Reserve Bank monitors the capital adequacy of our bank subsidiary by using a combination of risk-based guidelines and leverage ratios.

*The FDIC Improvement Act.* The Federal Deposit Insurance Corporation Improvement Act of 1991, or FDICIA, made a number of reforms addressing the safety and soundness of the deposit insurance system, supervision of domestic and foreign depository institutions, and improvement of accounting standards. This statute also limited deposit insurance coverage, implemented changes in consumer protection laws and provided for least-cost resolution and prompt regulatory action with regard to troubled institutions.

FDICIA requires every bank with total assets in excess of \$500 million to have an annual independent audit made of the bank's financial statements by a certified public accountant to verify that the financial statements of the bank are presented in accordance with generally accepted accounting principles and comply with such other disclosure requirements as prescribed by the FDIC. FDICIA also places certain restrictions on activities of banks depending on their level of capital.

The capital classification of a bank affects the frequency of examinations of the bank and impacts the ability of the bank to engage in certain activities and affects the deposit insurance premiums paid by such bank. Under FDICIA, the federal banking regulators are required to conduct a full-scope, on-site examination of every bank at least once every 12 months. However, a bank that has assets of less than \$500 million, is well-capitalized and well-managed and meets certain other conditions, is only required to be examined once every 18 months.

*Brokered Deposits.* Under FDICIA, banks may be restricted in their ability to accept brokered deposits, depending on their capital classification. Well-capitalized banks are permitted to accept brokered deposits, but all banks that are not well-capitalized are not permitted to accept such deposits. The FDIC may, on a case-by-case basis, permit banks that are adequately capitalized to accept brokered deposits if the FDIC determines that acceptance of such deposits would not constitute an unsafe or unsound banking practice with respect to the bank.

*Federal Home Loan Bank System.* The Federal Home Loan Bank system, of which our bank subsidiary is a member, consists of regional FHLBs governed and regulated by the Federal Housing Finance Agency, or FHFA. The FHLBs serve as reserve or credit facilities for member institutions within their assigned regions. They are funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB system. They make loans (i.e., advances) to members in accordance with policies and procedures established by the FHLB and the Boards of Directors of each regional FHLB.

As a system member, our bank subsidiary is entitled to borrow from the FHLB of its region and is required to own a certain amount of capital stock in the FHLB. Our bank subsidiary is in compliance with the stock ownership rules with respect to such advances, commitments and letters of credit and home mortgage loans and similar obligations. All loans, advances and other extensions of credit made by the FHLB to our bank subsidiary are secured by a portion of its respective loan portfolio, certain other investments and the capital stock of the FHLB held by such bank.



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*Mortgage Banking Operations.* Our bank subsidiary is subject to the rules and regulations of FHA, VA, FNMA, FHLMC and GNMA with respect to originating, processing, selling and servicing mortgage loans and the issuance and sale of mortgage-backed securities. Those rules and regulations, among other things, prohibit discrimination and establish underwriting guidelines which include provisions for inspections and appraisals, require credit reports on prospective borrowers and fix maximum loan amounts, and, with respect to VA loans, fix maximum interest rates. Mortgage origination activities are subject to, among others, the Equal Credit Opportunity Act, Federal Truth-in-Lending Act and the Real Estate Settlement Procedures Act and the regulations promulgated thereunder which, among other things, prohibit discrimination and require the disclosure of certain basic information to mortgagors concerning credit terms and settlement costs. In addition, our bank subsidiary is subject to the Secure and Fair Enforcement for Mortgage Licensing Act of 2008, or SAFE Act, and the rules promulgated thereunder which, among other things, require residential mortgage loan originators who are employees of regulated financial institutions to be registered with the Nationwide Mortgage Licensing System and Registry, a database created by the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators to support the licensing of mortgage loan originators by the states. As part of this registration process, mortgage loan originators must furnish the Registry with certain information and fingerprints and undergo a criminal background check. Our bank subsidiary is also subject to regulation by the Arkansas State Bank Department, as applicable, with respect to, among other things, the establishment of maximum origination fees on certain types of mortgage loan products.

### **Payment of Dividends**

We are a legal entity separate and distinct from our bank subsidiary and other affiliated entities. The principal sources of our cash flow, including cash flow to pay dividends to our stockholders, are dividends that our bank subsidiary pays to us as its sole stockholder. Statutory and regulatory limitations apply to the dividends that our bank subsidiary can pay to us, as well as to the dividends we can pay to our stockholders.

The policy of the Federal Reserve Board that a bank holding company should serve as a source of strength to its subsidiary bank also results in the position of the Federal Reserve Board that a bank holding company should not maintain a level of cash dividends to its stockholders that places undue pressure on the capital of its bank subsidiary or that can be funded only through additional borrowings or other arrangements that may undermine the bank holding company's ability to serve as such a source of strength. Our ability to pay dividends is also subject to the provisions of Arkansas law.

There are certain state-law limitations on the payment of dividends by our bank subsidiary. Centennial Bank, which is subject to Arkansas banking laws, may not declare or pay a dividend of 75% or more of the net profits of such bank after all taxes for the current year plus 75% of the retained net profits for the immediately preceding year without the prior approval of the Arkansas State Bank Commissioner. Members of the Federal Reserve System must also comply with the dividend restrictions with which a national bank would be required to comply. Among other things, these restrictions require that if losses have at any time been sustained by a bank equal to or exceeding its undivided profits then on hand, no dividend may be paid. Although we have regularly paid dividends on our common stock beginning with the second quarter of 2003, there can be no assurances that we will be able to pay dividends in the future under the applicable regulatory limitations.

The payment of dividends by us, or by our bank subsidiary, may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under FDICIA, a depository institution may not pay any dividend if payment would result in the depository institution being undercapitalized.

### **Restrictions on Transactions with Affiliates**

We and our bank subsidiary are subject to Section 23A of the Federal Reserve Act. In general, Section 23A imposes limits on the amount of transactions between the bank and its affiliates, and also requires certain levels of collateral for loans to affiliated parties. It also limits the amount of advances to affiliates which are collateralized by the securities or obligations of the bank or its nonbanking affiliates. An affiliate of a bank is generally any company or entity that controls, is controlled by, or is under common control with the bank.

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Affiliate transactions are also subject to Section 23B of the Federal Reserve Act which generally requires that certain other transactions between the bank and its affiliates be on terms substantially the same, or at least as favorable to the bank, as those prevailing at that time for comparable transactions with or involving other non-affiliated persons.

The restrictions on loans to directors, executive officers, principal stockholders and their related interests (collectively, the insiders) contained in Sections 22(g) and (h) of the Federal Reserve Act and in its implementing regulation, Regulation O, also apply to all insured institutions and their subsidiaries and holding companies. Insiders are subject to enforcement actions for knowingly accepting loans in violation of applicable restrictions.

## **Privacy**

Under the Gramm-Leach-Bliley Act, financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third parties except under narrow circumstances, such as the processing of transactions requested by the consumer or when the financial institution is jointly sponsoring a product or service with a nonaffiliated third party. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers. We and our subsidiary have established policies and procedures to assure our compliance with all privacy provisions of the Gramm-Leach-Bliley Act.

## **Anti-Terrorism and Money Laundering Legislation**

Our bank subsidiary is subject to the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA PATRIOT Act), the Bank Secrecy Act and rules and regulations of the Office of Foreign Assets Control (the OFAC). These statutes and related rules and regulations impose requirements and limitations on specific financial transactions and account relationships intended to guard against money laundering and terrorism financing. Our bank subsidiary has established a customer identification program pursuant to Section 326 of the USA PATRIOT Act and the Bank Secrecy Act, and otherwise has implemented policies and procedures intended to comply with the foregoing rules.

## **Proposed Legislation and Regulatory Action**

New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations and competitive relationships of financial institutions operating and doing business in the United States. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

## **Effect of Governmental Monetary Policies**

Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve Board's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve Board affect the levels of bank loans, investments and deposits through its control over the issuance of United States government securities, its regulation of the discount rate applicable to banks and its influence over reserve requirements to which banks are subject. We cannot predict the nature or impact of future changes in monetary and fiscal policies.

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**AVAILABLE INFORMATION**

We are subject to the information requirements of the Securities Exchange Act of 1934. Accordingly, we file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. You can also review our filings by accessing the website maintained by the SEC at <http://www.sec.gov>. The site contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. In addition, we maintain a website at <http://www.homebancshares.com>. We make available on our website copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to such documents as soon as practicable after we electronically file such materials with or furnish such documents to the SEC.

**Item 1A. RISK FACTORS**

Our business exposes us to certain risks. Risks and uncertainties that management is not aware of or focused on may also adversely affect our business and operation. The following is a discussion of the most significant risks and uncertainties that may affect our business, financial condition and future results.

**Risks Related to Our Industry**

*Difficult market and economic conditions have continued to adversely affect our industry and our business.*

In 2012, the banking industry, and particularly community banks, continued to experience effects of the uncertainty in the financial markets and related economic downturn that resulted from negative developments beginning in the latter half of 2007 in the sub-prime mortgage market and the securitization markets for such loans, together with substantial volatility in oil prices and other factors. The dramatic declines in the housing market in 2008 and 2009, with decreasing home prices and increasing delinquencies and foreclosures, have continued to negatively impact the credit performance of mortgage and construction loans and result in significant write-downs of assets by many financial institutions. In addition, while the values of real estate collateral supporting many loans have begun to rebound slightly, many remain depressed and may continue to be lower for some time. Reduced availability of commercial credit and sustained higher unemployment continued to have a negative impact on the credit performance of commercial and consumer credit, resulting in additional write-downs. As a result of these market conditions and the raising of credit standards, our industry has continued to experience commercial and consumer deficiencies, low customer confidence, market volatility and generally sluggish business activity. Lending by financial institutions to their customers and to each other remained below historical levels in 2012 due to continued concerns over the stability of the financial markets and the economy. The resulting economic pressure on consumers and businesses and the reduced confidence in the financial markets may adversely affect our business, financial condition, results of operations and stock price.

While general economic trends have improved in the past year, we cannot be certain that the current market and economic conditions will substantially improve in the near future. Recent and ongoing events at the national and international levels continue to create uncertainty in the financial markets, and could adversely impact economic conditions in our local markets.

Our ability to assess the creditworthiness of customers and to estimate the losses inherent in our credit exposure is made more complex by these difficult market and economic conditions. A worsening of these conditions would likely exacerbate the adverse effects of the recent market and economic conditions on us, our customers and the other financial institutions in our market. As a result, we may experience additional increases in foreclosures, delinquencies and customer bankruptcies as well as more restricted access to funds. Any such negative events may have an adverse effect on our business, financial condition, results of operations and stock price.

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### ***Recent legislative and regulatory initiatives to address difficult market and economic conditions may not maintain stability within the U.S. banking system.***

Since 2008, the U.S. Congress, the Federal Reserve, the Treasury, the FDIC, the SEC and others have taken numerous legislative and regulatory actions to stabilize the U.S. banking system and to prevent future financial crises like the one experienced in 2008 and 2009. These measures have included the Emergency Economic Stabilization Act of 2008 (the EESA), which authorized the Treasury to purchase troubled assets and capital securities from banks and their holding companies under the TARP program; significant financial reforms under the Dodd-Frank Act; homeowner relief that encourages loan restructuring and modification; the establishment of significant liquidity and credit facilities for financial institutions and investment banks; the lowering of the federal funds rate; emergency action against short selling practices; a temporary guaranty program for money market funds; the establishment of a commercial paper funding facility to provide back-stop liquidity to commercial paper issuers; efforts by the Federal Reserve to purchase U.S. Treasury bonds; and coordinated international efforts to address illiquidity and other weaknesses in the banking sector.

While the banking system has achieved some stabilization, it is unknown whether the EESA, the Dodd-Frank Act and the other regulatory initiatives described above will produce broad, long-term stabilization, particularly if conditions in the real estate markets remain weak or worsen or if any significant negative economic developments occur as a result of fiscal uncertainties in the United States and Europe. Should these or other legislative or regulatory initiatives fail to fully stabilize the financial markets and prevent similar future crises, our business, financial condition, results of operations and prospects could be materially and adversely affected.

### ***We are subject to extensive regulation that could limit or restrict our activities and impose financial requirements or limitations on the conduct of our business, which limitations or restrictions could adversely affect our profitability.***

We and our bank subsidiary are subject to extensive federal and state regulation and supervision. As a registered bank holding company, we are primarily regulated by the Federal Reserve Board. Our bank subsidiary is also primarily regulated by the Federal Reserve Board and the Arkansas State Bank Department.

Banking industry regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not security holders. Complying with such regulations is costly and may limit our growth and restrict certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits and locations of offices. We are also subject to capital requirements by our regulators. Violations of various laws, even if unintentional, may result in significant fines or other penalties, including restrictions on branching or bank acquisitions.

Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. The Dodd-Frank Act instituted major changes to the banking and financial institutions regulatory regimes in light of the recent performance of and government intervention in the financial services sector. The act requires the issuance of a substantial number of new regulations by federal regulatory agencies which will affect financial institutions, many of which have yet to be issued or implemented.

As the provisions of the Dodd-Frank Act and the regulations promulgated under the act are implemented, there could be additional new federal or state laws, regulations and policies regarding lending and funding practices and liquidity standards. Additionally, financial institution regulatory agencies are expected to be very aggressive in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement actions. Negative developments in the financial services industry or other new legislation or regulations could adversely impact our operations and our financial performance by subjecting us to additional costs, restricting our business operations, including our ability to originate or sell loans, and/or increasing the ability of non-banks to offer competing financial services.

As regulation of the banking industry continues to evolve, we expect the costs of compliance to continue to increase and, thus, to affect our ability to operate profitably. In addition, industry, legislative or regulatory developments may cause us to materially change our existing strategic direction, capital strategies, compensation or operating plans. If these developments negatively impact our ability to implement our business strategies, it may have a material adverse effect on our results of operations and future prospects.

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***The recent repeal of federal prohibitions on payment of interest on demand deposits could increase our interest expense.***

The Dodd-Frank Act included provisions which repealed all federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts. Effective July 21, 2011, financial institutions may now pay interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. The Company is monitoring the competitive environment as to the interest rates other institutions are offering. Depending on competitive responses, we have a product in place to potentially offer interest on demand deposits to attract additional customers or to maintain current customers and existing deposit balances. If we take such action or interest rates rise rapidly, our interest expense will increase and our net interest margin will decrease, which could have a material adverse effect on our business, financial condition and results of operations.

***Additional bank failures or further changes to the FDIC insurance assessment system may increase our FDIC insurance assessments and result in higher noninterest expense.***

In July 2010, the Dodd-Frank Act made permanent the \$250,000 per depositor coverage limit on federal deposit insurance provided by the FDIC. The FDIC has taken a number of actions since 2008 in order to maintain a strong funding position and restore reserve ratios of the DIF depleted by the increased deposit insurance coverage and the high number of bank failures.

Effective April 1, 2011, the FDIC approved a final rule implementing additional changes to the deposit insurance assessment system, as authorized by the Dodd-Frank Act. The final rule, among other things, changes the assessment base for insured institutions, suspends indefinitely certain requirements of the FDIC to pay dividends from the DIF to prevent the DIF from becoming unnecessarily large and adopts, in place of the dividends, progressively lower assessment rate schedules when the reserve ratio exceeds certain levels. Additionally, the final rule changes the method of calculating assessment rates for large institutions and highly complex institutions.

We are generally unable to control the amount and timetable for payment of premiums that we are required to pay for FDIC insurance. While our deposit insurance assessments decreased during 2012 as a result of the recent changes to the deposit insurance assessment system, there is no guarantee that our assessment rate will not increase in the future. Additionally, if there continue to be historically high numbers of bank or financial institution failures in the foreseeable future or the recently adopted changes do not have their desired effect of strengthening the DIF reserve ratio, the FDIC may further revise the assessment rates or the risk-based assessment system. Such changes may require us to pay higher FDIC premiums than our current levels, which would increase our noninterest expense.

***Our profitability is vulnerable to interest rate fluctuations and monetary policy.***

Most of our assets and liabilities are monetary in nature, and thus subject us to significant risks from changes in interest rates. Consequently, our results of operations can be significantly affected by changes in interest rates and our ability to manage interest rate risk. Changes in market interest rates, or changes in the relationships between short-term and long-term market interest rates, or changes in the relationship between different interest rate indices can affect the interest rates charged on interest-earning assets differently than the interest paid on interest-bearing liabilities. This difference could result in an increase in interest expense relative to interest income or a decrease in interest rate spread. In addition to affecting our profitability, changes in interest rates can impact the valuation of our assets and liabilities.

As of December 31, 2012, our one-year ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities was 116.2% and our cumulative repricing gap position was 8.1% of total earning assets, resulting in a limited impact on earnings for various interest rate change scenarios. Floating rate loans made up 17.8% of our \$2.72 billion total loan portfolio. A loan is considered fixed rate if the loan is currently at its adjustable floor or ceiling. In addition, 61.4% of our loans receivable and 79.0% of our time deposits at December 31, 2012, were scheduled to reprice within 12 months and our other rate sensitive asset and rate sensitive liabilities composition is subject to change. Significant composition changes in our rate sensitive assets or liabilities could result in a more unbalanced position and interest rate changes would have more of an impact on our earnings.

Our results of operations are also affected by the monetary policies of the Federal Reserve Board. Actions by the Federal Reserve Board involving monetary policies could have an adverse effect on our deposit levels, loan demand or business and earnings.

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**Risks Related to Our Business**

*Our decisions regarding credit risk could be inaccurate and our allowance for loan losses may be inadequate, which would materially and adversely affect us.*

Management makes various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of our secured loans. We endeavor to maintain an allowance for loan losses that we consider adequate to absorb future losses that may occur in our loan portfolio. In determining the size of the allowance, we analyze our loan portfolio based on our historical loss experience, volume and classification of loans, volume and trends in delinquencies and non-accruals, national and local economic conditions, and other pertinent information. The economic conditions particularly in our Florida market have improved over the past year but not to pre-recessions levels. These conditions may continue or could even worsen. During 2012, the allowance for loan losses for non-covered loans decreased by 13.3%. As of December 31, 2012, our allowance for loan losses for non-covered loans was approximately \$45.2 million, or 1.94% of our total loans receivable not covered by loss share.

If our assumptions are incorrect, our current allowance may be insufficient to absorb future loan losses, and increased loan loss reserves may be needed to respond to different economic conditions or adverse developments in our loan portfolio. When there is an economic downturn it is more difficult for us to estimate the losses that we will experience in our loan portfolio. In addition, federal and state regulators periodically review our allowance for loan losses and may require us to increase our allowance for loan losses or recognize further loan charge-offs based on judgments different than those of our management. Any increase in our allowance for loan losses or loan charge-offs could have a negative effect on our operating results.

*Our high concentration of real estate loans exposes us to increased lending risk.*

As of December 31, 2012, the primary composition of our total loan portfolio was as follows:

commercial real estate loans (excludes construction/land development) of \$1.2 billion, or 44.9% of total loans;

construction/land development loans of \$321.5 million, or 11.8% of total loans;

commercial and industrial loans of \$271.6 million, or 10.0% of total loans;

residential real estate loans of \$814.2 million, or 30.0% of total loans; and

consumer loans of \$37.5 million, or 1.4% of total loans.

Commercial real estate, construction/land development and commercial and industrial loans, which comprised 66.7% of our total loan portfolio as of December 31, 2012, expose us to a greater risk of loss than our residential real estate and consumer loans, which comprised 31.4% of our total loan portfolio as of December 31, 2012. Commercial real estate and land development loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential loans. Consequently, an adverse development with respect to one commercial loan or one credit relationship exposes us to a significantly greater risk of loss compared to an adverse development with respect to one residential mortgage loan.

Approximately 89.7% of our loans as of December 31, 2012, are to the borrowers in Alabama, Arkansas and Florida, the three states in which we have our primary market areas. An adverse development with respect to the market conditions of these specific market areas could expose us to a greater risk of loss than a portfolio that is spread among a larger geography base.

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Our concentration in commercial real estate loans exposes us to greater risk associated with those types of loans. The repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the related real estate or commercial project. If the cash flows from the project are reduced, a borrower's ability to repay the loan may be impaired. This cash flow shortage may result in the failure to make loan payments. In such cases, we may be compelled to modify the terms of the loan, or in the most extreme cases, we may have to foreclose. In addition, the nature of these loans is such that they are generally less predictable and more difficult to evaluate and monitor. As a result, repayment of these loans may, to a greater extent than residential loans, be subject to adverse conditions in the real estate market or economy.

We have 86.7% of our loans as real estate loans primarily in Alabama, Arkansas and Florida, and this poses a concentration risk, especially if the Florida area does not continue to improve or once again deteriorates resulting in depressed sales prices and low sales, combined with increased delinquencies and foreclosures on residential and commercial real estate loans.

*Depressed local economic and housing markets have led to loan losses and reduced earnings in the past and could lead to additional loan losses and reduced earnings.*

Over the past five years, our Florida markets have experienced a dramatic reduction in housing and real estate values, coupled with significantly higher unemployment. These conditions have contributed to increased non-performing loans and reduced asset quality during this time period. As of December 31, 2012, our covered non-performing loans totaled approximately \$27.3 million, or 1.17% of total non-covered loans. Non-performing assets were approximately \$47.8 million as of this same date, or 1.30% of total non-covered assets. In addition, we had approximately \$23.4 million in accruing non-covered loans that were between 30 and 89 days delinquent as of December 31, 2012. While market conditions in our Florida markets have begun to improve, if these markets do not continue to improve or once again deteriorate, they may lead to additional valuation adjustments on our loan portfolios and real estate owned as we continue to reassess the market value of our loan portfolio, the losses associated with the loans in default and the net realizable value of real estate owned.

Our non-performing assets adversely affect our net income in various ways. Until economic and market conditions substantially improve, we could incur additional losses relating to increased non-performing loans. We do not record interest income on non-accrual loans or other real estate owned, thereby adversely affecting our income, and our loan administration costs. When we take collateral in foreclosures and similar proceedings, we are required to mark the related loan to the then-fair market value of the collateral, which may result in a loss. These loans and other real estate owned also increase our risk profile and the capital our regulators believe is appropriate in light of such risks. In addition, the resolution of non-performing assets requires significant commitments of time from management and our directors, which can be detrimental to the performance of their other responsibilities. These effects, individually or in the aggregate, could have an adverse effect on our financial condition and results of operations.

While we believe our allowance for loan losses is adequate as of December 31, 2012, as additional facts become known about relevant internal and external factors that affect loan collectability and our assumptions, it may result in our making additions to the provision for loan losses during 2013. Any failure by management to closely monitor the status of the market and make the necessary changes could have a negative effect on our operating results.

Additionally, our success significantly depends upon the growth in population, income levels, deposits and housing starts in our markets. Generally, trends in these factors have not been positive in the few years prior to 2012 in our Florida markets. If the communities in which we operate do not grow or if prevailing economic conditions locally or nationally continue to remain challenging, our business may be adversely affected. Our specific market areas have experienced decreased growth or negative growth, which has affected the ability of our customers to repay their loans to us and has generally affected our financial condition and results of operations. We are less able than a larger institution to spread the risks of unfavorable local economic conditions across a large number of diversified economies. Moreover, we cannot give any assurance we will benefit from any market growth or favorable economic conditions in our primary market areas if they do occur.

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*If the value of real estate in our Florida markets were to stop improving or once again deteriorate, a significant portion of our loans in our Florida market that were not acquired from the FDIC could become under-collateralized, which could have a material adverse effect on us.*

As of December 31, 2012, non-covered loans in the Florida market totaled \$715.8 million, or 30.7% of our non-covered loans receivable. Of the Florida loans for which we do not have loss sharing, approximately 90.4% were secured by real estate. In the prior years, the difficult local economic conditions have adversely affected the values of our real estate collateral in Florida and it could do so again if the markets were to stop improving or once again deteriorate in the future. The real estate collateral in each case provides an alternate source of repayment on our loans in the event of default by the borrower but may deteriorate in value during the time credit is extended. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected.

*Because we have a concentration of exposure to a number of individual borrowers, a significant loss on any of those loans could materially and adversely affect us.*

We have a concentration of exposure to a number of individual borrowers. Under applicable law, our bank subsidiary is generally permitted to make loans to one borrowing relationship up to 20% of its Tier 1 capital plus the allowance for loan losses. As of December 31, 2012, the legal lending limit of our bank subsidiary for secured loans was approximately \$87.6 million. Currently, our board of directors has established an in-house lending limit of \$20.0 million to any one borrowing relationship without obtaining the approval of both our Chairman and our director Richard H. Ashley. Currently, we have a total of \$379.4 million committed to the aggregate group of borrowers whose total debt exceeds the established in-house lending limit of \$20.0 million.

*A portion of our loans are to customers who have been adversely affected by the home building industry.*

Customers who are builders and developers face greater difficulty in selling their homes in markets where the decrease in housing and real estate values are more pronounced. Consequently, we have faced delinquencies and non-performing assets as these customers have been forced to default on their loans. If the housing markets were to stop improving or once again deteriorate additional downgrades, provisions for loan losses and charge-offs relating to our loan portfolios may occur.

*Our cost of funds may increase as a result of general economic conditions, interest rates and competitive pressures.*

Our cost of funds may increase as a result of general economic conditions, interest rates and competitive pressures. We have traditionally obtained funds principally through local deposits, and we have a base of lower cost transaction deposits. Generally, we believe local deposits are a more stable source of funds than other borrowings because interest rates paid for local deposits are typically lower than interest rates charged for borrowings from other institutional lenders. In addition, local deposits reflect a mix of transaction and time deposits, whereas brokered deposits typically are less stable time deposits, which may need to be replaced with higher cost funds. Our costs of funds and our profitability and liquidity are likely to be adversely affected, if and to the extent we have to rely upon higher cost borrowings from other institutional lenders or brokers to fund loan demand or liquidity needs, and changes in our deposit mix and growth could adversely affect our profitability and the ability to expand our loan portfolio.

*The loss of key officers may materially and adversely affect us.*

Our success depends significantly on our Chairman, John W. Allison, and our executive officers, especially C. Randall Sims, Randy E. Mayor, Brian S. Davis and Kevin D. Hester and on our regional bank presidents Tracy M. French and Robert F. Birch. Centennial Bank, in particular, relies heavily on its management team's relationships in its local communities to generate business. Because we do not have employment agreements or non-compete agreements with our employees, our executive officers and regional bank presidents are free to resign at any time and accept an employment offer from another company, including a competitor. The loss of services from a member of our current management team may materially and adversely affect our business, financial condition, results of operations and future prospects.



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***Recent legislation imposes certain executive compensation and corporate governance requirements, which could adversely affect us and our business, including our ability to recruit and retain qualified employees.***

On January 25, 2011, the SEC adopted a final rule implementing certain executive compensation and corporate governance provisions of the Dodd-Frank Act. These provisions make applicable to all public companies certain executive compensation requirements similar to those imposed on participants in the TARP Capital Purchase Program. The new SEC rule requires public companies to provide their shareholders with non-binding advisory votes (i) at least once every three years on the compensation paid to their named executive officers, and (ii) at least once every six years on whether they should have a say on pay vote every one, two or three years. A separate, non-binding advisory shareholder vote will be required regarding golden parachute compensation arrangements for named executive officers when a shareholder vote takes place on mergers, acquisitions, dispositions or other transactions that would trigger the parachute payments. Also, the SEC is required to ensure that national listing exchanges, such as the New York Stock Exchange and the NASDAQ, prohibit the listing of any companies that fail to adopt clawback policies pursuant to which incentive-based compensation paid to executives will be subject to clawback based on financial results which were subsequently restated within three years of such payment. The amount of the clawback is the amount in excess of what would have been paid under the restated results. As a public company, we are subject to the requirements of these new SEC rules, whereas some of our competitors are not publicly traded and therefore not subject to such rules.

These provisions and any future rules issued by the Treasury or the SEC could adversely affect our ability to attract and retain management capable and motivated sufficiently to manage and operate our business through difficult economic and market conditions. If we are unable to attract and retain qualified employees to manage and operate our business, we may not be able to successfully execute our business strategy.

***Our growth and expansion strategy may not be successful and our market value and profitability may suffer.***

Growth through the acquisition of banks, particularly FDIC-assisted transactions, and *de novo* branching represent important components of our business strategy. Any future acquisitions we might make will be accompanied by the risks commonly encountered in acquisitions. These risks include, among other things:

credit risk associated with the acquired bank's loans and investments;

difficulty of integrating operations and personnel; and

potential disruption of our ongoing business.

We expect that competition for suitable acquisition candidates may be significant. We may compete with other banks or financial service companies with similar acquisition strategies, many of which are larger and have greater financial and other resources. We cannot assure you that we will be able to successfully identify and acquire suitable acquisition targets on acceptable terms and conditions.

In the current economic environment, we may continue to have opportunities to acquire the assets and liabilities of failed banks in FDIC-assisted transactions. These acquisitions involve risks similar to acquiring existing banks even though the FDIC might provide assistance to mitigate certain risks such as sharing in exposure to loan losses and providing indemnification against certain liabilities of the failed institution. However, because these acquisitions are structured in a manner that would not allow us the time normally associated with preparing for integration of an acquired institution, we may face additional risks in FDIC-assisted transactions. These risks include, among other things, the loss of customers, strain on management resources related to collection and management of problem loans and problems related to integration of personnel and operating systems.

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In addition to the acquisition of existing financial institutions, as opportunities arise, we plan to have some *de novo* branching. *De novo* branching and any acquisition carry with it numerous risks, including the following:

the inability to obtain all required regulatory approvals;

significant costs and anticipated operating losses associated with establishing a *de novo* branch or a new bank;

the inability to secure the services of qualified senior management;

the local market may not accept the services of a new bank owned and managed by a bank holding company headquartered outside of the market area of the new bank;

economic downturns in the new market;

the inability to obtain attractive locations within a new market at a reasonable cost; and

the additional strain on management resources and internal systems and controls.

We cannot assure that we will be successful in overcoming these risks or any other problems encountered in connection with acquisitions (including FDIC-assisted transactions) and *de novo* branching. Our inability to overcome these risks could have an adverse effect on our ability to achieve our business strategy and maintain our market value and profitability.

***Our loss sharing agreements with the FDIC limit our ability to enter into certain change of control transactions, including the sale of significant amounts of our common stock by us or our shareholders, without the consent of the FDIC.***

The loss sharing agreements we entered into with the FDIC in connection with our recent FDIC-assisted acquisitions require the consent of the FDIC in connection with certain change of control transactions, including the sale by the Company or by any individual shareholder, or group of shareholders acting in concert, of shares of our common stock totaling more than 9% of our outstanding common stock. This requirement could restrict or delay our ability to raise additional capital to fund acquisition or growth opportunities or for other purposes, or to pursue a merger or consolidation transaction that management may believe is in the best interest of our shareholders. This could also restrict or delay the ability of our shareholders to sell a substantial amount of our shares. In addition, if such a transaction were to occur without the FDIC's consent, we could lose the benefit of the loss-share coverage provided by these agreements for certain covered assets.

***There may be undiscovered risks or losses associated with our bank acquisitions which would have a negative impact upon our future income.***

Our growth strategy includes strategic acquisitions of banks. We have acquired 14 banks since we started our first subsidiary bank in 1999, including one in 2003, three in 2005, one in 2008, six in 2010, and three in 2012, and will continue to consider strategic acquisitions, with a primary focus on Arkansas and Florida. In most cases, other than in connection with FDIC-assisted transactions and our acquisition of Vision Bank in 2012, our acquisition of a bank includes the acquisition of all of the target bank's assets and liabilities, including its loan portfolio. There may be instances when we, under our normal operating procedures, may find after the acquisition that there may be additional losses or undisclosed liabilities with respect to the assets and liabilities of the target bank, and, with respect to its loan portfolio, that the ability of a borrower to repay a loan may have become impaired, the quality of the value of the collateral securing a loan may fall below our standards, or the allowance for loan losses may not be adequate. One or more of these factors might cause us to have additional losses or liabilities, additional loan charge-offs, or increases in allowances for loan losses, which would have a negative impact upon our financial condition and results of operations.



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***Changes in national and local economic conditions could lead to higher loan charge-offs in connection with our acquisitions, all of which may not be supported by the loss sharing agreements with the FDIC.***

In connection with our FDIC-assisted acquisitions, we acquired a significant portfolio of loans. Although we marked down the loan portfolios we have acquired, there is no assurance that the non-impaired loans we acquired will not become impaired or that the impaired loans will not suffer further deterioration in value resulting in additional charge-offs to this loan portfolio. Fluctuations in national, regional and local economic conditions, including those related to local residential and commercial real estate and construction markets, may increase the level of charge-offs that we make to our loan portfolio, and, consequently, reduce our net income. Such fluctuations may also increase the level of charge-offs on the loan portfolios that we have acquired in the acquisitions and correspondingly reduce our net income. These fluctuations are not predictable, cannot be controlled and may have a material adverse impact on our operations and financial condition even if other favorable events occur.

Although in connection with our 2010 FDIC-assisted acquisitions we entered into loss sharing agreements with the FDIC, which provide that a significant portion of losses related to specified loan portfolios that we acquired will be indemnified by the FDIC, we are not protected from all losses resulting from charge-offs with respect to those specified loan portfolios. Additionally, the loss sharing agreements have limited terms; therefore, any charge-off of related losses that we experience after the term of the loss sharing agreements will not be reimbursed by the FDIC and will negatively impact our net income.

***Our recent acquisitions have increased our commercial real estate loan portfolio, which have a greater credit risk than residential mortgage loans.***

With our recent acquisitions, our commercial loan and construction loan portfolios have become a larger portion of our total loan portfolio than it was prior to the acquisitions. This type of lending is generally considered to have more complex credit risks than traditional single-family residential lending, because the principal is concentrated in a limited number of loans with repayment dependent on the successful operation of the related real estate or construction project. Consequently, these loans are more sensitive to the current adverse conditions in the real estate market and the general economy. These loans are generally less predictable and more difficult to evaluate and monitor and collateral may be more difficult to dispose of in a market decline.

***Our acquisitions have caused us to modify our disclosure controls and procedures, which may not result in the material information that we are required to disclose in our SEC reports being recorded, processed, summarized, and reported adequately.***

Our management is responsible for establishing and maintaining effective disclosure controls and procedures that are designed to cause the material information that we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 to be recorded, processed, summarized, and reported to the extent applicable within the time periods required by the SEC's rules and forms. As a result of our acquisitions, we may be implementing changes to processes, information technology systems and other components of internal control over financial reporting as part of our integration activities. Notwithstanding any changes to our disclosure controls and procedures resulting from our evaluation of the same after the acquisition, our control systems, no matter how well designed and operated, may not result in the material information that we are required to disclose in our SEC reports being recorded, processed, summarized, and reported adequately. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected.

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***Our failure to fully comply with the loss-sharing provisions relating to our FDIC acquisitions could jeopardize the loss-share coverage afforded to certain individual or pools of assets, rendering us financially responsible for the full amount of any losses related to such assets.***

In connection with our FDIC acquisitions in 2010, we entered into loss-sharing agreements with the FDIC whereby the FDIC agreed to cover 70% or 80% of the losses on certain single family residential mortgage loans and certain commercial loans (together, covered assets), and 30%, 80% or 95% of the losses on such covered assets in excess of thresholds stated in the loss-sharing agreements. Our management of and application of the terms and conditions of the loss-sharing provisions of the Purchase and Assumption Agreements related to the covered assets is monitored by the FDIC through periodic reports that we must submit to the FDIC and on-site compliance visitations by the FDIC. If we fail to fully comply with its obligations under the loss-sharing provisions of the Purchase and Assumption Agreements relating to the acquisitions, we could lose the benefit of the loss-share coverage as it applies to certain individual or pools of covered assets. Without such loss-share coverage, we would be solely financially responsible for the losses sustained by such individual or pools of assets.

***Competition from other financial institutions may adversely affect our profitability.***

The banking business is highly competitive. We experience strong competition, not only from commercial banks, savings and loan associations and credit unions, but also from mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds and other financial services providers operating in or near our market areas. We compete with these institutions both in attracting deposits and in making loans.

Many of our competitors are much larger national and regional financial institutions. We may face a competitive disadvantage against them as a result of our smaller size and resources and our lack of geographic diversification. Many of our competitors are not subject to the same degree of regulation that we are as an FDIC-insured institution, which gives them greater operating flexibility and reduces their expenses relative to ours.

We also compete against community banks that have strong local ties. These smaller institutions are likely to cater to the same small and mid-sized businesses that we target and to use a relationship-based approach similar to ours. In addition, our competitors may seek to gain market share by pricing below the current market rates for loans and paying higher rates for deposits. Competitive pressures can adversely affect our results of operations and future prospects.

***We may incur environmental liabilities with respect to properties to which we take title.***

A significant portion of our loan portfolio is secured by real property. In the course of our business, we may own or foreclose and take title to real estate and could become subject to environmental liabilities with respect to these properties. We may become responsible to a governmental agency or third parties for property damage, personal injury, investigation and clean-up costs incurred by those parties in connection with environmental contamination, or may be required to investigate or clean-up hazardous or toxic substances, or chemical releases at a property. The costs associated with environmental investigation or remediation activities could be substantial. If we were to become subject to significant environmental liabilities, it could have a material adverse effect on our results of operations and financial condition.

***We continually encounter technological change, and we may have fewer resources than many of our competitors to continue to invest in technological improvements.***

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. In addition to better serving customers, effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our clients, which may adversely affect our results of operations and future prospects.

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As a service to our clients, Centennial Bank currently offers Internet banking. Use of this service involves the transmission of confidential information over public networks. We cannot be sure that advances in computer capabilities, new discoveries in the field of cryptography or other developments will not result in a compromise or breach in the commercially available encryption and authentication technology that we use to protect our customers' transaction data. If we were to experience such a breach or compromise, we could suffer losses and our operations could be adversely affected.

***Our recent results do not indicate our future results and may not provide guidance to assess the risk of an investment in our common stock.***

We are unlikely to sustain our historical rate of growth, and may not even be able to expand our business at all. Further, our recent growth may distort some of our historical financial ratios and statistics. Various factors, such as economic conditions, regulatory and legislative considerations and competition, may also impede or prohibit our ability to expand our market presence. If we are not able to successfully grow our business, our financial condition and results of operations could be adversely affected.

***We may not be able to raise the additional capital we need to grow and, as a result, our ability to expand our operations could be materially impaired.***

Federal and state regulatory authorities require us and our bank subsidiary to maintain adequate levels of capital to support our operations. While we believe that our existing capital (which well exceeds the federal and state capital requirements) will be sufficient to support our current operations, anticipated expansion and potential acquisitions, factors such as faster than anticipated growth, reduced earnings levels, operating losses, changes in economic conditions, revisions in regulatory requirements, or additional acquisition opportunities may lead us to seek additional capital.

Our ability to raise additional capital, if needed, will depend on our financial performance and on conditions in the capital markets at that time, which are outside our control. If we need additional capital but cannot raise it on terms acceptable to us, our ability to expand our operations could be materially impaired.

***Our directors and executive officers own a significant portion of our common stock and can exert significant influence over our business and corporate affairs.***

Our directors and executive officers, as a group, beneficially owned 21.0% of our common stock as of December 31, 2012. Consequently, if they vote their shares in concert, they can significantly influence the outcome of all matters submitted to our shareholders for approval, including the election of directors. The interests of our officers and directors may conflict with the interests of other holders of our common stock, and they may take actions affecting the Company with which you disagree.

***Hurricanes or other adverse weather events could negatively affect our local economies or disrupt our operations, which would have an adverse effect on us.***

Like other coastal areas, our markets in Alabama and Florida are susceptible to hurricanes and tropical storms. Such weather events can disrupt our operations, result in damage to our properties and negatively affect the local economies in which we operate. We cannot predict whether or to what extent damage that may be caused by future hurricanes or other weather events will affect our operations or the economies in our market areas, but such weather events could result in a decline in loan originations, a decline in the value or destruction of properties securing our loans and an increase in the delinquencies, foreclosures and loan losses. Our business or results of operations may be adversely affected by these and other negative effects of hurricanes or other significant weather events.

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### **Risks Related to Owning Our Stock**

*The holders of our subordinated debentures have rights that are senior to those of our shareholders. If we defer payments of interest on our outstanding subordinated debentures or if certain defaults relating to those debentures occur, we will be prohibited from declaring or paying dividends or distributions on, and from making liquidation payments with respect to, our common stock.*

As of December 31, 2012, we have \$28.9 million of subordinated debentures issued in connection with trust preferred securities. Payments of the principal and interest on the trust preferred securities are unconditionally guaranteed by us. The subordinated debentures are senior to our shares of common stock. As a result, we must make payments on the subordinated debentures (and the related trust preferred securities) before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the debentures must be satisfied before any distributions can be made to the holders of our common stock. We have the right to defer distributions on the subordinated debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid to holders of our capital stock. If we elect to defer or if we default with respect to our obligations to make payments on these subordinated debentures, this would likely have a material adverse effect on the market value of our common stock. Moreover, without notice to or consent from the holders of our common stock, we may issue additional series of subordinated debt securities in the future with terms similar to those of our existing subordinated debt securities or enter into other financing agreements that limit our ability to purchase or to pay dividends or distributions on our capital stock, including our common stock.

*We may be unable to, or choose not to, pay dividends on our common stock.*

Although we have paid a quarterly dividend on our common stock since the second quarter of 2003 and expect to continue this practice, we cannot assure you of our ability to continue. Our ability to pay dividends depends on the following factors, among others:

We may not have sufficient earnings since our primary source of income, the payment of dividends to us by our bank subsidiary, is subject to federal and state laws that limit the ability of that bank to pay dividends.

Federal Reserve Board policy requires bank holding companies to pay cash dividends on common stock only out of net income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition.

Before dividends may be paid on our common stock in any year, payments must be made on our subordinated debentures.

Our board of directors may determine that, even though funds are available for dividend payments, retaining the funds for internal uses, such as expansion of our operations, is a better strategy.

If we fail to pay dividends, capital appreciation, if any, of our common stock may be the sole opportunity for gains on an investment in our common stock. In addition, in the event our bank subsidiary becomes unable to pay dividends to us, we may not be able to service our debt, pay our other obligations or pay dividends on our common stock. Accordingly, our inability to receive dividends from our bank subsidiary could also have a material adverse effect on our business, financial condition and results of operations and the value of your investment in our common stock.

*Our stock trading volume may not provide adequate liquidity for investors.*

Although shares of our common stock are listed for trade on the NASDAQ Global Select Market, the average daily trading volume in the common stock is less than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of a sufficient number of willing buyers and sellers of the common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the daily average trading volume of our common stock, significant sales of the common stock in a brief period of time, or the expectation of these sales, could cause a decline in the price of our common stock.





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**Item 1B. UNRESOLVED STAFF COMMENTS**

There are currently no unresolved Commission staff comments received by the Company more than 180 days prior to the end of the fiscal year covered by this annual report.

**Item 2. PROPERTIES**

The Company's main office is located in a Company-owned 33,000 square foot building located at 719 Harkrider Street in downtown Conway, Arkansas. As of December 31, 2012, our bank subsidiary owned or leased a total of 43 branches located in Central Arkansas, 2 branches in North Central Arkansas, 2 branches in Southern Arkansas, 9 branches in the Florida Keys, 9 branches in Central Florida, 3 branches in Southwestern Florida, 33 branches in the Florida Panhandle and 7 branches in South Alabama. The Company also owns or leases other buildings that provide space for operations, mortgage lending and other general purposes. We believe that our banking and other offices are in good condition and are suitable to our needs.

**Item 3. LEGAL PROCEEDINGS**

While we and our bank subsidiary and other affiliates are from time to time parties to various legal proceedings arising in the ordinary course of their business, management believes, after consultation with legal counsel, that there are no proceedings threatened or pending against us or our bank subsidiary or other affiliates that will, individually or in the aggregate, have a material adverse effect on our business or consolidated financial condition.

**Item 4. (RESERVED)**

**Table of Contents****PART II****Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock trades on the Nasdaq National Market in the Global Select Market System under the symbol **HOMB**. The following table sets forth, for all the periods indicated, cash dividends declared, and the high and low closing bid prices for our common stock.

|             | Price per Common Share |          | Quarterly                        |
|-------------|------------------------|----------|----------------------------------|
|             | High                   | Low      | Dividends<br>Per Common<br>Share |
| <b>2012</b> |                        |          |                                  |
| 1st Quarter | \$ 26.99               | \$ 24.72 | \$ 0.100                         |
| 2nd Quarter | 30.58                  | 26.01    | 0.100                            |
| 3rd Quarter | 35.10                  | 29.56    | 0.120                            |
| 4th Quarter | 35.41                  | 32.07    | 0.260                            |
| <b>2011</b> |                        |          |                                  |
| 1st Quarter | \$ 22.97               | \$ 20.11 | \$ 0.054                         |
| 2nd Quarter | 24.44                  | 21.89    | 0.054                            |
| 3rd Quarter | 25.00                  | 20.27    | 0.080                            |
| 4th Quarter | 26.55                  | 20.44    | 0.080                            |

As of March 1, 2013, there were approximately 770 stockholders of record of the Company's common stock.

Our policy is to declare regular quarterly dividends based upon our earnings, financial position, capital improvements and such other factors deemed relevant by the Board of Directors. The dividend policy is subject to change, however, and the payment of dividends is necessarily dependent upon the availability of earnings and future financial condition. In January 2009, the Company issued 50,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A totaling \$50.0 million to the United States Department of Treasury under the Capital Purchase Program of the Emergency Economic Stabilization Act of 2008. The agreement between the Company and the Treasury limited the payment of dividends on the Common Stock to a quarterly cash dividend of not more than \$0.0545 per share without approval by the Treasury. This limitation was removed when the Company repurchased all 50,000 shares of its Series A Preferred Stock in July 2011.

There were no sales of our unregistered securities during the period covered by this report.

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We currently maintain a compensation plan, Home BancShares, Inc. 2006 Stock Option and Performance Incentive Plan, which provides for the issuance of stock-based compensation to directors, officers and other employees. On April 19, 2012, our shareholders approved the Amended and Restated 2006 Stock Option and Performance Incentive Plan ( the Plan ). As a result of the required shareholder approval at the Annual Shareholder Meeting held on April 19, 2012, the Plan became effective as of February 27, 2012 and increased the number of shares reserved for issuance under the Plan by 540,000 shares. As of April 19, 2012, this plan provided for the granting of incentive nonqualified options to purchase stock or for the issuance of restricted shares up to 2,322,000 of common stock in the Company. The following table sets forth information regarding outstanding options and shares reserved for future issuance under the foregoing plan as of December 31, 2012:

| <b>Plan Category</b>                                       | <b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</b> | <b>Weighted-average exercise price of outstanding options, warrants and rights (b)</b> | <b>Number of securities remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a) (c))</b> |
|--|--|--|--|
| Equity compensation plans approved by the stockholders     | 435,794  | \$ 13.32   | 896,708  |
| Equity compensation plans not approved by the stockholders |  |  |  |

**Table of Contents****Performance Graph**

Below is a graph which summarizes the cumulative return earned by the Company's stockholders since December 31, 2007, compared with the cumulative total return on the Russell 2000 Index and SNL Bank and Thrift Index. This presentation assumes that the value of the investment in the Company's common stock and each index was \$100.00 on December 31, 2007 and that subsequent cash dividends were reinvested.

| <i>Index</i>          | <i>Period Ending</i> |          |          |          |          |          |
|-----------------------|----------------------|----------|----------|----------|----------|----------|
|                       | 12/31/07             | 12/31/08 | 12/31/09 | 12/31/10 | 12/31/11 | 12/31/12 |
| Home BancShares, Inc. | 100.00               | 140.15   | 126.56   | 128.64   | 153.06   | 198.07   |
| Russell 2000          | 100.00               | 66.21    | 84.20    | 106.82   | 102.36   | 119.09   |
| SNL Bank and Thrift   | 100.00               | 57.51    | 56.74    | 63.34    | 49.25    | 66.14    |

**Table of Contents****Item 6. SELECTED FINANCIAL DATA.****Summary Consolidated Financial Data**

|  | As of or for the Years Ended December 31,                |            |            |            |            |
|--|--|------------|------------|------------|------------|
|  | 2012   | 2011       | 2010       | 2009       | 2008       |
|  | (Dollars and shares in thousands, except per share data) |            |            |            |            |
| <b>Income statement data:</b>  |  |            |            |            |            |
| Total interest income  | \$ 177,135   | \$ 171,806 | \$ 151,122 | \$ 132,253 | \$ 145,718 |
| Total interest expense   | 21,535   | 30,551     | 34,708     | 39,943     | 59,666     |
| Net interest income  | 155,600  | 141,255    | 116,414    | 92,310     | 86,052     |
| Provision for loan losses  | 2,750  | 3,500      | 72,850     | 11,150     | 27,016     |
| Net interest income after provision for loan losses  | 152,850  | 137,755    | 43,564     | 81,160     | 59,036     |
| Non-interest income  | 47,969   | 41,309     | 65,049     | 30,659     | 22,615     |
| Gain on sale of equity investment  |  |            |            |            | 6,102      |
| Non-interest expense   | 102,368  | 94,722     | 85,001     | 72,883     | 75,717     |
| Income before income taxes   | 98,451   | 84,342     | 23,612     | 38,936     | 12,036     |
| Provision for income taxes   | 35,429   | 29,601     | 6,021      | 12,130     | 1,920      |
| Net income   | 63,022   | 54,741     | 17,591     | 26,806     | 10,116     |
| Preferred stock dividends and accretion of discount on preferred stock                       |  | 1,828      | 2,680      | 2,576      |            |
| Net income available to common stockholders  | \$ 63,022  | \$ 52,913  | \$ 14,911  | \$ 24,230  | \$ 10,116  |
| <b>Per share data:</b>   |  |            |            |            |            |
| Basic earnings per common share  | \$ 2.24  | \$ 1.86    | \$ 0.53    | \$ 1.03    | \$ 0.46    |
| Diluted earnings per common share  | 2.23   | 1.85       | 0.52       | 1.02       | 0.45       |
| Diluted earnings per common share excluding intangible amortization(1)                       | 2.29   | 1.91       | 0.58       | 1.06       | 0.50       |
| Book value per common share  | 18.34  | 16.77      | 15.02      | 14.71      | 12.95      |
| Tangible book value per common share (2) (5)   | 14.86  | 14.35      | 12.52      | 12.66      | 10.36      |
| Dividends common   | 0.5800   | 0.2680     | 0.2165     | 0.2182     | 0.2018     |
| Average common shares outstanding  | 28,137   | 28,416     | 28,361     | 23,627     | 21,798     |
| Average diluted shares outstanding   | 28,315   | 28,612     | 28,600     | 23,884     | 22,344     |
| <b>Performance ratios:</b>   |  |            |            |            |            |
| Return on average assets   | 1.58%  | 1.50%      | 0.55%      | 1.03%      | 0.39%      |
| Return on average assets excluding intangible amortization (6)                               | 1.66   | 1.57       | 0.61       | 1.10       | 0.44       |
| Return on average common equity  | 12.75  | 11.77      | 3.41       | 7.45       | 3.51       |
| Return on average tangible common equity excluding intangible amortization (2) (7)           | 15.87  | 14.39      | 4.40       | 9.49       | 4.88       |
| Net interest margin (9)  | 4.70   | 4.69       | 4.27       | 4.09       | 3.82       |
| Efficiency ratio (3)   | 47.88  | 49.13      | 44.41      | 55.98      | 62.68      |
| <b>Asset quality:</b>  |  |            |            |            |            |
| Non-performing non-covered assets to total non-covered assets                                | 1.30%  | 1.53%      | 2.08%      | 2.12%      | 1.42%      |
| Non-performing non-covered loans to total non-covered loans                                  | 1.17   | 1.56       | 2.62       | 2.05       | 1.53       |
| Allowance for loan losses to non-performing non-covered loans                                | 165.62   | 189.64     | 107.77     | 107.57     | 135.08     |
| Allowance for loans losses to total non-covered loans  | 1.94   | 2.96       | 2.83       | 2.20       | 2.06       |
| Net (recoveries) charge-offs on loans not covered by loss share to average non-covered loans | 0.40   | 0.26       | 3.19       | 0.43       | 1.01       |

**Table of Contents****Summary Consolidated Financial Data Continued**

|  | 2012         | As of or for the Years Ended December 31, |              |              | 2008         |
|--|--------------|---|--------------|--------------|--------------|
|  |              | 2011                                      | 2010         | 2009         |              |
| (Dollars and shares in thousands, except per share data) |              |   |              |              |              |
| <b>Balance sheet data (period end):</b>                  |              |   |              |              |              |
| Total assets   | \$ 4,242,130 | \$ 3,604,117                              | \$ 3,762,646 | \$ 2,684,865 | \$ 2,580,093 |
| Investment securities available for sale                 | 726,223      | 671,221                                   | 469,864      | 322,115      | 355,244      |
| Loans receivable not covered by loss share               | 2,331,199    | 1,760,086                                 | 1,892,374    | 1,950,285    | 1,956,232    |
| Loans receivable covered by FDIC loss share              | 384,884      | 481,739                                   | 575,776      |              |              |
| Allowance for loan losses                                | 50,632       | 52,129                                    | 53,348       | 42,968       | 40,385       |
| Intangible assets  | 97,742       | 68,283                                    | 71,110       | 57,737       | 56,585       |
| Non-interest-bearing deposits                            | 666,414      | 464,581                                   | 392,622      | 302,228      | 249,349      |
| Total deposits   | 3,483,452    | 2,858,031                                 | 2,961,798    | 1,835,423    | 1,847,908    |
| Subordinated debentures (trust preferred securities)     | 28,867       | 44,331                                    | 44,331       | 47,484       | 47,575       |
| Stockholders equity                                      | 515,473      | 474,066                                   | 476,925      | 464,973      | 283,044      |
| <b>Capital ratios:</b>                                   |              |   |              |              |              |
| Common equity to assets                                  | 12.15%       | 13.15%                                    | 11.4%        | 15.48%       | 10.97%       |
| Tangible common equity to tangible assets (2) (8)        | 10.08        | 11.48                                     | 9.65         | 13.63        | 8.97         |
| Tier 1 leverage ratio (4)                                | 10.95        | 12.48                                     | 12.15        | 17.42        | 10.87        |
| Tier 1 risk-based capital ratio                          | 13.94        | 17.04                                     | 16.69        | 20.76        | 12.70        |
| Total risk-based capital ratio                           | 15.20        | 18.30                                     | 17.95        | 22.02        | 13.95        |
| Dividend payout common                                   | 26.15        | 13.90                                     | 35.01        | 19.11        | 43.53        |

- (1) Diluted earnings per share excluding intangible amortization reflect diluted earnings per share plus per share intangible amortization expense, net of the corresponding tax effect. See Management's Discussion and Analysis of Financial Condition and Results of Operations Table 23, for the non-GAAP tabular reconciliation.
- (2) Tangible calculations eliminate the effect of goodwill and acquisition-related intangible assets and the corresponding amortization expense on a tax-effected basis.
- (3) The efficiency ratio 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.
- (4) Leverage ratio is Tier 1 capital to quarterly average total assets less intangible assets and gross unrealized gains/losses on available for sale investment securities.
- (5) See Management's Discussion and Analysis of Financial Condition and Results of Operations Table 24, for the non-GAAP tabular reconciliation.
- (6) See Management's Discussion and Analysis of Financial Condition and Results of Operations Table 25, for the non-GAAP tabular reconciliation.
- (7) See Management's Discussion and Analysis of Financial Condition and Results of Operations Table 26, for the non-GAAP tabular reconciliation.
- (8) See Management's Discussion and Analysis of Financial Condition and Results of Operations Table 27, for the non-GAAP tabular reconciliation.
- (9) Fully taxable equivalent (assuming an income tax rate of 39.225%).

**Table of Contents****Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis presents our consolidated financial condition and results of operations for the years ended December 31, 2012, 2011 and 2010. This discussion should be read together with the Summary Consolidated Financial Data, our consolidated financial statements and the notes thereto, and other financial data included in this document. In addition to the historical information provided below, we have made certain estimates and forward-looking statements that involve risks and uncertainties. Our actual results could differ significantly from those anticipated in these estimates and in the forward-looking statements as a result of certain factors, including those discussed in the section of this document captioned Risk Factors, and elsewhere in this document. Unless the context requires otherwise, the terms 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 December 31, 2012, we had, on a consolidated basis, total assets of \$4.24 billion, loans receivable, net of \$2.67 billion, total deposits of \$3.48 billion, and stockholders' equity of \$515.5 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 source 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.

**Key Financial Measures**

|   | As of or for the Years Ended December 31,     |              |              |
|---|---|--------------|--------------|
|   | 2012  | 2011         | 2010         |
|   | (Dollars in thousands, except per share data) |              |              |
| Total assets  | \$ 4,242,130                                  | \$ 3,604,117 | \$ 3,762,646 |
| Loans receivable not covered by loss share                              | 2,331,199                                     | 1,760,086    | 1,892,374    |
| Loans receivable covered by FDIC loss share                             | 384,884                                       | 481,739      | 575,776      |
| Allowance for loan losses   | 50,632  | 52,129       | 53,348       |
| FDIC claims receivable  | 45,224  | 30,216       | 8,414        |
| Total deposits  | 3,483,452                                     | 2,858,031    | 2,961,798    |
| Total stockholders' equity  | 515,473                                       | 474,066      | 476,925      |
| Net income available to all stockholders                                | 63,022  | 54,741       | 17,591       |
| Net income available to common stockholders                             | 63,022  | 52,913       | 14,911       |
| Basic earnings per common share   | 2.24  | 1.86         | 0.53         |
| Diluted earnings per common share                                       | 2.23  | 1.85         | 0.52         |
| Diluted earnings per common share excluding intangible amortization (1) | 2.29  | 1.91         | 0.58         |
| Net interest margin FTE   | 4.70%   | 4.69%        | 4.27%        |
| Efficiency ratio  | 47.88   | 49.13        | 44.41        |
| Return on average assets  | 1.58  | 1.50         | 0.55         |
| Return on average common equity   | 12.75   | 11.77        | 3.41         |

- (1) See Table 23 Diluted Earnings Per Common Share Excluding Intangible Amortization for a reconciliation to GAAP for diluted earnings per common share excluding intangible amortization.

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**Table of Contents****2012 Overview**

Our net income increased 15.1% to \$63.0 million for the year ended December 31, 2012, from \$54.7 million for the same period in 2011. On a diluted earnings per share basis, our net earnings increased 20.5% to \$2.23 for the year ended December 31, 2012, as compared to \$1.85 for the same period in 2011.

The \$8.3 million increase in net income is primarily associated with additional net income and other non-interest income resulting from our 2012 acquisitions of Vision, Heritage and Premier including acquisition gains during 2012 when compared to a lower amount of non-recurring gains during 2011 offset by \$7.2 million of merger expenses and the expected reduction in income from FDIC indemnification accretion. Additionally, the new costs associated with the asset growth from the 2012 acquisitions were partially offset by reductions in assessment fees and advertising expense. The total provision for loan losses was approximately \$2.8 million and \$3.5 million for the years ended December 31, 2012 and 2011, respectively.

Our return on average assets was 1.58% for the year ended December 31, 2012, compared to 1.50% for the same period in 2011. Our return on average common equity was 12.75% for the year ended December 31, 2012, compared to 11.77% for the same period in 2011. The changes were primarily due to the previously discussed changes in net income for the year ended December 31, 2012, compared to the same period in 2011.

Our net interest margin, on a fully taxable equivalent basis, was 4.70% for the year ended December 31, 2012, compared to 4.69% for the same period in 2011. Our ability to improve pricing on interest bearing deposits to offset the lowering of interest rates in the loan portfolio during this lower rate environment allowed the Company to maintain a solid net interest margin. Our acquisitions have helped maintain the yield on the loan portfolio. For the year ended December 31, 2012, the effective yield on non-covered loans and covered loans was 6.28% and 7.63%, respectively.

Our efficiency ratio (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) was 47.88% for the year ended December 31, 2012, compared to 49.13% for the same period in 2011. The improvement in the efficiency ratio is primarily associated with increased net interest income and non-interest income resulting from our 2012 acquisitions combined with acquisition gains during 2012 when compared to a lower amount of non-recurring gains during 2011 partially offset by merger expenses and the expected reduction in income from FDIC indemnification accretion. Additionally, the new costs associated with the asset growth from the acquisitions of Vision, Heritage and Premier were offset by reductions in assessment fees and advertising expense.

Our total assets increased \$638.0 million, an increase of 17.7%, to \$4.24 billion as of December 31, 2012, from \$3.60 billion as of December 31, 2011. Excluding the \$1.02 billion of assets acquired from our 2012 acquisitions of Vision, Heritage and Premier, our total assets as of December 31, 2012 decreased \$381.1 million, a decline of 10.6%. Our loan portfolio not covered by loss share increased \$571.1 million, an increase of 32.4%, to \$2.33 billion as of December 31, 2012, from \$1.76 billion as of December 31, 2011. Excluding the \$571.0 million of loans acquired during the year from our 2012 acquisitions of Vision, Heritage and Premier, our loan portfolio not covered by loss share increased slightly by \$70,000, an increase of less than 0.01%. Our loan portfolio covered by loss share decreased by \$96.9 million, a reduction of 20.1%, to \$384.9 million as of December 31, 2012, from \$481.7 million as of December 31, 2011. Stockholders' equity increased \$41.4 million, an increase of 8.7%, to \$515.5 million as of December 31, 2012, compared to \$474.1 million as of December 31, 2011. The decrease in loans 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 \$67.0 million of comprehensive income less the \$16.3 million of dividends paid for 2012 and \$13.5 million used to repurchase 455,448 shares of common stock.

As of December 31, 2012, our non-performing non-covered loans decreased to \$27.3 million, or 1.17%, of total non-covered loans from \$27.5 million, or 1.56%, of total non-covered loans as of December 31, 2011. The allowance for loan losses as a percent of non-performing non-covered loans was 165.6% as of December 31, 2012, compared to 189.6% from December 31, 2011. Non-performing non-covered loans in Florida were \$15.2 million at December 31, 2012 compared to \$19.7 million as of December 31, 2011. Non-performing non-covered loans in Arkansas were \$12.1 million at December 31, 2012 compared to \$7.8 million as of December 31, 2011. As of December 31, 2012, no loans in Alabama were non-performing.



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As of December 31, 2012, our non-performing non-covered assets increased to \$47.8 million, or 1.30%, of total non-covered assets from \$44.2 million, or 1.53%, of total assets as of December 31, 2011. Non-performing non-covered assets in Florida were \$23.2 million at December 31, 2012 compared to \$24.2 million as of December 31, 2011. Non-performing non-covered assets in Arkansas were \$24.6 million at December 31, 2012 compared to \$20.0 million as of December 31, 2011. As of December 31, 2012, no assets in Alabama were non-performing.

**2011 Overview**

Our net income increased 211.2% to \$54.7 million for the year ended December 31, 2011, from \$17.6 million for the same period in 2010. On a diluted earnings per share basis, our net earnings increased 255.8% to \$1.85 for the year ended December 31, 2011, as compared to \$0.52 for the same period in 2010.

One of the primary reasons for the increase in net income from 2010 to 2011 is the lower provision for loan losses. The Company was able to reduce its provision for loan losses from \$72.9 million in 2010 to \$3.5 million for 2011 as a result of improving asset quality during 2011. During 2010, the Company acquired six failed institutions in FDIC-assisted acquisitions. These acquisitions resulted in \$34.5 million of bargain purchase gains and \$5.2 million of merger expenses during 2010. We did not have any acquisitions during 2011. However, we were able to increase net interest income from 2010 to 2011 by \$24.8 million as a result of the additional earning assets obtained in our FDIC-assisted transactions combined with a 42 basis point improvement in net interest margin. The FDIC-assisted transactions produced \$1.0 million more in FDIC indemnification accretion during 2011 which was offset by increased costs associated with the asset growth. Additionally, we incurred \$3.6 million of investment security losses from fraudulent bonds in 2010. During 2011, we were able to record a gain from the collection of \$2.2 million in insurance proceeds on these bonds.

Our return on average assets was 1.50% for the year ended December 31, 2011, compared to 0.55% for the same period in 2010. Our return on average common equity was 11.77% for the year ended December 31, 2011, compared to 3.41% for the same period in 2010. The changes were primarily due to the previously discussed changes in net income for the year ended December 31, 2011, compared to the same period in 2010.

Our net interest margin, on a fully taxable equivalent basis, was 4.69% for the year ended December 31, 2011, compared to 4.27% 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 year ended December 31, 2011, the effective yield on non-covered loans and covered loans was 6.45% and 7.16%, respectively.

Our efficiency ratio (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) was 49.13% for the year ended December 31, 2011, compared to 44.41% for the same period in 2010. The higher efficiency ratio is primarily due to the bargain purchase gains on our FDIC-assisted acquisitions during 2010 offset by the 2011 improvements in our net interest margin, changes in investment gains and losses, lower other real estate owned (OREO) losses and reduced merger expenses. Excluding these items our core efficiency ratio was 49.65% and 49.62% at December 31, 2011 and 2010, respectively.

Our total assets decreased \$158.5 million, a decline of 4.2%, to \$3.60 billion as of December 31, 2011, from \$3.76 billion as of December 31, 2010. Our loan portfolio not covered by loss share decreased \$132.3 million, a decrease of 7.0%, to \$1.76 billion as of December 31, 2011, from \$1.89 billion as of December 31, 2010. Our loan portfolio covered by loss share decreased by \$94.0 million, a reduction of 16.3%, to \$481.7 million as of December 31, 2011, from \$575.8 million as of December 31, 2010. Stockholders' equity decreased \$2.9 million, a decline of 0.6%, to \$474.1 million as of December 31, 2011, compared to \$476.9 million as of December 31, 2010. Common stockholders' equity was \$474.1 million at December 31, 2011 compared to \$427.5 million at December 31, 2010, an increase of \$46.6 million. The decrease in assets is primarily associated with historically low loan demand and payoffs in our non-covered and covered loan portfolios. The decrease in stockholders' equity is primarily associated with the Company settlement of the TARP funds and warrant for \$51.3 million during the third quarter of 2011 offset by the \$62.4 million of comprehensive income less the \$8.9 million of dividends paid for 2011 and the \$6.8 million used to repurchase 300,000 shares of common stock.

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As of December 31, 2011, our non-performing non-covered loans decreased to \$27.5 million, or 1.56%, 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 non-covered loans was 189.6% as of December 31, 2011, compared to 107.8% from December 31, 2010. Non-performing non-covered loans in Florida were \$19.7 million at December 31, 2011 compared to \$26.1 million as of December 31, 2010. Non-performing non-covered loans in Arkansas were \$7.8 million at December 31, 2011 compared to \$23.4 million as of December 31, 2010.

As of December 31, 2011, our non-performing non-covered assets improved to \$44.2 million, or 1.53%, of total non-covered assets from \$61.2 million, or 2.08%, of total assets as of December 31, 2010. Non-performing non-covered assets in Florida were \$24.2 million at December 31, 2011 compared to \$32.5 million as of December 31, 2010. Non-performing non-covered assets in Arkansas were \$20.0 million at December 31, 2011 compared to \$28.7 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 included as part of this document.

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, foreclosed assets, 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), net of taxes. 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.

*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.

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Loans considered impaired, under FASB ASC 310-10-35, 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 borrower may be unable to meet payments as they become due. When accrual of interest is discontinued, all unpaid accrued interest is reversed.

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 nine months, and we reasonably expect to collect all principal and interest.

*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 weighted average 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.

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*Foreclosed Assets Held for Sale.* Assets acquired by foreclosure or in settlement of debt and held for sale are valued at estimated fair value as of the date of foreclosure, and a related valuation allowance is provided for estimated costs to sell the assets. Management evaluates the value of foreclosed assets held for sale periodically and increases the valuation allowance for any subsequent declines in fair value. Changes in the valuation allowance are charged or credited to gain or loss on OREO.

*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.

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

*Stock Options.* In accordance with FASB ASC 718, *Compensation - Stock Compensation*, and FASB ASC 505-50, *Equity-Based Payments to Non-Employees*, the fair value of each option award is estimated on the date of grant. The Company recognizes compensation expense for the grant-date fair value of the option award over the vesting period of the award.

**Acquisitions**

***Acquisition Vision Bank***

As of February 16, 2012, we acquired seventeen branch locations in the Gulf Coast communities of Baldwin County, Alabama, and the Florida Panhandle through the acquisition of Vision Bank. Including the effects of purchase accounting adjustments, we acquired total assets of \$529.5 million, total performing loans (after discount) of \$340.3 million, cash and due from banks of \$140.2 million, goodwill of \$17.4 million, fixed assets of \$12.5 million, deferred taxes of \$11.2 million, core deposit intangible of \$3.2 million and total deposits of \$524.4 million. The fair value discount on the \$355.8 of gross loans was \$15.5 million. We did not purchase certain of Vision's performing loans nor any of its non-performing loans or other real estate owned.

See Note 2 *Business Combinations* in the Notes to Consolidated Financial Statements for an additional discussion for the acquisition of Vision Bank.

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***Acquisition Heritage Bank of Florida***

On November 2, 2012, Centennial Bank acquired all the deposits and substantially all the assets of Heritage Bank from the FDIC. This transaction did not include any non-performing loans or other real estate owned of Heritage. In connection with the Heritage acquisition, Centennial Bank opted to not enter into a loss-sharing agreement with the FDIC.

Prior to the acquisition, Heritage operated three banking offices located in Tampa, Lutz and Wesley Chapel, Florida. Including the effects of the purchase accounting adjustments, Centennial Bank acquired approximately \$224.8 million in assets including a cash settlement of \$82.3 million to balance the transaction, federal funds sold of \$7.0 million, approximately \$92.6 million in performing loans including loan discounts, core deposit intangible of \$1.1 million and approximately \$219.5 million of deposits.

See Note 2 *Business Combinations* in the Notes to Consolidated Financial Statements for an additional discussion for the acquisition of Heritage Bank.

***Acquisition Premier Bank***

On December 1, 2012, Home BancShares, Inc. completed the acquisition of all of the issued and outstanding shares of common stock of Premier Bank, a Florida state-chartered bank with its principal office located in Tallahassee, Florida, pursuant to the Premier Agreement with PBHC, dated August 14, 2012. The Company has merged Premier with and into the Company's wholly-owned subsidiary, Centennial Bank, an Arkansas state-chartered bank. The Company paid a purchase price to PBHC of \$1,415,000 for the Acquisition.

The Acquisition was conducted in accordance with the provisions of Section 363 of the Bankruptcy Code pursuant to a voluntary petition for relief under Chapter 11 of the Bankruptcy Code filed by PBHC with the Bankruptcy Court on August 14, 2012. The sale of Premier by PBHC was subject to certain bidding procedures approved by the Bankruptcy Court. No qualifying competing bids were received. The Bankruptcy Court entered a final order on November 29, 2012 approving the sale of Premier to the Company pursuant to and in accordance with the Premier Agreement.

Prior to the acquisition, Premier conducted banking business from six locations in the Florida panhandle cities of Tallahassee (five) and Quincy (one). Including the effects of the purchase accounting adjustments, Centennial Bank acquired approximately \$264.8 million in assets, \$12.5 million in investment securities, \$4.0 million of federal funds sold, \$138.1 million in loans including loan discounts, \$5.1 million of bank premises and equipment, \$7.6 million of foreclosed assets, \$8.6 million of goodwill, \$1.9 million of core deposit intangible, \$5.7 million in cash value of life insurance, \$246.3 million of deposits and \$13.3 million of FHLB borrowed funds.

See Note 2 *Business Combinations* in the Notes to Consolidated Financial Statements for an additional discussion for the acquisition of Premier Bank.

***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. 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* in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2010 for an additional discussion for the acquisition of Old Southern.

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### ***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 in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2010 for an additional discussion for 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 in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2010 for an additional discussion for 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 in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2010 for an additional discussion for 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).

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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* in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2010 for an additional discussion for the acquisition of Gulf State.

### ***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 be a profitable growth strategy. In the near term, our principal acquisition focus will be to expand our presence in Florida, Arkansas, South Alabama and other nearby markets through pursuing additional FDIC-assisted acquisition opportunities and non FDIC-assisted bank acquisitions. 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.

### **Branches**

We intend to continue opening new (commonly referred to as de novo) branches in our current markets and in other attractive market areas if opportunities arise. During 2012, 2011 and 2010 no de novo branches were opened. During 2013, we currently have plans for one additional de novo branch location on Highway 30A in Seagrove, Florida.

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During 2012, we closed two branches acquired in the Vision acquisition. These branch closures were completed to eliminate repetitive branches and maximize profitability from the Vision transaction. We also added 9 new branches with the FDIC-assisted acquisition of Heritage (3 branches) and acquisition of Premier (6 branches). During January 2013, one branch in south Arkansas was closed. It is anticipated three to four branches will close in the Tallahassee, FL area early in the second quarter of 2013. The Company currently has 46 branches in Arkansas, 54 branches in Florida and 7 branches in Alabama.

### **Results of Operations for the Years Ended December 31, 2012, 2011 and 2010**

Our net income increased 15.1% to \$63.0 million for the year ended December 31, 2012, from \$54.7 million for the same period in 2011. On a diluted earnings per share basis, our net earnings increased 20.5% to \$2.23 for the year ended December 31, 2012, as compared to \$1.85 for the same period in 2011.

The \$8.3 million increase in net income is primarily associated with additional net income and other non-interest income resulting from our 2012 acquisitions of Vision, Heritage and Premier including acquisition gains during 2012 when compared to a lower amount of non-recurring gains during 2011 offset by \$7.2 million of merger expenses and the expected reduction in income from FDIC indemnification accretion. Additionally, the new costs associated with the asset growth from the 2012 acquisitions were partially offset by reductions in assessment fees and advertising expense. The total provision for loan losses was approximately \$2.8 million and \$3.5 million for the year ended December 31, 2012 and 2011, respectively.

Our net income increased 211.2% to \$54.7 million for the year ended December 31, 2011, from \$17.6 million for the same period in 2010. On a diluted earnings per share basis, our net earnings increased 255.8% to \$1.85 for the year ended December 31, 2011, as compared to \$0.52 for the same period in 2010.

One of the primary reasons for the increase in net income from 2010 to 2011 is the lower provision for loan losses. The Company was able to reduce its provision for loan losses from \$72.9 million in 2010 to \$3.5 million for 2011 as a result of improving asset quality during 2011. During 2010, the Company acquired six failed institutions in FDIC-assisted acquisitions. These acquisitions resulted in \$34.5 million of bargain purchase gains and \$5.2 million of merger expenses during 2010. We did not have any acquisitions during 2011. However, we were able to increase in net interest income from 2010 to 2011 by \$24.8 million as a result of the additional earning assets obtained in our FDIC-assisted transactions combined with a 42 basis point improvement in net interest margin. The FDIC-assisted transactions produced \$1.0 million more in FDIC indemnification accretion during 2011 which was offset by increased costs associated with the asset growth. Additionally, we incurred \$3.6 million of investments security losses from fraudulent bonds in 2010. During 2011, we were able to record a gain from the collection of \$2.2 million in insurance proceeds on these bonds.

### ***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 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 400 to 425 basis points to a low of 0.25% to 0% on December 16, 2008, where the rate has remained.



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Net interest income on a fully taxable equivalent basis increased \$14.4 million, or 9.8%, to \$160.1 million for the year ended December 31, 2012, from \$145.7 million for the same period in 2011. This increase in net interest income was the result of a \$5.3 million increase in interest income combined with a \$9.0 million decrease in interest expense. The \$5.3 million increase in interest income was primarily the result of a higher level of earning assets offset by the repricing of our earning assets. The higher level of earning assets resulted in an improvement in interest income of \$12.0 million, while the repricing of our earning assets resulted in a \$6.7 million decrease in interest income for the year ended December 31, 2012. The \$9.0 million decrease in interest expense for the year ended December 31, 2012, is primarily the result of our interest bearing liabilities repricing in the lower interest rate environment combined with a decrease in our average time deposits, FHLB and other borrowed funds and subordinated debentures. The repricing of our interest bearing liabilities in the lower interest rate environment resulted in a \$7.6 million decrease in interest expense. The lower level of our average time deposits, FHLB and other borrowed funds and subordinated debentures offset by increases in the remaining interest bearing liabilities resulted in a reduction in interest expense of \$1.4 million.

Net interest income on a fully taxable equivalent basis increased \$25.2 million, or 20.9%, to \$145.7 million for the year ended December 31, 2011, from \$120.6 million for the same period in 2010. This increase in net interest income was the result of a \$21.0 million increase in interest income combined with a \$4.2 million decrease in interest expense. The \$21.0 million increase in interest income was primarily the result of a higher level of earning assets combined with improved pricing of our earning assets. The higher level of earning assets resulted in an improvement in interest income of \$11.9 million, while the repricing of our earning assets resulted in a \$9.1 million increase in interest income for the year ended December 31, 2011. The \$4.2 million decrease in interest expense for the year ended December 31, 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 \$6.2 million decrease in interest expense. The higher level of our interest bearing liabilities resulted in additional interest expense of \$2.0 million.

Net interest margin, on a fully taxable equivalent basis, was 4.70% for the year ended December 31, 2012 compared to 4.69% for the same period in 2011, respectively. Our ability to improve pricing on interest bearing deposits to offset the lowering of interest rates in the loan portfolio during this lower rate environment allowed the Company to maintain a solid net interest margin. Our acquisitions have helped maintain the yield on the loan portfolio. For the year ended December 31, 2012, the effective yield on non-covered loans and covered loans was 6.28% and 7.63%, respectively.

Net interest margin, on a fully taxable equivalent basis, was 4.69% for the year ended December 31, 2011 compared to 4.27% for the same period in 2010, respectively. Our ability to improve pricing on our loan portfolio and interest bearing deposits allowed the Company to expand net interest margin. During 2011, our FDIC-assisted acquisitions have helped improve the yield on the loan portfolio. For the year ended December 31, 2011, the effective yield on non-covered loans and covered loans was 6.45% and 7.16%, respectively.

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Tables 1 and 2 reflect an analysis of net interest income on a fully taxable equivalent basis for the years ended December 31, 2012, 2011 and 2010, as well as changes in fully taxable equivalent net interest margin for the years 2012 compared to 2011 and 2011 compared to 2010.

**Table 1: Analysis of Net Interest Income**

|  | Years Ended December 31, |            |            |
|--|--------------------------|------------|------------|
|  | 2012                     | 2011       | 2010       |
|  | (Dollars in thousands)   |            |            |
| Interest income                                  | \$ 177,135               | \$ 171,806 | \$ 151,122 |
| Fully taxable equivalent adjustment              | 4,475                    | 4,467      | 4,151      |
| Interest income fully taxable equivalent         | 181,610                  | 176,273    | 155,273    |
| Interest expense                                 | 21,535                   | 30,551     | 34,708     |
| Net interest income fully taxable equivalent     | \$ 160,075               | \$ 145,722 | \$ 120,565 |
| Yield on earning assets fully taxable equivalent | 5.34%                    | 5.68%      | 5.50%      |
| Cost of interest-bearing liabilities             | 0.74                     | 1.13       | 1.46       |
| Net interest spread fully taxable equivalent     | 4.60                     | 4.55       | 4.04       |
| Net interest margin fully taxable equivalent     | 4.70                     | 4.69       | 4.27       |

**Table 2: Changes in Fully Taxable Equivalent Net Interest Margin**

|  | December 31,   |               |
|--|----------------|---------------|
|  | 2012 vs. 2011  | 2011 vs. 2010 |
|  | (In thousands) |               |
| Increase (decrease) in interest income due to change in earning assets                                       | \$ 12,026      | \$ 11,871     |
| Increase (decrease) in interest income due to change in earning asset yields                                 | (6,689)        | 9,129         |
| (Increase) decrease in interest expense due to change in interest-bearing liabilities                        | 1,431          | (1,994)       |
| (Increase) decrease in interest expense due to change in interest rates paid on interest-bearing liabilities | 7,585          | 6,151         |
| Increase (decrease) in net interest income   | \$ 14,353      | \$ 25,157     |

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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 years ended December 31, 2012, 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**

|   | Years Ended December 31, |                       |              |                 |                       |              |                 |                       |              |
|---|--------------------------|-----------------------|--------------|-----------------|-----------------------|--------------|-----------------|-----------------------|--------------|
|   | Average Balance          | 2012 Income / Expense | Yield / Rate | Average Balance | 2011 Income / Expense | Yield / Rate | Average Balance | 2010 Income / Expense | Yield / Rate |
| (Dollars in thousands)                            |                          |                       |              |                 |                       |              |                 |                       |              |
| <b>ASSETS</b>                                     |                          |                       |              |                 |                       |              |                 |                       |              |
| Earning assets                                    |                          |                       |              |                 |                       |              |                 |                       |              |
| Interest-bearing balances due from banks          |                          |                       |              |                 |                       |              |                 |                       |              |
|   | \$ 165,862               | \$ 379                | 0.23%        | \$ 178,476      | \$ 418                | 0.23%        | \$ 177,418      | \$ 408                | 0.23%        |
| Federal funds sold                                | 7,175                    | 17                    | 0.24         | 5,735           | 11                    | 0.19         | 15,500          | 37                    | 0.24         |
| Investment securities taxable                     | 580,826                  | 11,226                | 1.93         | 400,152         | 9,244                 | 2.31         | 232,578         | 7,052                 | 3.03         |
| Investment securities non-taxable                 | 158,231                  | 10,023                | 6.33         | 150,776         | 10,017                | 6.64         | 141,066         | 9,323                 | 6.61         |
| Loans receivable                                  | 2,490,901                | 159,965               | 6.42         | 2,369,216       | 156,583               | 6.61         | 2,257,310       | 138,453               | 6.13         |
| Total interest-earning assets                     | 3,402,995                | 181,610               | 5.34         | 3,104,355       | 176,273               | 5.68         | 2,823,872       | 155,273               | 5.50         |
| Non-earning assets                                | 575,728                  |                       |              | 553,901         |                       |              | 401,314         |                       |              |
| Total assets                                      | \$ 3,978,723             |                       |              | \$ 3,658,256    |                       |              | \$ 3,225,186    |                       |              |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>        |                          |                       |              |                 |                       |              |                 |                       |              |
| Liabilities                                       |                          |                       |              |                 |                       |              |                 |                       |              |
| Interest-bearing liabilities                      |                          |                       |              |                 |                       |              |                 |                       |              |
| Interest-bearing transaction and savings deposits |                          |                       |              |                 |                       |              |                 |                       |              |
|   | \$ 1,501,093             | \$ 3,572              | 0.24%        | \$ 1,132,798    | \$ 5,084              | 0.45%        | \$ 898,272      | \$ 5,242              | 0.58%        |
| Time deposits                                     | 1,148,072                | 11,417                | 0.99         | 1,318,868       | 17,884                | 1.36         | 1,140,383       | 19,060                | 1.67         |
| Total interest-bearing deposits                   | 2,649,165                | 14,989                | 0.57         | 2,451,666       | 22,968                | 0.94         | 2,038,655       | 24,302                | 1.19         |
| Federal funds purchased                           | 273                      | 1                     | 0.37         | 12              |                       | 0.00         | 19              |                       | 0.00         |
| Securities sold under agreement to repurchase     | 67,040                   | 407                   | 0.61         | 66,851          | 483                   | 0.72         | 64,694          | 497                   | 0.77         |
| FHLB and other borrowed funds                     | 136,312                  | 4,364                 | 3.20         | 150,146         | 4,940                 | 3.29         | 220,590         | 7,574                 | 3.43         |
| Subordinated debentures                           | 39,852                   | 1,774                 | 4.45         | 44,331          | 2,160                 | 4.87         | 46,462          | 2,335                 | 5.03         |
| Total interest-bearing liabilities                | 2,892,642                | 21,535                | 0.74         | 2,713,006       | 30,551                | 1.13         | 2,370,420       | 34,708                | 1.46         |
| Non-interest-bearing liabilities                  |                          |                       |              |                 |                       |              |                 |                       |              |
| Non-interest-bearing deposits                     | 569,017                  |                       |              | 443,781         |                       |              | 344,778         |                       |              |
| Other liabilities                                 | 22,946                   |                       |              | 26,870          |                       |              | 22,980          |                       |              |
| Total liabilities                                 | 3,484,605                |                       |              | 3,183,657       |                       |              | 2,738,178       |                       |              |
| Stockholders equity                               | 494,118                  |                       |              | 474,599         |                       |              | 487,008         |                       |              |
| Total liabilities and stockholders equity         | \$ 3,978,723             |                       |              | \$ 3,658,256    |                       |              | \$ 3,225,186    |                       |              |
| Net interest spread                               |                          |                       | 4.60%        |                 |                       | 4.55%        |                 |                       | 4.04%        |
| Net interest income and margin                    |                          | \$ 160,075            | 4.70         |                 | \$ 145,722            | 4.69         |                 | \$ 120,565            | 4.27         |



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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 year ended December 31, 2012 compared to 2011 and 2011 compared to 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**

|   | Years Ended December 31, |             |           |                |             |           |
|---|--------------------------|-------------|-----------|----------------|-------------|-----------|
|   | 2012 over 2011           |             |           | 2011 over 2010 |             |           |
|   | Volume                   | Yield /Rate | Total     | Volume         | Yield /Rate | Total     |
|   | (In thousands)           |             |           |                |             |           |
| Increase (decrease) in:                           |                          |             |           |                |             |           |
| Interest income:                                  |                          |             |           |                |             |           |
| Interest-bearing balances due from banks          | \$ (29)                  | \$ (10)     | \$ (39)   | \$ 2           | \$ 8        | \$ 10     |
| Federal funds sold                                | 3                        | 3           | 6         | (20)           | (6)         | (26)      |
| Investment securities taxable                     | 3,673                    | (1,691)     | 1,982     | 4,172          | (1,980)     | 2,192     |
| Investment securities non-taxable                 | 483                      | (477)       | 6         | 645            | 49          | 694       |
| Loans receivable                                  | 7,896                    | (4,514)     | 3,382     | 7,072          | 11,058      | 18,130    |
| Total interest income                             | 12,026                   | (6,689)     | 5,337     | 11,871         | 9,129       | 21,000    |
| Interest expense:                                 |                          |             |           |                |             |           |
| Interest-bearing transaction and savings deposits | 1,335                    | (2,847)     | (1,512)   | 1,201          | (1,359)     | (158)     |
| Time deposits                                     | (2,114)                  | (4,353)     | (6,467)   | 2,728          | (3,904)     | (1,176)   |
| Federal funds purchased                           | 1                        |             | 1         |                |             |           |
| Securities sold under agreement to repurchase     | 1                        | (77)        | (76)      | 17             | (31)        | (14)      |
| FHLB and other borrowed funds                     | (446)                    | (130)       | (576)     | (2,330)        | (304)       | (2,634)   |
| Subordinated debentures                           | (208)                    | (178)       | (386)     | (105)          | (70)        | (175)     |
| Total interest expense                            | (1,431)                  | (7,585)     | (9,016)   | 1,511          | (5,668)     | (4,157)   |
| Increase (decrease) in net interest income        | \$ 13,457                | \$ 896      | \$ 14,353 | \$ 10,360      | \$ 14,797   | \$ 25,157 |

**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. 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.

While general economic trends have improved in the past year, we cannot be certain that the current economic conditions will considerably improve in the near future. Recent and ongoing events at the national and international levels continue to create uncertainty in the financial markets. Despite these economic uncertainties, we continue to follow our historically conservative procedures for lending and evaluating the provision and allowance for loan losses. Our practice continues to be primarily traditional real estate lending with strong loan-to-value ratios.

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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 the markets we serve. 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. The economic conditions particularly in our Florida market have improved over the past year, although not to pre-recession levels. Our Arkansas markets' economies have been fairly stable over the past several years with no boom or bust. As a result, the Arkansas economy fared better with its real estate values during this time period.

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. The provision for non-covered loans was \$1.3 million for the year ended December 31, 2012, \$3.5 million for December 31, 2011, and \$72.9 million for 2010. The provision for covered loans was \$1.5 million for the year ended December 31, 2012.

Our provision for loan losses for non-covered loans decreased \$2.2 million, or 64.3% to \$1.3 million for the year ended December 31, 2012, from \$3.5 million for 2011. The net loans charged off for non-covered loans for the year ended December 31, 2012 were \$8.2 million compared to \$4.7 million for the same period in 2011. The provision for loan losses for non-covered loans in our Florida market was approximately \$787,000 for 2012. The decrease in the provision for loan losses for non-covered loans from 2011 to 2012 is primarily associated with the \$4.5 million improvement in non-performing loans when excluding \$4.3 million of non-performing loans acquired through the Heritage and Premier transactions.

Impairment testing on the estimated cash flows of the covered loans during 2012 established that two pools evaluated had experienced projected credit deterioration. As a result of this projection, we recorded a \$7.5 million provision for loan losses to the allowance for loan losses related to the purchased impaired loans during the year. Since these loans are covered by loss share with the FDIC, we were able to increase its indemnification asset by \$6.0 million resulting in a net provision for loan losses of \$1.5 million.

Our current or historical provision levels should not be relied upon as a predictor or indicator of future levels going forward.

Of the \$8.2 million net charged off for the non-covered impaired loans, approximately \$5.0 million is from our Florida market. The remaining \$3.2 million predominately relates to net charge-offs on loans in our Arkansas market. See "Allowance for Loan Losses" in the Management's Discussion and Analysis for an additional discussion of Arkansas and Florida charge-offs.

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Our provision for loan losses decreased \$69.4 million, or 95.2% to \$3.5 million for the year ended December 31, 2011, from \$72.9 million for 2010. The net loans charged off for the year ended December 31, 2011 were \$4.7 million compared to \$62.5 million for the same period in 2010. The provision for loan losses in our Florida market was approximately \$1.2 million for 2011. The decrease in the provision for loan losses are primarily associated with the \$22.0 million improvement in non-performing loans combined with a \$57.8 million decline in net charge-offs from 2010 to 2011. Our current or historical provision levels should not be relied upon as a predictor or indicator of future levels going forward.

Of the \$4.7 million net charged off for the impaired loans, approximately \$6.5 million is from our Florida market. The remaining \$1.8 million predominately relate to recoveries on loans in our Arkansas market. See Allowance for Loan Losses in the Management's Discussion and Analysis for an additional discussion of Arkansas and Florida charge-offs.

**Non-Interest Income**

Total non-interest income was \$48.0 million in 2012, compared to \$41.3 million in 2011 and \$65.0 million in 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.

Table 5 measures the various components of our non-interest income for the years ended December 31, 2012, 2011, and 2010, respectively, as well as changes for the years 2012 compared to 2011 and 2011 compared to 2010.

**Table 5: Non-Interest Income**

|  | Years Ended December 31, |                  |                  | 2012 Change     |              | 2011 Change        |                |
|--|--------------------------|------------------|------------------|-----------------|--------------|--------------------|----------------|
|  | 2012                     | 2011             | 2010             | from 2011       |              | from 2010          |                |
|  | (Dollars in thousands)   |                  |                  |                 |              |                    |                |
| Service charges on deposit accounts                | \$ 15,069                | \$ 14,087        | \$ 13,600        | \$ 982          | 7.0%         | \$ 487             | 3.6%           |
| Other service charges and fees                     | 12,428                   | 9,929            | 7,371            | 2,499           | 25.2         | 2,558              | 34.7           |
| Mortgage lending income                            | 5,192                    | 2,993            | 3,111            | 2,199           | 73.5         | (118)              | (3.8)          |
| Mortgage servicing income                          |                          |                  | 314              |                 | 0.0          | (314)              | (100.0)        |
| Insurance commissions                              | 1,869                    | 1,856            | 1,180            | 13              | 0.7          | 676                | 57.3           |
| Income from title services                         | 462                      | 448              | 463              | 14              | 3.1          | (15)               | (3.2)          |
| Increase in cash value of life insurance           | 873                      | 1,128            | 1,383            | (255)           | (22.6)       | (255)              | (18.4)         |
| Dividends from FHLB, FRB, Bankers bank & other     | 1,167                    | 680              | 561              | 487             | 71.6         | 119                | 21.2           |
| Gain on acquisitions                               | 5,205                    |                  | 34,484           | 5,205           | 100.0        | (34,484)           | (100.0)        |
| Gain on sale of SBA loans                          | 404                      | 259              | 18               | 145             | 56.0         | 241                | 1,338.9        |
| Gain (loss) on sale of premises and equipment, net | 324                      | 73               | 92               | 251             | 343.8        | (19)               | (20.7)         |
| Gain (loss) on OREO, net                           | (49)                     | (638)            | (950)            | 589             | (92.3)       | 312                | (32.8)         |
| Gain (loss) on securities, net                     | 9                        | 2,248            | (3,643)          | (2,239)         | (99.6)       | 5,891              | (161.7)        |
| FDIC indemnification accretion                     | 1,721                    | 5,517            | 4,508            | (3,796)         | (68.8)       | 1,009              | 22.4           |
| Other income                                       | 3,295                    | 2,729            | 2,557            | 566             | 20.7         | 172                | 6.7            |
| <b>Total non-interest income</b>                   | <b>\$ 47,969</b>         | <b>\$ 41,309</b> | <b>\$ 65,049</b> | <b>\$ 6,660</b> | <b>16.1%</b> | <b>\$ (23,740)</b> | <b>(36.5)%</b> |

Non-interest income excluding gains on acquisitions increased \$1.5 million, or 3.5%, to \$42.8 million for the year ended December 31, 2012 from \$41.3 million for the same period in 2011.

The primary factors that resulted in this increase include improvements related to service charges on deposits, other service charges and fees, mortgage lending income, changes in OREO gains and losses, gain on sales and other income offset by the expected reduction in income from FDIC indemnification accretion and gain on securities.

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Additional details on some of the more significant changes are as follows:

The \$3.5 million increase in service charges on deposit accounts and other service charges and fees is primarily from our acquisitions of Vision, Heritage and Premier plus increased inter-change transaction activity.

The \$2.2 million increase in mortgage lending income is primarily related to increased mortgage lending activities resulting from the historically low rate environment during 2012 plus additional volume from the acquisitions of Vision, Heritage and Premier.

The \$487,000 increase in dividends from FHLB, FRB, Bankers bank and other is primarily from a non-recurring dividend of approximately \$463,000 from our investment in a private equity and venture capital firm which invests in small and lower middle market companies located in Arkansas and across the Midwest and Southeast United States.

A \$359,000 gain on sale of premises and equipment was realized on the sale of an adjacent property next to one of our existing branch locations during 2012.

During 2011, we were able record a gain from the collection of \$2.2 million in insurance proceeds on fraudulent bonds charged off in 2010.

The increase in other income is primarily from our acquisition of Vision plus new rental income. In the Florida Keys we were able to lease out part of our excess facilities capacity. This lease produced approximately \$231,000 of rental income during 2012. Non-interest income excluding gains on acquisitions increased \$10.7 million, or 35.2%, to \$41.3 million for the year ended December 31, 2011 from \$30.6 million for the same period in 2010.

Additional details on some of the more significant changes are as follows:

The \$1.0 million of additional income from FDIC indemnification accretion.

The \$3.0 million increase in service charges on deposit accounts and other service charges and fees primarily associated with growth from our FDIC-assisted acquisitions.

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. Because of this time value of money type accretion, the accretion amounts are expected to be higher in initial periods and decline during future periods. In addition, we will see further reductions as pools evaluated by the Company are determined to have a materially projected credit improvement. Improvements in credit quality decrease the basis in the related indemnification assets. This positive event will reduce the indemnification asset. This reduction will be amortized over the weighted average life of the loans or the life of the shared-loss agreements, whichever is shorter. The amortization will be shown as a reduction to FDIC indemnification non-interest income going forward. During future periods, the amortization could offset the accretion in its entirety.



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

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

Table 6 below sets forth a summary of non-interest expense for the years ended December 31, 2012, 2011, and 2010, as well as changes for the years ended 2012 compared to 2011 and 2011 compared to 2010.

**Table 6: Non-Interest Expense**

|   | Years Ended December 31, |                  |                  | 2012 Change     |             | 2011 Change     |              |
|---|--------------------------|------------------|------------------|-----------------|-------------|-----------------|--------------|
|   | 2012                     | 2011             | 2010             | from 2011       | from 2010   |                 |              |
|   | (Dollars in thousands)   |                  |                  |                 |             |                 |              |
| Salaries and employee benefits            | \$ 47,289                | \$ 42,825        | \$ 38,881        | \$ 4,464        | 10.4%       | \$ 3,944        | 10.1%        |
| Occupancy and equipment                   | 14,500                   | 14,197           | 13,164           | 303             | 2.1         | 1,033           | 7.8          |
| Data processing expense                   | 4,930                    | 4,601            | 3,513            | 329             | 7.2         | 1,088           | 31.0         |
| Other operating expenses:                 |                          |                  |                  |                 |             |                 |              |
| Advertising                               | 2,447                    | 4,270            | 2,033            | (1,823)         | (42.7)      | 2,237           | 110.0        |
| Merger and acquisition expenses           | 7,157                    | 145              | 5,165            | 7,012           | 4,835.9     | (5,020)         | (97.2)       |
| Amortization of intangibles               | 2,761                    | 2,827            | 2,561            | (66)            | (2.3)       | 266             | 10.4         |
| Amortization of mortgage servicing rights |                          |                  | 436              |                 | 0.0         | (436)           | (100.0)      |
| Electronic banking expense                | 3,175                    | 2,733            | 1,974            | 442             | 16.2        | 759             | 38.4         |
| Directors fees                            | 807                      | 811              | 679              | (4)             | (0.5)       | 132             | 19.4         |
| Due from bank service charges             | 536                      | 496              | 439              | 40              | 8.1         | 57              | 13.0         |
| FDIC and state assessment                 | 2,313                    | 4,283            | 3,676            | (1,970)         | (46.0)      | 607             | 16.5         |
| Insurance                                 | 1,774                    | 1,673            | 1,220            | 101             | 6.0         | 453             | 37.1         |
| Legal and accounting                      | 1,065                    | 1,603            | 1,620            | (538)           | (33.6)      | (17)            | (1.0)        |
| Mortgage servicing expense                |                          |                  | 158              |                 | 0.0         | (158)           | (100.0)      |
| Other professional fees                   | 1,655                    | 1,954            | 1,526            | (299)           | (15.3)      | 428             | 28.0         |
| Operating supplies                        | 1,134                    | 1,168            | 889              | (34)            | (2.9)       | 279             | 31.4         |
| Postage                                   | 896                      | 942              | 675              | (46)            | (4.9)       | 267             | 39.6         |
| Telephone                                 | 1,074                    | 977              | 824              | 97              | 9.9         | 153             | 18.6         |
| Other expense                             | 8,855                    | 9,217            | 5,568            | (362)           | (3.9)       | 3,649           | 65.5         |
| <b>Total non-interest expense</b>         | <b>\$ 102,368</b>        | <b>\$ 94,722</b> | <b>\$ 85,001</b> | <b>\$ 7,646</b> | <b>8.1%</b> | <b>\$ 9,721</b> | <b>11.4%</b> |

Non-interest expense excluding merger expenses increased \$634,000, or 0.7%, to \$95.2 million for the year ended December 31, 2012, from \$94.6 million for the same period in 2011.

Additional details on some of the more significant changes are as follows:

A \$4.5 million increase in personnel costs primarily resulting from additional expense associated with the acquisitions of Vision, Heritage and Premier during 2012.

The \$1.8 million decrease in advertising is primarily the result of management at its discretion deciding to spend a reduced amount of advertising during 2012.

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The \$2.0 million decrease in FDIC and state assessment is primarily a result of our successful efforts to decrease net charge-offs during 2011 as compared to 2010. The FDIC and state assessment is calculated in part based upon our level of net charge-offs during the prior year.

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Non-interest expense increased \$9.7 million, or 11.4%, to \$94.7 million for the year ended December 31, 2011, from \$85.0 million for the same period in 2010. During the year ended December 31, 2011, we incurred \$145,000 of merger expenses. During 2010, we incurred \$5.2 million of merger expenses. Excluding these non-core items, core non-interest expense was \$94.6 million for the year ended December 31, 2011 compared to \$79.8 million for the same period in 2010. This increase is the result of the additional operating costs associated with the branch locations acquired from the six FDIC-assisted transactions completed throughout 2010, particularly in the increased personnel costs and the normal increase in cost of doing business.

**Income Taxes**

The provision for income taxes increased \$5.8 million, or 19.7%, to \$35.4 million for the year ended December 31, 2012, from \$29.6 million for 2011. The provision for income taxes increased \$23.6 million, or 391.6%, to \$29.6 million for the year ended December 31, 2011, from \$6.0 million for 2010. The effective tax rate for the years ended December 31, 2012, 2011 and 2010 were 36.0%, 35.1% and 25.5%, respectively.

The higher effective income tax rate for 2012 is primarily associated with our higher pre-tax income for 2012. During 2011, we recorded \$84.3 million of pre-tax income compared to \$98.5 million in 2012 or an increase of \$14.1 million. The increased pre-tax income at our marginal tax rate of 39.225% resulted in an increase of income taxes of approximately \$5.5 million or 95.0% of the change for 2012.

The higher effective income tax rate for 2011 is primarily associated with our higher pre-tax income for 2011. During 2010, we recorded \$23.6 million of pre-tax income compared to \$84.3 million in 2011 or an increase of \$60.7 million. The increased pre-tax income at our marginal tax rate of 39.225% resulted in an increase of income taxes of approximately \$23.8 million or 100.9% of the change for 2011.

**Financial Conditions as of and for the Years Ended December 31, 2012 and 2011**

Our total assets increased \$638.0 million, an increase of 17.7%, to \$4.24 billion as of December 31, 2012, from \$3.60 billion as of December 31, 2011. Excluding the \$1.02 billion of assets acquired from our 2012 acquisitions of Vision, Heritage and Premier, our total assets as of December 31, 2012 decreased \$381.1 million, a decline of 10.6%. Our loan portfolio not covered by loss share increased \$571.1 million, an increase of 32.4%, to \$2.33 billion as of December 31, 2012, from \$1.76 billion as of December 31, 2011. Excluding the \$571.0 million of loans acquired during the year from our 2012 acquisitions of Vision, Heritage and Premier, our loan portfolio not covered by loss share increased slightly by \$70,000, an increase of less than 0.01%. Our loan portfolio covered by loss share decreased by \$96.9 million, a reduction of 20.1%, to \$384.9 million as of December 31, 2012, from \$481.7 million as of December 31, 2011. Stockholders' equity increased \$41.4 million, an increase of 8.7%, to \$515.5 million as of December 31, 2012, compared to \$474.1 million as of December 31, 2011. The decrease in loans 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 \$67.0 million of comprehensive income less the \$16.3 million of dividends paid for 2012 and \$13.5 million used to repurchase 455,448 shares of common stock.

Our total assets decreased \$158.5 million, a decline of 4.2%, to \$3.60 billion as of December 31, 2011, from \$3.76 billion as of December 31, 2010. Our loan portfolio not covered by loss share decreased \$132.3 million, a decrease of 7.0%, to \$1.76 billion as of December 31, 2011, from \$1.89 billion as of December 31, 2010. Our loan portfolio covered by loss share decreased by \$94.0 million, a reduction of 16.3%, to \$481.7 million as of December 31, 2011, from \$575.8 million as of December 31, 2010. Stockholders' equity decreased \$2.9 million, a decline of 0.6%, to \$474.1 million as of December 31, 2011, compared to \$476.9 million as of December 31, 2010. Common stockholders' equity was \$474.1 million at December 31, 2011 compared to \$427.5 million at December 31, 2010, an increase of \$46.6 million. The decrease in assets is primarily associated with historically low loan demand and payoffs in our non-covered and covered loan portfolios. The decrease in stockholders' equity is primarily associated with the Company settlement of the TARP funds and warrant for \$51.3 million during the third quarter of 2011 offset by the \$62.4 million of comprehensive income less the \$8.9 million of dividends paid for 2011 and the \$6.8 million used to repurchase 300,000 shares of common stock.

**Table of Contents****Loan Portfolio****Loans Receivable Not Covered by Loss Share**

Our non-covered loan portfolio averaged \$2.06 billion during 2012, \$1.83 billion during 2011 and \$1.96 billion during 2010. Non-covered loans were \$2.33 billion, \$1.76 billion and \$1.89 billion as of December 31, 2012, 2011 and 2010, respectively. Excluding the \$559.4 million of loans from Vision, Heritage and Premier at December 31, 2012, our legacy loan portfolio not covered by loss share increased by \$11.7 million, an increase of less than 1%. The relatively static state of the legacy loan portfolio when compared to our historical expansion rates was not unexpected. This is primarily associated with historically low loan demand and payoffs in our non-covered portfolios as 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, Southwestern Florida, Central Florida, the Florida Panhandle and South Alabama, and are generally secured by residential or commercial real estate or business or personal property within our market areas.

As of December 31, 2012, we had \$236.4 million of construction/land development loans which were collateralized by land. This consisted of \$133.6 million for raw land and \$102.8 million for land with commercial and/or residential lots.

Certain credit markets have experienced difficult conditions and volatility over the past several years, particularly Florida. Non-covered loans were \$1.46 billion, \$715.8 million and \$157.2 million as of December 31, 2012 in Arkansas, Florida and Alabama, respectively.

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

**Table 7: Non-Covered Loan Portfolio**

|  | 2012         | 2011         | As of December 31,<br>2010<br>(In thousands) | 2009         | 2008         |
|--|--------------|--------------|--|--------------|--------------|
| Real estate:                               |              |              |  |              |              |
| Commercial real estate loans:              |              |              |  |              |              |
| Non-farm/non-residential                   | \$ 1,019,039 | \$ 698,986   | \$ 805,635                                   | \$ 808,983   | \$ 816,603   |
| Construction/land development              | 254,800      | 361,846      | 348,768                                      | 368,723      | 320,398      |
| Agricultural                               | 32,513       | 28,535       | 26,798                                       | 33,699       | 23,603       |
| Residential real estate loans:             |              |              |  |              |              |
| Residential 1-4 family                     | 549,269      | 349,543      | 371,381                                      | 382,504      | 391,255      |
| Multifamily residential                    | 129,742      | 56,909       | 59,319                                       | 62,609       | 56,440       |
| Total real estate                          | 1,985,363    | 1,495,819    | 1,611,901                                    | 1,656,518    | 1,608,299    |
| Consumer                                   | 37,462       | 37,923       | 51,642                                       | 39,084       | 46,615       |
| Commercial and industrial                  | 256,908      | 176,276      | 184,014                                      | 219,847      | 255,153      |
| Agricultural                               | 19,825       | 21,784       | 16,549                                       | 10,280       | 23,625       |
| Other                                      | 31,641       | 28,284       | 28,268                                       | 24,556       | 22,540       |
| Loans receivable not covered by loss share | \$ 2,331,199 | \$ 1,760,086 | \$ 1,892,374                                 | \$ 1,950,285 | \$ 1,956,232 |

*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.



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As of December 31, 2012, non-covered commercial real estate loans totaled \$1.31 billion, or 56.0% of our non-covered loan portfolio compared to \$1.09 billion, or 61.9% of our non-covered loan portfolio, as of December 31, 2011. Excluding the approximately \$270.6 million of non-covered residential real estate loans from Vision, Heritage and Premier at December 31, 2012, non-covered commercial real estate loans decreased by approximately \$53.6 million. This decrease is primarily related to the reclassification of \$61.2 million of non-covered construction/land development loans to permanent financing of residential real estate during the second quarter of 2012. The remaining change is associated with a slight increase in loan demand for these types of loans offset by normal loan pay downs. Florida and Alabama total non-covered commercial real estate loans are approximately 16.8% and 3.4% of our total 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 December 31, 2012, we had \$679.0 million, or 29.1% of our non-covered loan portfolio, in non-covered residential real estate loans compared to the \$406.5 million, or 23.1% of our non-covered loan portfolio, as of December 31, 2011. Excluding the approximately \$223.3 million of non-covered residential real estate loans from Vision, Heritage and Premier at December 31, 2012, non-covered residential real estate loans increased by approximately \$49.2 million. This increase is primarily related to the reclassification of \$61.2 million of non-covered construction/land development loans offset by normal payoffs and pay downs combined with limited loan demand for these types of loans. Florida and Alabama total non-covered residential real estate loans are approximately 10.9% and 2.4% of our total non-covered loan portfolio, respectively.

*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 December 31, 2012, our non-covered installment consumer loan portfolio totaled \$37.5 million, or 1.6% of our total non-covered loan portfolio, compared to the \$37.9 million, or 2.2% of our non-covered loan portfolio as of December 31, 2011. Excluding the approximately \$12.8 million of non-covered consumer loans from Vision, Heritage and Premier at December 31, 2012, non-covered consumer loans decreased by approximately \$13.3 million. This decrease is primarily related to normal loan pay downs combined with a decreased loan demand. Florida and Alabama total non-covered consumer loans are approximately 0.8% and 0.1% of our total non-covered loan portfolio, respectively.

*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 December 31, 2012, non-covered commercial and industrial loans outstanding totaled \$256.9 million, or 11.0% of our non-covered loan portfolio, compared to \$176.3 million, or 10.0% of our non-covered loan portfolio, as of December 31, 2011. Excluding the approximately \$50.0 million of non-covered commercial and industrial loans from Vision, Heritage and Premier at December 31, 2012, non-covered commercial and industrial loans increased by approximately \$30.6 million. This increase is primarily related to normal loan pay downs offset by an increase in loan demand. Florida and Alabama total non-covered commercial and industrial loans are approximately 2.0% and 0.8% of our total non-covered loan portfolio, respectively.

**Table of Contents****Total Loans Receivable****Table 8: Total Loans Receivable**

As of December 31, 2012

|                               | Loans<br>Receivable Not<br>Covered by<br>Loss Share | Loans<br>Receivable<br>Covered by FDIC<br>Loss Share<br>(In thousands) | Total<br>Loans<br>Receivable |
|-------------------------------|---|--|------------------------------|
| Real estate:                  |   |  |                              |
| Commercial real estate loans  |   |  |                              |
| Non-farm/non-residential      | \$ 1,019,039  | \$ 164,723   | \$ 1,183,762                 |
| Construction/land development | 254,800   | 66,713   | 321,513                      |
| Agricultural                  | 32,513  | 2,282  | 34,795                       |
| Residential real estate loans |   |  |                              |
| Residential 1-4 family        | 549,269   | 125,625  | 674,894                      |
| Multifamily residential       | 129,742   | 9,567  | 139,309                      |
| <b>Total real estate</b>      | <b>1,985,363</b>                                    | <b>368,910</b>   | <b>2,354,273</b>             |
| Consumer                      | 37,462  | 39   | 37,501                       |
| Commercial and industrial     | 256,908   | 14,668   | 271,576                      |
| Agricultural                  | 19,825  |  | 19,825                       |
| Other                         | 31,641  | 1,267  | 32,908                       |
| <b>Total</b>                  | <b>\$ 2,331,199</b>                                 | <b>\$ 384,884</b>  | <b>\$ 2,716,083</b>          |

Table 9 presents the distribution of the maturity of our total loans as of December 31, 2012. The table also presents the portion of our loans that have fixed interest rates and interest rates that fluctuate over the life of the loans based on changes in the interest rate environment.

The loans acquired during our acquisitions accrete interest income through accretion of the difference between the carrying amount of the loans and the expected cash flows. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the weighted average 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.

**Table of Contents****Table 9: Maturity of Loans**

|  | One Year<br>or Less | Over One<br>Year<br>Through<br>Five Years | Over Five<br>Years | Total               |
|--|---------------------|---|--------------------|---------------------|
|  | (In thousands)      |   |                    |                     |
| <b>Real estate:</b>                      |                     |   |                    |                     |
| <b>Commercial real estate loans:</b>     |                     |   |                    |                     |
| Non-farm/non-residential                 | \$ 318,685          | \$ 623,163                                | \$ 241,914         | \$ 1,183,762        |
| Construction/land development            | 179,561             | 114,307                                   | 27,645             | 321,513             |
| Agricultural                             | 12,129              | 8,990                                     | 13,676             | 34,795              |
| <b>Residential real estate loans</b>     |                     |   |                    |                     |
| Residential 1-4 family                   | 195,735             | 239,453                                   | 239,706            | 674,894             |
| Multifamily residential                  | 33,530              | 86,243                                    | 19,536             | 139,309             |
| <b>Total real estate</b>                 | <b>739,640</b>      | <b>1,072,156</b>                          | <b>542,477</b>     | <b>2,354,273</b>    |
| Consumer                                 | 15,603              | 20,949                                    | 949                | 37,501              |
| Commercial and industrial                | 128,352             | 137,520                                   | 5,704              | 271,576             |
| Agricultural                             | 17,010              | 2,815                                     |                    | 19,825              |
| Other                                    | 8,145               | 16,506                                    | 8,257              | 32,908              |
| <b>Total loans receivable</b>            | <b>\$ 908,750</b>   | <b>\$ 1,249,946</b>                       | <b>\$ 557,387</b>  | <b>\$ 2,716,083</b> |
| Non-covered with fixed interest rates    | \$ 583,816          | \$ 916,447                                | \$ 119,946         | \$ 1,620,209        |
| Non-covered with floating interest rates | 106,496             | 117,898                                   | 258,524            | 482,918             |
| Acquired loans with accretable yield     | 218,438             | 215,601                                   | 178,917            | 612,956             |
| <b>Total</b>                             | <b>\$ 908,750</b>   | <b>\$ 1,249,946</b>                       | <b>\$ 557,387</b>  | <b>\$ 2,716,083</b> |

***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 10 sets forth information with respect to our non-performing non-covered assets as of December 31, 2012, 2011, 2010, 2009, and 2008. As of these dates, all non-performing non-covered restructured loans are included in non-accrual non-covered loans.

**Table 10: Non-performing Assets Not Covered by Loss Share**

|  | 2012             | 2011             | As of December 31,<br>2010 |                  |                  | 2009 | 2008 |
|--|------------------|------------------|----------------------------|------------------|------------------|------|------|
|  |                  |                  | (Dollars in thousands)     |                  |                  |      |      |
| Non-accrual non-covered loans  | \$ 21,336        | \$ 26,496        | \$ 48,924                  | \$ 37,056        | \$ 28,524        |      |      |
| Non-covered loans past due 90 days or more<br>(principal or interest payments) | 5,937            | 993              | 578                        | 2,889            | 1,374            |      |      |
| <b>Total non-performing non-covered loans</b>                                  | <b>27,273</b>    | <b>27,489</b>    | <b>49,502</b>              | <b>39,945</b>    | <b>29,898</b>    |      |      |
| Other non-performing non-covered assets  |                  |                  |                            |                  |                  |      |      |
| Non-covered foreclosed assets held for sale, net                               | 20,393           | 16,660           | 11,626                     | 16,484           | 6,763            |      |      |
| Other non-performing non-covered assets  | 164              | 8                | 77                         | 371              | 16               |      |      |
| <b>Total other non-performing non-covered assets</b>                           | <b>20,557</b>    | <b>16,668</b>    | <b>11,703</b>              | <b>16,855</b>    | <b>6,779</b>     |      |      |
| <b>Total non-performing non-covered assets</b>                                 | <b>\$ 47,830</b> | <b>\$ 44,157</b> | <b>\$ 61,205</b>           | <b>\$ 56,800</b> | <b>\$ 36,677</b> |      |      |
| Allowance for loan losses to non-performing non-covered loans                  | 165.62%          | 189.64%          | 107.77%                    | 107.57%          | 135.08%          |      |      |
| Non-performing non-covered loans to total non-covered loans                    | 1.17             | 1.56             | 2.62                       | 2.05             | 1.53             |      |      |
| Non-performing non-covered assets to total non-covered assets                  | 1.30             | 1.53             | 2.08                       | 2.12             | 1.42             |      |      |

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 55.6% and 71.5% of our non-performing non-covered loans as of December 31, 2012 and 2011, respectively.

Total non-performing non-covered loans were \$27.3 million as of December 31, 2012, compared to \$27.5 million as of December 31, 2011 for a decrease of \$216,000. Of the \$216,000 decrease in non-performing loans, \$4.3 million is from an increase in non-performing loans in our Arkansas market, a \$4.5 million from a decrease in non-performing loans in our Florida market and no change in non-performing loans in Alabama from our Vision acquisition. Non-performing loans at December 31, 2012 are \$12.1 million and \$15.2 million in the Arkansas and Florida markets, respectively. Alabama had zero non-performing loans at December 31, 2012. The \$15.2 million of non-performing loans in Florida included \$4.3 million of non-performing loans at December 31, 2012 in connection with the Heritage and Premier acquisitions.

Although the current state of the real estate market has improved, uncertainties still present in the national economy may continue to increase our level of non-performing non-covered loans. While we believe our allowance for loan losses is adequate at December 31, 2012, 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 2013. Our current or historical provision levels should not be relied upon as a predictor or indicator of future levels going forward.

Troubled debt restructurings ( TDR ) generally occur when a borrower is experiencing, or is expected to experience, financial difficulties in the near term. 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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During the recent real estate crisis, for the Nation in general and Florida in particular, 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. When we have modified the terms of a loan, we usually either reduce the monthly payment and/or interest rate for generally about three to twelve months. For our troubled debt restructurings that accrue interest at the time the loan is restructured, it would be a rare exception to have charged-off any portion of the loan. Only non-performing restructured loans are included in our non-performing non-covered loans. As of December 31, 2012, we had \$57.5 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 10. Our Florida market contains \$32.3 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 amount of troubled debt restructurings had been increasing through 2010 as the Bank continued to work with borrowers who were experiencing financial difficulties. At December 31, 2012, the amount of troubled debt restructurings was \$60.9 million, an increase of 14.3% from \$53.3 million at December 31, 2011. 94.4% and 88.6% of all restructured loans were performing to the terms of the restructure as of December 31, 2012 and 2011, respectively.

Total foreclosed assets held for sale not covered by loss share were \$20.4 million as of December 31, 2012, compared to \$16.7 million as of December 31, 2011 for an increase of \$3.7 million. The foreclosed assets held for sale not covered by loss share are comprised of \$7.9 million of assets located in Florida with the remaining \$12.5 million of assets located in Arkansas.

During 2012, we had one non-covered foreclosed property with a carrying value greater than \$1.0 million. This large development loan in northwest Arkansas was moved into foreclosed assets during the first quarter of 2011 with no additional charge-off required at the time of foreclosure. The carrying value was \$3.7 million at December 31, 2012. The losses on this loan were addressed during the fourth quarter of 2010 and the Company does not currently anticipate any additional losses on this property. As of December 31, 2012, no other foreclosed assets held for sale not covered by loss share have a carrying value greater than \$1.0 million.

Total foreclosed assets held for sale not covered by loss share were \$16.7 million as of December 31, 2011, compared to \$11.6 million as of December 31, 2010 for an increase of \$5.0 million. The foreclosed assets held for sale not covered by loss share are comprised of \$4.6 million of assets located in Florida with the remaining \$12.1 million of assets located in Arkansas. During 2011, we only had three large foreclosed properties greater than \$1.0 million. We had one large foreclosed housing development loan in the Florida Keys, one large multi-family property in Central Arkansas and currently have one large development loan in northwest Arkansas in foreclosure.

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.

During September 2011, we sold the large multi-family property in Central Arkansas that was placed in foreclosed assets during the second quarter of 2011. The carrying value of this non-covered property was \$3.7 million, and it sold for \$5.7 million. Because this property was settled within 90 days of foreclosure, the \$2.0 million difference is reflected as a recovery in the allowance for loan losses.



expected cash flows, is being recognized on all purchased impaired loans.

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

**Past Due and Non-Accrual Loans**

Table 12 shows the summary non-accrual loans as of December 31, 2012, 2011, 2010, 2009 and 2008:

**Table 12: Total Non-Accrual Loans**

|                                | As of December 31, 2012   |                            |                  | As of December 31, 2011   |                            |                  |
|--------------------------------|---------------------------|----------------------------|------------------|---------------------------|----------------------------|------------------|
|                                | Not Covered by Loss Share | Covered by FDIC Loss Share | Total            | Not Covered by Loss Share | Covered by FDIC Loss Share | Total            |
| (in thousands)                 |                           |                            |                  |                           |                            |                  |
| <b>Real estate:</b>            |                           |                            |                  |                           |                            |                  |
| Commercial real estate loans   |                           |                            |                  |                           |                            |                  |
| Non-farm/non-residential       | \$ 3,659                  | \$                         | \$ 3,659         | \$ 7,055                  | \$                         | \$ 7,055         |
| Construction/land development  | 2,680                     |                            | 2,680            | 2,226                     |                            | 2,226            |
| Agricultural                   | 140                       |                            | 140              | 178                       |                            | 178              |
| Residential real estate loans  |                           |                            |                  |                           |                            |                  |
| Residential 1-4 family         | 9,972                     |                            | 9,972            | 12,867                    |                            | 12,867           |
| Multifamily residential        | 3,215                     |                            | 3,215            |                           |                            |                  |
| <b>Total real estate</b>       | <b>19,666</b>             |                            | <b>19,666</b>    | <b>22,326</b>             |                            | <b>22,326</b>    |
| Consumer                       | 593                       |                            | 593              | 1,369                     |                            | 1,369            |
| Commercial and industrial      | 1,077                     |                            | 1,077            | 1,598                     |                            | 1,598            |
| Agricultural                   |                           |                            |                  |                           |                            |                  |
| Other                          |                           |                            |                  | 1,203                     |                            | 1,203            |
| <b>Total non-accrual loans</b> | <b>\$ 21,336</b>          | <b>\$</b>                  | <b>\$ 21,336</b> | <b>\$ 26,496</b>          | <b>\$</b>                  | <b>\$ 26,496</b> |

|                               | As of December 31, 2010   |                            |               | As of December 31, |               |
|-------------------------------|---------------------------|----------------------------|---------------|--------------------|---------------|
|                               | Not Covered by Loss Share | Covered by FDIC Loss Share | Total         | 2009               | 2008          |
| (in thousands)                |                           |                            |               |                    |               |
| <b>Real estate:</b>           |                           |                            |               |                    |               |
| Commercial real estate loans  |                           |                            |               |                    |               |
| Non-farm/non-residential      | \$ 16,535                 | \$                         | \$ 16,535     | \$ 10,068          | \$ 7,757      |
| Construction/land development | 6,808                     |                            | 6,808         | 4,951              | 9,007         |
| Agricultural                  | 220                       |                            | 220           | 115                | 410           |
| Residential real estate loans |                           |                            |               |                    |               |
| Residential 1-4 family        | 15,995                    |                            | 15,995        | 16,962             | 8,958         |
| Multifamily residential       | 5,122                     |                            | 5,122         |                    | 351           |
| <b>Total real estate</b>      | <b>44,680</b>             |                            | <b>44,680</b> | <b>32,096</b>      | <b>26,483</b> |
| Consumer                      | 1,308                     |                            | 1,308         | 177                | 98            |
| Commercial and industrial     | 2,935                     |                            | 2,935         | 4,772              | 1,263         |
| Agricultural                  |                           |                            |               | 11                 | 680           |
| Other                         | 1                         |                            | 1             |                    |               |

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|                         |           |    |           |           |           |
|-------------------------|-----------|----|-----------|-----------|-----------|
| Total non-accrual loans | \$ 48,924 | \$ | \$ 48,924 | \$ 37,056 | \$ 28,524 |
|-------------------------|-----------|----|-----------|-----------|-----------|

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 \$1.5 million for the year ended December 31, 2012, \$2.5 million in 2011, and \$2.6 million in 2010 would have been recorded. Interest income recognized on the non-accrual non-covered loans for the years ended December 31, 2012, 2011 and 2010 was considered immaterial.

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Table 13 shows the summary of accruing past due loans 90 days or more as of December 31, 2012, 2011, 2010, 2009 and 2008:

**Table 13: Total Loans Accruing Past Due 90 Days or More**

|  | As of December 31, 2012   |                            |                  | As of December 31, 2011   |                            |                   |
|--|---------------------------|----------------------------|------------------|---------------------------|----------------------------|-------------------|
|  | Not Covered by Loss Share | Covered by FDIC Loss Share | Total            | Not Covered by Loss Share | Covered by FDIC Loss Share | Total             |
| (in thousands)                                       |                           |                            |                  |                           |                            |                   |
| <b>Real estate:</b>                                  |                           |                            |                  |                           |                            |                   |
| Commercial real estate loans                         |                           |                            |                  |                           |                            |                   |
| Non-farm/non-residential                             | \$ 1,437                  | \$ 32,227                  | \$ 33,664        | \$                        | \$ 34,765                  | \$ 34,765         |
| Construction/land development                        | 1,296                     | 14,962                     | 16,258           |                           | 42,808                     | 42,808            |
| Agricultural   |                           | 548                        | 548              |                           | 328                        | 328               |
| Residential real estate loans                        |                           |                            |                  |                           |                            |                   |
| Residential 1-4 family                               | 2,589                     | 20,005                     | 22,594           | 750                       | 35,452                     | 36,202            |
| Multifamily residential                              |                           |                            |                  | 92                        |                            | 92                |
| <b>Total real estate</b>                             | <b>5,322</b>              | <b>67,742</b>              | <b>73,064</b>    | <b>842</b>                | <b>113,353</b>             | <b>114,195</b>    |
| Consumer   | 95                        |                            | 95               | 132                       | 265                        | 397               |
| Commercial and industrial                            | 520                       | 3,121                      | 3,641            | 19                        | 4,995                      | 5,014             |
| Agricultural   |                           |                            |                  |                           |                            |                   |
| Other  |                           |                            |                  |                           |                            |                   |
| <b>Total loans accruing past due 90 days or more</b> | <b>\$ 5,937</b>           | <b>\$ 70,863</b>           | <b>\$ 76,800</b> | <b>\$ 993</b>             | <b>\$ 118,613</b>          | <b>\$ 119,606</b> |

|  | As of December 31, 2010   |                            |                   | As of December 31, |                 |
|--|---------------------------|----------------------------|-------------------|--------------------|-----------------|
|  | Not Covered by Loss Share | Covered by FDIC Loss Share | Total             | 2009               | 2008            |
| <b>Real estate:</b>                                  |                           |                            |                   |                    |                 |
| Commercial real estate loans                         |                           |                            |                   |                    |                 |
| Non-farm/non-residential                             | \$                        | \$ 32,695                  | \$ 32,695         | \$                 | \$ 251          |
| Construction/land development                        | 1                         | 45,920                     | 45,921            |                    | 115             |
| Agricultural   |                           | 1,407                      | 1,407             |                    |                 |
| Residential real estate loans                        |                           |                            |                   |                    |                 |
| Residential 1-4 family                               | 535                       | 25,164                     | 25,699            | 1                  | 981             |
| Multifamily residential                              |                           |                            |                   | 2,888              |                 |
| <b>Total real estate</b>                             | <b>536</b>                | <b>105,186</b>             | <b>105,722</b>    | <b>2,889</b>       | <b>1,347</b>    |
| Consumer   | 34                        | 335                        | 369               |                    |                 |
| Commercial and industrial                            | 8                         | 4,740                      | 4,748             |                    | 12              |
| Agricultural   |                           |                            |                   |                    |                 |
| Other  |                           |                            |                   |                    | 15              |
| <b>Total loans accruing past due 90 days or more</b> | <b>\$ 578</b>             | <b>\$ 110,261</b>          | <b>\$ 110,839</b> | <b>\$ 2,889</b>    | <b>\$ 1,374</b> |

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The Company's total covered loans accruing past due 90 days or more and non-accrual covered loans to total covered loans was 18.4% and 24.6% as of December 31, 2012 and 2011, respectively.



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### ***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 criticized and 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. 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.

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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 not Individually Evaluated for Impairment.* 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.

*Charge-offs and Recoveries.* Total charge-offs decreased to \$10.8 million for the year ended December 31, 2012, compared to \$14.7 million for the same period in 2011. Total recoveries decreased to \$2.6 million for the year ended December 31, 2012, compared to \$10.0 million for the same period in 2011. For the year ended December 31, 2012, the net charge-offs were \$3.2 million for Arkansas and \$5.0 million for Florida, respectively, equaling a net charge-off position of \$8.2 million.

During 2012, there were \$10.8 million in charge-offs and \$2.6 million in recoveries. While the charge-offs and recoveries consisted of many relationships, there were no individual relationships consisting of charge-offs greater than \$1.0 million

For the year ended December 31, 2011, the net recoveries were \$1.8 million for Arkansas and net charge-offs were \$6.5 million for Florida equaling a net charge-off position of \$4.7 million.

During 2011, we had four large recoveries and two large charge-offs greater than \$1.0 million related to debt settlement. These recoveries ranged from \$1.3 million to \$3.0 million and totaled \$7.7 million of the \$10.0 million recovered during 2011. These charge-offs ranged from \$2.7 million to \$3.1 million and totaled \$5.8 million of the \$14.7 million charged-off during 2011.

Specifically, the most significant Arkansas charge-offs and recoveries during 2011 consisted of the following:

A relationship consisting primarily of several construction loans totaling \$6.4 million of debt. The total amount of charge-offs related to these loans was \$3.1 million during 2011.

A relationship including the largest of the Arkansas recoveries. These recoveries were primarily related to two debt settlement arrangements totaling \$4.4 million. The largest of these settlements was \$3.0 million received from litigation and \$1.4 million received from collection action.

A relationship that included a large multi-family property in Central Arkansas. This property was placed in foreclosed assets during the second quarter of 2011. The carrying value of this non-covered property was \$3.7 million and it sold for \$5.7 million during the third quarter of 2011. Because this property was settled within 90 days of foreclosure, the \$2.0 million difference is reflected as a recovery.

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The remaining \$3.3 million and \$1.8 million of the 2011 Arkansas charge-offs and recoveries, respectively, consisted of many relationships with no individual relationship consisting of charge-offs or recoveries greater than \$1.0 million.

Specifically, the significant Florida charge-offs and recoveries during 2011 consisted of the following:

A relationship with one non-farm/non-residential loan totaling \$4.9 million. The total amount of the charge-off related to this loan was \$2.7 million during 2011.

A relationship including two loans totaling \$7.3 million. A total of \$1.3 million was recovered related to these loans during the third quarter of 2011.

The remaining \$5.5 million and \$500,000 of the 2011 Florida charge-offs and recoveries, respectively, consisted of many relationships with no individual relationship consisting of charge-offs or recoveries greater than \$1.0 million.

The 2011 charge-offs primarily represent loans which had already been fully reserved with specific reserve allocations. More specifically, in during 2011 we charged off approximately \$4.1 million on loans that were eligible for a specific reserve and the allocation on those loans totaled approximately \$4.2 million.

The charge-offs, recoveries and net charge-offs are reflective of the proactive stance we take on asset quality issues.

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 generally 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.

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Table 14 shows the allowance for loan losses, charge-offs and recoveries for non-covered loans as of and for the years ended December 31, 2012, 2011, 2010, 2009 and 2008.

**Table 14: Analysis of Allowance for Loan Losses for Non-Covered Loans**

|  | 2012                   | 2011      | As of December 31, |           |           |
|--|------------------------|-----------|--------------------|-----------|-----------|
|  |                        |           | 2010               | 2009      | 2008      |
|  | (Dollars in thousands) |           |                    |           |           |
| Balance, beginning of year                               | \$ 52,129              | \$ 53,348 | \$ 42,968          | \$ 40,385 | \$ 29,406 |
| Loans charged off  |                        |           |                    |           |           |
| Real estate:   |                        |           |                    |           |           |
| Commercial real estate loans:                            |                        |           |                    |           |           |
| Non-farm/non-residential                                 | 1,384                  | 3,850     | 16,705             | 2,762     | 5,743     |
| Construction/land development                            | 1,086                  | 3,590     | 10,274             | 1,714     | 6,661     |
| Agricultural   |                        | 226       |                    |           | 863       |
| Residential real estate loans:                           |                        |           |                    |           |           |
| Residential 1-4 family                                   | 4,328                  | 2,005     | 10,731             | 3,101     | 6,033     |
| Multifamily residential                                  | 95                     | 1,294     |                    | 97        |           |
| Total real estate  | 6,893                  | 10,965    | 37,710             | 7,674     | 19,300    |
| Consumer   | 865                    | 2,464     | 2,500              | 1,523     | 442       |
| Commercial and industrial                                | 1,342                  | 571       | 24,227             | 1,222     | 1,076     |
| Agricultural   |                        |           |                    |           |           |
| Other  | 1,693                  | 695       | 16                 | 50        | 102       |
| Total loans charged off                                  | 10,793                 | 14,695    | 64,453             | 10,469    | 20,920    |
| Recoveries of loans previously charged off               |                        |           |                    |           |           |
| Real estate:   |                        |           |                    |           |           |
| Commercial real estate loans:                            |                        |           |                    |           |           |
| Non-farm/non-residential                                 | 970                    | 212       | 800                | 268       | 1,172     |
| Construction/land development                            | 9                      | 827       | 55                 | 67        | 8         |
| Agricultural   | 234                    | 66        | 68                 | 204       |           |
| Residential real estate loans:                           |                        |           |                    |           |           |
| Residential 1-4 family                                   | 674                    | 510       | 492                | 761       | 135       |
| Multifamily residential                                  | 4                      | 1,967     |                    |           |           |
| Total real estate  | 1,891                  | 3,582     | 1,415              | 1,300     | 1,315     |
| Consumer   | 134                    | 183       | 501                | 435       | 83        |
| Commercial and industrial                                | 124                    | 5,817     | 50                 | 149       | 99        |
| Agricultural   |                        |           |                    |           |           |
| Other  | 435                    | 394       | 17                 | 18        | 4         |
| Total recoveries   | 2,584                  | 9,976     | 1,983              | 1,902     | 1,501     |
| Net (recoveries) loans charged off                       | 8,209                  | 4,719     | 62,470             | 8,567     | 19,419    |
| Allowance for loan losses of acquired institution        |                        |           |                    |           | 3,382     |
| Provision for loan losses                                | 1,250                  | 3,500     | 72,850             | 11,150    | 27,016    |
| Balance, end of year                                     | \$ 45,170              | \$ 52,129 | \$ 53,348          | \$ 42,968 | \$ 40,385 |
| Discount for credit losses on non-covered loans acquired | 81,717                 | 2,513     | 844                | 67        | 206       |
|  | 0.40%                  | 0.26%     | 3.19%              | 0.43%     | 1.01%     |

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|  |      |       |      |      |      |
|--|------|-------|------|------|------|
| Net (recoveries) charge-offs on loans not covered by loss share to average non-covered loans   |      |       |      |      |      |
| Allowance for loan losses for non-covered loans to period-end non-covered loans  | 1.94 | 2.96  | 2.83 | 2.20 | 2.06 |
| Allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired to total non-covered loans plus discount for credit losses on non-covered loans acquired | 5.26 | 3.10  | 2.86 | 2.21 | 2.07 |
| Allowance for loan losses for non-covered loans to net (recoveries) charge-offs  | 550  | 1,105 | 85   | 502  | 208  |

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*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 period ended December 31, 2012 and 2011 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 as any changes to the general allocation factors due to changes within the actual characteristics of the loan portfolio.

Table 15 presents the allocation of allowance for loan losses for non-covered loans as of the dates indicated.

**Table 15: Allocation of Allowance for Loan Losses for Non-Covered Loans**

|                                   | 2012                |                      | 2011                |                      | As of December 31,<br>2010 |                      | 2009                |                      | 2008                |                      |
|-----------------------------------|---------------------|----------------------|---------------------|----------------------|----------------------------|----------------------|---------------------|----------------------|---------------------|----------------------|
|                                   | Allowance<br>Amount | % of<br>loans<br>(1) | Allowance<br>Amount | % of<br>loans<br>(1) | Allowance<br>Amount        | % of<br>loans<br>(1) | Allowance<br>Amount | % of<br>loans<br>(1) | Allowance<br>Amount | % of<br>loans<br>(1) |
| (Dollars in thousands)            |                     |                      |                     |                      |                            |                      |                     |                      |                     |                      |
| Real estate:                      |                     |                      |                     |                      |                            |                      |                     |                      |                     |                      |
| Commercial real estate<br>loans:  |                     |                      |                     |                      |                            |                      |                     |                      |                     |                      |
| Non-farm/non-residential          | \$ 19,781           | 43.7%                | \$ 20,160           | 39.7%                | \$ 16,874                  | 42.6%                | \$ 13,284           | 41.5%                | \$ 16,010           | 41.7%                |
| Construction/land<br>development  | 5,816               | 10.9                 | 7,945               | 20.6                 | 12,002                     | 18.5                 | 9,624               | 18.9                 | 9,369               | 16.4                 |
| Agricultural                      | 193                 | 1.4                  | 208                 | 1.6                  | 373                        | 1.4                  | 284                 | 1.7                  | 255                 | 1.2                  |
| Residential real estate<br>loans: |                     |                      |                     |                      |                            |                      |                     |                      |                     |                      |
| Residential 1-4 family            | 10,467              | 23.6                 | 9,586               | 19.9                 | 11,065                     | 19.6                 | 10,654              | 19.6                 | 6,814               | 20.0                 |
| Multifamily residential           | 3,346               | 5.6                  | 2,610               | 3.2                  | 3,232                      | 3.1                  | 694                 | 3.2                  | 880                 | 2.9                  |
| Total real estate                 | 39,603              | 85.2                 | 40,509              | 85.0                 | 43,546                     | 85.2                 | 34,540              | 84.9                 | 33,328              | 82.2                 |
| Consumer                          | 894                 | 1.6                  | 1,780               | 2.2                  | 815                        | 2.7                  | 1,705               | 2.0                  | 848                 | 2.4                  |
| Commercial and industrial         | 3,870               | 11.0                 | 6,308               | 10.0                 | 6,357                      | 9.7                  | 6,067               | 11.3                 | 4,945               | 13.0                 |
| Agricultural                      | 394                 | 0.8                  | 1,478               | 1.2                  | 207                        | 0.9                  | 279                 | 0.5                  | 816                 | 1.2                  |
| Other                             |                     | 1.4                  |                     | 1.6                  |                            | 1.5                  |                     | 1.3                  |                     | 1.2                  |
| Unallocated                       | 409                 |                      | 2,054               |                      | 2,423                      |                      | 377                 |                      | 448                 |                      |
| Total                             | \$ 45,170           | 100.0%               | \$ 52,129           | 100.0%               | \$ 53,348                  | 100.0%               | \$ 42,968           | 100.0%               | \$ 40,385           | 100.0%               |

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

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### ***Investment Securities***

Our securities portfolio is the second largest component of earning assets and provides a significant source of revenue. Securities within the portfolio can be 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 December 31, 2012 and 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 \$726.2 million as of December 31, 2012, compared to \$671.2 million as of December 31, 2011. The estimated effective duration of our securities portfolio was 2.8 years as of December 31, 2012.

As of December 31, 2012, \$325.3 million, or 44.8%, of the available for sale securities were invested in mortgage-backed securities, compared to \$142.3 million, or 21.2%, of the available for sale securities in the prior year. To reduce our income tax burden, \$190.6 million, or 26.3%, of the available for sale securities portfolio as of December 31, 2012, was primarily invested in tax-exempt obligations of state and political subdivisions, compared to \$167.1 million, or 24.9%, of the available for sale securities as of December 31, 2011. Also, we had approximately \$190.7 million, or 26.3%, in obligations of U.S. Government-sponsored enterprises in the available for sale securities portfolio as of December 31, 2012, compared to \$348.0 million, or 51.8%, of the available for sale securities in the prior year.

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.

During 2010, we became aware that fraudulent rural improvement district bonds had been sold to various financial institutions in Arkansas. As a result of the fraud the board of directors authorized a \$3.6 million other than temporary charge to our investment securities. During 2011, we were able record a gain from the collection of \$2.2 million in insurance proceeds on these bonds.

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Table 16 presents the carrying value and fair value of investment securities for each of the years indicated.

**Table 16: Investment Securities**

|                                       | As of December 31, |                              |                               |                         |                   |                              |                               |                         |
|---------------------------------------|--------------------|------------------------------|-------------------------------|-------------------------|-------------------|------------------------------|-------------------------------|-------------------------|
|                                       | 2012               |                              |                               |                         |                   | 2011                         |                               |                         |
|                                       | Amortized<br>Cost  | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
|                                       | (In thousands)     |                              |                               |                         |                   |                              |                               |                         |
| <b>Available for sale</b>             |                    |                              |                               |                         |                   |                              |                               |                         |
| U.S. government-sponsored enterprises | \$ 187,811         | \$ 3,011                     | \$ (76)                       | \$ 190,746              | \$ 344,789        | \$ 3,587                     | \$ (380)                      | \$ 347,996              |
| Mortgage-backed securities            | 316,770            | 8,751                        | (180)                         | 325,341                 | 138,383           | 4,054                        | (173)                         | 142,264                 |
| State and political subdivisions      | 182,515            | 8,219                        | (96)                          | 190,638                 | 160,567           | 6,531                        | (29)                          | 167,069                 |
| Other securities                      | 19,379             | 138                          | (19)                          | 19,498                  | 14,310            |                              | (418)                         | 13,892                  |
| Total                                 | \$ 706,475         | \$ 20,119                    | \$ (371)                      | \$ 726,223              | \$ 658,049        | \$ 14,172                    | \$ (1,000)                    | \$ 671,221              |

|                                       | As of December 31, |                              |                               |                         |
|---------------------------------------|--------------------|------------------------------|-------------------------------|-------------------------|
|                                       | 2010               |                              |                               |                         |
|                                       | Amortized<br>Cost  | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
|                                       | (In thousands)     |                              |                               |                         |
| <b>Available for sale</b>             |                    |                              |                               |                         |
| 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              |



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Table 17 reflects the amortized cost and estimated fair value of debt securities as of December 31, 2012, by contractual maturity and the weighted average yields (for tax-exempt obligations on a fully taxable equivalent basis) of those securities. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

**Table 17: Maturity Distribution of Investment Securities**

|                                       | As of December 31, 2012 |                              |                                |                  | Total<br>Amortized<br>Cost | Total<br>Fair<br>Value |
|---------------------------------------|-------------------------|------------------------------|--------------------------------|------------------|----------------------------|------------------------|
|                                       | 1 Year<br>or Less       | 1 Year<br>Through<br>5 Years | 5 Years<br>Through<br>10 Years | Over<br>10 Years |                            |                        |
| <b>Available for sale</b>             |                         |                              |                                |                  |                            |                        |
| U.S. Government-sponsored enterprises | \$ 125,228              | \$ 46,117                    | \$ 15,909                      | \$ 557           | \$ 187,811                 | \$ 190,746             |
| Mortgage-backed securities            | 27,941                  | 111,837                      | 158,212                        | 18,780           | 316,770                    | 325,341                |
| State and political subdivisions      | 47,562                  | 70,794                       | 59,178                         | 4,981            | 182,515                    | 190,638                |
| Other securities                      | 6,532                   | 7,791                        |                                | 5,056            | 19,379                     | 19,498                 |
| Total                                 | \$ 207,263              | \$ 236,539                   | \$ 233,299                     | \$ 29,374        | \$ 706,475                 | \$ 726,223             |
| Percentage of total                   | 29.3%                   | 33.5%                        | 33.0%                          | 4.2%             | 100.0%                     |                        |
| Weighted average yield                | 2.7%                    | 3.2%                         | 3.0%                           | 3.1%             | 3.0%                       |                        |

**Deposits**

Our deposits averaged \$3.22 billion for the year ended December 31, 2012, and \$2.90 billion for 2011. Total deposits increased \$625.4 million, or 21.9%, to \$3.48 billion as of December 31, 2012, from \$2.86 billion as of December 31, 2011. Excluding the \$990.2 million of deposits acquired from our 2012 acquisitions, our deposits decreased by \$364.8 million, a reduction of 12.8%. 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 December 31, 2012 and December 31, 2011, brokered deposits were \$56.9 million and \$103.4 million, respectively. Included in these brokered deposits are \$52.5 million and \$41.9 million of Certificate of Deposit Account Registry Service (CDARS) as of December 31, 2012 and December 31, 2011, 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 and do not anticipate a significant change in total deposits unless our liquidity position changes. We believe that additional funds can be attracted and deposit growth can be obtained through deposit pricing if we experience increased loan demand or other liquidity needs.

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 400 to 425 basis points to a low of 0.25% to 0% on December 16, 2008, where the rate has remained.

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Table 18 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 years ended December 31, 2012, 2011, and 2010.

**Table 18: Average Deposit Balances and Rates**

|   | 2012                |                   | Years Ended December 31,<br>2011         |                   | 2010                |                   |
|---|---------------------|-------------------|--|-------------------|---------------------|-------------------|
|   | Average Amount      | Average Rate Paid | Average Amount<br>(Dollars in thousands) | Average Rate Paid | Average Amount      | Average Rate Paid |
| Non-interest-bearing transaction accounts | \$ 569,017          | %                 | \$ 443,781                               | %                 | \$ 344,778          | %                 |
| Interest-bearing transaction accounts     | 1,333,572           | 0.25              | 1,001,372                                | 0.46              | 811,010             | 0.60              |
| Savings deposits                          | 167,521             | 0.15              | 131,426                                  | 0.36              | 87,262              | 0.45              |
| Time deposits:                            |                     |                   |  |                   |                     |                   |
| \$100,000 or more                         | 639,889             | 0.77              | 778,856                                  | 1.28              | 643,784             | 1.52              |
| Other time deposits                       | 508,183             | 1.28              | 540,012                                  | 1.47              | 496,599             | 1.87              |
| <b>Total</b>                              | <b>\$ 3,218,182</b> | <b>0.47%</b>      | <b>\$ 2,895,447</b>                      | <b>0.79%</b>      | <b>\$ 2,383,433</b> | <b>1.02%</b>      |

Table 19 presents our maturities of large denomination time deposits as of December 31, 2012 and 2011.

**Table 19: Maturities of Large Denomination Time Deposits (\$100,000 or more)**

|                                 | 2012              |                                   | As of December 31,<br>2011 |               |
|---------------------------------|-------------------|-----------------------------------|----------------------------|---------------|
|                                 | Balance           | Percent<br>(Dollars in thousands) | Balance                    | Percent       |
| <b>Maturing</b>                 |                   |                                   |                            |               |
| Three months or less            | \$ 159,143        | 29.0%                             | \$ 199,604                 | 28.4%         |
| Over three months to six months | 126,844           | 23.1                              | 151,566                    | 21.5          |
| Over six months to 12 months    | 148,601           | 27.1                              | 217,129                    | 30.9          |
| Over 12 months                  | 114,528           | 20.8                              | 134,872                    | 19.2          |
| <b>Total</b>                    | <b>\$ 549,116</b> | <b>100.0%</b>                     | <b>\$ 703,171</b>          | <b>100.0%</b> |

**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 increased \$4.0 million, or 6.4%, from \$62.3 million as of December 31, 2011 to \$66.3 million as of December 31, 2012.

**FHLB Borrowings**

Our FHLB borrowed funds were \$130.4 million and \$142.8 million at December 31, 2012 and December 31, 2011, respectively. All of the outstanding balance for December 31, 2012 and 2011 were issued as long-term advances. Our remaining FHLB borrowing capacity was \$640.5 million and \$468.8 million as of December 31, 2012 and December 31, 2011, respectively. Expected maturities will differ from contractual maturities, because FHLB may have the right to call or prepay certain obligations.



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### ***Subordinated Debentures***

Subordinated debentures, which consist of guaranteed payments on trust preferred securities, were \$28.9 million and \$44.3 million as of December 31, 2012 and 2011, respectively.

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 Board of Governors of the Federal Reserve System recently announced the planned implementation of Basel III capital rules. Under these rules trust preferred securities will be phased out as Tier 1 capital for future periods.

The Company holds \$28.9 million of trust preferred securities which are currently callable without penalty based on the terms of the specific agreements. Since these trust preferred securities are being phased out of Tier 1 capital, we have decided to begin the process of redeeming these instruments. We have been approved and are planning to pay off \$25.8 million of subordinated debentures currently at a floating rate of 3.46% during the first quarter of 2013. We are also evaluating the remaining \$3.1 million of subordinated debentures and expect to pay off part or all of the remaining subordinated debentures during the second quarter of 2013.

### ***Stockholders' Equity***

Stockholders' equity was \$515.5 million at December 31, 2012 compared to \$474.1 million at December 31, 2011, an increase of 8.7%. As of December 31, 2012 and 2011 our common equity to asset ratio was 12.2% and 13.2%, respectively. Book value per common share was \$18.34 at December 31, 2012 compared to \$16.77 at December 31, 2011, a 9.4% increase.

*Troubled Asset Relief Program.* On January 16, 2009 we issued 50,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A totaling \$50.0 million to the United States Department of Treasury under the Capital Purchase Program of the Emergency Economic Stabilization Act of 2008. The agreement between the Company and the Treasury limited the payment of dividends on the Common Stock to a quarterly cash dividend of not more than \$0.0545 per share without approval by the Treasury. This limitation was removed when the Company repurchased all 50,000 shares and the warrant of its Series A Preferred Stock in July 2011.

*Common Stock Cash Dividends.* We declared cash dividends on our common stock of \$0.5800, \$0.2680 and \$0.2165 for the years ended December 31, 2012, 2011 and 2010, respectively. The common stock dividend payout ratio for the year ended December 31, 2012, 2011 and 2010 was 26.15%, 13.90% and 35.01%, respectively. During the fourth quarter of 2012, the Board of Directors paid a second \$0.13 per share dividend for the quarter on December 31, 2012. This dividend was declared by the Board of Directors as a special one-time cash dividend.

*Stock Repurchase Program.* During 2012, the Company utilized a portion of its previously approved stock repurchase program. This program authorized the repurchase of 1,188,000 shares of the Company's common stock. For 2012, the Company repurchased a total of 455,448 shares with a weighted average stock price of \$29.72. The 2012 earnings were used to fund these repurchases. The total shares repurchased to date under the program are 755,448 shares. The remaining balance available for repurchase is 432,552 shares at December 31, 2012.

**Table of Contents****Liquidity and Capital Adequacy Requirements**

*Parent Company Liquidity.* The primary sources for payment of our operating expenses and dividends are current cash on hand (\$35.8 million as of December 31, 2012) and dividends received from our bank subsidiary.

*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 December 31, 2012 and December 31, 2011, we met all regulatory capital adequacy requirements to which we were subject.

Table 20 presents our risk-based capital ratios as of December 31, 2012 and 2011.

**Table 20: Risk-Based Capital**

|   | As of December 31,     |                     |
|---|------------------------|---------------------|
|   | 2012                   | 2011                |
|   | (Dollars in thousands) |                     |
| <b>Tier 1 capital</b>                                   |                        |                     |
| Stockholders equity                                     | \$ 515,473             | \$ 474,066          |
| Qualifying trust preferred securities                   | 28,000                 | 43,000              |
| Goodwill and core deposit intangibles, net              | (96,785)               | (67,131)            |
| Unrealized (gain) loss on available for sale securities | (12,001)               | (8,004)             |
| Deferred tax assets                                     | (3,529)                |                     |
| <b>Total Tier 1 capital</b>                             | <b>431,158</b>         | <b>441,931</b>      |
| <b>Tier 2 capital</b>                                   |                        |                     |
| Qualifying allowance for loan losses                    | 38,807                 | 32,670              |
| <b>Total Tier 2 capital</b>                             | <b>38,807</b>          | <b>32,670</b>       |
| <b>Total risk-based capital</b>                         | <b>\$ 469,965</b>      | <b>\$ 474,601</b>   |
| Average total assets for leverage ratio                 | \$ 3,939,206           | \$ 3,541,739        |
| <b>Risk weighted assets</b>                             | <b>\$ 3,092,707</b>    | <b>\$ 2,594,155</b> |
| <b>Ratios at end of year</b>                            |                        |                     |
| Leverage ratio  | 10.95%                 | 12.48%              |
| Tier 1 risk-based capital                               | 13.94                  | 17.04               |
| Total risk-based capital                                | 15.20                  | 18.30               |
| <b>Minimum guidelines</b>                               |                        |                     |
| Leverage ratio  | 4.00%                  | 4.00%               |
| Tier 1 risk-based capital                               | 4.00                   | 4.00                |
| Total risk-based capital                                | 8.00                   | 8.00                |

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

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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.

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Table 21 presents actual capital amounts and ratios as of December 31, 2012 and 2011, for our bank subsidiary and us.

**Table 21: Capital and Ratios**

|  | Actual     |        | Minimum Capital Requirement |       | Minimum To Be Well Capitalized Under Prompt Corrective Action Provision |       |
|--|------------|--------|-----------------------------|-------|---|-------|
|  | Amount     | Ratio  | Amount                      | Ratio | Amount  | Ratio |
| (Dollars in thousands)   |            |        |                             |       |   |       |
| <b>As of December 31, 2012</b>   |            |        |                             |       |   |       |
| Leverage ratios:   |            |        |                             |       |   |       |
| Home BancShares  | \$ 431,158 | 10.95% | \$ 157,501                  | 4.00% | \$ N/A  | N/A%  |
| Centennial Bank  | 387,752    | 9.84   | 157,623                     | 4.00  | 197,028   | 5.00  |
| Tier 1 capital ratios:   |            |        |                             |       |   |       |
| Home BancShares  | \$ 431,158 | 13.94% | \$ 123,718                  | 4.00% | \$ N/A  | N/A%  |
| Centennial Bank  | 387,752    | 12.57  | 123,390                     | 4.00  | 185,084   | 6.00  |
| Total risk-based capital ratios:   |            |        |                             |       |   |       |
| Home BancShares  | \$ 469,965 | 15.20% | \$ 247,350                  | 8.00% | \$ N/A  | N/A%  |
| Centennial Bank  | 426,454    | 13.83  | 246,683                     | 8.00  | 308,354   | 10.00 |
| <b>As of December 31, 2011</b>   |            |        |                             |       |   |       |
| Leverage ratios:   |            |        |                             |       |   |       |
| Home BancShares  | \$ 441,931 | 12.48% | \$ 141,645                  | 4.00% | \$ N/A  | N/A%  |
| Centennial Bank  | 404,687    | 11.65  | 138,948                     | 4.00  | 173,685   | 5.00  |
| Tier 1 capital ratios:   |            |        |                             |       |   |       |
| Home BancShares  | \$ 441,931 | 17.04% | \$ 103,740                  | 4.00% | \$ N/A  | N/A%  |
| Centennial Bank  | 404,687    | 15.68  | 103,236                     | 4.00  | 154,855   | 6.00  |
| Total risk-based capital ratios:   |            |        |                             |       |   |       |
| Home BancShares  | \$ 474,601 | 18.30% | \$ 207,476                  | 8.00% | \$ N/A  | N/A%  |
| Centennial Bank  | 437,197    | 16.94  | 206,468                     | 8.00  | 258,086   | 10.00 |
| <b><i>Off-Balance Sheet Arrangements and Contractual Obligations</i></b> |            |        |                             |       |   |       |

In the normal course of business, we enter into a number of financial commitments. Examples of these commitments include but are not limited to operating lease obligations, FHLB advances, lines of credit, subordinated debentures, unfunded loan commitments and letters of credit.

Commitments to extend credit and letters of credit are legally binding, conditional agreements generally having certain expiration or termination dates. These commitments generally require customers to maintain certain credit standards and are established based on management's credit assessment of the customer. The commitments may expire without being drawn upon. Therefore, the total commitment does not necessarily represent future requirements.





**Table of Contents****Table 24: Tangible Book Value Per Share**

|   | Years Ended December 31,                      |            |            |
|---|---|------------|------------|
|   | 2012  | 2011       | 2010       |
|   | (Dollars in thousands, except per share data) |            |            |
| Book value per common share: A/B                | \$ 18.34                                      | \$ 16.77   | \$ 15.02   |
| Tangible book value per common share: (A-C-D)/B | 14.86   | 14.35      | 12.52      |
| (A) Total common equity                         | \$ 515,473                                    | \$ 474,066 | \$ 427,469 |
| (B) Common shares outstanding                   | 28,107  | 28,276     | 28,452     |
| (C) Goodwill                                    | 85,681  | 59,663     | 59,663     |
| (D) Core deposit and other intangibles          | 12,061  | 8,620      | 11,447     |

**Table 25: Return on Average Assets Excluding Intangible Amortization**

|  | Years Ended December 31, |              |              |
|--|--------------------------|--------------|--------------|
|  | 2012                     | 2011         | 2010         |
|  | (Dollars in thousands)   |              |              |
| Return on average assets: A/C  | 1.58%                    | 1.50%        | 0.55%        |
| Return on average assets excluding intangible amortization:<br>B/(C-D) | 1.66                     | 1.57         | 0.61         |
| (A) Net income available to all stockholders                           | \$ 63,022                | \$ 54,741    | \$ 17,591    |
| Intangible amortization after-tax                                      | 1,678                    | 1,718        | 1,556        |
| (B) Earnings excluding intangible amortization                         | \$ 64,700                | \$ 56,459    | \$ 19,147    |
| (C) Average assets   | \$ 3,978,723             | \$ 3,658,256 | \$ 3,225,186 |
| (D) Average goodwill, core deposits and other intangible<br>assets     | 86,349                   | 69,675       | 63,704       |

**Table 26: Return on Average Tangible Equity Excluding Intangible Amortization**

|  | Years Ended December 31, |           |           |
|--|--------------------------|-----------|-----------|
|  | 2012                     | 2011      | 2010      |
|  | (Dollars in thousands)   |           |           |
| Return on average common equity: A/C   | 12.75%                   | 11.77%    | 3.41%     |
| Return on average tangible common equity: B/(C-D)                                  | 15.87                    | 14.39     | 4.40      |
| (A) Net income available to common stockholders                                    | \$ 63,022                | \$ 52,913 | \$ 14,911 |
| (B) Earnings available to common stockholders excluding<br>intangible amortization | 64,700                   | 54,631    | 16,467    |
| (C) Average common equity  | 494,118                  | 449,401   | 437,647   |
| (D) Average goodwill, core deposits and other intangible<br>assets                 | 86,349                   | 69,675    | 63,704    |

**Table of Contents****Table 27: Tangible Equity to Tangible Assets**

|   | 2012                   | Years Ended December 31, |              |
|---|------------------------|--------------------------|--------------|
|   |                        | 2011                     | 2010         |
|   | (Dollars in thousands) |                          |              |
| Equity to assets: B/A                               | 12.15%                 | 13.15%                   | 12.68%       |
| Common equity to assets: C/A                        | 12.15                  | 13.15                    | 11.36        |
| Tangible equity to tangible assets: (C-D-E)/(A-D-E) | 10.08                  | 11.48                    | 9.65         |
| (A) Total assets                                    | \$ 4,242,130           | \$ 3,640,117             | \$ 3,762,646 |
| (B) Total equity                                    | 515,473                | 474,066                  | 476,925      |
| (C) Total common equity                             | 515,473                | 474,066                  | 427,469      |
| (D) Goodwill  | 85,681                 | 59,663                   | 59,663       |
| (E) Core deposit and other intangibles              | 12,061                 | 8,620                    | 11,447       |

Table 28 presents selected unaudited quarterly financial information for 2012 and 2011.

**Table 28: Quarterly Results**

|  | First                                 | 2012 Quarter |           |           | Total      |
|--|---------------------------------------|--------------|-----------|-----------|------------|
|  |                                       | Second       | Third     | Fourth    |            |
|  | (In thousands, except per share data) |              |           |           |            |
| Income statement data:                                     |                                       |              |           |           |            |
| Total interest income                                      | \$ 42,988                             | \$ 45,089    | \$ 43,542 | \$ 45,516 | \$ 177,135 |
| Total interest expense                                     | 6,454                                 | 5,930        | 4,917     | 4,234     | 21,535     |
| Net interest income  | 36,534                                | 39,159       | 38,625    | 41,282    | 155,600    |
| Provision for loan losses                                  |                                       | 1,333        | 167       | 1,250     | 2,750      |
| Net interest income (loss) after provision for loan losses | 36,534                                | 37,826       | 38,458    | 40,032    | 152,850    |
| Total non-interest income                                  | 10,103                                | 11,053       | 10,626    | 16,187    | 47,969     |
| Total non-interest expense                                 | 24,386                                | 24,424       | 23,981    | 29,577    | 102,368    |
| Income (loss) before income taxes                          | 22,251                                | 24,455       | 25,103    | 26,642    | 98,451     |
| Income tax expense (benefit)                               | 7,753                                 | 8,965        | 9,008     | 9,703     | 35,429     |
| Net income (loss)  | \$ 14,498                             | \$ 15,490    | \$ 16,095 | \$ 16,939 | \$ 63,022  |
| Per share data:  |                                       |              |           |           |            |
| Basic earnings   | \$ 0.51                               | \$ 0.55      | \$ 0.58   | \$ 0.60   | \$ 2.24    |
| Diluted earnings   | 0.51                                  | 0.55         | 0.57      | 0.60      | 2.23       |
| Diluted earnings excluding intangible amortization         | 0.52                                  | 0.57         | 0.58      | 0.62      | 2.29       |

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|  | 2011 Quarter                          |           |           |           |            |
|--|---------------------------------------|-----------|-----------|-----------|------------|
|  | First                                 | Second    | Third     | Fourth    | Total      |
|  | (In thousands, except per share data) |           |           |           |            |
| Income statement data:                                     |                                       |           |           |           |            |
| Total interest income                                      | \$ 42,755                             | \$ 43,580 | \$ 43,259 | \$ 42,212 | \$ 171,806 |
| Total interest expense                                     | 8,228                                 | 7,881     | 7,547     | 6,895     | 30,551     |
| Net interest income  | 34,527                                | 35,699    | 35,712    | 35,317    | 141,255    |
| Provision for loan losses                                  | 1,250                                 |           |           | 2,250     | 3,500      |
| Net interest income (loss) after provision for loan losses | 33,277                                | 35,699    | 35,712    | 33,067    | 137,755    |
| Total non-interest income                                  | 10,040                                | 9,127     | 9,960     | 12,182    | 41,309     |
| Total non-interest expense                                 | 23,861                                | 23,856    | 23,736    | 23,269    | 94,722     |
| Income (loss) before income taxes                          | 19,456                                | 20,970    | 21,936    | 21,980    | 84,342     |
| Income tax expense (benefit)                               | 6,740                                 | 7,424     | 7,624     | 7,813     | 29,601     |
| Net income (loss)  | \$ 12,716                             | \$ 13,546 | \$ 14,312 | \$ 14,167 | \$ 54,741  |
| Per share data:  |                                       |           |           |           |            |
| Basic earnings (loss)                                      | \$ 0.42                               | \$ 0.46   | \$ 0.48   | \$ 0.50   | \$ 1.86    |
| Diluted earnings (loss)                                    | 0.42                                  | 0.45      | 0.48      | 0.50      | 1.85       |
| Diluted earnings (loss) excluding intangible amortization  | 0.44                                  | 0.46      | 0.50      | 0.51      | 1.91       |

**Recent Accounting Pronouncements**

See Note 26 to the Consolidated Financial Statements for a discussion of certain recent accounting pronouncements.

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**Item 7A. 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 December 31, 2012, our cash and cash equivalents were \$231.9 million, or 5.5% of total assets, compared to \$184.3 million, or 5.1% of total assets, as of December 31, 2011. Our investment securities and federal funds sold were \$743.4 million as of December 31, 2012 and \$672.3 million as of December 31, 2011.

Our investment portfolio is comprised of approximately 62.8% or \$443.8 million of securities which mature in less than five years. As of December 31, 2012 and 2011, \$532.8 million and \$465.5 million, respectively, of securities were pledged as collateral for various public fund deposits and securities sold under agreements to repurchase.

Our commercial and real estate lending activities are concentrated in loans with maturities of less than five years. As of December 31, 2012 and 2011, approximately \$1.29 billion, or 47.3%, and \$1.25 billion, or 55.5%, respectively, of our total loans matured within one year and/or had adjustable interest rates. A loan is considered fixed rate if the loan is currently at its adjustable floor or ceiling. Additionally, we maintain loan participation agreements with other financial institutions in which we could participate out loans for additional liquidity should the need arise.

On the liability side, our principal sources of liquidity are deposits, borrowed funds, and access to capital markets. Customer deposits are our largest sources of funds. As of December 31, 2012, our total deposits were \$3.48 billion, or 82.1% of total assets, compared to \$2.86 billion, or 79.3% of total assets, as of December 31, 2011. We attract our deposits primarily from individuals, business, and municipalities located in our market areas.

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 \$35.0 million on an unsecured basis as of December 31, 2012 and 2011. 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 \$130.4 million and \$142.8 million at December 31, 2012 and December 31, 2011, respectively. All of the 2012 and 2011 outstanding balance were issued as long-term advances. Our FHLB borrowing capacity was \$640.5 million and \$468.8 million as of December 31, 2012 and December 31, 2011.

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.

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*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.

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.

For the rising and falling interest rate scenarios, the base market interest rate forecast was increased and decreased over twelve months by 200 and 100 basis points, respectively. At December 31, 2012, our net interest margin exposure related to these hypothetical changes in market interest rates was within the current guidelines established by us.

Table 29 presents our sensitivity to net interest income as of December 31, 2012.

**Table 29: Sensitivity of Net Interest Income**

| <b>Interest Rate Scenario</b> | <b>Percentage Change from Base</b> |
|-------------------------------|------------------------------------|
| Up 200 basis points           | 7.61%                              |
| Up 100 basis points           | 3.81                               |
| Down 100 basis points         | (5.24)                             |
| Down 200 basis points         | (11.11)                            |

*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 December 31, 2012 was asset sensitive with a one-year cumulative repricing gap of 8.1%. 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.

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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.

Table 30 presents a summary of the repricing schedule of our interest-earning assets and interest-bearing liabilities (gap) as of December 31, 2012.

**Table 30: Interest Rate Sensitivity**

|   | Interest Rate Sensitivity Period |                   |                    |                     |                   |                   |                     | Total             |
|---|----------------------------------|-------------------|--------------------|---------------------|-------------------|-------------------|---------------------|-------------------|
|   | 0-30<br>Days                     | 31-90<br>Days     | 91-180<br>Days     | 181-365<br>Days     | 1-2<br>Years      | 2-5<br>Years      | Over 5<br>Years     |                   |
| <b>Earning assets</b>   |                                  |                   |                    |                     |                   |                   |                     |                   |
| Interest-bearing deposits due from banks                              | \$ 129,883                       | \$                | \$                 | \$                  | \$                | \$                | \$                  | \$ 129,883        |
| Federal funds sold  | 17,148                           |                   |                    |                     |                   |                   |                     | 17,148            |
| Investment securities   | 42,709                           | 85,495            | 58,550             | 84,869              | 112,968           | 138,984           | 202,648             | 726,223           |
| Loans receivable  | 539,862                          | 277,767           | 345,083            | 473,562             | 419,298           | 539,602           | 70,277              | 2,665,451         |
| <b>Total earning assets</b>   | <b>729,602</b>                   | <b>363,262</b>    | <b>403,633</b>     | <b>558,431</b>      | <b>532,266</b>    | <b>678,586</b>    | <b>272,925</b>      | <b>3,538,705</b>  |
| <b>Interest-bearing liabilities</b>                                   |                                  |                   |                    |                     |                   |                   |                     |                   |
| Interest-bearing transaction and savings deposits                     | 69,694                           | 139,387           | 209,082            | 418,163             | 284,543           | 257,993           | 405,185             | 1,784,047         |
| Time deposits   | 111,867                          | 168,503           | 246,286            | 289,365             | 109,682           | 106,964           | 324                 | 1,032,991         |
| Federal funds purchased   |                                  |                   |                    |                     |                   |                   |                     |                   |
| Securities sold under repurchase agreements                           | 56,336                           |                   |                    |                     | 1,326             | 3,977             | 4,639               | 66,278            |
| FHLB and other borrowed funds   | 6                                | 12                | 115                | 30,135              | 279               | 10,360            | 89,481              | 130,388           |
| Subordinated debentures   | 28,867                           |                   |                    |                     |                   |                   |                     | 28,867            |
| <b>Total interest-bearing liabilities</b>                             | <b>266,770</b>                   | <b>307,902</b>    | <b>455,483</b>     | <b>737,663</b>      | <b>395,830</b>    | <b>379,294</b>    | <b>499,629</b>      | <b>3,042,571</b>  |
| <b>Interest rate sensitivity gap</b>                                  | <b>\$ 462,832</b>                | <b>\$ 55,360</b>  | <b>\$ (51,850)</b> | <b>\$ (179,232)</b> | <b>\$ 136,436</b> | <b>\$ 299,292</b> | <b>\$ (226,704)</b> | <b>\$ 496,134</b> |
| <b>Cumulative interest rate sensitivity gap</b>                       | <b>\$ 462,832</b>                | <b>\$ 518,192</b> | <b>\$ 466,342</b>  | <b>\$ 287,110</b>   | <b>\$ 423,546</b> | <b>\$ 722,838</b> | <b>\$ 496,134</b>   |                   |
| <b>Cumulative rate sensitive assets to rate sensitive liabilities</b> | <b>273.5%</b>                    | <b>190.2%</b>     | <b>145.3%</b>      | <b>116.2%</b>       | <b>119.6%</b>     | <b>128.4%</b>     | <b>116.3%</b>       |                   |
| <b>Cumulative gap as a % of total earning assets</b>                  | <b>13.1</b>                      | <b>14.6</b>       | <b>13.2</b>        | <b>8.1</b>          | <b>12.0</b>       | <b>20.4</b>       | <b>14.0</b>         |                   |

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**Item 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**  
**Management's Report on Internal Control Over Financial Reporting**

The management of Home BancShares, Inc. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of the Company's financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Accordingly, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2012. In making this assessment, management used the criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2012 is effective based on the specified criteria.

BKD, LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2012. The report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2012, is included herein.

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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 audited the accompanying consolidated balance sheets of Home BancShares, Inc. as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2012. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Home BancShares, Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Home BancShares, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)* and our report dated March 4, 2013, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ **BKD, LLP**

Little Rock, Arkansas

March 4, 2013



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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 audited Home BancShares, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Home BancShares, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Home BancShares, Inc. and our report dated March 4, 2013, expressed an unqualified opinion thereon.

/s/ **BKD, LLP**

Little Rock, Arkansas

March 4, 2013

**Table of Contents****Home BancShares, Inc.****Consolidated Balance Sheets**

| (In thousands, except share data)   | December 31,        |                     |
|---|---------------------|---------------------|
|   | 2012                | 2011                |
| <b>Assets</b>   |                     |                     |
| Cash and due from banks   | \$ 101,972          | \$ 57,337           |
| Interest-bearing deposits with other banks  | 129,883             | 126,967             |
| Cash and cash equivalents   | 231,855             | 184,304             |
| Federal funds sold  | 17,148              | 1,100               |
| Investment securities available for sale  | 726,223             | 671,221             |
| Loans receivable not covered by loss share  | 2,331,199           | 1,760,086           |
| Loans receivable covered by FDIC loss share   | 384,884             | 481,739             |
| Allowance for loan losses   | (50,632)            | (52,129)            |
| Loans receivable, net   | 2,665,451           | 2,189,696           |
| Bank premises and equipment, net  | 113,883             | 88,465              |
| Foreclosed assets held for sale not covered by loss share   | 20,393              | 16,660              |
| Foreclosed assets held for sale covered by FDIC loss share  | 31,526              | 35,178              |
| FDIC indemnification asset  | 139,646             | 193,856             |
| Cash value of life insurance  | 59,219              | 52,700              |
| Accrued interest receivable   | 16,305              | 15,551              |
| Deferred tax asset, net   | 46,998              | 22,850              |
| Goodwill  | 85,681              | 59,663              |
| Core deposit and intangibles  | 12,061              | 8,620               |
| Other assets  | 75,741              | 64,253              |
| <b>Total assets</b>   | <b>\$ 4,242,130</b> | <b>\$ 3,604,117</b> |
| <b>Liabilities and Stockholders Equity</b>  |                     |                     |
| <b>Liabilities:</b>   |                     |                     |
| Deposits:   |                     |                     |
| Demand and non-interest-bearing   | \$ 666,414          | \$ 464,581          |
| Savings and interest-bearing transaction accounts   | 1,784,047           | 1,189,098           |
| Time deposits   | 1,032,991           | 1,204,352           |
| Total deposits  | 3,483,452           | 2,858,031           |
| Securities sold under agreements to repurchase  | 66,278              | 62,319              |
| FHLB borrowed funds   | 130,388             | 142,777             |
| Accrued interest payable and other liabilities  | 17,672              | 22,593              |
| Subordinated debentures   | 28,867              | 44,331              |
| <b>Total liabilities</b>  | <b>3,726,657</b>    | <b>3,130,051</b>    |
| <b>Stockholders equity:</b>   |                     |                     |
| Common stock, par value \$0.01; shares authorized 50,000,000; shares issued and outstanding 28,106,527 in 2012 and 28,275,507 in 2011 | 281                 | 283                 |
| Capital surplus   | 416,354             | 425,649             |
| Retained earnings   | 86,837              | 40,130              |
| Accumulated other comprehensive income  | 12,001              | 8,004               |
| <b>Total stockholders equity</b>  | <b>515,473</b>      | <b>474,066</b>      |

|  |              |              |
|--|--------------|--------------|
| <b>Total liabilities and stockholders equity</b> | \$ 4,242,130 | \$ 3,604,117 |
|--|--------------|--------------|

See accompanying notes.

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

| (In thousands, except per share data)                      | Year Ended December 31, |                |                |
|--|-------------------------|----------------|----------------|
|  | 2012                    | 2011           | 2010           |
| <b>Interest income:</b>                                    |                         |                |                |
| Loans  | \$ 159,359              | \$ 155,954     | \$ 137,862     |
| Investment securities                                      |                         |                |                |
| Taxable  | 11,226                  | 9,244          | 7,052          |
| Tax-exempt   | 6,154                   | 6,179          | 5,763          |
| Deposits other banks                                       | 379                     | 418            | 408            |
| Federal funds sold   | 17                      | 11             | 37             |
| <b>Total interest income</b>                               | <b>177,135</b>          | <b>171,806</b> | <b>151,122</b> |
| <b>Interest expense:</b>                                   |                         |                |                |
| Interest on deposits                                       | 14,989                  | 22,968         | 24,302         |
| Federal funds purchased                                    | 1                       |                |                |
| FHLB and other borrowed funds                              | 4,364                   | 4,940          | 7,574          |
| Securities sold under agreements to repurchase             | 407                     | 483            | 497            |
| Subordinated debentures                                    | 1,774                   | 2,160          | 2,335          |
| <b>Total interest expense</b>                              | <b>21,535</b>           | <b>30,551</b>  | <b>34,708</b>  |
| <b>Net interest income</b>                                 | <b>155,600</b>          | <b>141,255</b> | <b>116,414</b> |
| Provision for loan losses                                  | 2,750                   | 3,500          | 72,850         |
| <b>Net interest income after provision for loan losses</b> | <b>152,850</b>          | <b>137,755</b> | <b>43,564</b>  |
| <b>Non-interest income:</b>                                |                         |                |                |
| Service charges on deposit accounts                        | 15,069                  | 14,087         | 13,600         |
| Other services charges and fees                            | 12,428                  | 9,929          | 7,371          |
| Mortgage lending income                                    | 5,192                   | 2,993          | 3,111          |
| Mortgage servicing income                                  |                         |                | 314            |
| Insurance commissions                                      | 1,869                   | 1,856          | 1,180          |
| Income from title services                                 | 462                     | 448            | 463            |
| Increase in cash value of life insurance                   | 873                     | 1,128          | 1,383          |
| Dividends from FHLB, FRB, Bankers bank & other             | 1,167                   | 680            | 561            |
| Gain on acquisitions                                       | 5,205                   |                | 34,484         |
| Gain on sale of SBA loans                                  | 404                     | 259            | 18             |
| Gain (loss) on sale of premises and equipment, net         | 324                     | 73             | 92             |
| Gain (loss) on OREO, net                                   | (49)                    | (638)          | (950)          |
| Gain (loss) on securities, net                             | 9                       | 2,248          | (3,643)        |
| FDIC indemnification accretion                             | 1,721                   | 5,517          | 4,508          |
| Other income   | 3,295                   | 2,729          | 2,557          |
| <b>Total non-interest income</b>                           | <b>47,969</b>           | <b>41,309</b>  | <b>65,049</b>  |
| <b>Non-interest expense:</b>                               |                         |                |                |
| Salaries and employee benefits                             | 47,289                  | 42,825         | 38,881         |
| Occupancy and equipment                                    | 14,500                  | 14,197         | 13,164         |
| Data processing expense                                    | 4,930                   | 4,601          | 3,513          |
| Other operating expenses                                   | 35,649                  | 33,099         | 29,443         |

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|  |           |           |           |
|--|-----------|-----------|-----------|
| Total non-interest expense   | 102,368   | 94,722    | 85,001    |
| <b>Income before income taxes</b>                                      | 98,451    | 84,342    | 23,612    |
| Income tax expense   | 35,429    | 29,601    | 6,021     |
| <b>Net income available to all stockholders</b>                        | 63,022    | 54,741    | 17,591    |
| Preferred stock dividends and accretion of discount on preferred stock |           | 1,828     | 2,680     |
| <b>Net income available to common stockholders</b>                     | \$ 63,022 | \$ 52,913 | \$ 14,911 |
| <b>Basic earnings per common share</b>                                 | \$ 2.24   | \$ 1.86   | \$ 0.53   |
| <b>Diluted earnings per common share</b>                               | \$ 2.23   | \$ 1.85   | \$ 0.52   |

See accompanying notes.

**Table of Contents****Home BancShares, Inc.****Consolidated Statements of Comprehensive Income****Years Ended December 31, 2012, 2011 and 2010**

| (In thousands, except per share data)  | 2012      | 2011      | 2010      |
|--|-----------|-----------|-----------|
| Net income available to all stockholders   | \$ 63,022 | \$ 54,741 | \$ 17,591 |
| Net unrealized gain (loss) on available-for-sale securities                      | 6,586     | 14,924    | (3,438)   |
| Less: reclassification adjustment for realized (gains) losses included in income | (9)       | (2,248)   | 3,643     |
| Other comprehensive income (loss), before tax effect                             | 6,577     | 12,676    | 205       |
| Tax effect   | (2,580)   | (4,973)   | (80)      |
| Other comprehensive income (loss)  | 3,997     | 7,703     | 125       |
| Comprehensive income   | \$ 67,019 | \$ 62,444 | \$ 17,716 |

**Home BancShares, Inc.****Consolidated Statements of Stockholders' Equity****Years Ended December 31, 2012, 2011 and 2010**

| (In thousands, except share data)   | Preferred<br>Stock | Common<br>Stock | Capital<br>Surplus | Retained<br>(Deficit)<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total      |
|---|--------------------|-----------------|--------------------|-----------------------------------|--|------------|
| <b>Balances at January 1, 2010</b>  | \$ 49,275          | \$ 257          | \$ 363,519         | \$ 51,746                         | \$ 176   | \$ 464,973 |
| Comprehensive income:   |                    |                 |                    |                                   |  |            |
| Net income  |                    |                 |                    | 17,591                            |  | 17,591     |
| Other comprehensive income (loss):  |                    |                 |                    |                                   |  |            |
| Unrealized gain on investment securities available for sale,<br>net of tax effect of \$80 |                    |                 |                    |                                   | 125  | 125        |
| Comprehensive income  |                    |                 |                    |                                   |  | 17,716     |
| Accretion of discount on preferred stock  | 181                |                 |                    | (181)                             |  |            |
| Net issuance of 174,898 shares of common stock from<br>exercise of stock options          |                    | 3               | 1,552              |                                   |  | 1,555      |
| Disgorgement of profits   |                    |                 | 11                 |                                   |  | 11         |
| Tax benefit from stock options exercised  |                    |                 | 964                |                                   |  | 964        |
| Share-based compensation  |                    |                 | 376                |                                   |  | 376        |
| Cash dividends Preferred Stock 5%   |                    |                 |                    | (2,500)                           |  | (2,500)    |
| Cash dividends Common Stock, \$0.2165 per share   |                    |                 |                    | (6,159)                           |  | (6,159)    |
| 10% Stock dividend Common Stock   |                    | 25              | 66,540             | (66,576)                          |  | (11)       |
| <b>Balances at December 31, 2010</b>  | 49,456             | 285             | 432,962            | (6,079)                           | 301  | 476,925    |
| Comprehensive income:   |                    |                 |                    |                                   |  |            |
| Net income  |                    |                 |                    | 54,741                            |  | 54,741     |
| Other comprehensive income (loss):  |                    |                 |                    |                                   |  |            |
|   |                    |                 |                    |                                   | 7,703  | 7,703      |

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|  |          |            |           |           |            |
|--|----------|------------|-----------|-----------|------------|
| Unrealized gain on investment securities available for sale,<br>net of tax effect of \$4,973   |          |            |           |           |            |
| Comprehensive income   |          |            |           |           | 62,444     |
| Repurchase of 50,000 shares of preferred stock and common<br>stock warrant   | (50,000) | (2,206)    | 906       |           | (51,300)   |
| Accretion of discount on preferred stock   | 544      |            | (544)     |           |            |
| Net issuance of 90,940 shares of common stock from<br>exercise of stock options  | 1        | 714        |           |           | 715        |
| Repurchase of 300,000 shares of common stock   | (3)      | (6,765)    |           |           | (6,768)    |
| Tax benefit from stock options exercised   |          | 562        |           |           | 562        |
| Share-based compensation   |          | 382        |           |           | 382        |
| Cash dividends Preferred Stock 5%  |          |            | (1,286)   |           | (1,286)    |
| Cash dividends Common Stock, \$0.268 per share   |          |            | (7,608)   |           | (7,608)    |
| <b>Balances at December 31, 2011</b>   | 283      | 425,649    | 40,130    | 8,004     | 474,066    |
| Comprehensive income:  |          |            |           |           |            |
| Net income   |          |            | 63,022    |           | 63,022     |
| Other comprehensive income (loss):   |          |            |           |           |            |
| Unrealized gain on investment securities available for sale,<br>net of tax effect of \$2,580   |          |            |           | 3,997     | 3,997      |
| Comprehensive income   |          |            |           |           | 67,019     |
| Net issuance of 177,707 shares of common stock from<br>exercise of stock options plus issuance of 4,761 bonus shares<br>of unrestricted common stock | 2        | 1,956      |           |           | 1,958      |
| Repurchase of 455,448 shares of common stock   | (5)      | (13,544)   |           |           | (13,549)   |
| Tax benefit from stock options exercised   |          | 1,377      |           |           | 1,377      |
| Share-based compensation   | 1        | 916        |           |           | 917        |
| Cash dividends Common Stock, \$0.58 per share  |          |            | (16,315)  |           | (16,315)   |
| <b>Balances at December 31, 2012</b>   | \$ 281   | \$ 416,354 | \$ 86,837 | \$ 12,001 | \$ 515,473 |

See accompanying notes.

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

| (In thousands)  | Year Ended December 31, |           |           |
|---|-------------------------|-----------|-----------|
|   | 2012                    | 2011      | 2010      |
| <b>Operating Activities</b>   |                         |           |           |
| Net income  | \$ 63,022               | \$ 54,741 | \$ 17,591 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                         |           |           |
| Depreciation  | 5,990                   | 5,681     | 5,387     |
| Amortization/(accretion)  | 6,696                   | 1,506     | (733)     |
| Share-based compensation  | 917                     | 382       | 376       |
| Tax benefits from stock options exercised   | (1,377)                 | (562)     | (964)     |
| Gain (loss) on assets   | (121)                   | 1,145     | 4,421     |
| Gain on acquisitions  | (5,205)                 |           | (34,484)  |
| Provision for loan losses   | 2,750                   | 3,500     | 72,850    |
| Deferred income tax effect  | (434)                   | (9,237)   | 386       |
| Increase in cash value of life insurance  | (873)                   | (1,128)   | (1,383)   |
| Originations of mortgage loans held for sale  | (182,763)               | (116,873) | (156,159) |
| Proceeds from sales of mortgage loans held for sale   | 171,067                 | 120,565   | 136,288   |
| Changes in assets and liabilities:  |                         |           |           |
| Accrued interest receivable   | (754)                   | 625       | 2,617     |
| Indemnification and other assets  | 68,295                  | 37,039    | 18,375    |
| Accrued interest payable and other liabilities  | (9,531)                 | (4,708)   | (8,177)   |
| Net cash provided by (used in) operating activities   | 117,679                 | 92,676    | 56,391    |
| <b>Investing Activities</b>   |                         |           |           |
| Net (increase) decrease in federal funds sold   | (5,027)                 | 26,748    | 14,907    |
| Net (increase) decrease in loans net, excluding loans acquired                              | 66,493                  | 168,532   | 62,951    |
| Purchases of investment securities available for sale                                       | (427,667)               | (408,251) | (199,918) |
| Proceeds from maturities of investment securities available for sale                        | 384,505                 | 214,258   | 131,968   |
| Proceeds from sale of investment securities available for sale                              | 1,623                   | 1,116     | 21,504    |
| Proceeds from foreclosed assets held for sale   | 38,806                  | 25,576    | 20,995    |
| Proceeds from sale of SBA loans   | 6,250                   | 4,524     | 268       |
| Sale of mortgage servicing portfolio  |                         |           | 225       |
| Purchases of premises and equipment, net  | (13,518)                | (13,022)  | (16,223)  |
| Death benefits received   |                         | 700       | 1,585     |
| Net cash proceeds received in market acquisitions   | 205,190                 |           |           |
| Net cash proceeds received in FDIC-assisted acquisitions                                    | 105,645                 |           | 281,509   |
| Net cash provided by (used in) investing activities   | 362,300                 | 20,181    | 319,771   |
| <b>Financing Activities</b>   |                         |           |           |
| Net increase (decrease) in deposits net, excluding deposits acquired                        | (364,810)               | (103,767) | (147,422) |
| Net increase (decrease) in securities sold under agreements to repurchase                   | (421)                   | (12,140)  | 12,459    |
| Net increase (decrease) in FHLB and other borrowed funds                                    | (25,668)                | (34,493)  | (117,765) |
| Retirement of subordinated debentures   | (15,000)                |           | (3,252)   |
| Repurchase of common stock  | (13,549)                | (6,768)   |           |
| Repurchase of preferred stock and common stock warrant                                      |                         | (51,300)  |           |
| Proceeds from exercise of stock options plus issuance of bonus                              |                         |           |           |
| shares of unrestricted common stock   | 1,958                   | 715       | 1,555     |
| Disgorgement of profits   |                         |           | 11        |



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|   |            |            |            |
|---|------------|------------|------------|
| Tax benefits from stock options exercised           | 1,377      | 562        | 964        |
| Dividends paid on preferred stock                   |            | (1,286)    | (2,500)    |
| Dividends paid on common stock                      | (16,315)   | (7,608)    | (6,170)    |
| Net cash provided by (used in) financing activities | (432,428)  | (216,085)  | (262,120)  |
| Net change in cash and cash equivalents             | 47,551     | (103,228)  | 114,042    |
| Cash and cash equivalents beginning of year         | 184,304    | 287,532    | 173,490    |
| Cash and cash equivalents end of year               | \$ 231,855 | \$ 184,304 | \$ 287,532 |

See accompanying notes.

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**Home BancShares, Inc.**

**Notes to Consolidated Financial Statements**

**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, 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 assets acquired and liabilities assumed in business combinations, covered loans and the related indemnification asset. In connection with the determination of the allowance for loan losses and the valuation of foreclosed assets, management obtains independent appraisals for significant properties.

***Principles of Consolidation***

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

***Reclassifications***

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

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### ***Cash and Cash Equivalents***

Cash and cash equivalents consist of cash on hand, demand deposits with banks and interest-bearing deposits with other banks. The financial institutions holding the Company's cash accounts are participating in the FDIC's Transaction Account Guarantee Program. Under that program all non-interest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Pursuant to legislation enacted in 2010, the FDIC fully insured all non-interest-bearing transaction accounts through December 31, 2012, at all FDIC-insured institutions.

As scheduled, the unlimited insurance coverage for non-interest-bearing transaction accounts provided under the Dodd-Frank Wall Street Reform and Consumer Protection Act expired on December 31, 2012. Deposits held in non-interest-bearing transaction accounts are now aggregated with any interest bearing deposits the owner may hold in the same ownership category, and the combined total insured up to \$250,000.

### ***Investment Securities***

Interest on investment securities is recorded as income as earned. Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains or losses on the sale of securities are determined using the specific identification method.

Management determines the classification of securities as available for sale, held to maturity, or trading at the time of purchase 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. The Company has no 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 and other comprehensive income, net of taxes. Securities that are held as available for sale are used as a part of HBI's 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.

### ***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.

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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, 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 classified loans less than \$250,000 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 accounted for under FASB ASC 310-30, *Loans Acquired with Deteriorated Credit Quality*, 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, 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 borrower may be unable to meet payments as they become due. When accrual of interest is discontinued, all unpaid accrued interest is reversed.

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.

***Acquisition Accounting, Covered Loans and Related Indemnification Asset***

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

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The shared-loss agreements continue to be measured on the same basis as the related indemnified loans subject to contractual limitations of the loss share agreements. 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 weighted average life of the loans or pools) decrease the basis of the shared-loss agreements, with such decrease being amortized against non-interest 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 in other assets until cash is received from the FDIC.

For further discussion of the Company’s acquisitions and loan accounting, see Note 2 and Note 5 to the consolidated financial statements.

***Foreclosed Assets Held for Sale***

Real estate and personal properties acquired through or in lieu of loan foreclosure are to be sold and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis.

Valuations are periodically performed by management, and the real estate and personal properties are carried at fair value less cost to sell. Gains and losses from the sale of other real estate and personal properties are recorded in non-interest income, and expenses used to maintain the properties are included in non-interest expenses.

Because the FDIC will reimburse the Company for covered foreclosed assets should the Company experience a loss, an indemnification asset is recorded at fair value at the acquisition date and as covered loans move into foreclosure status. The indemnification asset is measured on the same basis as the foreclosed assets, subject to collectability. The shared-loss agreements reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties.

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

***Bank Premises and Equipment***

Bank premises and equipment are carried at cost or fair market value at the date of acquisition less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Accelerated depreciation methods are used for tax purposes. Leasehold improvements are capitalized and amortized by the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements whichever is shorter. The assets’ estimated useful lives for book purposes are as follows:

|                                    |             |
|------------------------------------|-------------|
| Bank premises                      | 15-40 years |
| Furniture, fixtures, and equipment | 3-15 years  |

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**Table of Contents*****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. The Company performed its annual impairment test of goodwill and core deposit intangibles during 2012, 2011 and 2010, as required by FASB ASC 350, *Intangibles - Goodwill and Other*. The tests indicated no impairment of the Company's goodwill or core deposit intangibles.

***Securities Sold Under Agreements to Repurchase***

Securities sold under agreements to repurchase consist of obligations of the Company to other parties. At the point funds deposited by customers become investable, those funds are used to purchase securities owned by the Company and held in its general account with the designation of Customers' Securities. A third party maintains control over the securities underlying overnight repurchase agreements. The securities involved in these transactions are generally U.S. Treasury or Federal Agency issues. Securities sold under agreements to repurchase generally mature on the banking day following that on which the investment was initially purchased and are treated as collateralized financing transactions which are recorded at the amounts at which the securities were sold plus accrued interest. Interest rates and maturity dates of the securities involved vary and are not intended to be matched with funds from customers.

***Derivative Financial Instruments***

The Company may enter into derivative contracts for the purposes of managing exposure to interest rate risk. The Company records all derivatives on the consolidated balance sheet at fair value. Historically the Company's policy has been not to invest in derivative type investments.

The Company has executed two back-to-back interest rate swap agreements associated with one borrower in the loan portfolio. Though the Company is not applying hedge accounting, the swaps are identical offsets of one another, thereby resulting in a net income impact of zero. They are being adjusted to the fair value in accordance with FASB ASC 815, *Derivatives and Hedging*. The notional amount of the loans was \$18.7 million at December 31, 2012 and \$19.3 million at December 31, 2011. The impact to the 2012 and 2011 financial statements was \$1.6 million and \$2.1 million, respectively, in other assets with a corresponding amount in other liabilities.

***Stock Options***

The Company accounts for stock options in accordance with FASB ASC 718, which establishes standards for the accounting for transactions in which an entity (i) exchanges its equity instruments for goods and services, or (ii) incurs liabilities in exchange for goods and services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of the equity instruments. FASB ASC 718 requires that such transactions be recognized as compensation cost in the income statement based on their fair values on the measurement date, which is generally the date of the grant.

***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 subsidiaries file consolidated tax returns. Its subsidiaries provide for income taxes on a separate return basis, and remits to the Company amounts determined to be currently payable.

**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. The following table sets forth the computation of basic and diluted earnings per share (EPS) for the years ended December 31:

|  | 2012      | 2011<br>(In thousands) | 2010      |
|--|-----------|------------------------|-----------|
| Net income available to all stockholders                                     | \$ 63,022 | \$ 54,741              | \$ 17,591 |
| Less: Preferred stock dividends and accretion of discount on preferred stock |           | 1,828                  | 2,680     |
| Net income available to common stockholders                                  | \$ 63,022 | \$ 52,913              | \$ 14,911 |
| Average common shares outstanding  | 28,137    | 28,416                 | 28,361    |
| Effect of common stock options   | 178       | 196                    | 239       |
| Diluted common shares outstanding  | 28,315    | 28,612                 | 28,600    |
| Basic earnings per common share  | \$ 2.24   | \$ 1.86                | \$ 0.53   |
| Diluted earnings per common share  | \$ 2.23   | \$ 1.85                | \$ 0.52   |

**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 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 in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2010 for an additional discussion of the acquisition of Old Southern.

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### ***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 in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2010 for an additional discussion of 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 in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2010 for an additional discussion of 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 in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2010 for an additional discussion of 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).



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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* in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2010 for an additional discussion of the acquisition of Gulf State.

### ***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 December 31, 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.

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

|   | Acquired<br>from<br>Park | Vision Bank               |                       |
|---|--------------------------|---------------------------|-----------------------|
|   |                          | Fair Value<br>Adjustments | As Recorded<br>by HBI |
| (Dollars in thousands)                            |                          |                           |                       |
| <b>Assets</b>                                     |                          |                           |                       |
| Cash and due from banks                           | \$ 20,711                | \$ 119,523                | \$ 140,234            |
| Loans receivable                                  | 355,750                  | (15,453)                  | 340,297               |
| 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            |
| <b>Liabilities</b>                                |                          |                           |                       |
| 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.



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

The Company's operating results for 2012, include the operating results of the acquired assets and assumed liabilities subsequent to the acquisition date. Due to the significant fair value adjustments recorded, as well as not obtaining any non-performing assets and certain performing loans, 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.

### ***Acquisition Heritage Bank of Florida***

On November 2, 2012, Centennial Bank acquired all the deposits and substantially all the assets of Heritage Bank of Florida (Heritage) from the FDIC. This transaction did not include any non-performing loans or other real estate owned of Heritage. In connection with the Heritage acquisition, Centennial Bank opted not to enter into a loss-sharing agreement with the FDIC.

Prior to the acquisition, Heritage operated three banking offices located in Tampa, Lutz and Wesley Chapel, Florida. Excluding the effects of the purchase accounting adjustments, Centennial Bank acquired approximately \$184.6 million in assets plus a cash settlement to balance the transaction, approximately \$135.8 million in performing loans excluding loan discounts and approximately \$219.5 million of deposits.

Centennial Bank did not acquire the real estate, banking facilities, furniture and equipment of Heritage as part of the purchase and assumption agreement but exercised its option to purchase these assets at fair market value from the FDIC. Fair market values for the real estate, facilities, furniture and equipment were based on current appraisals. Centennial Bank leased these facilities and equipment from the FDIC until it exercised its option. In the first quarter of 2013, Centennial Bank purchased \$3.1 million of bank premises and equipment from the FDIC.

Centennial Bank has determined that the acquisition of the net assets of Heritage 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.

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

|   | Acquired<br>from FDIC | Heritage Bank of Florida<br>Fair Value<br>Adjustments<br>(Dollars in thousands) | As Recorded<br>by HBI |
|---|-----------------------|---|-----------------------|
| <b>Assets</b>                                     |                       |   |                       |
| Cash and due from banks                           | \$ 6,945              | \$ 82,350   | \$ 89,295             |
| Interest-bearing deposits with other banks        | 16,350                |   | 16,350                |
| Federal funds sold                                | 7,016                 |   | 7,016                 |
| Loans receivable not covered by loss share        | 135,810               | (43,199)  | 92,611                |
| Total loans receivable                            | 135,810               | (43,199)  | 92,611                |
| Core deposit intangibles                          |                       | 1,066   | 1,066                 |
| Other assets                                      | 18,471                |   | 18,471                |
| <b>Total assets acquired</b>                      | <b>\$ 184,592</b>     | <b>\$ 40,217</b>  | <b>\$ 224,809</b>     |
| <b>Liabilities</b>                                |                       |   |                       |
| <b>Deposits</b>                                   |                       |   |                       |
| Demand and non-interest-bearing                   | \$ 93,697             | \$  | \$ 93,697             |
| Savings and interest-bearing transaction accounts | 6,018                 |   | 6,018                 |
| Time deposits                                     | 119,785               |   | 119,785               |
| Total deposits                                    | 219,500               |   | 219,500               |
| Other liabilities                                 | 104                   |   | 104                   |
| <b>Total liabilities assumed</b>                  | <b>\$ 219,604</b>     | <b>\$</b>   | <b>\$ 219,604</b>     |
| Pre-tax gain on acquisition                       |                       |   | \$ 5,205              |

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, interest-bearing deposits with other banks and federal funds sold** The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets. The \$82.4 million adjustment is the first pro-forma cash settlement received from the FDIC on Monday following the closing weekend.

**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 Heritage 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.

**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. No fair value adjustment was applied for time deposits as the Bank was able to reset deposit rates to market rates currently offered.

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The Company's operating results for the period ended December 31, 2012, include the operating results of the acquired assets and assumed liabilities subsequent to the November 2, 2012 acquisition date. Due to the significant fair value adjustments recorded and its nature as an FDIC-assisted transaction, Heritage's historical results are not believed to be relevant to the Company's results, and thus no pro-forma information is presented.

### ***Acquisition Premier Bank***

On December 1, 2012, Home BancShares, Inc. completed the acquisition of all of the issued and outstanding shares of common stock of Premier Bank, a Florida state-chartered bank with its principal office located in Tallahassee, Florida (Premier), pursuant to an Asset Purchase Agreement (the Premier Agreement) with Premier Bank Holding Company, a Florida corporation and bank holding company (PBHC), dated August 14, 2012. The Company has merged Premier with and into the Company's wholly-owned subsidiary, Centennial Bank, an Arkansas state-chartered bank.

Prior to the acquisition, Premier conducted banking business from six locations in the Florida panhandle cities of Tallahassee (five) and Quincy (one). The Company paid a purchase price to PBHC of \$1,415,000 for the Premier acquisition.

The acquisition was conducted in accordance with the provisions of Section 363 of the United States Bankruptcy Code (the Bankruptcy Code) pursuant to a voluntary petition for relief under Chapter 11 of the Bankruptcy Code filed by PBHC with the United States Bankruptcy Court for the Northern District of Florida (the Bankruptcy Court) on August 14, 2012. The sale of Premier by PBHC was subject to certain bidding procedures approved by the Bankruptcy Court. No qualifying competing bids were received. The Bankruptcy Court entered a final order on November 29, 2012 approving the sale of Premier to the Company pursuant to and in accordance with the Premier Agreement.

Centennial Bank has determined that the acquisition of the net assets of Premier 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.

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

|   | Acquired<br>from PBHC | Premier Bank<br>Fair Value<br>Adjustments<br>(Dollars in thousands) | As Recorded<br>by HBI |
|---|-----------------------|---|-----------------------|
| <b>Assets</b>   |                       |   |                       |
| Cash and due from banks                                   | \$ 5,020              | \$ (1,415)  | \$ 3,605              |
| Interest-bearing deposits with other banks                | 61,351                |   | 61,351                |
| Investment securities                                     | 11,518                | (15)  | 11,503                |
| Federal funds sold  | 4,005                 |   | 4,005                 |
| Loans not covered by loss share                           | 167,663               | (29,528)  | 138,135               |
| Allowance for loan losses                                 | (4,305)               | 4,305   |                       |
| <br>  |                       |   |                       |
| Total loans receivable                                    | 163,358               | (25,223)  | 138,135               |
| Bank premises and equipment, net                          | 6,942                 | (1,872)   | 5,070                 |
| Foreclosed assets held for sale not covered by loss share | 11,117                | (3,509)   | 7,608                 |
| Deferred tax asset  |                       | 15,047  | 15,047                |
| Goodwill  |                       | 8,591   | 8,591                 |
| Core deposit intangibles                                  |                       | 1,946   | 1,946                 |
| Cash value of life insurance                              | 5,655                 |   | 5,655                 |
| Other assets  | 2,254                 |   | 2,254                 |
| <br>  |                       |   |                       |
| Total assets acquired                                     | \$ 271,220            | \$ (6,450)  | \$ 264,770            |
| <b>Liabilities</b>  |                       |   |                       |
| Deposits  |                       |   |                       |
| Demand and non-interest-bearing                           | \$ 149,782            | \$  | \$ 149,782            |
| Savings and interest-bearing transaction accounts         | 13,085                |   | 13,085                |
| Time deposits   | 83,432                |   | 83,432                |
| <br>  |                       |   |                       |
| Total deposits  | 246,299               |   | 246,299               |
| Securities sold under agreements to repurchase            | 4,380                 |   | 4,380                 |
| FHLB borrowed funds                                       | 13,000                | 279   | 13,279                |
| Other liabilities   | 812                   |   | 812                   |
| <br>  |                       |   |                       |
| Total liabilities assumed                                 | 264,491               | 279   | 264,770               |
| <br>  |                       |   |                       |
| Equity  | 6,729                 | (6,729)   |                       |
| <br>  |                       |   |                       |
| Total equity assumed                                      | 6,729                 | (6,729)   |                       |
| <br>  |                       |   |                       |
| Total liabilities and equity assumed                      | \$ 271,220            | \$ (6,450)  | \$ 264,770            |

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, interest-bearing deposits with other banks and federal funds sold The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets. The \$1.4 million adjustment is the cash settlement paid to PBHC on the closing date.

Investment securities Investment securities were acquired from Premier with only a slight adjustment to market value.





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**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.

**Foreclosed assets held for sale** These assets are presented at the estimated fair values that management expects to receive when the properties are sold, net of related costs of disposal.

**Deferred tax asset** The deferred tax asset of \$15.0 million as of acquisition date is made up of \$3.7 million of deferred tax asset associated with Premier's legacy deferred tax asset and \$11.3 million associated with fair value adjustments made as a result of the acquisition. These amounts are related to the differences between the financial statement and tax bases of assets acquired and liabilities assumed in this transaction. The Company was able to reverse \$3.7 million of Premier's legacy tax valuation allowance because of the higher earnings expectations of the combined entities.

**Goodwill** The consideration paid as a result of the acquisition exceeded the fair value of the assets received; therefore, the Company recorded \$8.6 million of goodwill.

**Core deposit intangible** This intangible asset represents the value of the relationships that Premier 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.

**Cash value of life insurance** Cash value of life insurance was acquired from Premier at market value.

**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. No fair value adjustment was applied for time deposits because the weighted average interest rate of Premier's certificates of deposits were at the market rates of similar funding at the time of acquisition.

**Securities sold under agreements to repurchase** Securities sold under agreements to repurchase were acquired from Premier at market value.

**FHLB borrowed funds** The fair value of FHLB borrowed funds is estimated based on borrowing rates currently available to the Company for borrowings with similar terms and maturities. These borrowings were paid off shortly after acquisition at their carrying values.

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 and the fact Premier was acquired under bankruptcy proceedings, historical results are not believed to be relevant to the Company's results, and thus no pro-forma information is presented.

### ***FDIC-Assisted Acquisitions Other Matters***

In an FDIC-assisted acquisition, we may acquire certain assets and assume certain liabilities of the former institution with or without 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.

**Table of Contents****3. Investment Securities**

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

|                                       | Amortized<br>Cost | December 31, 2012<br>Available for sale |                                 | Estimated<br>Fair<br>Value |
|---------------------------------------|-------------------|---|---------------------------------|----------------------------|
|                                       |                   | Gross<br>Unrealized<br>Gains            | Gross<br>Unrealized<br>(Losses) |                            |
|                                       |                   | (In thousands)                          |                                 |                            |
| U.S. government-sponsored enterprises | \$ 187,811        | \$ 3,011                                | \$ (76)                         | \$ 190,746                 |
| Mortgage-backed securities            | 316,770           | 8,751                                   | (180)                           | 325,341                    |
| State and political subdivisions      | 182,515           | 8,219                                   | (96)                            | 190,638                    |
| Other securities                      | 19,379            | 138                                     | (19)                            | 19,498                     |
| <b>Total</b>                          | <b>\$ 706,475</b> | <b>\$ 20,119</b>                        | <b>\$ (371)</b>                 | <b>\$ 726,223</b>          |

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

Assets, principally investment securities, having a carrying value of approximately \$532.8 million and \$403.2 million at December 31, 2012 and 2011, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. Also, investment securities pledged as collateral for repurchase agreements totaled approximately \$66.3 million and \$62.3 million at December 31, 2012 and 2011, respectively.

The amortized cost and estimated fair value of securities at December 31, 2012, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

|  | Available for sale |                            |
|--|--------------------|----------------------------|
|  | Amortized<br>Cost  | Estimated<br>Fair<br>Value |
|  | (In thousands)     |                            |
| Due in one year or less                | \$ 207,263         | \$ 209,265                 |
| Due after one year through five years  | 236,539            | 242,347                    |
| Due after five years through ten years | 233,299            | 243,636                    |
| Due after ten years                    | 29,374             | 30,975                     |
| <b>Total</b>                           | <b>\$ 706,475</b>  | <b>\$ 726,223</b>          |



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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.

There were no securities classified as held to maturity at December 31, 2012, 2011 and 2010.

During the year ended December 31, 2012, \$1.6 million of available for sale securities were sold. The gross realized gains and losses on these sales totaled approximately \$21,000 and \$12,000, respectively. The income tax expense/benefit to net security gains and losses was 39.225% of the gross amounts.

During the year ended December 31, 2011, \$1.1 million 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.

During 2010, we became aware that fraudulent rural improvement district bonds had been sold to various financial institutions in Arkansas. As a result of the fraud, the board of directors authorized a \$3.6 million other than temporary charge to our investment securities. During 2011, we were able record a gain from the collection of \$2.2 million in insurance proceeds on these bonds.

During the year ended December 31, 2010, \$21.5 million of available for sale securities were sold. The gross realized gains and losses on these sales each totaled approximately \$1.1 million. The income tax expense/benefit to net security gains and losses was 39.225% of the gross amounts.

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.

For the year ended December 31, 2012, the Company had approximately \$54,000 in unrealized losses, which were 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 62.8% 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.

For the year ended December 31, 2011, the Company had approximately \$42,000 in unrealized losses, which were 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.

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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 December 31, 2012 and 2011:

|                                       | Less Than 12 Months |                   | December 31, 2012<br>12 Months or More |                   | Total            |                   |
|---------------------------------------|---------------------|-------------------|--|-------------------|------------------|-------------------|
|                                       | Fair Value          | Unrealized Losses | Fair Value                             | Unrealized Losses | Fair Value       | Unrealized Losses |
|                                       | (In thousands)      |                   |  |                   |                  |                   |
| U.S. Government-sponsored enterprises | \$ 26,002           | \$ (22)           | \$ 10,477                              | \$ (54)           | \$ 36,479        | \$ (76)           |
| Mortgage-backed securities            | 36,675              | (180)             |  |                   | 36,675           | (180)             |
| State and political subdivisions      | 15,797              | (96)              |  |                   | 15,797           | (96)              |
| Other securities                      | 1,973               | (19)              |  |                   | 1,973            | (19)              |
| <b>Total</b>                          | <b>\$ 80,447</b>    | <b>\$ (317)</b>   | <b>\$ 10,477</b>                       | <b>\$ (54)</b>    | <b>\$ 90,924</b> | <b>\$ (371)</b>   |

|                                       | Less Than 12 Months |                   | December 31, 2011<br>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)             |
| <b>Total</b>                          | <b>\$ 127,210</b>   | <b>\$ (958)</b>   | <b>\$ 4,568</b>                        | <b>\$ (42)</b>    | <b>\$ 131,778</b> | <b>\$ (1,000)</b> |

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

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

|  | December 31,     |                  |
|--|------------------|------------------|
|  | 2012             | 2011             |
|  | (In thousands)   |                  |
| Real estate:                               |                  |                  |
| Commercial real estate loans               |                  |                  |
| Non-farm/non-residential                   | \$ 1,019,039     | \$ 698,986       |
| Construction/land development              | 254,800          | 361,846          |
| Agricultural                               | 32,513           | 28,535           |
| Residential real estate loans              |                  |                  |
| Residential 1-4 family                     | 549,269          | 349,543          |
| Multifamily residential                    | 129,742          | 56,909           |
| <b>Total real estate</b>                   | <b>1,985,363</b> | <b>1,495,819</b> |
| Consumer                                   | 37,462           | 37,923           |
| Commercial and industrial                  | 256,908          | 176,276          |
| Agricultural                               | 19,825           | 21,784           |
| Other                                      | 31,641           | 28,284           |
| <br>                                       |                  |                  |
| Loans receivable not covered by loss share | \$ 2,331,199     | \$ 1,760,086     |

During the year ended December 31, 2012, the Company sold \$5.8 million of the guaranteed portion of certain SBA loans, which resulted in a gain of approximately \$404,000. The Company sold \$4.2 million of the guaranteed portion of certain SBA loans during the year ended December 31, 2011, which resulted in a gain of approximately \$259,000.

Mortgage loans held for resale of approximately \$22.0 million and \$10.3 million at December 31, 2012 and 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 December 31, 2012 and 2011 were not material.

The Company evaluated loans purchased in conjunction with the acquisition of Vision described in Note 2, Business Combinations, in accordance with the provisions of FASB ASC Topic 310-20, *Nonrefundable Fees and Other Costs*. None of the purchased non-covered loans were considered impaired at the date of acquisition. The fair value discount is being accreted into interest income over the weighted average life of the loans using a constant yield method.

The Company evaluated loans purchased in conjunction with the acquisitions of Heritage and Premier 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*. These purchased non-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.

**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 FDIC covered impaired loans as of December 31, 2012 and December 31, 2011 for the Company:

|   | December 31,<br>2012 | December 31,<br>2011 |
|---|----------------------|----------------------|
|   | (In thousands)       |                      |
| Real estate:                                    |                      |                      |
| Commercial real estate loans                    |                      |                      |
| Non-farm/non-residential                        | \$ 164,723           | \$ 189,380           |
| Construction/land development                   | 66,713               | 103,535              |
| Agricultural                                    | 2,282                | 3,155                |
| Residential real estate loans                   |                      |                      |
| Residential 1-4 family                          | 125,625              | 148,692              |
| Multifamily residential                         | 9,567                | 8,933                |
| Total real estate                               | 368,910              | 453,695              |
| Consumer  | 39                   | 334                  |
| Commercial and industrial                       | 14,668               | 26,884               |
| Agricultural                                    |                      |                      |
| Other   | 1,267                | 826                  |
| Loans receivable covered by FDIC loss share (1) | \$ 384,884           | \$ 481,739           |

- (1) These loans were not classified as nonperforming assets at December 31, 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 December 31, 2012 and 2011, \$70.9 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****6. Allowance for Loan Losses, Credit Quality and Other**

The following table presents a summary of changes in the allowance for loan losses for the non-covered and covered loan portfolios for the year ended December 31, 2012:

|   | For<br>Loans<br>Not Covered<br>by Loss Share | For Loans<br>Covered by<br>FDIC<br>Loss Share<br>(In thousands) | Total     |
|---|--|---|-----------|
| <b>Allowance for loan losses:</b>   |  |   |           |
| Beginning balance   | \$ 52,129                                    | \$  | \$ 52,129 |
| Loans charged off   | (10,793)                                     | (2,042)   | (12,835)  |
| Recoveries of loans previously charged off  | 2,584  | 2   | 2,586     |
| Net loans recovered (charged off)   | (8,209)                                      | (2,040)   | (10,249)  |
| Provision for loan losses for non-covered loans                                     | 1,250  |   | 1,250     |
| 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   | 1,250  | 1,500   | 2,750     |
| Increase in FDIC indemnification asset  |  | 6,002   | 6,002     |
| Balance, December 31  | \$ 45,170                                    | \$ 5,462  | \$ 50,632 |



**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 year ended December 31, 2012, and the allowance for loan losses and recorded investment in loans based on portfolio segment by impairment method as of December 31, 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 discounts for credit losses on non-covered loans acquired were \$81.7 million and \$2.5 million at December 31, 2012 and December 31, 2011, respectively.

|  | Year Ended December 31, 2012         |                                    |                               |                               |                     |             |    | Total     |
|--|--------------------------------------|------------------------------------|-------------------------------|-------------------------------|---------------------|-------------|----|-----------|
|  | Construction/<br>Land<br>Development | Other<br>Commercial<br>Real Estate | Residential<br>Real<br>Estate | Commercial<br>&<br>Industrial | Consumer<br>& Other | Unallocated |    |           |
| <b>Allowance for loan losses:</b>          |                                      |                                    |                               |                               |                     |             |    |           |
| Beginning balance                          | \$ 7,945                             | \$ 20,368                          | \$ 12,196                     | \$ 6,308                      | \$ 3,258            | \$ 2,054    | \$ | \$ 52,129 |
| Loans charged off                          | (1,086)                              | (1,384)                            | (4,423)                       | (1,342)                       | (2,558)             |             |    | (10,793)  |
| Recoveries of loans previously charged off | 9                                    | 1,204                              | 678                           | 124                           | 569                 |             |    | 2,584     |
| Net loans recovered (charged off)          | (1,077)                              | (180)                              | (3,745)                       | (1,218)                       | (1,989)             |             |    | (8,209)   |
| Provision for loan losses                  | (1,052)                              | (214)                              | 5,362                         | (1,220)                       | 19                  | (1,645)     |    | 1,250     |
| Balance, December 31                       | \$ 5,816                             | \$ 19,974                          | \$ 13,813                     | \$ 3,870                      | \$ 1,288            | \$ 409      | \$ | \$ 45,170 |

|   | As of December 31, 2012              |                                    |                            |                               |                     |             |    | Total     |
|---|--------------------------------------|------------------------------------|----------------------------|-------------------------------|---------------------|-------------|----|-----------|
|   | Construction/<br>Land<br>Development | Other<br>Commercial<br>Real Estate | Residential<br>Real Estate | Commercial<br>&<br>Industrial | Consumer<br>& Other | Unallocated |    |           |
| <b>Allowance for loan losses:</b>           |                                      |                                    |                            |                               |                     |             |    |           |
| Period end amount allocated to:             |                                      |                                    |                            |                               |                     |             |    |           |
| Loans individually evaluated for impairment | \$ 4,070                             | \$ 14,215                          | \$ 9,365                   | \$ 1,421                      | \$ 338              | \$          | \$ | \$ 29,409 |
| Loans collectively evaluated for impairment | 1,746                                | 5,759                              | 4,448                      | 2,449                         | 950                 | 409         |    | 15,761    |
| Balance, December 31                        | \$ 5,816                             | \$ 19,974                          | \$ 13,813                  | \$ 3,870                      | \$ 1,288            | \$ 409      | \$ | \$ 45,170 |

| <b>Loans receivable:</b>                            |            |              |            |            |           |    |    |              |
|---|------------|--------------|------------|------------|-----------|----|----|--------------|
| Period end amount allocated to:                     |            |              |            |            |           |    |    |              |
| Loans individually evaluated for impairment         | \$ 28,181  | \$ 93,610    | \$ 33,994  | \$ 3,690   | \$ 746    | \$ | \$ | \$ 160,221   |
| Loans collectively evaluated for impairment         | 210,333    | 862,128      | 559,066    | 227,447    | 83,932    |    |    | 1,942,906    |
| Loans evaluated for impairment balance, December 31 | 238,514    | 955,738      | 593,060    | 231,137    | 84,678    |    |    | 2,103,127    |
| Acquired loans from Heritage and Premier            | 16,286     | 95,814       | 85,951     | 25,771     | 4,250     |    |    | 228,072      |
| Balance, December 31                                | \$ 254,800 | \$ 1,051,552 | \$ 679,011 | \$ 256,908 | \$ 88,928 | \$ | \$ | \$ 2,331,199 |



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

|  | Year Ended December 31, 2011         |                                       |                               |                               |                     |             | Total     |
|--|--------------------------------------|---------------------------------------|-------------------------------|-------------------------------|---------------------|-------------|-----------|
|  | Construction/<br>Land<br>Development | Other<br>Commercial<br>Real<br>Estate | Residential<br>Real<br>Estate | Commercial<br>&<br>Industrial | Consumer<br>& Other | Unallocated |           |
| <b>Allowance for loan losses:</b>          |                                      |                                       |                               |                               |                     |             |           |
| Beginning balance                          | \$ 12,002                            | \$ 17,247                             | \$ 14,297                     | \$ 6,357                      | \$ 1,022            | \$ 2,423    | \$ 53,348 |
| Loans charged off                          | (3,590)                              | (4,076)                               | (3,299)                       | (571)                         | (3,159)             |             | (14,695)  |
| Recoveries of loans previously charged off | 827                                  | 278                                   | 2,477                         | 5,817                         | 577                 |             | 9,976     |
| Net loans recovered (charged off)          | (2,763)                              | (3,798)                               | (822)                         | 5,246                         | (2,582)             |             | (4,719)   |
| Provision for loan losses                  | (1,294)                              | 6,919                                 | (1,279)                       | (5,295)                       | 4,818               | (369)       | 3,500     |
| Balance, December 31                       | \$ 7,945                             | \$ 20,368                             | \$ 12,196                     | \$ 6,308                      | \$ 3,258            | \$ 2,054    | \$ 52,129 |

|   | As of December 31, 2011              |                                       |                               |                               |                     |             | Total     |
|---|--------------------------------------|---------------------------------------|-------------------------------|-------------------------------|---------------------|-------------|-----------|
|   | Construction/<br>Land<br>Development | Other<br>Commercial<br>Real<br>Estate | Residential<br>Real<br>Estate | Commercial<br>&<br>Industrial | Consumer<br>& Other | Unallocated |           |
| <b>Allowance for loan losses:</b>           |                                      |                                       |                               |                               |                     |             |           |
| Period end amount allocated to:             |                                      |                                       |                               |                               |                     |             |           |
| Loans individually evaluated for impairment | \$ 4,428                             | \$ 15,050                             | \$ 8,485                      | \$ 3,503                      | \$ 2,205            | \$          | \$ 33,671 |
| Loans collectively evaluated for impairment | 3,517                                | 5,318                                 | 3,711                         | 2,805                         | 1,053               | 2,054       | 18,458    |
| Balance, December 31                        | \$ 7,945                             | \$ 20,368                             | \$ 12,196                     | \$ 6,308                      | \$ 3,258            | \$ 2,054    | \$ 52,129 |

|   |            |            |            |            |           |    |              |
|---|------------|------------|------------|------------|-----------|----|--------------|
| <b>Loans receivable:</b>                    |            |            |            |            |           |    |              |
| Period end amount allocated to:             |            |            |            |            |           |    |              |
| Loans individually evaluated for impairment | \$ 25,534  | \$ 105,517 | \$ 29,818  | \$ 9,535   | \$ 2,798  | \$ | \$ 173,202   |
| Loans collectively evaluated for impairment | 336,312    | 622,004    | 376,634    | 166,741    | 85,193    |    | 1,586,884    |
| Balance, December 31                        | \$ 361,846 | \$ 727,521 | \$ 406,452 | \$ 176,276 | \$ 87,991 | \$ | \$ 1,760,086 |

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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/<br>Land<br>Development | Other<br>Commercial<br>Real Estate | Residential<br>Real<br>Estate | Commercial<br>&<br>Industrial | Consumer<br>& Other | Unallocated | Total        |  |
|   | (In thousands)                       |                                    |                               |                               |                     |             |              |  |
| <b>Allowance for loan losses:</b>           |                                      |                                    |                               |                               |                     |             |              |  |
| Beginning balance                           | \$ 9,624                             | \$ 13,568                          | \$ 11,348                     | \$ 6,067                      | \$ 1,984            | \$ 377      | \$ 42,968    |  |
| Loans charged off                           | (10,274)                             | (16,705)                           | (10,731)                      | (24,227)                      | (2,516)             |             | (64,453)     |  |
| Recoveries of loans previously charged off  | 55                                   | 868                                | 492                           | 50                            | 518                 |             | 1,983        |  |
| Net loans recovered (charged off)           | (10,219)                             | (15,837)                           | (10,239)                      | (24,177)                      | (1,998)             |             | (62,470)     |  |
| Provision for loan losses                   | 12,597                               | 19,516                             | 13,188                        | 24,467                        | 1,036               | 2,046       | 72,850       |  |
| 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 evaluated for impairment | \$ 7,602                             | \$ 9,912                           | \$ 9,843                      | \$ 2,625                      | \$ 438              | \$          | \$ 30,420    |  |
| 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    |  |
| <b>Loans receivable:</b>                    |                                      |                                    |                               |                               |                     |             |              |  |
| 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 |  |

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The following is an aging analysis for the non-covered loan portfolio for the year ended December 31, 2012 and December 31, 2011:

|                               | December 31, 2012 |                 |           |           |              |                 |          |
|-------------------------------|-------------------|-----------------|-----------|-----------|--------------|-----------------|----------|
|                               | Loans             | Loans           | Loans     | Total     | Current      | Total Loans     | Accruing |
|                               | Past Due          | Past Due        | Past Due  |           |              |                 |          |
| 30-59 Days                    | 60-89 Days        | 90 Days or More | Past Due  | Loans     | Receivable   | 90 Days or More |          |
| (In thousands)                |                   |                 |           |           |              |                 |          |
| Real estate:                  |                   |                 |           |           |              |                 |          |
| Commercial real estate loans  |                   |                 |           |           |              |                 |          |
| Non-farm/non-residential      | \$ 8,670          | \$ 399          | \$ 5,096  | \$ 14,165 | \$ 1,004,874 | \$ 1,019,039    | \$ 1,437 |
| Construction/land development | 374               | 732             | 3,976     | 5,082     | 249,718      | 254,800         | 1,296    |
| Agricultural                  |                   |                 | 140       | 140       | 32,373       | 32,513          |          |
| Residential real estate loans |                   |                 |           |           |              |                 |          |
| Residential 1-4 family        | 3,724             | 1,978           | 12,561    | 18,263    | 531,006      | 549,269         | 2,589    |
| Multifamily residential       | 157               | 4,439           | 3,215     | 7,811     | 121,931      | 129,742         |          |
| Total real estate             | 12,925            | 7,548           | 24,988    | 45,461    | 1,939,902    | 1,985,363       | 5,322    |
| Consumer                      | 780               | 187             | 688       | 1,655     | 35,807       | 37,462          | 95       |
| Commercial and industrial     | 1,310             | 254             | 1,597     | 3,161     | 253,747      | 256,908         | 520      |
| Agricultural and other        | 262               | 116             |           | 378       | 51,088       | 51,466          |          |
| Total                         | \$ 15,277         | \$ 8,105        | \$ 27,273 | \$ 50,655 | \$ 2,280,544 | \$ 2,331,199    | \$ 5,937 |

|                               | December 31, 2011 |                 |           |           |              |                 |          |
|-------------------------------|-------------------|-----------------|-----------|-----------|--------------|-----------------|----------|
|                               | Loans             | Loans           | Loans     | Total     | Current      | Total Loans     | Accruing |
|                               | Past Due          | Past Due        | Past Due  |           |              |                 |          |
| Due                           | Past Due          | Past Due        | Past Due  | Loans     | Receivable   | 90 Days or More |          |
| 30-59 Days                    | 60-89 Days        | 90 Days or More | Past Due  | Loans     | Receivable   | 90 Days or More |          |
| (In thousands)                |                   |                 |           |           |              |                 |          |
| Real estate:                  |                   |                 |           |           |              |                 |          |
| Commercial real estate loans  |                   |                 |           |           |              |                 |          |
| Non-farm/non-residential      | \$ 764            | \$ 1,758        | \$ 7,055  | \$ 9,577  | \$ 689,409   | \$ 698,986      | \$       |
| Construction/land development | 848               | 650             | 2,226     | 3,724     | 358,122      | 361,846         |          |
| Agricultural                  |                   |                 | 178       | 178       | 28,357       | 28,535          |          |
| Residential real estate loans |                   |                 |           |           |              |                 |          |
| Residential 1-4 family        | 2,064             | 251             | 13,617    | 15,932    | 333,611      | 349,543         | 750      |
| Multifamily residential       |                   |                 | 92        | 92        | 56,817       | 56,909          | 92       |
| Total real estate             | 3,676             | 2,659           | 23,168    | 29,503    | 1,466,316    | 1,495,819       | 842      |
| Consumer                      | 656               | 268             | 1,501     | 2,425     | 35,498       | 37,923          | 132      |
| Commercial and industrial     | 234               | 211             | 1,617     | 2,062     | 174,214      | 176,276         | 19       |
| Agricultural and other        | 176               | 17              | 1,203     | 1,396     | 48,672       | 50,068          |          |
| Total                         | \$ 4,742          | \$ 3,155        | \$ 27,489 | \$ 35,386 | \$ 1,724,700 | \$ 1,760,086    | \$ 993   |

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Non-accruing loans not covered by loss share at December 31, 2012 and December 31, 2011 were \$21.3 million and \$26.5 million, respectively.

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The following is a summary of the non-covered impaired loans as of December 31, 2012, 2011 and 2010:

|                               | December 31, 2012                             |                                 |  |                                   |                        |
|-------------------------------|---|---------------------------------|--|-----------------------------------|------------------------|
|                               | Unpaid<br>Contractual<br>Principal<br>Balance | Total<br>Recorded<br>Investment | Allocation<br>of Allowance<br>for Loan<br>Losses<br>(In thousands) | Average<br>Recorded<br>Investment | Interest<br>Recognized |
| Real estate:                  |   |                                 |  |                                   |                        |
| Commercial real estate loans  |   |                                 |  |                                   |                        |
| Non-farm/non-residential      | \$ 74,952                                     | \$ 73,631                       | \$ 14,215  | \$ 74,360                         | \$ 3,828               |
| Construction/land development | 20,592  | 20,366                          | 4,070  | 20,803                            | 956                    |
| Agricultural                  |   |                                 |  | 7                                 | 1                      |
| Residential real estate loans |   |                                 |  |                                   |                        |
| Residential 1-4 family        | 19,717  | 19,491                          | 6,852  | 21,230                            | 810                    |
| Multifamily residential       | 10,515  | 10,515                          | 2,513  | 7,716                             | 353                    |
| <b>Total real estate</b>      | <b>125,776</b>                                | <b>124,003</b>                  | <b>27,650</b>  | <b>124,116</b>                    | <b>5,948</b>           |
| Consumer                      | 752   | 746                             | 338  | 1,078                             | 51                     |
| Commercial and industrial     | 2,511   | 2,436                           | 1,421  | 7,366                             | 413                    |
| Agricultural and other        |   |                                 |  | 962                               | 21                     |
| <b>Total</b>                  | <b>\$ 129,039</b>                             | <b>\$ 127,185</b>               | <b>\$ 29,409</b>   | <b>\$ 133,522</b>                 | <b>\$ 6,433</b>        |

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

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|                               | December 31, 2010                             |                                 |  |                                   |                        |
|-------------------------------|---|---------------------------------|--|-----------------------------------|------------------------|
|                               | Unpaid<br>Contractual<br>Principal<br>Balance | Total<br>Recorded<br>Investment | Allocation<br>of Allowance<br>for Loan<br>Losses<br>(In thousands) | Average<br>Recorded<br>Investment | Interest<br>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                    |
| <b>Total real estate</b>      | <b>88,438</b>                                 | <b>80,431</b>                   | <b>27,357</b>  | <b>55,044</b>                     | <b>3,712</b>           |
| Consumer                      | 658   | 658                             | 438  | 799                               |                        |
| Commercial and industrial     | 11,284  | 11,208                          | 2,625  | 6,218                             | 749                    |
| Agricultural and other        |   |                                 |  |                                   |                        |
| <b>Total</b>                  | <b>\$ 100,380</b>                             | <b>\$ 92,297</b>                | <b>\$ 30,420</b>   | <b>\$ 62,061</b>                  | <b>\$ 4,461</b>        |

With the adoption of ASU No. 2011-02, *Receivables (Topic 310) A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*, \$45.7 million of the change in impaired loans at December 31, 2011 as compared to December 31, 2010 was due to troubled debt restructurings now being classified as impaired loans.

All of the Company's non-covered impaired loans have a specific allocation of the allowance for loan losses, with the exception of certain TDRs where the discounted cash flows under the restructuring are greater than or equal to those under the original terms of the loan. Interest recognized on non-covered impaired loans during the year ended December 31, 2012, 2011 and 2010 was approximately \$6.4 million, \$5.9 million and \$4.5 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, Alabama 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.



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*Risk rating 3 Satisfactory.* Loans to persons or entities with an average financial condition, adequate collateral margins, adequate cash flow to service long-term debt, and net worth comprised mainly of fixed assets are included in this category. These entities are minimally profitable now, with projections indicating continued profitability into the foreseeable future. Closely held corporations or businesses where a majority of the profits are withdrawn by the owners or paid in dividends are included in this rating category. Overall, these loans are basically sound.

*Risk rating 4 Watch.* Borrowers who have marginal cash flow, marginal profitability or have experienced an unprofitable year and a declining financial condition characterize these loans. The borrower has in the past satisfactorily handled debts with the Bank, but in recent months has either been late, delinquent in making payments, or made sporadic payments. While the Bank continues to be adequately secured, margins have decreased or are decreasing, despite the borrower's continued satisfactory condition. Other characteristics of borrowers in this class include inadequate credit information, weakness of financial statement and repayment capacity, but with collateral that appears to limit exposure. Included in this category are loans to borrowers in industries that are experiencing elevated risk.

*Risk rating 5 Other Loans Especially Mentioned ( OLEM ).* A loan criticized as OLEM has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. OLEM assets are not adversely classified and do not expose the institution to sufficient risk to warrant adverse classification.

*Risk rating 6 Substandard.* A loan classified as substandard is inadequately protected by the sound worth and paying capacity of the borrower or the collateral pledged. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual assets.

*Risk rating 7 Doubtful.* A loan classified as doubtful has all the weaknesses inherent in a loan classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. These are poor quality loans in which neither the collateral, if any, nor the financial condition of the borrower presently ensure collectability in full in a reasonable period of time; in fact, there is permanent impairment in the collateral securing the loan.

*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.

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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 December 31, 2012 and December 31, 2011:

|                               | Risk Rated 6      | December 31, 2012 |              | Classified Total  |
|-------------------------------|-------------------|-------------------|--------------|-------------------|
|                               |                   | Risk Rated 7      | Risk Rated 8 |                   |
| (In thousands)                |                   |                   |              |                   |
| <b>Real estate:</b>           |                   |                   |              |                   |
| Commercial real estate loans  |                   |                   |              |                   |
| Non-farm/non-residential      | \$ 55,906         | \$ 14             | \$           | \$ 55,920         |
| Construction/land development | 17,805            |                   |              | 17,805            |
| Agricultural                  | 140               |                   |              | 140               |
| Residential real estate loans |                   |                   |              |                   |
| Residential 1-4 family        | 19,172            | 319               |              | 19,491            |
| Multifamily residential       | 5,272             |                   |              | 5,272             |
| <b>Total real estate</b>      | <b>98,295</b>     | <b>333</b>        |              | <b>98,628</b>     |
| Consumer                      | 1,495             |                   |              | 1,495             |
| Commercial and industrial     | 3,226             | 15                |              | 3,241             |
| Agricultural and other        | 39                |                   |              | 39                |
| <b>Total</b>                  | <b>\$ 103,055</b> | <b>\$ 348</b>     | <b>\$</b>    | <b>\$ 103,403</b> |

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

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 5 – 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.

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The following is a presentation of non-covered loans by class and risk rating as of December 31, 2012 and December 31, 2011:

|                               | December 31, 2012 |                 |                 |                 |                 | Classified<br>Total | Total        |
|-------------------------------|-------------------|-----------------|-----------------|-----------------|-----------------|---------------------|--------------|
|                               | Risk<br>Rated 1   | Risk<br>Rated 2 | Risk<br>Rated 3 | Risk<br>Rated 4 | Risk<br>Rated 5 |                     |              |
| (In thousands)                |                   |                 |                 |                 |                 |                     |              |
| Real estate:                  |                   |                 |                 |                 |                 |                     |              |
| Commercial real estate loans  |                   |                 |                 |                 |                 |                     |              |
| Non-farm/non-residential      | \$ 7              | \$ 53           | \$ 483,816      | \$ 350,768      | \$ 34,354       | \$ 55,920           | \$ 924,918   |
| Construction/land development | 41                | 116             | 65,215          | 147,908         | 7,429           | 17,805              | 238,514      |
| Agricultural                  |                   |                 | 10,920          | 19,761          |                 | 140                 | 30,821       |
| Residential real estate loans |                   |                 |                 |                 |                 |                     |              |
| Residential 1-4 family        | 461               | 155             | 305,369         | 131,698         | 14,873          | 19,491              | 472,047      |
| Multifamily residential       |                   |                 | 23,760          | 86,459          | 5,521           | 5,272               | 121,012      |
| Total real estate             | 509               | 324             | 889,080         | 736,594         | 62,177          | 98,628              | 1,787,312    |
| Consumer                      | 8,785             | 105             | 14,771          | 7,865           | 658             | 1,495               | 33,679       |
| Commercial and industrial     | 10,431            | 1,248           | 119,599         | 94,713          | 1,905           | 3,241               | 231,137      |
| Agricultural and other        | 244               | 2,517           | 28,755          | 19,443          | 1               | 39                  | 50,999       |
| Total                         | \$ 19,969         | \$ 4,194        | \$ 1,052,205    | \$ 858,615      | \$ 64,741       | \$ 103,403          | \$ 2,103,127 |

|                               | December 31, 2011 |                 |                 |                 |                 | Classified<br>Total | Total        |
|-------------------------------|-------------------|-----------------|-----------------|-----------------|-----------------|---------------------|--------------|
|                               | Risk<br>Rated 1   | Risk<br>Rated 2 | Risk<br>Rated 3 | Risk<br>Rated 4 | Risk<br>Rated 5 |                     |              |
| (In thousands)                |                   |                 |                 |                 |                 |                     |              |
| Real estate:                  |                   |                 |                 |                 |                 |                     |              |
| Commercial real estate loans  |                   |                 |                 |                 |                 |                     |              |
| Non-farm/non-residential      | \$ 48             | \$ 14           | \$ 341,027      | \$ 258,252      | \$ 54,832       | \$ 44,813           | \$ 698,986   |
| Construction/land development | 8                 | 405             | 93,913          | 246,520         | 14,282          | 6,718               | 361,846      |
| Agricultural                  |                   |                 | 10,495          | 17,862          |                 | 178                 | 28,535       |
| Residential real estate loans |                   |                 |                 |                 |                 |                     |              |
| Residential 1-4 family        | 277               | 157             | 210,846         | 106,707         | 8,798           | 22,758              | 349,543      |
| Multifamily residential       |                   |                 | 36,300          | 14,032          | 1,693           | 4,884               | 56,909       |
| Total real estate             | 333               | 576             | 692,581         | 643,373         | 79,605          | 79,351              | 1,495,819    |
| Consumer                      | 7,817             | 939             | 17,458          | 8,163           | 1,322           | 2,224               | 37,923       |
| Commercial and industrial     | 7,737             | 1,080           | 84,923          | 71,139          | 2,395           | 9,002               | 176,276      |
| Agricultural and other        | 51                | 1,583           | 29,991          | 17,186          | 4               | 1,253               | 50,068       |
| Total                         | \$ 15,938         | \$ 4,178        | \$ 824,953      | \$ 739,861      | \$ 83,326       | \$ 91,830           | \$ 1,760,086 |

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The following is a presentation of non-covered TDRs by class as of December 31, 2012 and 2011:

|                               | December 31, 2012 |                                      |                   |                   |                          |                                       |
|-------------------------------|-------------------|--------------------------------------|-------------------|-------------------|--------------------------|---------------------------------------|
|                               | 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      | 34                | \$ 48,672                            | \$ 22,710         | \$ 11,198         | \$ 10,449                | \$ 44,357                             |
| Construction/land development | 3                 | 9,117                                | 6,489             | 1,688             |                          | 8,177                                 |
| Residential real estate loans |                   |                                      |                   |                   |                          |                                       |
| Residential 1-4 family        | 11                | 4,621                                | 3,337             | 348               | 623                      | 4,308                                 |
| Multifamily residential       | 2                 | 4,213                                | 3,377             |                   |                          | 3,377                                 |
| Total real estate             | 50                | 66,623                               | 35,913            | 13,234            | 11,072                   | 60,219                                |
| Commercial and industrial     | 5                 | 683                                  | 6                 | 272               | 385                      | 663                                   |
| Total                         | 55                | \$ 67,306                            | \$ 35,919         | \$ 13,506         | \$ 11,457                | \$ 60,882                             |

|                               | December 31, 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      | 27                | \$ 39,420                            | \$ 22,739         | \$ 5,319          | \$ 4,326                 | \$ 32,384                             |
| Construction/land development | 6                 | 11,114                               | 7,642             | 34                | 3,259                    | 10,935                                |
| Residential real estate loans |                   |                                      |                   |                   |                          |                                       |
| Residential 1-4 family        | 16                | 9,572                                | 5,055             | 124               | 771                      | 5,950                                 |
| Multifamily residential       | 2                 | 4,586                                | 3,692             |                   |                          | 3,692                                 |
| Total real estate             | 51                | 64,692                               | 39,128            | 5,477             | 8,356                    | 52,961                                |
| Commercial and industrial     | 5                 | 534                                  | 115               |                   | 195                      | 310                                   |
| Total                         | 56                | \$ 65,226                            | \$ 39,243         | \$ 5,477          | \$ 8,551                 | \$ 53,271                             |

The following is a presentation of non-covered TDRs on non-accrual status because they are not in compliance with the modified terms:

|                               | December 31, 2012 |                  | December 31, 2011 |                  |
|-------------------------------|-------------------|------------------|-------------------|------------------|
|                               | Number of Loans   | Recorded Balance | Number of Loans   | Recorded Balance |
| (In thousands)                |                   |                  |                   |                  |
| Real estate:                  |                   |                  |                   |                  |
| Commercial real estate loans  |                   |                  |                   |                  |
| Non-farm/non-residential      | 2                 | \$ 761           | 3                 | \$ 4,147         |
| Construction/land development |                   |                  | 1                 | 112              |
| Residential real estate loans |                   |                  |                   |                  |

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|                           |   |          |   |          |
|---------------------------|---|----------|---|----------|
| Residential 1-4 family    | 5 | 2,665    | 3 | 1,805    |
| Total real estate         | 7 | 3,426    | 7 | 6,064    |
| Commercial and industrial |   |          | 1 | 10       |
| Total                     | 7 | \$ 3,426 | 8 | \$ 6,074 |

**Table of Contents****Allowance for Loan Losses, Credit Quality and Other for Covered Loans**

During the second quarter of 2012, impairment testing on the estimated cash flows of the covered loans established that two pools evaluated had experienced material projected credit deterioration. As a result, the Company recorded a \$6.6 million provision for loan losses to the allowance for loan losses related to the purchased impaired loans during the three month period ended June 30, 2012. Since these loans are covered by loss share with the FDIC, the Company was able to increase its indemnification asset by \$5.3 million resulting in a net provision for loan losses of \$1.3 million.

During the third quarter of 2012, impairment testing on the estimated cash flows of the covered loans established that two pools evaluated had experienced projected credit deterioration. As a result, the Company recorded an \$837,000 provision for loan losses to the allowance for loan losses related to the purchased impaired loans during the three month period ended September 30, 2012. Since these loans are covered by loss share with the FDIC, the Company was able to increase its indemnification asset by \$670,000 resulting in a net provision for loan losses of \$167,000.

There were no allowances for loan losses related to the purchased impaired loans at December 31, 2011.

The following tables present the balance in the allowance for loan losses for the covered loan portfolio for the period ended December 31, 2012, and the allowance for loan losses and recorded investment in loans covered by FDIC loss share based on portfolio segment by impairment method as of December 31, 2012. 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, 2012         |                                       |                               |                               |                     |             | Total    |
|---|--------------------------------------|---------------------------------------|-------------------------------|-------------------------------|---------------------|-------------|----------|
|   | Construction/<br>Land<br>Development | Other<br>Commercial<br>Real<br>Estate | Residential<br>Real<br>Estate | Commercial<br>&<br>Industrial | Consumer<br>& Other | Unallocated |          |
|   | (In thousands)                       |                                       |                               |                               |                     |             |          |
| <b>Allowance for loan losses:</b>   |                                      |                                       |                               |                               |                     |             |          |
| Beginning balance   | \$                                   | \$                                    | \$                            | \$                            | \$                  | \$          | \$       |
| Loans charged off   | (648)                                | (970)                                 | (132)                         | (14)                          | (278)               |             | (2,042)  |
| Recoveries of loans previously charged off  |                                      |                                       | 2                             |                               |                     |             | 2        |
| Net loans recovered (charged off)   | (648)                                | (970)                                 | (130)                         | (14)                          | (278)               |             | (2,040)  |
| Provision for loan losses before benefit attributable to FDIC loss share agreements | 1,817                                | 4,975                                 | 358                           | 74                            | 278                 |             | 7,502    |
| Benefit attributable to FDIC loss share agreements                                  | (1,454)                              | (3,980)                               | (286)                         | (60)                          | (222)               |             | (6,002)  |
| Net provision for loan losses   | 363                                  | 995                                   | 72                            | 14                            | 56                  |             | 1,500    |
| Increase in FDIC indemnification asset  | 1,454                                | 3,980                                 | 286                           | 60                            | 222                 |             | 6,002    |
| Balance, December 31  | \$ 1,169                             | \$ 4,005                              | \$ 228                        | \$ 60                         | \$                  | \$          | \$ 5,462 |

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|   | As of December 31, 2012              |                                    |                               |                               |                     |             |            |
|---|--------------------------------------|------------------------------------|-------------------------------|-------------------------------|---------------------|-------------|------------|
|   | Construction/<br>Land<br>Development | Other<br>Commercial<br>Real Estate | Residential<br>Real<br>Estate | Commercial<br>&<br>Industrial | Consumer<br>& Other | Unallocated | Total      |
| <b>Allowance for loan losses:</b>           |                                      |                                    |                               |                               |                     |             |            |
| Period end amount allocated to:             |                                      |                                    |                               |                               |                     |             |            |
| Loans individually evaluated for impairment | \$                                   | \$                                 | \$                            | \$                            | \$                  | \$          | \$         |
| Loans collectively evaluated for impairment | 1,169                                | 4,005                              | 228                           | 60                            |                     |             | 5,462      |
| Balance, December 31                        | \$ 1,169                             | \$ 4,005                           | \$ 228                        | \$ 60                         | \$                  | \$          | \$ 5,462   |
| <b>Loans receivable:</b>                    |                                      |                                    |                               |                               |                     |             |            |
| Period end amount allocated to:             |                                      |                                    |                               |                               |                     |             |            |
| Loans individually evaluated for impairment | \$                                   | \$                                 | \$                            | \$                            | \$                  | \$          | \$         |
| Loans collectively evaluated for impairment | 66,713                               | 167,005                            | 135,192                       | 14,668                        | 1,306               |             | 384,884    |
| Balance, December 31                        | \$ 66,713                            | \$ 167,005                         | \$ 135,192                    | \$ 14,668                     | \$ 1,306            | \$          | \$ 384,884 |

Changes in the carrying amount of the accretible yield for purchased impaired and non-impaired loans were as follows for the year ended December 31, 2012 for the Company's covered and non-covered acquisitions:

|   | Accretible<br>Yield<br>(In thousands) | Carrying<br>Amount of<br>Loans<br>(In thousands) |
|---|---------------------------------------|--|
| Balance at beginning of period  | \$ 113,553                            | \$ 481,739                                       |
| Accretion   | (36,549)                              | 36,549   |
| Acquisition of Heritage and Premier                                     | 49,387                                | 230,746  |
| Adjustment to yield   | 980                                   |  |
| Transfers to foreclosed assets held for sale covered by FDIC loss share |                                       | (25,780)   |
| Payments received, net  |                                       | (110,298)  |
| Balance at end of period  | \$ 127,371                            | \$ 612,956                                       |

Two pools evaluated by the Company were determined to have a materially projected credit improvement. As a result of this improvement, the Company will recognize approximately \$980,000 as an adjustment to yield over the weighted average life of the loans. Improvements in credit quality decrease the basis in the related indemnification assets. This positive event will reduce the indemnification asset by approximately \$784,000. The \$784,000 will be amortized over the weighted average life of the loans or the life of the shared-loss agreements, whichever is shorter. The amortization will be shown as a reduction to FDIC indemnification non-interest income. This will result in approximately \$196,000 of pre-tax net income being recognized going forward which may or may not be symmetrical depending on the weighted average life of the loans.

**Table of Contents****7. Goodwill and Core Deposits and Other Intangibles**

Changes in the carrying amount and accumulated amortization of the Company's goodwill and core deposits and other intangibles at December 31, 2012 and 2011, were as follows:

|  | December 31, 2012 | December 31, 2011 |
|--|-------------------|-------------------|
|  | (In thousands)    |                   |
| <b><u>Goodwill</u></b>                           |                   |                   |
| Balance, beginning of period                     | \$ 59,663         | \$ 59,663         |
| Vision and Premier acquisitions                  | 26,018            |                   |
| Balance, end of period                           | \$ 85,681         | \$ 59,663         |
| <br>   |                   |                   |
|  | December 31, 2012 | December 31, 2011 |
|  | (In thousands)    |                   |
| <b><u>Core Deposit and Other Intangibles</u></b> |                   |                   |
| Balance, beginning of period                     | \$ 8,620          | \$ 11,447         |
| Acquisitions                                     | 6,202             |                   |
| Amortization expense                             | (2,761)           | (2,827)           |
| Balance, end of year                             | \$ 12,061         | \$ 8,620          |

The carrying basis and accumulated amortization of core deposits and other intangibles at December 31, 2012 and 2011 were:

|                          | December 31, 2012 | December 31, 2011 |
|--------------------------|-------------------|-------------------|
|                          | (In thousands)    |                   |
| Gross carrying amount    | \$ 29,663         | \$ 23,461         |
| Accumulated amortization | 17,602            | 14,841            |
| Net carrying amount      | \$ 12,061         | \$ 8,620          |

Core deposit and other intangible amortization expense for the years ended December 31, 2012, 2011 and 2010 was approximately \$2.8 million, \$2.8 million and \$2.6 million, respectively. Including all of the mergers completed as of December 31, 2012, HBI's estimated amortization expense of core deposits and other intangibles for each of the years 2013 through 2017 is approximately: 2013 - \$3.2 million; 2014 - \$3.1 million; 2015 - \$2.2 million; 2016 - \$973,000; 2017 - \$884,000.

The carrying amount of the Company's goodwill was \$85.7 million at December 31, 2012 and \$59.7 million at December 31, 2011. Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

**8. Other Assets**

Other assets consists primarily of FDIC claims receivable, equity securities without a readily determinable fair value and other miscellaneous assets. As of December 31, 2012 and December 31, 2011 other assets were \$75.7 million and \$64.3 million, respectively.

An indemnification asset was created when the Company acquired FDIC covered loans. The indemnification asset represents the carrying amount of the right to receive payments from the FDIC for losses incurred on specified assets acquired from failed insured depository institutions or otherwise purchased from the FDIC that are covered by loss-sharing agreements with the FDIC. When the Company experiences



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a loss on the covered loans and subsequently requests reimbursement of the loss from the FDIC, the indemnification asset is reduced by the FDIC reimbursable amount. A corresponding claim receivable is consequently recorded in other assets until the cash is received from the FDIC. The FDIC claims receivable was \$45.2 million and \$30.2 million at December 31, 2012 and December 31, 2011, respectively.

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The Company has equity securities without readily determinable fair values. These equity securities are outside the scope of ASC Topic 320, *Investments-Debt and Equity Securities*. They include items such as stock holding in Federal Home Loan Bank, Federal Reserve Bank, Bankers Bank and other miscellaneous holdings. The equity securities without a readily determinable fair value were \$20.2 million and \$22.4 million at December 31, 2012 and December 31, 2011, respectively.

**9. Deposits**

The aggregate amount of time deposits with a minimum denomination of \$100,000 was \$549.1 million and \$703.2 million at December 31, 2012 and 2011, respectively. Interest expense applicable to certificates in excess of \$100,000 totaled \$7.8 million, \$9.9 million and \$9.8 million for the years ended December 31, 2012, 2011 and 2010, respectively. As of December 31, 2012 and 2011, brokered deposits were \$56.9 million and \$103.4 million, respectively.

The following is a summary of the scheduled maturities of all time deposits at December 31, 2012 (in thousands):

|                            |                     |
|----------------------------|---------------------|
| One month or less          | \$ 111,867          |
| Over 1 month to 3 months   | 168,503             |
| Over 3 months to 6 months  | 246,286             |
| Over 6 months to 12 months | 289,365             |
| Over 12 months to 2 years  | 109,682             |
| Over 2 years to 3 years    | 56,117              |
| Over 3 years to 5 years    | 50,847              |
| Over 5 years               | 324                 |
| <b>Total time deposits</b> | <b>\$ 1,032,991</b> |

Deposits totaling approximately \$484.4 million and \$279.8 million at December 31, 2012 and 2011, respectively, were public funds obtained primarily from state and political subdivisions in the United States.

**10. Securities Sold Under Agreements to Repurchase**

At December 31, 2012 and 2011, securities sold under agreements to repurchase totaled \$66.3 million and \$62.3 million, respectively. For the years ended December 31, 2012 and 2011, securities sold under agreements to repurchase daily weighted average totaled \$67.0 million and \$66.9 million, respectively.

**11. FHLB Borrowed Funds**

The Company's FHLB borrowed funds were \$130.4 million and \$142.8 million at December 31, 2012 and 2011, respectively. All of the outstanding balance for December 31, 2012 and 2011 was long-term advances. The FHLB advances mature from the current year to 2025 with fixed interest rates ranging from 2.020% to 4.799% and are secured by loans and investments securities. Expected maturities will differ from contractual maturities, because FHLB may have the right to call or HBI the right to prepay certain obligations.

Additionally, the Company had \$90.5 million and \$135.0 million at December 31, 2012 and 2011, respectively, in letters of credit under a FHLB blanket borrowing line of credit, which are used to collateralize public deposits at December 31, 2012 and 2011, respectively.

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Maturities of borrowings with original maturities exceeding one year at December 31, 2012, are as follows (in thousands):

|            |            |
|------------|------------|
| 2013       | \$ 30,000  |
| 2014       |            |
| 2015       | 5,500      |
| 2016       | 5,000      |
| 2017       |            |
| Thereafter | 89,888     |
|            | \$ 130,388 |

**12. Subordinated Debentures**

Subordinated debentures at December 31, 2012 and 2011 consisted of guaranteed payments on trust preferred securities with the following components:

|   | <b>As of December 31,</b> |                  |
|---|---------------------------|------------------|
|   | <b>2012</b>               | <b>2011</b>      |
|   | <b>(In thousands)</b>     |                  |
| Subordinated debentures, issued in 2003, due 2033, fixed at 6.40%, during the first five years and at a floating rate of 3.15% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty          | \$ 20,619                 | \$ 20,618        |
| Subordinated debentures, issued in 2003, due 2033, floating rate of 3.15% above the three-month LIBOR rate, reset quarterly, currently callable without penalty   | 5,155                     | 5,155            |
| Subordinated debentures, issued in 2005, due 2035, fixed rate of 6.81% during the first ten years and at a floating rate of 1.38% above the three-month LIBOR rate, reset quarterly, thereafter. Retired during the third quarter of 2012 |                           | 15,465           |
| Subordinated debentures, issued in 2006, due 2036, fixed rate of 6.75% during the first five years and at a floating rate of 1.85% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty      | 3,093                     | 3,093            |
| <b>Total</b>  | <b>\$ 28,867</b>          | <b>\$ 44,331</b> |

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 \$28.9 million of trust preferred securities which are currently callable without penalty based on the terms of the specific agreements. Since these trust preferred securities are being phased out of Tier 1 capital, we have decided to begin the process of redeeming these instruments. We have been approved and are planning to pay off \$25.8 million of subordinated debentures currently at a floating rate of 3.46% during the first quarter of 2013. We are also evaluating the remaining \$3.1 million of subordinated debentures and expect to pay off part or all of the remaining subordinated debentures during the second quarter of 2013.



**Table of Contents****13. Income Taxes**

The following is a summary of the components of the provision (benefit) for income taxes:

|                                   | Year Ended December 31, |                  |                 |
|-----------------------------------|-------------------------|------------------|-----------------|
|                                   | 2012                    | 2011             | 2010            |
|                                   | (In thousands)          |                  |                 |
| <b>Current:</b>                   |                         |                  |                 |
| Federal                           | \$ 30,041               | \$ 32,751        | \$ 4,898        |
| State                             | 5,822                   | 6,087            | 737             |
| <b>Total current</b>              | <b>35,863</b>           | <b>38,838</b>    | <b>5,635</b>    |
| <b>Deferred:</b>                  |                         |                  |                 |
| Federal                           | (363)                   | (7,821)          | 315             |
| State                             | (71)                    | (1,416)          | 71              |
| <b>Total deferred</b>             | <b>(434)</b>            | <b>(9,237)</b>   | <b>386</b>      |
| <b>Provision for income taxes</b> | <b>\$ 35,429</b>        | <b>\$ 29,601</b> | <b>\$ 6,021</b> |

The reconciliation between the statutory federal income tax rate and effective income tax rate is as follows:

|  | Year Ended December 31, |               |               |
|--|-------------------------|---------------|---------------|
|  | 2012                    | 2011          | 2010          |
| Statutory federal income tax rate          | 35.00%                  | 35.00%        | 35.00%        |
| Effect of nontaxable interest income       | (2.47)                  | (2.87)        | (9.53)        |
| Cash value of life insurance               | (0.30)                  | (0.47)        | (2.05)        |
| State income taxes, net of federal benefit | 3.80                    | 3.60          | 2.22          |
| Other                                      | (0.04)                  | (0.16)        | (0.14)        |
| <b>Effective income tax rate</b>           | <b>35.99%</b>           | <b>35.10%</b> | <b>25.50%</b> |

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:

|  | December 31, 2012 | December 31, 2011 |
|--|-------------------|-------------------|
|  | (In thousands)    |                   |
| <b>Deferred tax assets:</b>                |                   |                   |
| Allowance for loan losses                  | \$ 19,999         | \$ 20,474         |
| Deferred compensation                      | 1,331             | 1,839             |
| Stock options                              | 231               | 317               |
| Real estate owned                          | 9,211             | 9,189             |
| Loan discounts                             | 51,946            | 57,095            |
| Tax basis premium/discount on acquisitions | 23,914            | 14,306            |
| Deposits                                   | 485               | 357               |
| Other                                      | 7,239             | 5,236             |
| <b>Gross deferred tax assets</b>           | <b>114,356</b>    | <b>108,813</b>    |

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|  |           |           |
|--|-----------|-----------|
| Deferred tax liabilities:                          |           |           |
| Accelerated depreciation on premises and equipment | 377       | 2,299     |
| Unrealized gain on securities                      | 7,747     | 5,167     |
| Core deposit intangibles                           | 1,506     | 1,159     |
| Indemnification asset                              | 54,009    | 75,254    |
| FHLB dividends                                     | 889       | 879       |
| Other  | 2,830     | 1,205     |
| Gross deferred tax liabilities                     | 67,358    | 85,963    |
| Net deferred tax assets                            | \$ 46,998 | \$ 22,850 |

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The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and the states of Arkansas, Alabama and Florida. With a few exceptions, the Company is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2009. The Internal Revenue Service (IRS) commenced an examination of the Company's U.S. income tax return for 2008 in the second quarter of 2011 that was completed with no adjustments during the fourth quarter of 2012. As of December 31, 2012, the IRS did not propose any significant adjustments to the Company's tax return.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties in income tax expense. During the years ended December 31, 2012, 2011 and 2010, the Company did not recognize any significant interest or penalties. The Company did not have any interest or penalties accrued at December 31, 2012, 2011 and 2010.

### **14. Common Stock and Compensation Plans**

#### ***Common Stock***

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.

On January 16, 2009, the Company issued and sold, and the United States Department of the Treasury (the "Treasury") purchased, (1) 50,000 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock Series A (the "Preferred Shares"), liquidation preference of \$1,000 per share, and (2) a ten-year warrant (the "Warrant") to purchase shares of the Company's common stock, par value \$0.01 per share, at an exercise price of \$23.664 per share, for an aggregate purchase price of \$50.0 million in cash.

On July 6, 2011, we repurchased all 50,000 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, held by the Treasury. Under the terms of the repayment document, the Company paid an aggregate repurchase price of approximately \$50.4 million to repurchase the Preferred Shares, including \$354,167 in dividends accrued since the Company's last quarterly dividend payment to the Treasury, and the Treasury returned to the Company the stock certificate representing the Preferred Shares. The Preferred Shares are thereby cancelled and will be considered authorized but unissued shares of preferred stock.

On July 27, 2011, the Company repurchased the Warrant issued by the Company to the Treasury. The Warrant was repurchased by the Company pursuant to a letter agreement between the Treasury and the Company, dated July 21, 2011, 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.

**Table of Contents****Stock Compensation Plans**

The Company has a stock option and performance incentive plan. The purpose of the plan is to attract and retain highly qualified officers, directors, key employees, and other persons, and to motivate those persons to improve our business results. On April 19, 2012, our shareholders approved the Amended and Restated 2006 Stock Option and Performance Incentive Plan ( the Plan ). As a result of the required shareholder approval at the Annual Shareholder Meeting held on April 19, 2012, the Plan has become effective as of February 27, 2012 and increased the number of shares reserved for issuance under the Plan by 540,000 shares. As of April 19, 2012, this plan provided for the granting of incentive nonqualified options to purchase stock or for the issuance of restricted shares up to 2,322,000 of common stock in the Company. As of April 19, 2012, the Company had approximately 896,000 shares of common stock remaining available for grants or issuance under the plan and approximately 1,461,000 shares reserved for issuance of common stock.

The intrinsic value of the stock options outstanding at December 31, 2012, 2011, and 2010 was \$8.6 million, \$8.3 million and \$7.4 million, respectively. The intrinsic value of the stock options vested at December 31, 2012, 2011 and 2010 was \$8.2 million, \$8.1 million and \$7.2 million, respectively.

The intrinsic value of the stock options exercised during 2012, 2011 and 2010 was \$3.8 million, \$1.5 million, and \$2.7 million, respectively.

Total unrecognized compensation cost, net of income tax benefit, related to non-vested awards, which are expected to be recognized over the vesting periods, was approximately \$248,000 as of December 31, 2012.

The table below summarized the transactions under the Company's stock option plans at December 31, 2012, 2011 and 2010 and changes during the years then ended:

|                                | 2012   |                                    | 2011   |                                    | 2010   |                                    |
|--------------------------------|--------|------------------------------------|--------|------------------------------------|--------|------------------------------------|
|                                | Shares | Weighted Average Exercisable Price | Shares | Weighted Average Exercisable Price | Shares | Weighted Average Exercisable Price |
|                                | (000)  |                                    | (000)  |                                    | (000)  |                                    |
| Outstanding, beginning of year | 569    | \$ 11.36                           | 660    | \$ 10.88                           | 835    | \$ 10.46                           |
| Granted                        | 45     | 26.25                              |        |                                    |        |                                    |
| Forfeited                      | (1)    | 9.29                               |        |                                    |        |                                    |
| Exercised                      | (178)  | 10.33                              | (91)   | 7.87                               | (175)  | 8.89                               |
| Outstanding, end of period     | 435    | 13.32                              | 569    | 11.36                              | 660    | 10.88                              |
| Exercisable, end of period     | 383    | \$ 11.72                           | 550    | \$ 11.13                           | 623    | \$ 10.45                           |

Stock-based compensation expense for stock-based compensation awards granted is based on the grant date fair value. For stock option awards, the fair value is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. Additionally, there may be other factors that would otherwise have a significant effect on the value of employee stock options granted but are not considered by the model. Accordingly, while management believes that the Black-Scholes option-pricing model provides a reasonable estimate of fair value, the model does not necessarily provide the best single measure of fair value for the Company's employee stock options. The weighted-average fair value of options granted during the year ended December 31, 2012, was \$7.18. There were no options granted during 2011 and 2010. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model based on the weighted-average assumptions for expected dividend yield, expected stock price volatility, risk-free interest rate, and expected life of options granted. During 2012, none of the stock options granted were to executive officers of the Company.



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The assumptions used in determining the fair value of 2012 stock option grants were as follows:

|                                 | For the Year Ended<br>December 31,<br>2012 | For the Year Ended<br>December 31, 2011 |
|---------------------------------|--|---|
| Expected dividend yield         | 1.52%                                      | Not applicable                          |
| Expected stock price volatility | 30.56%                                     | Not applicable                          |
| Risk-free interest rate         | 1.47%                                      | Not applicable                          |
| Expected life of options        | 6.5 years                                  | Not applicable                          |

The following is a summary of currently outstanding and exercisable options at December 31, 2012:

| Exercise Prices     | Options Outstanding              |  | Options Exercisable             |                                  |                                 |
|---------------------|----------------------------------|--|---------------------------------|----------------------------------|---------------------------------|
|                     | Options Outstanding Shares (000) | Weighted-Average Remaining Contractual Life (in years) | Weighted-Average Exercise Price | Options Exercisable Shares (000) | Weighted-Average Exercise Price |
| \$ 6.17 to \$7.01   | 20                               | 1.87   | \$ 6.42                         | 20                               | \$ 6.42                         |
| \$ 7.85 to \$8.68   | 40                               | 1.90   | 8.53                            | 40                               | 8.53                            |
| \$ 9.55 to \$9.83   | 48                               | 2.42   | 9.62                            | 48                               | 9.62                            |
| \$ 10.66 to \$10.66 | 101                              | 2.86   | 10.66                           | 101                              | 10.66                           |
| \$ 11.09 to \$11.09 | 101                              | 3.20   | 11.09                           | 101                              | 11.09                           |
| \$ 16.65 to \$17.21 | 43                               | 5.03   | 17.13                           | 37                               | 17.13                           |
| \$ 18.50 to \$18.55 | 3                                | 4.23   | 18.54                           | 3                                | 18.54                           |
| \$ 18.62 to \$18.62 | 6                                | 4.66   | 18.62                           | 6                                | 18.62                           |
| \$ 20.33 to \$22.74 | 28                               | 4.33   | 20.72                           | 27                               | 20.63                           |
| \$ 26.25 to \$26.25 | 45                               | 9.06   | 26.25                           |                                  |                                 |
|                     | 435                              |  |                                 | 383                              |                                 |

The table below summarized the activity for the Company's restricted stock issued and outstanding at December 31, 2012, 2011 and 2010 and changes during the years then ended:

|   | 2012           | 2011   | 2010   |
|---|----------------|--------|--------|
|   | (in thousands) |        |        |
| Beginning of year                         | 49             | 22     | 12     |
| Issued                                    | 104            | 32     | 19     |
| Vested                                    | (18)           | (5)    | (9)    |
| End of year                               | 135            | 49     | 22     |
| Amount of expense for twelve months ended | \$ 780         | \$ 351 | \$ 324 |

The restricted stock issued through 2011 will vest equally each year over three years beginning on the first anniversary of the issuance. The only exception to this vesting is for 4,999 shares of restricted common stock issued during 2009. These restricted shares will vest equally each year over three years beginning on the third anniversary of the issuance.

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On August 2, 2012, 104,000 shares of restricted common stock were issued to our named executive officers and certain other employees of the Company. These shares include 43,000 shares subject to time vesting ( Restricted Shares ) and 61,000 shares subject to performance based vesting ( Performance Shares ).

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The Restricted Shares will cliff vest on the third annual anniversary of the grant date. The Performance Shares will cliff vest on the third annual anniversary of the date that the performance goal is met. The performance goal will be met as of the end of the calendar quarter when the Company has averaged \$0.625 diluted earnings per share for four consecutive quarters or \$2.50 total diluted earnings per share over a period of four consecutive quarters. The Compensation Committee of the Board of Directors will have final approval to determine whether the diluted earnings per share performance goal has been met and will exclude one-time and non-recurring gains in calculating the applicable diluted earnings per share.

During 2012, the Company utilized a portion of its previously approved stock repurchase program. This program authorized the repurchase of 1,188,000 shares of the Company's common stock. For 2012, the Company repurchased a total of 455,448 shares with a weighted average stock price of \$29.72. The 2012 earnings were used to fund these repurchases. The total shares repurchased to date under the program are 755,448 shares. The remaining balance available for repurchase is 432,552 shares at December 31, 2012.

**15. Non-Interest Expense**

The table below shows the components of non-interest expense for years ended December 31:

|   | 2012              | 2011<br>(In thousands) | 2010             |
|---|-------------------|------------------------|------------------|
| Salaries and employee benefits            | \$ 47,289         | \$ 42,825              | \$ 38,881        |
| Occupancy and equipment                   | 14,500            | 14,197                 | 13,164           |
| Data processing expense                   | 4,930             | 4,601                  | 3,513            |
| Other operating expenses:                 |                   |                        |                  |
| Advertising                               | 2,447             | 4,270                  | 2,033            |
| Merger and acquisition expenses           | 7,157             | 145                    | 5,165            |
| Amortization of intangibles               | 2,761             | 2,827                  | 2,561            |
| Amortization of mortgage servicing rights |                   |                        | 436              |
| Electronic banking expense                | 3,175             | 2,733                  | 1,974            |
| Directors' fees                           | 807               | 811                    | 679              |
| Due from bank service charges             | 536               | 496                    | 439              |
| FDIC and state assessment                 | 2,313             | 4,283                  | 3,676            |
| Insurance                                 | 1,774             | 1,673                  | 1,220            |
| Legal and accounting                      | 1,065             | 1,603                  | 1,620            |
| Mortgage servicing expense                |                   |                        | 158              |
| Other professional fees                   | 1,655             | 1,954                  | 1,526            |
| Operating supplies                        | 1,134             | 1,168                  | 889              |
| Postage                                   | 896               | 942                    | 675              |
| Telephone                                 | 1,074             | 977                    | 824              |
| Other expense                             | 8,855             | 9,217                  | 5,568            |
| <b>Total other operating expenses</b>     | <b>35,649</b>     | <b>33,099</b>          | <b>29,443</b>    |
| <b>Total non-interest expense</b>         | <b>\$ 102,368</b> | <b>\$ 94,722</b>       | <b>\$ 85,001</b> |

**16. Employee Benefit Plans****401(k) Plan**

The Company has a retirement savings 401(k) plan in which substantially all employees may participate. The Company matches employees' contributions based on a percentage of salary contributed by participants. While the plan also allows for discretionary employer contributions, no discretionary contributions were made for the years ended 2012, 2011 and 2010. The Company's expense for the plan was approximately \$604,000, \$522,000 and \$466,000 in 2012, 2011 and 2010, respectively, which is included in salaries and employee benefits expense.



**Table of Contents****Chairman's Retirement Plan**

On April 20, 2007, the Company's board of directors approved a Chairman's Retirement Plan for John W. Allison, the Company's Chairman and CEO. The Chairman's Retirement Plan provides a supplemental retirement benefit of \$250,000 a year for 10 consecutive years or until Mr. Allison's death, whichever occurs later. During 2011, Mr. Allison reached the age of 65 and became 100% vested in the plan. Therefore, he began receiving the supplemental retirement benefit due to him. He received \$250,000 and \$125,000 of this benefit during 2012 and 2011, respectively. An expense of approximately \$181,000, \$372,000 and \$566,000 was accrued for 2012, 2011 and 2010 for this plan, respectively.

**17. Related Party Transactions**

In the ordinary course of business, loans may be made to officers and directors and their affiliated companies at substantially the same terms as comparable transactions with other borrowers. At December 31, 2012 and 2011, related party loans were approximately \$33.0 million and \$34.2 million, respectively. New loans and advances on prior commitments made to the related parties were \$14.0 million and \$8.3 million for the years ended December 31, 2012 and 2011, respectively. Repayments of loans made by the related parties were \$14.0 million and \$18.0 million for the years ended December 31, 2012 and 2011, respectively.

At December 31, 2012 and 2011, directors, officers, and other related interest parties had demand, non-interest-bearing deposits of approximately \$23.5 million and \$12.2 million, respectively, savings and interest-bearing transaction accounts of approximately \$838,000 and \$484,000, respectively, and time certificates of deposit of approximately \$6.2 million and \$9.7 million, respectively.

During 2012, 2011 and 2010, rent expense totaling approximately \$97,000, \$97,000 and \$81,000, respectively, was paid to related parties.

**18. Leases**

The Company leases certain premises and equipment under noncancelable operating leases with terms up to 15 years which are charged to expense over the lease term as it becomes payable. The Company's leases do not have rent holidays. In addition, any rent escalations are tied to the consumer price index or contain nominal increases and are not included in the calculation of current lease expense due to the immaterial amount. At December 31, 2012, the minimum rental commitments under these noncancelable operating leases are as follows (in thousands):

|            |          |
|------------|----------|
| 2013       | \$ 1,636 |
| 2014       | 1,429    |
| 2015       | 1,253    |
| 2016       | 1,178    |
| 2017       | 1,156    |
| Thereafter | 2,703    |
|            | \$ 9,355 |

**19. Concentration of Credit Risks**

The Company's primary market areas are in Central Arkansas, North Central Arkansas, Southern Arkansas, Central Florida, Southwest Florida, the Florida Panhandle, the Florida Keys (Monroe County) and South Alabama. The Company primarily grants loans to customers located within these geographical areas unless the borrower has an established relationship with the Company.

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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.

### **20. 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 6, while deposit concentrations are reflected in Note 9.

Although the Company has a diversified loan portfolio, at December 31, 2012 and 2011, non-covered commercial real estate loans represented 56.0% and 61.9% of gross non-covered loans and 253.4% and 229.8% of total stockholders' equity, respectively. Non-covered residential real estate loans represented 29.1% and 23.1% of gross non-covered loans and 131.7% and 85.7% of total stockholders' equity at December 31, 2012 and 2011, 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.

### **21. 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 December 31, 2012 and 2011, commitments to extend credit of \$407.1 million and \$292.4 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 December 31, 2012 and 2011, is \$16.4 million and \$22.8 million, respectively.

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The Company and/or its bank subsidiary 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 or results of operations of the Company and its subsidiaries.

**22. Financial Instruments**

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There is a hierarchy of 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

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 primarily of U.S. government-sponsored enterprises, mortgage-backed securities plus state and political subdivisions. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. As of December 31, 2012 and 2011, Level 3 securities were immaterial. In addition, there were no material transfers between hierarchy levels during 2012, 2011 and 2010.

The Corporation reviews the prices supplied by the independent pricing service, as well as their underlying pricing methodologies, for reasonableness and to ensure such prices are aligned with traditional pricing matrices. In general, the Company does not purchase investment portfolio securities with complicated structures. Pricing for the Company's investment securities is fairly generic and is easily obtained.

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. The fair value of loans with specific allocated losses was \$97.8 million and \$104.4 million as of December 31, 2012 and 2011, respectively. This valuation is considered Level 3, consisting of appraisals of underlying collateral. The Company reversed approximately \$495,000 and \$590,000 of accrued interest receivable when non-covered impaired loans were put on non-accrual status during the year ended December 31, 2012 and 2011, respectively.

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 December 31, 2012 and 2011, the fair value of non-covered foreclosed assets held for sale not covered by loss share, less estimated costs to sell was \$20.4 million and \$16.7 million, respectively.

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The significant unobservable (Level 3) inputs used in the fair value measurement of collateral for collateral-dependent impaired loans and foreclosed assets primarily relate to customized discounting criteria applied to the customer's reported amount of collateral. The amount of the collateral discount depends upon the condition and marketability of the underlying collateral. As the Corporation's primary objective in the event of default would be to monetize the collateral to settle the outstanding balance of the loan, less marketable collateral would receive a larger discount. During the reported periods, collateral discounts ranged from 20% to 50% for commercial and residential real estate collateral.

**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, net of allowance* 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 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.



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*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 fair value of these commitments is not material.

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.

|  | December 31, 2012  |            |       |
|--|--------------------|------------|-------|
|  | Carrying<br>Amount | Fair Value | Level |
|  | (In thousands)     |            |       |
| <b>Financial assets:</b>   |                    |            |       |
| Cash and cash equivalents  | \$ 231,855         | \$ 231,855 | 1     |
| Federal funds sold   | 17,148             | 17,148     | 1     |
| Loans receivable not covered by loss share, net of non-covered<br>impaired loans and allowance | 2,188,253          | 2,202,859  | 3     |
| Loans receivable covered by FDIC loss share, net of allowance                                  | 379,422            | 379,422    | 3     |
| FDIC indemnification asset   | 139,646            | 139,646    | 3     |
| Accrued interest receivable  | 16,305             | 16,305     | 1     |
| <b>Financial liabilities:</b>  |                    |            |       |
| <b>Deposits:</b>   |                    |            |       |
| Demand and non-interest-bearing  | \$ 666,414         | \$ 666,414 | 1     |
| Savings and interest-bearing transaction accounts  | 1,784,047          | 1,784,047  | 1     |
| Time deposits  | 1,032,991          | 1,037,235  | 3     |
| Federal funds purchased  |                    |            | N/A   |
| Securities sold under agreements to repurchase   | 66,278             | 66,278     | 1     |
| FHLB and other borrowed funds  | 130,388            | 139,654    | 2     |
| Accrued interest payable   | 1,243              | 1,243      | 1     |
| Subordinated debentures  | 28,867             | 28,911     | 3     |

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|   | December 31, 2011  |            |       |
|---|--------------------|------------|-------|
|   | Carrying<br>Amount | Fair Value | Level |
|   | (In thousands)     |            |       |
| <b>Financial assets:</b>  |                    |            |       |
| Cash and cash equivalents   | \$ 184,304         | \$ 184,304 | 1     |
| Federal funds sold  | 1,100              | 1,100      | 1     |
| Loans receivable not covered by loss share, net of non-covered impaired loans and allowance | 1,603,606          | 1,648,168  | 3     |
| Loans receivable covered by FDIC loss share   | 481,739            | 481,739    | 3     |
| FDIC indemnification asset  | 193,856            | 193,856    | 3     |
| Accrued interest receivable   | 15,551             | 15,551     | 1     |
| <b>Financial liabilities:</b>   |                    |            |       |
| <b>Deposits:</b>  |                    |            |       |
| Demand and non-interest-bearing   | \$ 464,581         | \$ 464,581 | 1     |
| Savings and interest-bearing transaction accounts   | 1,189,098          | 1,189,098  | 1     |
| Time deposits   | 1,204,352          | 1,209,688  | 3     |
| Federal funds purchased   |                    |            | N/A   |
| Securities sold under agreements to repurchase  | 62,319             | 62,319     | 1     |
| FHLB and other borrowed funds   | 142,777            | 150,828    | 2     |
| Accrued interest payable  | 2,125              | 2,125      | 1     |
| Subordinated debentures   | 44,331             | 47,109     | 3     |

**23. 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 2012, the Company requested approximately \$48.4 million in dividends from its banking subsidiary. This dividend is equal to approximately 75% of the current year earnings December 2011 through November 2012 from its banking subsidiary. The Company plans to continue to request dividends from its banking subsidiary during 2013.

The Company's banking subsidiary is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Company's regulators could require adjustments to regulatory capital not reflected in the consolidated financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes that, as of December 31, 2012, the Company meets all capital adequacy requirements to which it is subject.

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As of the most recent notification from regulatory agencies, the subsidiary was well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and its subsidiary must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institutions' categories.

The Company's actual capital amounts and ratios along with the Company's bank subsidiary are presented in the following table.

|                                  | Actual     |        | Minimum Capital Requirement |        | Minimum To Be Well Capitalized Under Prompt Corrective Action Provision |       |
|----------------------------------|------------|--------|-----------------------------|--------|---|-------|
|                                  | Amount     | Ratio  | Amount                      | Ratio  | Amount  | Ratio |
| <b>As of December 31, 2012</b>   |            |        |                             |        |   |       |
| Leverage ratios:                 |            |        |                             |        |   |       |
| Home BancShares                  | \$ 431,158 | 10.95% | \$ 157,501                  | 4.00 % | \$ N/A  | N/A % |
| Centennial Bank                  | 387,752    | 9.84   | 157,623                     | 4.00   | 197,028   | 5.00  |
| Tier 1 capital ratios:           |            |        |                             |        |   |       |
| Home BancShares                  | \$ 431,158 | 13.94% | \$ 123,718                  | 4.00 % | \$ N/A  | N/A % |
| Centennial Bank                  | 387,752    | 12.57  | 123,390                     | 4.00   | 185,084   | 6.00  |
| Total risk-based capital ratios: |            |        |                             |        |   |       |
| Home BancShares                  | \$ 469,965 | 15.20% | \$ 247,350                  | 8.00 % | \$ N/A  | N/A % |
| Centennial Bank                  | 426,454    | 13.83  | 246,683                     | 8.00   | 308,354   | 10.00 |
| <b>As of December 31, 2011</b>   |            |        |                             |        |   |       |
| Leverage ratios:                 |            |        |                             |        |   |       |
| Home BancShares                  | \$ 441,931 | 12.48% | \$ 141,645                  | 4.00 % | \$ N/A  | N/A % |
| Centennial Bank                  | 404,687    | 11.65  | 138,948                     | 4.00   | 173,685   | 5.00  |
| Tier 1 capital ratios:           |            |        |                             |        |   |       |
| Home BancShares                  | \$ 441,931 | 17.04% | \$ 103,740                  | 4.00 % | \$ N/A  | N/A % |
| Centennial Bank                  | 404,687    | 15.68  | 103,236                     | 4.00   | 154,855   | 6.00  |
| Total risk-based capital ratios: |            |        |                             |        |   |       |
| Home BancShares                  | \$ 474,601 | 18.30% | \$ 207,476                  | 8.00 % | \$ N/A  | N/A % |
| Centennial Bank                  | 437,197    | 16.94  | 206,468                     | 8.00   | 258,086   | 10.00 |

**24. Additional Cash Flow Information**

The following is summary of the Company's additional cash flow information during the years ended:

|                                | 2012           | 2011      | 2010      |
|--------------------------------|----------------|-----------|-----------|
|                                | (In thousands) |           |           |
| Interest paid                  | \$ 22,823      | \$ 31,430 | \$ 35,830 |
| Income taxes paid              | 35,570         | 37,150    | 14,950    |
| Assets acquired by foreclosure | 31,117         | 42,714    | 16,780    |

**Table of Contents****25. Condensed Financial Information (Parent Company Only)****Condensed Balance Sheets**

| (In thousands)                             |  | December 31, |            |
|--|--|--------------|------------|
|  |  | 2012         | 2011       |
| <b>Assets</b>                              |  |              |            |
| Cash and cash equivalents                  |  | \$ 35,779    | \$ 33,629  |
| Investments in wholly-owned subsidiaries   |  | 503,126      | 480,114    |
| Investments in unconsolidated subsidiaries |  | 867          | 1,331      |
| Other assets                               |  | 6,923        | 5,874      |
| Total assets                               |  | \$ 546,695   | \$ 520,948 |
| <b>Liabilities</b>                         |  |              |            |
| Subordinated debentures                    |  | \$ 28,867    | \$ 44,331  |
| Other liabilities                          |  | 2,355        | 2,551      |
| Total liabilities                          |  | 31,222       | 46,882     |
| <b>Stockholders Equity</b>                 |  |              |            |
| Common stock                               |  | 281          | 283        |
| Capital surplus                            |  | 416,354      | 425,649    |
| Retained earnings                          |  | 86,837       | 40,130     |
| Accumulated other comprehensive income     |  | 12,001       | 8,004      |
| Total stockholders equity                  |  | 515,473      | 474,066    |
| Total liabilities and stockholders equity  |  | \$ 546,695   | \$ 520,948 |

**Condensed Statements of Income**

| (In thousands)   |  | Years Ended December 31, |           |           |
|--|--|--------------------------|-----------|-----------|
|  |  | 2012                     | 2011      | 2010      |
| <b>Income</b>  |  |                          |           |           |
| Dividends from banking subsidiary  |  | \$ 48,366                | \$ 39,760 | \$        |
| Other income   |  | 55                       | 65        | 75        |
| Total income   |  | 48,421                   | 39,825    | 75        |
| <b>Expenses</b>  |  |                          |           |           |
| Income (loss) before income taxes and equity in undistributed net income of subsidiaries |  | 43,512                   | 34,736    | (5,498)   |
| Tax benefit for income taxes   |  | 1,910                    | 1,912     | 2,273     |
| Income (loss) before equity in undistributed net income of subsidiaries                  |  | 45,422                   | 36,648    | (3,225)   |
| Equity in undistributed net income of subsidiaries                                       |  | 17,600                   | 18,093    | 20,816    |
| <b>Net income</b>  |  | \$ 63,022                | \$ 54,741 | \$ 17,591 |



**Table of Contents****Condensed Statements of Cash Flows**

| (In thousands)  | Years Ended December 31, |                  |                  |
|---|--------------------------|------------------|------------------|
|   | 2012                     | 2011             | 2010             |
| <b>Cash flows from operating activities</b>             |                          |                  |                  |
| Net income  | \$ 63,022                | \$ 54,741        | \$ 17,591        |
| Items not requiring (providing) cash Amortization       |                          |                  | (60)             |
| Loss on investment securities                           |                          |                  | 71               |
| Share-based compensation                                | 917                      | 36               | 376              |
| Tax benefit from stock options exercised                | (1,377)                  | (562)            | (964)            |
| Equity in undistributed income of subsidiaries          | (17,600)                 | (18,093)         | (20,816)         |
| Changes in other assets                                 | (1,049)                  | 2,102            | 3,148            |
| Changes in other liabilities                            | 1,181                    | 410              | 922              |
| Net cash provided by (used in) operating activities     | 45,094                   | 38,634           | 268              |
| <b>Cash flows from investing activities</b>             |                          |                  |                  |
| Capital contribution to subsidiaries                    |                          |                  | (107,000)        |
| Purchase of Premier Bank                                | (1,415)                  |                  |                  |
| Proceeds from maturities of investment securities       |                          |                  | 29               |
| Net cash provided by (used in) investing activities     | (1,415)                  |                  | (106,971)        |
| <b>Cash flows from financing activities</b>             |                          |                  |                  |
| Repurchase of preferred stock and common stock warrant  |                          | (51,300)         |                  |
| Net proceeds from stock issuance                        | 1,958                    | 1,061            | 1,555            |
| Retirement of subordinated debentures                   | (15,000)                 |                  | (3,252)          |
| Tax benefit from stock options exercised                | 1,377                    | 562              | 964              |
| Repurchase of common stock                              | (13,549)                 | (6,768)          |                  |
| Disbursement of profits                                 |                          |                  | 11               |
| Dividends paid  | (16,315)                 | (8,894)          | (8,670)          |
| Net cash provided by (used in) financing activities     | (41,529)                 | (65,339)         | (9,392)          |
| <b>Increase (decrease) in cash and cash equivalents</b> | <b>2,150</b>             | <b>(26,705)</b>  | <b>(116,095)</b> |
| <b>Cash and cash equivalents, beginning of year</b>     | <b>33,629</b>            | <b>60,334</b>    | <b>176,429</b>   |
| <b>Cash and cash equivalents, end of year</b>           | <b>\$ 35,779</b>         | <b>\$ 33,629</b> | <b>\$ 60,334</b> |

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**26. Recent Accounting Pronouncements**

In October 2012, the FASB issued an update, ASU 2012-06, *Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution*, to address the diversity in treatment with respect to indemnification assets recognized in connection with a government-assisted acquisition of a financial institution and the related asset subject to indemnification. When a reporting entity recognizes an indemnification asset as a result of a government-assisted acquisition of a financial institution, a change in the cash flows expected to be collected on the indemnified asset will result in a change in the value of such asset and should also result in a change in the respective indemnification asset. The update clarifies that the reporting entity should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement, which is the lesser of the term of the indemnification agreement or the remaining life of the indemnified assets. The new authoritative guidance will be effective for reporting periods after January 1, 2013, with early adoption permitted, and is not expected to have an 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.

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**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

No items are reportable.

**Item 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures.**

An evaluation as of the end of the period covered by this annual report was carried out under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, which are defined under SEC rules as controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective. As a result of this evaluation, there were no significant changes in the Company's internal controls or in other factors that could significantly affect those controls subsequent to the date of evaluation.

**Item 9B. OTHER INFORMATION**

No items are reportable.

**PART III**

**Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A.

**Item 11. EXECUTIVE COMPENSATION**

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A.

**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A.

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A.



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**Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A.

**PART IV**

**Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

The following documents are filed as part of this report:

(a) 1 and 2. Financial Statements and any Financial Statement Schedules

The financial statements and financial statement schedules listed in the accompanying index to the consolidated financial statements and financial statement schedules are filed as part of this report.

(b) Listing of Exhibits.

|             |  |
|-------------|--|
| Exhibit No. |  |
| 12.1        | Computation of Ratios of Earnings to Fixed Charges*  |
| 23.1        | Consent of BKD, LLP*   |
| 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 Section 13 or 15(d) 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.**

By: /s/ C. Randall Sims  
C. Randall Sims

Chief Executive Officer

Date: March 4, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities indicated as of March 4, 2013.

|                                    |   |   |
|------------------------------------|---|---|
| /s/ John W. Allison                | /s/ C. Randall Sims   | /s/ Randy E. Mayor  |
| John W. Allison                    | C. Randall Sims   | Randy E. Mayor  |
| Chairman of the Board of Directors | Chief Executive Officer and<br>Director (Principal Executive Officer) | Chief Financial Officer,<br>Treasurer and Director<br>(Principal Financial Officer) |
| /s/ Milburn Adams                  | /s/ Robert H. Adcock, Jr.   | /s/ Richard H. Ashley   |
| Milburn Adams                      | Robert H. Adcock, Jr.   | Richard H. Ashley   |
| Director                           | Vice Chairman of the Board and<br>Director                            | Director  |
| /s/ Dale A. Bruns                  | /s/ Richard A. Buckheim   | /s/ Jack E. Engelkes  |
| Dale A. Bruns                      | Richard A. Buckheim   | Jack E. Engelkes  |
| Director                           | Director  | Director  |
| /s/ James G. Hinkle                | /s/ Alex R. Lieblong  |   |
| James G. Hinkle                    | Alex R. Lieblong  | William G. Thompson   |
| Director                           | Director  | Director  |
| /s/ Brian S. Davis                 |   |   |
| Brian S. Davis                     |   |   |
| Chief Accounting Officer           |   |   |

and Investor Relations Officer

(Principal Accounting Officer)