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)

þ **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	**71-0682831**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

719 Harkrider, Suite 100,

Conway, Arkansas	**72032**
(Address of principal executive offices)	**(Zip Code)**

(501) 328-4770

(Registrant s telephone number, including area code)

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 þ

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 þ

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 þ 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 þ 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	þ
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 þ

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.

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

- the effects of future economic conditions, including inflation or a continued decrease in commercial real estate and residential housing values;
- governmental monetary and fiscal policies, as well as legislative and regulatory changes;
- the impact of the Dodd-Frank 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 .

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:

	As of or for the Years Ended December 31,		
	2012	2011	2010
		(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.

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.

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.

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Our Management Team

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

Name	Age	Positions Held with Home BancShares, Inc.	Positions Held with Centennial Bank
John W. Allison	66	Chairman of the Board	Chairman of the Board
C. Randall Sims	58	Chief Executive Officer and Director	Chief Executive Officer, President and Director
Randy E. Mayor	47	Chief Financial Officer, Treasurer and Director	Chief Financial Officer and Director
Brian S. Davis	47	Chief Accounting Officer and 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:

	Loans Receivable Not Covered by Loss Share	Loans Receivable Covered by FDIC Loss Share	Total Loans Receivable	Percentage of portfolio
	(Dollars in thousands)			
Real estate:				
Commercial real estate loans				
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
Residential real estate loans				
Residential 1-4 family	549,269	125,625	674,894	24.9
Multifamily residential	129,742	9,567	139,309	5.1
Total real estate	1,985,363	368,910	2,354,273	86.7
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
Total	$ 2,331,199	$ 384,884	$ 2,716,083	100.0%

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.

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.

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.

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.

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.

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.

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.

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.

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 Polices

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.

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.

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.

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.

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.

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)

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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 Dividends Per Common Share
	High	Low	
2012			
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
2011			
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:

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

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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.

	Period Ending					
Index	**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

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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)				
Income statement data:					
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
Per share data:					
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
Performance ratios:					
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
Asset quality:					
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

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Summary Consolidated Financial Data Continued

	As of or for the Years Ended December 31,				
	2012	2011	2010	2009	2008
	(Dollars and shares in thousands, except per share data)				
Balance sheet data (period end):					
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
Capital ratios:					
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%).

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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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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.

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.

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.

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.

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,								
	2012			2011			2010		
	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
	(Dollars in thousands)								
ASSETS									
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		
LIABILITIES AND SHAREHOLDERS EQUITY									
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

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.

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 from 2011		2011 Change from 2010	
	2012	2011	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
Total non-interest income	$ 47,969	$ 41,309	$ 65,049	$ 6,660	16.1%	$ (23,740)	(36.5)%

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.

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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 from 2011		2011 Change from 2010	
	2012	2011	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
Total non-interest expense	$ 102,368	$ 94,722	$ 85,001	$ 7,646	8.1%	$ 9,721	11.4%

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.

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.

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.

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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

	As of December 31,				
	2012	**2011**	**2010**	**2009**	**2008**
	(In thousands)				
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.

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.

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Total Loans Receivable

Table 8: Total Loans Receivable

As of December 31, 2012

	Loans Receivable Not Covered by Loss Share	Loans Receivable Covered by FDIC Loss Share	Total Loans Receivable
		(In thousands)	
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
Total real estate	1,985,363	368,910	2,354,273
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
Total	$ 2,331,199	$ 384,884	$ 2,716,083

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.

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Table 9: Maturity of Loans

	One Year or Less	Over One Year Through Five Years	Over Five Years	Total
	(In thousands)			
Real estate:				
Commercial real estate loans:				
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
Residential real estate loans				
Residential 1-4 family	195,735	239,453	239,706	674,894
Multifamily residential	33,530	86,243	19,536	139,309
Total real estate	739,640	1,072,156	542,477	2,354,273
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
Total loans receivable	$ 908,750	$ 1,249,946	$ 557,387	$ 2,716,083
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
Total	$ 908,750	$ 1,249,946	$ 557,387	$ 2,716,083

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

	As of December 31, (Dollars in thousands)				
	2012	**2011**	**2010**	**2009**	**2008**
Non-accrual non-covered loans	$ 21,336	$ 26,496	$ 48,924	$ 37,056	$ 28,524
Non-covered loans past due 90 days or more (principal or interest payments)	5,937	993	578	2,889	1,374
Total non-performing non-covered loans	27,273	27,489	49,502	39,945	29,898
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
Total other non-performing non-covered assets	20,557	16,668	11,703	16,855	6,779
Total non-performing non-covered assets	$ 47,830	$ 44,157	$ 61,205	$ 56,800	$ 36,677
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.

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.

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At December 31, 2012, total foreclosed assets held for sale were $51.9 million. Table 11 shows the summary of foreclosed assets held for sale as of December 31, 2012, 2011, 2010, 2009 and 2008.

Table 11: Total Foreclosed Assets Held For Sale

	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)			
Commercial real estate loans						
Non-farm/non-residential	$ 7,532	$ 9,024	$ 16,556	$ 8,159	$ 10,166	$ 18,325
Construction/land development	7,343	13,586	20,929	4,822	14,796	19,618
Agricultural		599	599	525	599	1,124
Residential real estate loans						
Residential 1-4 family	5,518	8,317	13,835	3,154	9,617	12,771
Multifamily residential						
Total foreclosed assets held for sale	$ 20,393	$ 31,526	$ 51,919	$ 16,660	$ 35,178	$ 51,838

	As of December 31, 2010			As of December 31,	
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	2009	2008
			(In thousands)		
Commercial real estate loans					
Non-farm/non-residential	$ 5,697	$ 6,196	$ 11,893	$ 2,439	$ 4,723
Construction/land development	3,489		3,489	2,244	226
Agricultural					
Residential real estate loans					
Residential 1-4 family	2,176	15,372	17,548	2,080	134
Multifamily residential	264		264		
Total foreclosed assets held for sale	$ 11,626	$ 21,568	$ 33,194	$ 6,763	$ 5,083

A loan is considered impaired when it is probable that we will not receive all amounts due according to the contracted terms of the loans. Impaired loans may include non-performing loans (loans past due 90 days or more and non-accrual loans) and certain other loans identified by management that are still performing. As of December 31, 2012, average non-covered impaired loans were $133.5 million compared to $111.8 million as of December 31, 2011. The adoption of ASU No. 2011-02 during the third quarter of 2011 which required troubled debt restructurings to be classified as impaired loans was primarily the reason for the increase in average non-covered impaired loans. As of December 31, 2012, non-covered impaired loans were $127.2 million compared to $138.0 million as of December 31, 2011 for a decrease of $10.8 million. A $16.5 million reduction in loan balances for impaired loans not classified as TDR s offset by a $5.7 million increase in impaired loans classified as TDRs as of December 31, 2012 when compared to December 31, 2011 accounted for this decrease. As of December 31, 2012, our Florida and Alabama markets accounted for $58.3 million and $3.6 million of the non-covered impaired loans, respectively.

We evaluated loans purchased in conjunction with the 2010 FDIC-assisted acquisitions and the 2012 acquisitions of Heritage and Premier for impairment in accordance with the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Purchased loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected. All loans acquired in these transactions were deemed to be impaired loans. These loans were not classified as nonperforming assets at December 31, 2012 and 2011, as the loans are accounted for on a pooled basis and the pools are considered to be performing. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the

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

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

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)			
Real estate:						
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			
Total real estate	19,666		19,666	22,326		22,326
Consumer	593		593	1,369		1,369
Commercial and industrial	1,077		1,077	1,598		1,598
Agricultural						
Other				1,203		1,203
Total non-accrual loans	$ 21,336	$	$ 21,336	$ 26,496	$	$ 26,496

	As of December 31, 2010			As of December 31,	
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	2009	2008
			(in thousands)		
Real estate:					
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
Total real estate	44,680		44,680	32,096	26,483
Consumer	1,308		1,308	177	98
Commercial and industrial	2,935		2,935	4,772	1,263
Agricultural				11	680
Other	1		1		

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)					
Real estate:						
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
Total real estate	5,322	67,742	73,064	842	113,353	114,195
Consumer	95		95	132	265	397
Commercial and industrial	520	3,121	3,641	19	4,995	5,014
Agricultural						
Other						
Total loans accruing past due 90 days or more	$ 5,937	$ 70,863	$ 76,800	$ 993	$ 118,613	$ 119,606

	As of December 31, 2010			As of December 31,	
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	2009	2008
Real estate:					
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	
Total real estate	536	105,186	105,722	2,889	1,347
Consumer	34	335	369		
Commercial and industrial	8	4,740	4,748		12
Agricultural					
Other					15
Total loans accruing past due 90 days or more	$ 578	$ 110,261	$ 110,839	$ 2,889	$ 1,374

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.

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.

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

	As of December 31,				
	2012	2011	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%

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 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

	As of December 31,									
	2012		2011		2010		2009		2008	
	Allowance Amount	% of loans (1)	Allowance Amount	% of loans (1)	Allowance Amount	% of loans (1)	Allowance Amount	% of loans (1)	Allowance Amount	% of loans (1)
	(Dollars in thousands)									
Real estate:										
Commercial real estate 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 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 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 Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)							
Available for sale								
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 Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Available for sale				
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					
	1 Year or Less	1 Year Through 5 Years	5 Years Through 10 Years	Over 10 Years	Total Amortized Cost	Total Fair Value
	(Dollars in thousands)					
Available for sale						
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

	Years Ended December 31,					
	2012		2011		2010	
	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
	(Dollars in thousands)					
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
Total	$ 3,218,182	0.47%	$ 2,895,447	0.79%	$ 2,383,433	1.02%

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)

	As of December 31,			
	2012		2011	
	Balance	Percent	Balance	Percent
	(Dollars in thousands)			
Maturing				
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
Total	$ 549,116	100.0%	$ 703,171	100.0%

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.

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.

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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)	
Tier 1 capital		
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)	
Total Tier 1 capital	431,158	441,931
Tier 2 capital		
Qualifying allowance for loan losses	38,807	32,670
Total Tier 2 capital	38,807	32,670
Total risk-based capital	$ 469,965	$ 474,601
Average total assets for leverage ratio	$ 3,939,206	$ 3,541,739
Risk weighted assets	$ 3,092,707	$ 2,594,155
Ratios at end of year		
Leverage ratio	10.95%	12.48%
Tier 1 risk-based capital	13.94	17.04
Total risk-based capital	15.20	18.30
Minimum guidelines		
Leverage ratio	4.00%	4.00%
Tier 1 risk-based capital	4.00	4.00
Total risk-based capital	8.00	8.00

As of the most recent notification from regulatory agencies, our bank subsidiary was well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized , our banking subsidiary and we must maintain minimum leverage, Tier 1 risk-based

capital, and total risk-based capital ratios as set forth in the table. There are no conditions or events since that notification that we believe have changed the bank subsidiary s category.

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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)			
As of December 31, 2012						
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
As of December 31, 2011						
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

Off-Balance Sheet Arrangements and Contractual Obligations

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.

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Table 22 presents the funding requirements of our most significant financial commitments, excluding interest, as of December 31, 2012.

Table 22: Funding Requirements of Financial Commitments

	Payments Due by Period				
	Less than One Year	One-Three Years	Three-Five Years	Greater than Five Years	Total
	(In thousands)				
Operating lease obligations	$ 1,636	$ 2,682	$ 2,334	$ 2,703	$ 9,355
FHLB advances	30,000	5,500	5,000	89,888	130,388
Subordinated debentures				28,867	28,867
Loan commitments	227,357	66,558	58,052	55,115	407,082
Letters of credit	15,830	571	20		16,421

Non-GAAP Financial Measurements

We had $97.7 million, $68.3 million, and $71.1 million total goodwill, core deposit intangibles and other intangible assets as of December 31, 2012, 2011 and 2010, respectively. Because of our level of intangible assets and related amortization expenses, management believes diluted earnings per common share excluding intangible amortization, tangible book value per common share, return on average assets excluding intangible amortization, return on average tangible common equity excluding intangible amortization and tangible common equity to tangible assets are useful in evaluating our company. These calculations, which are similar to the GAAP calculation of diluted earnings per common share, book value, return on average assets, return on average common equity, and common equity to assets, are presented in Tables 23 through 27, respectively.

Table 23: Diluted Earnings Per Common Share Excluding Intangible Amortization

	Years Ended December 31,		
	2012	2011	2010
	(In thousands, except per share data)		
GAAP net income available to common stockholders	$ 63,022	$ 52,913	$ 14,911
Intangible amortization after-tax	1,678	1,718	1,556
Earnings available to common stockholders excluding intangible amortization	$ 64,700	$ 54,631	$ 16,467
GAAP diluted earnings per common share	$ 2.23	$ 1.85	$ 0.52
Intangible amortization after-tax	0.06	0.06	0.06
Diluted earnings per common share excluding intangible amortization	$ 2.29	$ 1.91	$ 0.58

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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: 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 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 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 assets	86,349	69,675	63,704

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Table 27: Tangible Equity to Tangible Assets

	Years Ended December 31,		
	2012	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

	2012 Quarter				
	First	Second	Third	Fourth	Total
	(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

	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.

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

Interest Rate Scenario	**Percentage Change from Base**
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							
	0-30 Days	31-90 Days	91-180 Days	181-365 Days	1-2 Years	2-5 Years	Over 5 Years	Total
	(Dollars in thousands)							
Earning assets								
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
Total earning assets	729,602	363,262	403,633	558,431	532,266	678,586	272,925	3,538,705
Interest-bearing liabilities								
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
Total interest-bearing liabilities	266,770	307,902	455,483	737,663	395,830	379,294	499,629	3,042,571
Interest rate sensitivity gap	$ 462,832	$ 55,360	$ (51,850)	$ (179,232)	$ 136,436	$ 299,292	$ (226,704)	$ 496,134
Cumulative interest rate sensitivity gap	$ 462,832	$ 518,192	$ 466,342	$ 287,110	$ 423,546	$ 722,838	$ 496,134	
Cumulative rate sensitive assets to rate sensitive liabilities	273.5%	190.2%	145.3%	116.2%	119.6%	128.4%	116.3%	
Cumulative gap as a % of total earning assets	13.1	14.6	13.2	8.1	12.0	20.4	14.0	

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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

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Home BancShares, Inc.

Consolidated Balance Sheets

(In thousands, except share data)	December 31, 2012	December 31, 2011
Assets		
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
Total assets	$ 4,242,130	$ 3,604,117
Liabilities and Stockholders Equity		
Liabilities:		
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
Total liabilities	3,726,657	3,130,051
Stockholders equity:		
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
Total stockholders equity	515,473	474,066

Total liabilities and stockholders equity	$ 4,242,130	$ 3,604,117

See accompanying notes.

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Home BancShares, Inc.

Consolidated Statements of Income

(In thousands, except per share data)	Year Ended December 31, 2012	2011	2010
Interest income:			
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
Total interest income	177,135	171,806	151,122
Interest expense:			
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
Total interest expense	21,535	30,551	34,708
Net interest income	155,600	141,255	116,414
Provision for loan losses	2,750	3,500	72,850
Net interest income after provision for loan losses	152,850	137,755	43,564
Non-interest income:			
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
Total non-interest income	47,969	41,309	65,049
Non-interest expense:			
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

Total non-interest expense	102,368	94,722	85,001
Income before income taxes	98,451	84,342	23,612
Income tax expense	35,429	29,601	6,021
Net income available to all stockholders	63,022	54,741	17,591
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
Basic earnings per common share	$ 2.24	$ 1.86	$ 0.53
Diluted earnings per common share	$ 2.23	$ 1.85	$ 0.52

See accompanying notes.

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 Stock	Common Stock	Capital Surplus	Retained (Deficit) Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances at January 1, 2010	$ 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, 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 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)
Balances at December 31, 2010	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

Unrealized gain on investment securities available for sale, net of tax effect of $4,973						
Comprehensive income						62,444
Repurchase of 50,000 shares of preferred stock and common stock warrant	(50,000)		(2,206)	906		(51,300)
Accretion of discount on preferred stock	544			(544)		
Net issuance of 90,940 shares of common stock from 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)
Balances at December 31, 2011		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, 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 exercise of stock options plus issuance of 4,761 bonus shares 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)
Balances at December 31, 2012	$	$ 281	$ 416,354	$ 86,837	$ 12,001	$ 515,473

See accompanying notes.

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Home BancShares, Inc.

Consolidated Statements of Cash Flows

(In thousands)	Year Ended December 31, 2012	2011	2010
Operating Activities			
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
Investing Activities			
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
Financing Activities			
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

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.

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.

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.

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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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.

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	2010
		(In thousands)	
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.

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 Costal 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).

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:

	Vision Bank		
	Acquired from Park	Fair Value Adjustments	As Recorded by HBI
	(Dollars in thousands)		
Assets			
Cash and due from banks	$ 20,711	$ 119,523	$ 140,234
Loans receivable	355,750	(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
Liabilities			
Deposits			
Demand and non-interest-bearing	$ 78,073	$	$ 78,073
Savings and interest-bearing transaction accounts	273,134		273,134
Time deposits	171,627	1,598	173,225
Total deposits	522,834	1,598	524,432
Other liabilities	5,071		5,071
Total liabilities assumed	$ 527,905	$ 1,598	$ 529,503

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

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

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

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

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

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

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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:

	Heritage Bank of Florida		
	Acquired from FDIC	Fair Value Adjustments (Dollars in thousands)	As Recorded by HBI
Assets			
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
Total assets acquired	$ 184,592	$ 40,217	$ 224,809
Liabilities			
Deposits			
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
Total liabilities assumed	$ 219,604	$	$ 219,604
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.

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:

	Premier Bank		
	Acquired from PBHC	Fair Value Adjustments	As Recorded by HBI
	(Dollars in thousands)		
Assets			
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	
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
Total assets acquired	$ 271,220	$ (6,450)	$ 264,770
Liabilities			
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
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
Total liabilities assumed	264,491	279	264,770
Equity	6,729	(6,729)	
Total equity assumed	6,729	(6,729)	
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.

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.

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3. Investment Securities

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

	December 31, 2012 Available for sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(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
Total	$ 706,475	$ 20,119	$ (371)	$ 726,223

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

Assets, principally investment securities, having a carrying value of approximately $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 Cost	Estimated Fair 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
Total	$ 706,475	$ 726,223

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:

	December 31, 2012					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. Government-sponsored enterprises	$ 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)
Total	$ 80,447	$ (317)	$ 10,477	$ (54)	$ 90,924	$ (371)

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

4. Loans Receivable Not Covered by Loss Share

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

	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
Total real estate	1,985,363	1,495,819
Consumer	37,462	37,923
Commercial and industrial	256,908	176,276
Agricultural	19,825	21,784
Other	31,641	28,284
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.

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, 2012	December 31, 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.

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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 Loans Not Covered by Loss Share	For Loans Covered by FDIC Loss Share	Total
		(In thousands)	
Allowance for loan losses:			
Beginning balance	$ 52,129	$	$ 52,129
Loans charged off	(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

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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						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
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						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 4,070	$ 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
Loans receivable:							
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						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Beginning balance	$ 12,002	$ 17,247	$ 14,297	$ 6,357	$ 1,022	$ 2,423	$ 53,348
Loans charged off	(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						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 4,428	$ 15,050	$ 8,485	$ 3,503	$ 2,205	$	$ 33,671
Loans collectively evaluated for impairment	3,517	5,318	3,711	2,805	1,053	2,054	18,458
Balance, December 31	$ 7,945	$ 20,368	$ 12,196	$ 6,308	$ 3,258	$ 2,054	$ 52,129
Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 25,534	$ 105,517	$ 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/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
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
Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 25,556	$ 69,010	$ 35,077	$ 16,939	$ 1,136	$	$ 147,718
Loans collectively evaluated for impairment	323,212	763,423	395,623	167,075	95,323		1,744,656
Balance, end of year	$ 348,768	$ 832,433	$ 430,700	$ 184,014	$ 96,459	$	$ 1,892,374

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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 Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due (In thousands)	Current Loans	Total Loans Receivable	Accruing Loans Past Due 90 Days or More
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 Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due (In thousands)	Current Loans	Total Loans Receivable	Accruing Loans Past Due 90 Days or More
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

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 Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses (In thousands)	Average Recorded Investment	Interest 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
Total real estate	125,776	124,003	27,650	124,116	5,948
Consumer	752	746	338	1,078	51
Commercial and industrial	2,511	2,436	1,421	7,366	413
Agricultural and other				962	21
Total	$ 129,039	$ 127,185	$ 29,409	$ 133,522	$ 6,433

	December 31, 2011				
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses (In thousands)	Average Recorded Investment	Interest 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
Total real estate	133,912	126,604	27,963	99,266	5,094
Consumer	1,611	1,596	1,002	1,348	46
Commercial and industrial	10,537	8,619	3,503	10,984	730
Agricultural and other	1,203	1,203	1,203	241	
Total	$ 147,263	$ 138,022	$ 33,671	$ 111,839	$ 5,870

	December 31, 2010				
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses (In thousands)	Average Recorded Investment	Interest Recognized
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	$ 40,078	$ 36,884	$ 9,697	$ 18,366	$ 1,922
Construction/land development	19,617	17,282	7,602	14,272	823
Agricultural	598	598	215	120	40
Residential real estate loans					
Residential 1-4 family	20,894	18,416	6,884	17,137	602
Multifamily residential	7,251	7,251	2,959	5,149	325
Total real estate	88,438	80,431	27,357	55,044	3,712
Consumer	658	658	438	799	
Commercial and industrial	11,284	11,208	2,625	6,218	749
Agricultural and other					
Total	$ 100,380	$ 92,297	$ 30,420	$ 62,061	$ 4,461

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.

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.

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:

	December 31, 2012			
	Risk Rated 6	Risk Rated 7	Risk Rated 8	Classified Total
	(In thousands)			
Real estate:				
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
Total real estate	98,295	333		98,628
Consumer	1,495			1,495
Commercial and industrial	3,226	15		3,241
Agricultural and other	39			39
Total	$ 103,055	$ 348	$	$ 103,403

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

Loans may be classified, but not considered impaired, due to one of the following reasons: (1) The Company has established minimum dollar amount thresholds for loan impairment testing. All loans over $250,000 that are rated 5 or worse are individually assessed for impairment on a quarterly basis. Loans rated 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						
	Risk Rated 1	Risk Rated 2	Risk Rated 3	Risk Rated 4 (In thousands)	Risk Rated 5	Classified Total	Total
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						
	Risk Rated 1	Risk Rated 2	Risk Rated 3	Risk Rated 4 (In thousands)	Risk Rated 5	Classified Total	Total
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 TDR s 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 TDR s 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				

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

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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						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial (In thousands)	Consumer & Other	Unallocated	Total
Allowance for loan losses:							
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/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$	$	$	$	$	$	$
Loans collectively evaluated for impairment	1,169	4,005	228	60			5,462
Balance, December 31	$ 1,169	$ 4,005	$ 228	$ 60	$	$	$ 5,462
Loans receivable:							
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 accretable 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:

	Accretable Yield	Carrying Amount of Loans
	(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.

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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)	
Goodwill		
Balance, beginning of period	$ 59,663	$ 59,663
Vision and Premier acquisitions	26,018	
Balance, end of period	$ 85,681	$ 59,663

	December 31, 2012	December 31, 2011
	(In thousands)	
Core Deposit and Other Intangibles		
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

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
Total time deposits	$ 1,032,991

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:

	As of December 31,	
	2012	2011
	(In thousands)	
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
Total	$ 28,867	$ 44,331

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.

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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)		
Current:			
Federal	$ 30,041	$ 32,751	$ 4,898
State	5,822	6,087	737
Total current	35,863	38,838	5,635
Deferred:			
Federal	(363)	(7,821)	315
State	(71)	(1,416)	71
Total deferred	(434)	(9,237)	386
Provision for income taxes	$ 35,429	$ 29,601	$ 6,021

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)
Effective income tax rate	35.99%	35.10%	25.50%

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)	
Deferred tax assets:		
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
Gross deferred tax assets	114,356	108,813

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

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.

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 (000)	Weighted Average Exercisable Price	Shares (000)	Weighted Average Exercisable Price	Shares (000)	Weighted Average Exercisable Price
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 December 31, 2012	For the Year Ended 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:

	Options Outstanding			Options Exercisable	
Exercise Prices	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.

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-reoccurring 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	2010
		(In thousands)	
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
Total other operating expenses	35,649	33,099	29,443
Total non-interest expense	$ 102,368	$ 94,722	$ 85,001

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.

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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.

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.

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 Amount	Fair Value	Level
	(In thousands)		
Financial assets:			
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 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
Financial liabilities:			
Deposits:			
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 Amount	Fair Value	Level
	(In thousands)		
Financial assets:			
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
Financial liabilities:			
Deposits:			
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
			(Dollars in thousands)			
As of December 31, 2012						
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
As of December 31, 2011						
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

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25. Condensed Financial Information (Parent Company Only)

Condensed Balance Sheets

(In thousands)	December 31, 2012	2011
Assets		
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
Liabilities		
Subordinated debentures	$ 28,867	$ 44,331
Other liabilities	2,355	2,551
Total liabilities	31,222	46,882
Stockholders Equity		
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
Income			
Dividends from banking subsidiary	$ 48,366	$ 39,760	$
Other income	55	65	75
Total income	48,421	39,825	75
Expenses	4,909	5,089	5,573
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
Net income	$ 63,022	$ 54,741	$ 17,591

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Condensed Statements of Cash Flows

	Years Ended December 31,		
(In thousands)	**2012**	**2011**	**2010**
Cash flows from operating activities			
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
Cash flows from investing activities			
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)
Cash flows from financing activities			
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)	
Disgorgement 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)
Increase (decrease) in cash and cash equivalents	2,150	(26,705)	(116,095)
Cash and cash equivalents, beginning of year	33,629	60,334	176,429
Cash and cash equivalents, end of year	$ 35,779	$ 33,629	$ 60,334

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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 GOVERNACE

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 Director (Principal Executive Officer)	Chief Financial Officer, Treasurer and Director (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 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)