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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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.

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

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

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

Prior to the acquisition, Old Southern operated 7 banking centers in the Orlando, Florida metropolitan area. Including the effects of purchase accounting adjustments, Centennial Bank acquired $342.6 million in assets and assumed approximately $328.5 million of the deposits of Old Southern. Additionally, Centennial Bank purchased covered loans with an estimated fair value of $179.1 million, $3.0 million of foreclosed assets and $30.4 million of investment securities.

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

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

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

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2010 for an additional discussion for the acquisition of Key West.

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

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

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2010 for an additional discussion for the acquisition of Coastal and Bayside.

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

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

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2010 for an additional discussion for the acquisition of Wakulla.

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

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

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2010 for an additional discussion for the acquisition of Gulf State.

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

Prior to the acquisition, Vision conducted banking business from 17 banking offices, including eight locations in Baldwin County, Alabama, and nine locations in the Florida Panhandle counties of Bay, Gulf, Okaloosa, Santa Rosa and Walton. Including the effects of the purchase accounting adjustments, Centennial Bank acquired approximately $529.5 million in assets, approximately $340.3 million in performing loans including loan discounts and approximately $524.4 million of deposits.

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

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

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

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

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

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

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

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

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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.

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

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

Subsidiary Bank

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

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

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

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

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

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

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

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

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

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

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

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

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Risks Related to Our Business

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

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

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

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

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

- commercial real estate loans (excludes construction/land development) of $1.2 billion, or 44.9% of total loans;
- construction/land development loans of $321.5 million, or 11.8% of total loans;
- commercial and industrial loans of $271.6 million, or 10.0% of total loans;
- residential real estate loans of $814.2 million, or 30.0% of total loans; and
- consumer loans of $37.5 million, or 1.4% of total loans.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- credit risk associated with the acquired bank s loans and investments;
- difficulty of integrating operations and personnel; and
- potential disruption of our ongoing business.

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

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

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

- the inability to obtain all required regulatory approvals;
- significant costs and anticipated operating losses associated with establishing a *de novo* branch or a new bank;
- the inability to secure the services of qualified senior management;
- the local market may not accept the services of a new bank owned and managed by a bank holding company headquartered outside of the market area of the new bank;
- economic downturns in the new market;
- the inability to obtain attractive locations within a new market at a reasonable cost; and
- the additional strain on management resources and internal systems and controls.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Competition from other financial institutions may adversely affect our profitability.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Risks Related to Owning Our Stock

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

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

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

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

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

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

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

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

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

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

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

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Item 1B. UNRESOLVED STAFF COMMENTS

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

Item 2. PROPERTIES

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

Item 3. LEGAL PROCEEDINGS

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

Item 4. (RESERVED)

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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.

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.

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

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

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

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

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

Table 1: Analysis of Net Interest Income

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

Table 2: Changes in Fully Taxable Equivalent Net Interest Margin

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

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Table 3 shows, for each major category of earning assets and interest-bearing liabilities, the average amount outstanding, the interest income or expense on that amount and the average rate earned or expensed for the years ended December 31, 2012, 2011 and 2010. The table also shows the average rate earned on all earning assets, the average rate expensed on all interest-bearing liabilities, the net interest spread and the net interest margin for the same periods. The analysis is presented on a fully taxable equivalent basis. Non-accrual loans were included in average loans for the purpose of calculating the rate earned on total loans.

Table 3: Average Balance Sheets and Net Interest Income Analysis

	Years Ended December 31,								
	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

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Table 4 shows changes in interest income and interest expense resulting from changes in volume and changes in interest rates for the year ended December 31, 2012 compared to 2011 and 2011 compared to 2010 on a fully taxable basis. The changes in interest rate and volume have been allocated to changes in average volume and changes in average rates, in proportion to the relationship of absolute dollar amounts of the changes in rates and volume.

Table 4: Volume/Rate Analysis

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

Provision for Loan Losses

Our management assesses the adequacy of the allowance for loan losses by applying the provisions of FASB ASC 310-10-35. Specific allocations are determined for loans considered to be impaired and loss factors are assigned to the remainder of the loan portfolio to determine an appropriate level in the allowance for loan losses. The allowance is increased, as necessary, by making a provision for loan losses. The specific allocations for impaired loans are assigned based on an estimated net realizable value after a thorough review of the credit relationship. The potential loss factors associated with the remainder of the loan portfolio are based on an internal net loss experience, as well as management s review of trends within the portfolio and related industries.

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

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

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

Our Company is primarily a real estate lender in the markets we serve. As such, we are subject to declines in asset quality when real estate prices fall during a recession. The recent recession has harshly impacted the real estate market in Florida. The economic conditions particularly in our Florida market have improved over the past year, although not to pre-recession levels. Our Arkansas markets economies have been fairly stable over the past several years with no boom or bust. As a result, the Arkansas economy fared better with its real estate values during this time period.

The provision for loan losses represents management s determination of the amount necessary to be charged against the current period s earnings, to maintain the allowance for loan losses at a level that is considered adequate in relation to the estimated risk inherent in the loan portfolio. The provision for non-covered loans was $1.3 million for the year ended December 31, 2012, $3.5 million for December 31, 2011, and $72.9 million for 2010. The provision for covered loans was $1.5 million for the year ended December 31, 2012.

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

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

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

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

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

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

Non-Interest Income

Total non-interest income was $48.0 million in 2012, compared to $41.3 million in 2011 and $65.0 million in 2010. Our recurring non-interest income includes service charges on deposit accounts, other service charges and fees, mortgage lending, insurance, title fees, increase in cash value of life insurance, dividends and FDIC indemnification accretion.

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

Table 5: Non-Interest Income

	Years Ended December 31,			2012 Change 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	2011	2010	2012 Change from 2011		2011 Change from 2010	
	(Dollars in thousands)						
Salaries and employee benefits	$ 47,289	$ 42,825	$ 38,881	$ 4,464	10.4%	$ 3,944	10.1%
Occupancy and equipment	14,500	14,197	13,164	303	2.1	1,033	7.8
Data processing expense	4,930	4,601	3,513	329	7.2	1,088	31.0
Other operating expenses:							
Advertising	2,447	4,270	2,033	(1,823)	(42.7)	2,237	110.0
Merger and acquisition expenses	7,157	145	5,165	7,012	4,835.9	(5,020)	(97.2)
Amortization of intangibles	2,761	2,827	2,561	(66)	(2.3)	266	10.4
Amortization of mortgage servicing rights			436		0.0	(436)	(100.0)
Electronic banking expense	3,175	2,733	1,974	442	16.2	759	38.4
Directors fees	807	811	679	(4)	(0.5)	132	19.4
Due from bank service charges	536	496	439	40	8.1	57	

31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Signature

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

Dated: June 10, 2008

BIG LOTS, INC.

By: /s/ Joe R. Cooper

Joe R. Cooper
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer, Principal Accounting Officer and Duly Authorized Officer)

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