

HOME BANCSHARES INC  
Form 10-Q  
November 07, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**

**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Quarterly Period Ended September 30, 2013**

or

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

**Commission File Number: 000-51904**

**HOME BANCSHARES, INC.**

**(Exact Name of Registrant as Specified in Its Charter)**

**Arkansas**  
**(State or other jurisdiction of**  
**incorporation or organization)**

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

**719 Harkrider, Suite 100, Conway, Arkansas**  
**(Address of principal executive offices)**

**72032**  
**(Zip Code)**

**(501) 328-4770**

**(Registrant's telephone number, including area code)**

**Not Applicable**

**Former name, former address and former fiscal year, if changed since last report**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

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: 65,042,303 shares as of November 1, 2013.



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**HOME BANCSHARES, INC.**

**FORM 10-Q**

**September 30, 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, continue, expect, project, predict, estimate, could, should, expressions, you should consider them as identifying forward-looking statements, although we may use other phrasing. These forward-looking statements involve risks and uncertainties and are based on our beliefs and assumptions, and on the information available to us at the time that these disclosures were prepared. These forward-looking statements involve risks and uncertainties and may not be realized due to a variety of factors, including, but not limited to, the following:

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

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

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

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

the effects of terrorism and efforts to combat it;

credit risks;

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

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

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

the failure of assumptions underlying the estimates of the fair values for our acquired covered and non-covered assets, FDIC indemnification asset and FDIC claims receivable.

All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this Cautionary Note. Our actual results may differ significantly from those we discuss in these forward-looking statements. For other factors, risks and uncertainties that could cause our actual results to differ materially from estimates and projections contained in these forward-looking statements, see the Risk Factors section of our Form 10-K filed with the Securities and Exchange Commission on March 4, 2013.

**Table of Contents****PART I: FINANCIAL INFORMATION****Item 1: Financial Statements****Home BancShares, Inc.****Consolidated Balance Sheets**

(In thousands, except share data)	September 30, 2013 (Unaudited)	December 31, 2012
<b>Assets</b>		
Cash and due from banks	\$ 77,261	\$ 101,972
Interest-bearing deposits with other banks	35,080	129,883
Cash and cash equivalents	112,341	231,855
Federal funds sold	10,700	17,148
Investment securities available-for-sale	839,560	726,223
Investment securities held-to-maturity	9,528	
Loans receivable not covered by loss share	2,378,838	2,331,199
Loans receivable covered by FDIC loss share	308,072	384,884
Allowance for loan losses	(38,748)	(50,632)
Loans receivable, net	2,648,162	2,665,451
Bank premises and equipment, net	119,637	113,883
Foreclosed assets held for sale not covered by loss share	14,158	20,393
Foreclosed assets held for sale covered by FDIC loss share	24,320	31,526
FDIC indemnification asset	101,192	139,646
Cash value of life insurance	59,602	59,219
Accrued interest receivable	14,275	16,305
Deferred tax asset, net	46,045	46,998
Goodwill	85,681	85,681
Core deposit and other intangibles	9,655	12,061
Other assets	66,450	75,741
<b>Total assets</b>	<b>\$ 4,161,306</b>	<b>\$ 4,242,130</b>
<b>Liabilities and Stockholders Equity</b>		
Deposits:		
Demand and non-interest-bearing	\$ 757,328	\$ 666,414
Savings and interest-bearing transaction accounts	1,683,010	1,784,047
Time deposits	808,480	1,032,991
Total deposits	3,248,818	3,483,452
Securities sold under agreements to repurchase	71,307	66,278
FHLB borrowed funds	270,232	130,388
Accrued interest payable and other liabilities	22,714	17,672

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Subordinated debentures	3,093	28,867
<b>Total liabilities</b>	<b>3,616,164</b>	<b>3,726,657</b>
<b>Stockholders equity:</b>		
Common stock, par value \$0.01; shares authorized 100,000,000 in 2013 and 50,000,000 shares in 2012; shares issued and outstanding 56,277,947 in 2013 and 56,213,054 (split adjusted) in 2012	563	281
Capital surplus	417,627	416,354
Retained earnings	128,316	86,837
Accumulated other comprehensive income (loss)	(1,364)	12,001
<b>Total stockholders equity</b>	<b>545,142</b>	<b>515,473</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 4,161,306</b>	<b>\$ 4,242,130</b>

See Condensed Notes to Consolidated Financial Statements.



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

(In thousands, except per share data <sup>(1)</sup> )	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Unaudited)			
<b>Interest income:</b>				
Loans	\$ 45,003	\$ 39,285	\$ 133,198	\$ 118,156
Investment securities				
Taxable	2,645	2,598	7,538	8,518
Tax-exempt	1,507	1,541	4,455	4,610
Deposits other banks	19	115	203	327
Federal funds sold	2	3	15	8
Total interest income	49,176	43,542	145,409	131,619
<b>Interest expense:</b>				
Interest on deposits	1,810	3,288	6,424	12,112
Federal funds purchased	3		3	
FHLB borrowed funds	910	1,040	2,926	3,334
Securities sold under agreements to repurchase	87	107	253	328
Subordinated debentures	16	482	263	1,527
Total interest expense	2,826	4,917	9,869	17,301
<b>Net interest income</b>	<b>46,350</b>	<b>38,625</b>	<b>135,540</b>	<b>114,318</b>
Provision for loan losses		167	850	1,500
<b>Net interest income after provision for loan losses</b>	<b>46,350</b>	<b>38,458</b>	<b>134,690</b>	<b>112,818</b>
<b>Non-interest income:</b>				
Service charges on deposit accounts	4,072	3,834	11,869	11,007
Other service charges and fees	3,671	3,119	10,587	9,366
Mortgage lending income	1,527	1,550	4,518	3,731
Insurance commissions	519	512	1,642	1,501
Income from title services	156	112	401	329
Increase in cash value of life insurance	203	200	601	671
Dividends from FHLB, FRB, Bankers bank & other	179	182	755	532
Gain on sale of SBA loans	79	206	135	404
Gain (loss) on sale of premises and equipment, net	303	(5)	712	354
Gain (loss) on OREO, net	777	(222)	1,304	(170)
Gain (loss) on securities, net			111	10
FDIC indemnification accretion/(amortization), net	(3,177)	373	(7,452)	1,492

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Other income	1,009	765	2,965	2,555
<b>Total non-interest income</b>	<b>9,318</b>	<b>10,626</b>	<b>28,148</b>	<b>31,782</b>
<b>Non-interest expense:</b>				
Salaries and employee benefits	12,981	11,652	38,890	34,941
Occupancy and equipment	4,010	3,805	11,498	10,788
Data processing expense	1,114	1,137	3,855	3,599
Other operating expenses	8,610	7,387	24,190	23,463
<b>Total non-interest expense</b>	<b>26,715</b>	<b>23,981</b>	<b>78,433</b>	<b>72,791</b>
<b>Income before income taxes</b>	<b>28,953</b>	<b>25,103</b>	<b>84,405</b>	<b>71,809</b>
Income tax expense	10,590	9,008	30,835	25,726
<b>Net income</b>	<b>\$ 18,363</b>	<b>\$ 16,095</b>	<b>\$ 53,570</b>	<b>\$ 46,083</b>
<b>Basic earnings per share</b>	<b>\$ 0.33</b>	<b>\$ 0.29</b>	<b>\$ 0.96</b>	<b>\$ 0.82</b>
<b>Diluted earnings per share</b>	<b>\$ 0.33</b>	<b>\$ 0.28</b>	<b>\$ 0.95</b>	<b>\$ 0.81</b>

(1) All per share amounts have been restated to reflect the effect of the 2-for-1 stock split during June 2013. See Condensed Notes to Consolidated Financial Statements.

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## Home BancShares, Inc.

## Consolidated Statements of Comprehensive Income

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
			(unaudited)	
Net income	\$ 18,363	\$ 16,095	\$ 53,570	\$ 46,083
Net unrealized gain (loss) on available-for-sale securities	(5,505)	2,919	(21,882)	6,440
Less: reclassification adjustment for realized (gains) losses included in income			(111)	(10)
Other comprehensive income (loss), before tax effect	(5,505)	2,919	(21,993)	6,430
Tax effect	2,160	(1,146)	8,628	(2,523)
Other comprehensive income (loss)	(3,345)	1,773	(13,365)	3,907
Comprehensive income	\$ 15,018	\$ 17,868	\$ 40,205	\$ 49,990

## Home BancShares, Inc.

## Consolidated Statements of Stockholders Equity

## Nine Months Ended September 30, 2013 and 2012

(In thousands, except share data <sup>(1)</sup> )	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance at January 1, 2012</b>	\$ 283	\$ 425,649	\$ 40,130	\$ 8,004	\$ 474,066
Comprehensive income:					
Net income			46,083		46,083
Other comprehensive income (loss)				3,907	3,907
Net issuance of 98,506 shares of common stock from exercise of stock options plus issuance of 9,522 bonus shares of unrestricted common stock	1	697			698
Repurchase of 504,088 shares of common stock	(3)	(6,557)			(6,560)
Tax benefit from stock options exercised		309			309
Share-based compensation	1	497			498
Cash dividends Common Stock, \$0.16 per share			(9,023)		(9,023)

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<b>Balances at September 30, 2012 (unaudited)</b>	282	420,595	77,190	11,911	509,978
Comprehensive income:					
Net income			16,939		16,939
Other comprehensive income (loss)				90	90
Net issuance of 256,908 shares of common stock					
from exercise of stock options	1	1,259			1,260
Repurchase of 406,808 shares of common stock	(2)	(6,987)			(6,989)
Tax benefit from stock options exercised		1,068			1,068
Share-based compensation		419			419
Cash dividends Common Stock, \$0.13 per share			(7,292)		(7,292)
<b>Balances at December 31, 2012</b>	281	416,354	86,837	12,001	515,473
Comprehensive income:					
Net income			53,570		53,570
Other comprehensive income (loss)				(13,365)	(13,365)
Net issuance of 46,225 shares of common stock					
from exercise of stock options	1	275			276
Two for one stock split during June 2013	281	(281)			
Tax benefit from stock options exercised		339			339
Share-based compensation		940			940
Cash dividends Common Stock, \$0.215 per share			(12,091)		(12,091)
<b>Balances at September 30, 2013 (unaudited)</b>	\$ 563	\$ 417,627	\$ 128,316	\$ (1,364)	\$ 545,142

(1) All share and per share amounts have been restated to reflect the effect of the 2-for-1 stock split during June 2013.

See Condensed Notes to Consolidated Financial Statements.

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

(In thousands)	Nine Months Ended September 30,	
	2013	2012 (Unaudited)
<b>Operating Activities</b>		
Net income	\$ 53,570	\$ 46,083
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	4,908	4,460
Amortization/(accretion)	(732)	4,371
Share-based compensation	940	498
Tax benefits from stock options exercised	(339)	(309)
(Gain) loss on assets	(2,588)	(194)
Provision for loan losses	850	1,500
Deferred income tax effect	9,581	(2,106)
Increase in cash value of life insurance	(601)	(671)
Originations of mortgage loans held for sale	(167,903)	(133,247)
Proceeds from sales of mortgage loans held for sale	162,917	124,760
Changes in assets and liabilities:		
Accrued interest receivable	2,030	679
Indemnification and other assets	54,427	58,806
Accrued interest payable and other liabilities	5,381	(2,496)
Net cash provided by (used in) operating activities	122,441	102,134
<b>Investing Activities</b>		
Net (increase) decrease in federal funds sold	6,448	(675)
Net (increase) decrease in loans, excluding loans acquired	6,868	81,089
Purchases of investment securities available-for-sale	(299,305)	(369,943)
Proceeds from maturities of investment securities available-for-sale	159,613	287,319
Proceeds from sale of investment securities available-for-sale	167	1,243
Purchases of investment securities held-to-maturity	(9,536)	
Proceeds from foreclosed assets held for sale	27,352	25,344
Proceeds from sale of SBA loans	2,085	6,250
Purchases of premises and equipment, net	(9,950)	(8,276)
Death benefits received	540	
Net cash proceeds received in market acquisitions		140,234
Net cash provided by (used in) investing activities	(115,718)	162,585
<b>Financing Activities</b>		
Net increase (decrease) in deposits, excluding deposits acquired	(234,634)	(249,994)

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Net increase (decrease) in securities sold under agreements to repurchase	5,029	(820)
Net increase (decrease) in FHLB borrowed funds	139,844	(12,271)
Retirement of subordinated debentures	(25,000)	(15,733)
Repurchase of common stock		(6,560)
Proceeds from exercise of stock options	276	698
Tax benefits from stock options exercised	339	309
Dividends paid on common stock	(12,091)	(9,023)
Net cash provided by (used in) financing activities	(126,237)	(293,394)
Net change in cash and cash equivalents	(119,514)	(28,675)
Cash and cash equivalents beginning of year	231,855	184,304
Cash and cash equivalents end of period	\$ 112,341	\$ 155,629

See Condensed Notes to Consolidated Financial Statements.

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**Home BancShares, Inc.**

**Condensed Notes to Consolidated Financial Statements**

(Unaudited)

**1. Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

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

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

***Operating Segments***

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

***Use of Estimates***

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

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

***Principles of Consolidation***

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

***Reclassifications***

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



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The accompanying unaudited consolidated financial statements as of September 30, 2013 and 2012 have been prepared in condensed format, and therefore do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

The information furnished in these interim statements reflects all adjustments, which are, in the opinion of management, necessary for a fair statement of the results for each respective period presented. Such adjustments are of a normal recurring nature. The results of operations in the interim statements are not necessarily indicative of the results that may be expected for any other quarter or for the full year. The interim financial information should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2012 Form 10-K, filed with the Securities and Exchange Commission.

***Earnings per Share***

Basic earnings per common share are computed based on the weighted average number of shares outstanding during each year, which have been restated to reflect the effect of the 2-for-1 stock split during June 2013. Diluted earnings per common share are computed using the weighted average common shares and all potential dilutive common shares outstanding during the period. The following table sets forth the computation of basic and diluted earnings per common share (EPS) for the following periods:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>(In thousands)</b>			
Net income	\$ 18,363	\$ 16,095	\$ 53,570	\$ 46,083
Average shares outstanding	56,256	56,299	56,238	56,316
Effect of common stock options	364	381	339	372
Average diluted shares outstanding	56,620	56,680	56,577	56,688
Basic earnings per common share	\$ 0.33	\$ 0.29	\$ 0.96	\$ 0.82
Diluted earnings per common share	\$ 0.33	\$ 0.28	\$ 0.95	\$ 0.81

**2. Business Combinations*****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.

Vision operated 17 banking centers, including eight locations in Baldwin County, Alabama, and nine locations in the Florida Panhandle counties of Bay, Gulf, Okaloosa, Santa Rosa and Walton. Pursuant to the Vision Agreement, Centennial assumed approximately \$522.8 million in customer deposits and acquired approximately \$355.8 million in performing loans from Vision for the purchase price of approximately \$27.9 million. Centennial did not purchase certain Vision performing loans nor any of its non-performing loans or other real estate owned. In addition, pursuant to the Vision Agreement, Park granted Centennial a put option to sell an aggregate of \$7.5 million of the purchased loans back to Park at cost for a period of up to six months after the closing date. During 2012, the Company exercised its option to sell back 45 loans totaling approximately \$7.5 million. On the closing date, Park made a cash payment to Centennial of approximately \$119.5 million.

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See Note 2 *Business Combinations* in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2012 for an additional discussion of the acquisition of Vision.

***Acquisition Heritage Bank of Florida***

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

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

See Note 2 *Business Combinations* in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2012 for an additional discussion of the acquisition of Heritage.

***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.

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

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

See Note 2 *Business Combinations* in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2012 for an additional discussion of the acquisition of Premier.

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

The amortized cost and estimated fair value of investment securities that are classified as available-for-sale and held-to-maturity are as follows:

	<b>September 30, 2013</b>			<b>Estimated Fair Value</b>
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized (Losses)</b>	
	<b>Available-for-sale</b>			
	<b>(In thousands)</b>			
U.S. government-sponsored enterprises	\$ 184,735	\$ 1,405	\$ (2,893)	\$ 183,247
Mortgage-backed securities	403,600	3,634	(3,008)	404,226
State and political subdivisions	201,405	3,494	(3,940)	200,959
Other securities	52,065	153	(1,090)	51,128
<b>Total</b>	<b>\$ 841,805</b>	<b>\$ 8,686</b>	<b>\$ (10,931)</b>	<b>\$ 839,560</b>

	<b>Held-to-Maturity</b>			<b>Estimated Fair Value</b>
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized (Losses)</b>	
	<b>Available-for-sale</b>			
	<b>(In thousands)</b>			
State and political subdivisions	\$ 9,528	\$ 103	\$	\$ 9,631
<b>Total</b>	<b>\$ 9,528</b>	<b>\$ 103</b>	<b>\$</b>	<b>\$ 9,631</b>

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

Assets, principally investment securities, having a carrying value of approximately \$538.9 million and \$532.8 million at September 30, 2013 and December 31, 2012, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. Also, investment securities pledged as collateral for repurchase agreements totaled approximately \$71.3 million and \$66.3 million at September 30, 2013 and December 31, 2012, respectively.





As of September 30, 2013, the Company had approximately \$115,000 in unrealized losses, which have been in continuous loss positions for more than twelve months. Excluding impairment write downs taken in prior periods, the Company's assessments indicated that the cause of the market depreciation was primarily the change in interest rates and not the issuer's financial condition, or downgrades by rating agencies. In addition, approximately 64.6% of the Company's investment portfolio matures in five years or less. As a result, the Company has the ability and intent to hold such securities until maturity.

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The following shows gross unrealized losses and estimated fair value of investment securities classified as available-for-sale and held-to-maturity aggregated by investment category and length of time that individual investment securities have been in a continuous loss position as of September 30, 2013 and December 31, 2012:

	<b>September 30, 2013</b>					
	<b>Less Than 12 Months</b>		<b>12 Months or More</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
<b>(In thousands)</b>						
<b>Available-for-Sale</b>						
U.S. government-sponsored Enterprises	\$ 113,029	\$ (2,870)	\$ 5,039	\$ (23)	\$ 118,068	\$ (2,893)
Mortgage-backed securities	166,496	(2,924)	6,895	(84)	173,391	(3,008)
State and political subdivisions	79,811	(3,932)	561	(8)	80,372	(3,940)
Other securities	33,974	(1,090)			33,974	(1,090)
<b>Total</b>	<b>\$ 393,310</b>	<b>\$ (10,816)</b>	<b>\$ 12,495</b>	<b>\$ (115)</b>	<b>\$ 405,805</b>	<b>\$ (10,931)</b>

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

Income earned on securities for the three and nine months ended September 30, 2013 and 2012, is as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2013</b>	<b>September 30, 2012</b>	<b>September 30, 2013</b>	<b>September 30, 2012</b>
<b>(In thousands)</b>				
<b>Taxable:</b>				
Available-for-sale	\$ 2,644	\$ 2,598	\$ 7,537	\$ 8,518
Held-to-maturity	1		1	
<b>Non-taxable:</b>				
Available-for-sale	1,479	1,541	4,427	4,610



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Held-to-maturity	28		28	
Total	\$ 4,152	\$ 4,139	\$ 11,993	\$ 13,128

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

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

	September 30, 2013	December 31, 2012
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	\$ 1,026,937	\$ 1,019,039
Construction/land development	314,232	254,800
Agricultural	31,906	32,513
Residential real estate loans		
Residential 1-4 family	529,732	549,269
Multifamily residential	117,639	129,742
<b>Total real estate</b>	<b>2,020,446</b>	<b>1,985,363</b>
Consumer	30,478	37,462
Commercial and industrial	268,900	256,908
Agricultural	30,612	19,825
Other	28,402	31,641
<b>Loans receivable not covered by loss share</b>	<b>\$ 2,378,838</b>	<b>\$ 2,331,199</b>

During the three and nine-month periods ended September 30, 2013, the Company sold \$1.4 million and \$1.9 million, respectively, of the guaranteed portion of SBA loans, which resulted in a gain of approximately \$79,000 and \$135,000, respectively. During the three and nine-month periods ended September 30, 2012, the Company sold \$3.0 million and \$5.8 million of the guaranteed portions of SBA loans, which resulted in a gain of approximately \$206,000 and \$404,000, respectively.

Mortgage loans held for sale of approximately \$17.3 million and \$22.0 million at September 30, 2013 and December 31, 2012, respectively, are included in residential 1-4 family loans. Mortgage loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis. Gains and losses resulting from sales of mortgage loans are recognized when the respective loans are sold to investors. Gains and losses are determined by the difference between the selling price and the carrying amount of the loans sold, net of discounts collected or paid. The Company obtains forward commitments to sell mortgage loans to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. The forward commitments acquired by the Company for mortgage loans in process of origination are not mandatory forward commitments. These commitments are structured on a best efforts basis; therefore, the Company is not required to substitute another loan or to buy back the commitment if the original loan does not fund. Typically, the Company delivers the mortgage loans within a few days after the loans are funded. These commitments are derivative instruments and their fair values at September 30, 2013 and December 31, 2012 were not material.

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

The Company evaluated loans purchased in conjunction with the acquisitions of Heritage and Premier described in Note 2, Business Combinations, for impairment in accordance with the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. These purchased non-covered loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected.

**5. Loans Receivable Covered by FDIC Loss Share**

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

The following table reflects the carrying value of all purchased FDIC covered impaired loans as of September 30, 2013 and December 31, 2012 for the Company:

	September 30, 2013	December 31, 2012
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	\$ 134,843	\$ 164,723
Construction/land development	51,492	66,713
Agricultural	1,253	2,282
Residential real estate loans		
Residential 1-4 family	102,673	125,625
Multifamily residential	10,525	9,567
<b>Total real estate</b>	<b>300,786</b>	<b>368,910</b>
Consumer	17	39
Commercial and industrial	6,291	14,668
Other	978	1,267
<b>Loans receivable covered by FDIC loss share</b>		
(1)	\$ 308,072	\$ 384,884

- (1) These loans were not classified as non-performing assets at September 30, 2013 and December 31, 2012, as the loans are accounted for on a pooled basis and the pools are considered to be performing. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash

flows, is being recognized on all purchased impaired loans. Additionally, as of September 30, 2013 and December 31, 2012, \$45.8 million and \$70.9 million, respectively, were accruing past due loans 90 days or more.

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

**6. Allowance for Loan Losses, Credit Quality and Other**

The following table presents a summary of changes in the allowance for loan losses for the non-covered and covered loan portfolios for the nine months ended September 30, 2013:

	<b>For Loans Not Covered by Loss Share</b>	<b>For Loans Covered by FDIC Loss Share (In thousands)</b>	<b>Total</b>
<b>Allowance for loan losses:</b>			
Beginning balance	\$ 45,170	\$ 5,462	\$ 50,632
Loans charged off	11,780	5,027	16,807
Recoveries of loans previously charged off	3,502	171	3,673
Net loans recovered (charged off)	(8,278)	(4,856)	(13,134)
Provision for loan losses for non-covered loans	750		750
Provision for loan losses before benefit attributable to FDIC loss share agreements		500	500
Benefit attributable to FDIC loss share agreements		(400)	(400)
Net provision for loan losses for covered loans		100	100
Increase in FDIC indemnification asset		400	400
Balance, September 30	\$ 37,642	\$ 1,106	\$ 38,748

**Table of Contents****Allowance for Loan Losses and Credit Quality for Non-Covered Loans**

The following tables present the balance in the allowance for loan losses for the non-covered loan portfolio for the three and nine-month periods ended September 30, 2013 and the allowance for loan losses and recorded investment in loans not covered by loss share based on portfolio segment by impairment method as of September 30, 2013. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories. Additionally, the Company's discount for credit losses on non-covered loans acquired was \$77.4 million and \$81.7 million at September 30, 2013 and December 31, 2012, respectively.

	<b>Three Months Ended September 30, 2013</b>							
	<b>Construction/ Land Development</b>	<b>Other Commercial Real Estate</b>	<b>Residential Real Estate</b>	<b>Commercial &amp; Industrial</b>	<b>Consumer &amp; Other</b>	<b>Unallocated</b>		<b>Total</b>
	<b>(In thousands)</b>							
<b>Allowance for loan losses:</b>								
Beginning balance	\$ 6,456	\$ 18,161	\$ 8,415	\$ 2,697	\$ 1,053	\$ 3,716		\$ 40,498
Loans charged off	(392)	(2,980)	(787)	(438)	(504)			(5,101)
Recoveries of loans previously charged off	4	1,939	126	16	160			2,245
Net loans recovered (charged off)	(388)	(1,041)	(661)	(422)	(344)			(2,856)
Provision for loan losses	407	(362)	309	(85)	342	(611)		
Balance, September 30	\$ 6,475	\$ 16,758	\$ 8,063	\$ 2,190	\$ (1,051)	\$ 3,105		\$ 37,642

	<b>Nine Months Ended September 30, 2013</b>							
	<b>Construction/ Land Development</b>	<b>Other Commercial Real Estate</b>	<b>Residential Real Estate</b>	<b>Commercial &amp; Industrial</b>	<b>Consumer &amp; Other</b>	<b>Unallocated</b>		<b>Total</b>
	<b>(In thousands)</b>							
<b>Allowance for loan losses:</b>								
Beginning balance	\$ 5,816	\$ 19,974	\$ 13,813	\$ 3,870	\$ 1,288	\$ 409		\$ 45,170
Loans charged off	(560)	(3,844)	(5,004)	(619)	(1,753)			(11,780)
Recoveries of loans previously charged off	19	2,052	852	49	530			3,502
Net loans recovered (charged off)	(541)	(1,792)	(4,152)	(570)	(1,223)			(8,278)
Provision for loan losses	1,200	(1,424)	(1,598)	(1,110)	986	2,696		750
Balance, September 30	\$ 6,475	\$ 16,758	\$ 8,063	\$ 2,190	\$ 1,051	\$ 3,105		\$ 37,642

	As of September 30, 2013							
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total	
	(In thousands)							
<b>Allowance for loan losses:</b>								
Period end amount allocated to:								
Loans individually evaluated for impairment								
	\$ 3,869	\$ 9,480	\$ 2,362	\$	\$	\$	\$	\$ 15,711
Loans collectively evaluated for impairment								
	2,606	7,278	5,701	2,190	1,051	3,105		21,931
Loans evaluated for impairment, balance, September 30								
	6,475	16,758	8,063	2,190	1,051	3,105		37,642
Purchased credit impaired loans acquired								
Balance, September 30	\$ 6,475	\$ 16,758	\$ 8,063	\$ 2,190	\$ 1,051	\$ 3,105		\$ 37,642
<b>Loans receivable:</b>								
Period end amount allocated to:								
Loans individually evaluated for impairment								
	\$ 28,175	\$ 77,387	\$ 15,601	\$ 1,569	\$ 123	\$		\$ 122,855
Loans collectively evaluated for impairment								
	273,600	900,641	562,619	250,900	86,604			2,074,364
Loans evaluated for impairment balance, September 30								
	301,775	978,028	578,220	252,469	86,727			2,197,219
Purchased credit impaired loans acquired								
	12,457	80,815	69,151	16,431	2,765			181,619
Balance, September 30	\$ 314,232	\$ 1,058,843	\$ 647,371	\$ 268,900	\$ 89,492	\$		\$ 2,378,838

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The following tables present the balance in the allowance for loan losses for the non-covered loan portfolio for the nine-month period ended September 30, 2012 and the year ended December 31, 2012, and the allowance for loan losses and recorded investment in loans not covered by loss share based on portfolio segment by impairment method as of December 31, 2012. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories.

	Year Ended December 31, 2012							Total
	Construction/ Land Development	Other Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated		
<b>Allowance for loan losses:</b>								
Beginning balance	\$ 7,945	\$ 20,368	\$ 12,196	\$ 6,308	\$ 3,258	\$ 2,054	\$	\$ 52,129
Loans charged off	(838)	(1,312)	(2,670)	(758)	(1,476)			(7,054)
Recoveries of loans previously charged off	7	1,128	538	107	437			2,217
Net loans recovered (charged off)	(831)	(184)	(2,132)	(651)	(1,039)			(4,837)
Provision for loan losses	(331)	(298)	2,920	(766)	289	(1,814)		
Balance, September 30	6,783	19,886	12,984	4,891	2,508	240		47,292
Loans charged off	(248)	(72)	(1,753)	(584)	(1,082)			(3,739)
Recoveries of loans previously charged off	2	76	140	17	132			367
Net loans recovered (charged off)	(246)	4	(1,613)	(567)	(950)			(3,372)
Provision for loan losses	(721)	84	2,442	(454)	(270)	169		1,250
Balance, December 31	\$ 5,816	\$ 19,974	\$ 13,813	\$ 3,870	\$ 1,288	\$ 409	\$	\$ 45,170

	As of December 31, 2012							Total
	Construction/ Land Development	Other Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated		
<b>Allowance for loan losses:</b>								



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Period end amount allocated to:								
Loans individually evaluated for impairment	\$ 4,070	\$ 14,215	\$ 9,365	\$ 1,421	\$ 338	\$	\$	\$ 29,409
Loans collectively evaluated for impairment	1,746	5,759	4,448	2,449	950	409		15,761
Loans evaluated for impairment balance, December 31	5,816	19,974	13,813	3,870	1,288	409		45,170
Purchased credit impaired loans acquired								
Balance, December 31	\$ 5,816	\$ 19,974	\$ 13,813	\$ 3,870	\$ 1,288	\$ 409	\$	\$ 45,170
<b>Loans receivable:</b>								
Period end amount allocated to:								
Loans individually evaluated for impairment	\$ 28,181	\$ 93,610	\$ 33,994	\$ 3,690	\$ 746	\$	\$	\$ 160,221
Loans collectively evaluated for impairment	210,333	862,128	559,066	227,447	83,932			1,942,906
Loans evaluated for impairment balance, December 31	238,514	955,738	593,060	231,137	84,678			2,103,127
Purchased credit impaired loans acquired	16,286	95,814	85,951	25,771	4,250			228,072
Balance, December 31	\$ 254,800	\$ 1,051,552	\$ 679,011	\$ 256,908	\$ 88,928	\$	\$	\$ 2,331,199

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The following is an aging analysis for the non-covered loan portfolio as of September 30, 2013 and December 31, 2012:

	September 30, 2013						Accruing Loans Past Due 90 Days or More
	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due (In thousands)	Current Loans	Total Loans Receivable	
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	\$ 1,380	\$ 1,694	\$ 8,509	\$ 11,583	\$ 1,015,354	\$ 1,026,937	\$ 3,989
Construction/land development	312	108	3,402	3,822	310,410	314,232	1,866
Agricultural			98	98	31,808	31,906	
Residential real estate loans							
Residential 1-4 family	2,331	880	13,871	17,082	512,650	529,732	4,473
Multifamily residential	233		336	569	117,070	117,639	
Total real estate	4,256	2,682	26,216	33,154	1,987,292	2,020,446	10,328
Consumer	275	76	124	475	30,003	30,478	37
Commercial and industrial	582	197	2,095	2,874	266,026	268,900	883
Agricultural and other	388	19		407	58,607	59,014	
Total	\$ 5,501	\$ 2,974	\$ 28,435	\$ 36,910	\$ 2,341,928	\$ 2,378,838	\$ 11,248

	December 31, 2012						Accruing Loans Past Due 90 Days or More
	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due (In thousands)	Current Loans	Total Loans Receivable	
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	\$ 8,670	\$ 399	\$ 5,096	\$ 14,165	\$ 1,004,874	\$ 1,019,039	\$ 1,437
Construction/land development	374	732	3,976	5,082	249,718	254,800	1,296
Agricultural			140	140	32,373	32,513	
Residential real estate loans							
Residential 1-4 family	3,724	1,978	12,561	18,263	531,006	549,269	2,589

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Multifamily residential	157	4,439	3,215	7,811	121,931	129,742	
Total real estate	12,925	7,548	24,988	45,461	1,939,902	1,985,363	5,322
Consumer	780	187	688	1,655	35,807	37,462	95
Commercial and industrial	1,310	254	1,597	3,161	253,747	256,908	520
Agricultural and other	262	116		378	51,088	51,466	
Total	\$ 15,277	\$ 8,105	\$ 27,273	\$ 50,655	\$ 2,280,544	\$ 2,331,199	\$ 5,937

Non-accruing loans not covered by loss share at September 30, 2013 and December 31, 2012 were \$17.2 million and \$21.3 million, respectively.

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The following is a summary of the non-covered impaired loans as of September 30, 2013 and December 31, 2012:

	September 30, 2013						
	Three Months Ended			Nine Months Ended			
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
<b>(In thousands)</b>							
<b>Loans without a specific valuation allowance</b>							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	\$ 2,814	\$ 1,374	\$	\$ 4,320	\$ 45	\$ 4,585	\$ 154
Construction/land development						132	8
Agricultural							
Residential real estate loans							
Residential 1-4 family	1,376	1,194		1,521		1,268	34
Multifamily residential	1,335	69		1,335		668	1
Total real estate	5,525	2,637		7,176	45	6,653	197
Consumer							
Commercial and industrial	358	358		182	6	166	6
Agricultural and other							
Total loans without a specific valuation allowance	5,883	2,995		7,358	51	6,819	203
<b>Loans with a specific valuation allowance</b>							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	56,485	55,768	9,480	52,819	455	55,887	1,656
Construction/land development	21,032	21,032	3,869	23,035	202	22,094	608
Agricultural	98	98		103		81	
Residential real estate loans							
Residential 1-4 family	8,409	8,421	1,259	9,220	133	12,411	244
Multifamily residential	2,384	2,385	1,103	1,090	54	4,086	84
Total real estate	88,408	87,704	15,711	86,267	844	94,559	2,592
Consumer							
Commercial and industrial	122	123		263	1	425	3
Agricultural and other	1,211	1,211		1,502		1,738	12
Total loans with a specific valuation allowance	89,741	89,038	15,711	88,032	845	96,722	2,607

<b>Total impaired loans</b>							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	59,299	57,142	9,480	57,139	500	60,472	1,810
Construction/land development	21,032	21,032	3,869	23,035	202	22,226	616
Agricultural	98	98		103		81	
Residential real estate loans							
Residential 1-4 family	9,785	9,615	1,259	10,741	133	13,679	278
Multifamily residential	3,719	2,454	1,103	2,425	54	4,754	85
Total real estate	93,933	90,341	15,711	93,443	889	101,212	2,789
Consumer	122	123		263	1	425	3
Commercial and industrial	1,569	1,569		1,684	6	1,904	18
Agricultural and other							
Total impaired loans	\$ 95,624	\$ 92,033	\$ 15,711	\$ 95,390	\$ 896	\$ 103,541	\$ 2,810

*Note:* Purchased non-covered loans acquired with deteriorated credit quality are accounted for on a pooled basis under ASC 310-30. All of these pools are currently considered to be performing resulting in none of the purchased non-covered loans acquired with deteriorated credit quality being classified as non-covered impaired loans as of September 30, 2013.

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	December 31, 2012				
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses (In thousands)	Year Ended Average Recorded Investment	Interest Recognized
<b>Loans without a specific valuation allowance</b>					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	\$ 7,574	\$ 7,571	\$	\$ 2,478	\$ 73
Construction/land development				1,314	
Agricultural					
Residential real estate loans					
Residential 1-4 family	353	353		712	4
Multifamily residential					
Total real estate	7,927	7,924		4,504	77
Consumer					
Commercial and industrial	292	292		134	2
Agricultural and other					
Total loans without a specific valuation allowance	8,219	8,216		4,638	79
<b>Loans with a specific valuation allowance</b>					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	67,378	66,060	14,215	71,882	3,755
Construction/land development	20,592	20,366	4,070	19,489	956
Agricultural				7	1
Residential real estate loans					
Residential 1-4 family	19,364	19,138	6,852	20,518	806
Multifamily residential	10,515	10,515	2,513	7,716	353
Total real estate	117,849	116,079	27,650	119,612	5,871
Consumer					
Commercial and industrial	752	746	338	1,078	51
Commercial and industrial	2,219	2,144	1,421	7,232	411
Agricultural and other				962	21
Total loans with a specific valuation allowance	120,820	118,969	29,409	128,884	6,354
<b>Total impaired loans</b>					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	74,952	73,631	14,215	74,360	3,828
Construction/land development	20,592	20,366	4,070	20,803	956
Agricultural				7	1
Residential real estate loans					

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Residential 1-4 family	19,717	19,491	6,852	21,230	810
Multifamily residential	10,515	10,515	2,513	7,716	353
Total real estate	125,776	124,003	27,650	124,116	5,948
Consumer	752	746	338	1,078	51
Commercial and industrial	2,511	2,436	1,421	7,366	413
Agricultural and other				962	21
Total impaired loans	\$ 129,039	\$ 127,185	\$ 29,409	\$ 133,522	\$ 6,433

*Note:* Purchased non-covered loans acquired with deteriorated credit quality are accounted for on a pooled basis under ASC 310-30. All of these pools are currently considered to be performing resulting in none of the purchased non-covered loans acquired with deteriorated credit quality being classified as non-covered impaired loans as of December 31, 2012.

Interest recognized on non-covered impaired loans during the three months ended September 30, 2013 and 2012 was approximately \$896,000 and \$1.5 million, respectively. Interest recognized on non-covered impaired loans during the nine months ended September 30, 2013 and 2012 was approximately \$2.8 million and \$4.9 million, respectively. The amount of interest recognized on non-covered impaired loans on the cash basis is not materially different than the accrual basis.

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*Credit Quality Indicators.* As part of the on-going monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators including trends related to (i) the risk rating of loans, (ii) the level of classified loans, (iii) net charge-offs, (iv) non-performing loans and (v) the general economic conditions in Florida, Arkansas and Alabama.

The Company utilizes a risk rating matrix to assign a risk rating to each of its loans. Loans are rated on a scale from 1 to 8. Descriptions of the general characteristics of the 8 risk ratings are as follows:

*Risk rating 1 Excellent.* Loans in this category are to persons or entities of unquestionable financial strength, a highly liquid financial position, with collateral that is liquid and well margined. These borrowers have performed without question on past obligations, and the Bank expects their performance to continue. Internally generated cash flow covers current maturities of long-term debt by a substantial margin. Loans secured by bank certificates of deposit and savings accounts, with appropriate holds placed on the accounts, are to be rated in this category.

*Risk rating 2 Good.* These are loans to persons or entities with strong financial condition and above-average liquidity that have previously satisfactorily handled their obligations with the Bank. Collateral securing the Bank's debt is margined in accordance with policy guidelines. Internally generated cash flow covers current maturities of long-term debt more than adequately. Unsecured loans to individuals supported by strong financial statements and on which repayment is satisfactory may be included in this classification.

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

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

*Risk rating 5 Other Loans Especially Mentioned ( OLEM ).* A loan criticized as OLEM has potential weaknesses that deserve management's close attention. If left uncorrected, these potential



weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. OLEM assets are not adversely classified and do not expose the institution to sufficient risk to warrant adverse classification.

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

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

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*Risk rating 8 Loss.* Assets classified as loss are considered uncollectible and of such little value that the continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather, it is not practical or desirable to defer writing off this basically worthless asset, even though partial recovery may occur in the future. This classification is based upon current facts, not probabilities. Assets classified as loss should be charged-off in the period in which they became uncollectible.

The Company's classified loans include loans in risk ratings 6, 7 and 8. The following is a presentation of classified non-covered loans (excluding loans accounted for under ASC Topic 310-30) by class as of September 30, 2013 and December 31, 2012:

	<b>September 30, 2013</b>			
	<b>Risk Rated 6</b>	<b>Risk Rated 7</b>	<b>Risk Rated 8</b>	<b>Classified Total</b>
	<b>(In thousands)</b>			
<b>Real estate:</b>				
Commercial real estate loans				
Non-farm/non-residential	\$ 51,056	\$ 1	\$	\$ 51,057
Construction/land development	19,235			19,235
Agricultural	98			98
Residential real estate loans				
Residential 1-4 family	14,375	311		14,686
Multifamily residential	2,392			2,392
<b>Total real estate</b>	<b>87,156</b>	<b>312</b>		<b>87,468</b>
Consumer	421			421
Commercial and industrial	2,333	39		2,372
Agricultural and other	39			39
<b>Total</b>	<b>\$ 89,949</b>	<b>\$ 351</b>	<b>\$</b>	<b>\$ 90,300</b>

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

Agricultural and other	39			39
<b>Total</b>	<b>\$ 103,055</b>	<b>\$ 348</b>	<b>\$</b>	<b>\$ 103,403</b>

Loans may be classified, but not considered impaired, due to one of the following reasons: (1) The Company has established minimum dollar amount thresholds for loan impairment testing. All loans over \$1.0 million that are rated 5-8 are individually assessed for impairment on a quarterly basis. Loans rated 5-8 that fall under the threshold amount are not individually tested for impairment and therefore are not included in impaired loans; (2) of the loans that are above the threshold amount and tested for impairment, after testing, some are considered to not be impaired and are not included in impaired loans.

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The following is a presentation of non-covered loans by class and risk rating as of September 30, 2013 and December 31, 2012:

<b>September 30, 2013</b>							
	<b>Risk Rated 1</b>	<b>Risk Rated 2</b>	<b>Risk Rated 3</b>	<b>Risk Rated 4</b>	<b>Risk Rated 5</b>	<b>Classified Total</b>	<b>Total</b>
(In thousands)							
<b>Real estate:</b>							
<b>Commercial real estate loans</b>							
Non-farm/non-residential	\$ 4	\$ 49	\$ 537,591	\$ 328,588	\$ 29,806	\$ 51,057	\$ 947,095
<b>Construction/land development</b>							
Agricultural	248	92	76,556	194,542	11,102	19,235	301,775
<b>Residential real estate loans</b>							
Residential 1-4 family	413	148	309,432	130,122	10,767	14,686	465,568
Multifamily residential			72,840	36,202	1,217	2,392	112,651
<b>Total real estate</b>	<b>665</b>	<b>289</b>	<b>1,008,159</b>	<b>708,549</b>	<b>52,892</b>	<b>87,468</b>	<b>1,858,022</b>
Consumer	7,366	19	12,548	6,843	669	421	27,866
Commercial and industrial	15,120	473	151,294	81,759	1,452	2,372	252,470
Agricultural and other	229	2,000	26,398	30,195		39	58,861
<b>Total risk rated loans</b>	<b>\$ 23,380</b>	<b>\$ 2,781</b>	<b>\$ 1,198,399</b>	<b>\$ 827,346</b>	<b>\$ 55,013</b>	<b>\$ 90,300</b>	<b>\$ 2,197,219</b>
Purchased credit impaired loans acquired							181,619
<b>Total non-covered loans</b>							<b>\$ 2,378,838</b>

<b>December 31, 2012</b>							
	<b>Risk Rated 1</b>	<b>Risk Rated 2</b>	<b>Risk Rated 3</b>	<b>Risk Rated 4</b>	<b>Risk Rated 5</b>	<b>Classified Total</b>	<b>Total</b>
(In thousands)							
<b>Real estate:</b>							
<b>Commercial real estate loans</b>							
Non-farm/non-residential	\$ 7	\$ 53	\$ 483,816	\$ 350,768	\$ 34,354	\$ 55,920	\$ 924,918
<b>Construction/land development</b>							
Agricultural	41	116	65,215	147,908	7,429	17,805	238,514
<b>Residential real estate loans</b>							
Residential 1-4 family	461	155	305,369	131,698	14,873	19,491	472,047
Multifamily residential			23,760	86,459	5,521	5,272	121,012

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Total real estate	509	324	889,080	736,594	62,177	98,628	1,787,312
Consumer	8,785	105	14,771	7,865	658	1,495	33,679
Commercial and industrial	10,431	1,248	119,599	94,713	1,905	3,241	231,137
Agricultural and other	244	2,517	28,755	19,443	1	39	50,999
Total risk rated loans	\$ 19,969	\$ 4,194	\$ 1,052,205	\$ 858,615	\$ 64,741	\$ 103,403	\$ 2,103,127
Purchased credit impaired loans acquired							228,072
Total non-covered loans							\$ 2,331,199

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The following is a presentation of non-covered TDRs by class as of September 30, 2013 and December 31, 2012:

	<b>September 30, 2013</b>					
	<b>Number of Loans</b>	<b>Pre-Modification Outstanding Balance</b>	<b>Rate Modification</b>	<b>Term Modification</b>	<b>Rate &amp; Term Modification</b>	<b>Post- Modification Outstanding Balance</b>
<b>(Dollars in thousands)</b>						
<b>Real estate:</b>						
<b>Commercial real estate loans</b>						
Non-farm/non-residential	20	\$ 42,257	\$ 18,165	\$ 8,383	\$ 11,299	\$ 37,847
Construction/land development	3	8,324	5,849	1,797		7,646
<b>Residential real estate loans</b>						
Residential 1-4 family	9	2,511	588	533	775	1,896
Multifamily residential	2	4,213	2,126			2,126
<b>Total real estate</b>	<b>34</b>	<b>57,305</b>	<b>26,728</b>	<b>10,713</b>	<b>12,074</b>	<b>49,515</b>
Commercial and industrial	2	394	6		352	358
<b>Total</b>	<b>36</b>	<b>\$ 57,699</b>	<b>\$ 26,734</b>	<b>\$ 10,713</b>	<b>\$ 12,426</b>	<b>\$ 49,873</b>

	<b>December 31, 2012</b>					
	<b>Number of Loans</b>	<b>Pre-Modification Outstanding Balance</b>	<b>Rate Modification</b>	<b>Term Modification</b>	<b>Rate &amp; Term Modification</b>	<b>Post- Modification Outstanding Balance</b>
<b>(Dollars in thousands)</b>						
<b>Real estate:</b>						
<b>Commercial real estate loans</b>						
Non-farm/non-residential	34	\$ 48,672	\$ 22,710	\$ 11,198	\$ 10,449	\$ 44,357
Construction/land development	3	9,117	6,489	1,688		8,177
<b>Residential real estate loans</b>						
Residential 1-4 family	11	4,621	3,337	348	623	4,308
Multifamily residential	2	4,213	3,377			3,377
<b>Total real estate</b>	<b>50</b>	<b>66,623</b>	<b>35,913</b>	<b>13,234</b>	<b>11,072</b>	<b>60,219</b>
Commercial and industrial	5	683	6	272	385	663
<b>Total</b>	<b>55</b>	<b>\$ 67,306</b>	<b>\$ 35,919</b>	<b>\$ 13,506</b>	<b>\$ 11,457</b>	<b>\$ 60,882</b>

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The following is a presentation of non-covered TDRs on non-accrual status as of September 30, 2013 and December 31, 2012 because they are not in compliance with the modified terms:

	September 30, 2013		December 31, 2012	
	Number of Loans	Recorded Balance	Number of Loans	Recorded Balance
	(Dollars in thousands)			
<b>Real estate:</b>				
Commercial real estate loans				
Non-farm/non-residential		\$	2	\$ 761
Residential real estate loans				
Residential 1-4 family	6	1,363	5	2,665
Multifamily residential	1	69		
<b>Total real estate</b>	<b>7</b>	<b>1,432</b>	<b>7</b>	<b>3,426</b>
<b>Total</b>	<b>7</b>	<b>\$ 1,432</b>	<b>7</b>	<b>\$ 3,426</b>

***Allowance for Loan Losses and Credit Quality for Covered Loans***

During the second quarter of 2013, impairment testing on the estimated cash flows of the covered loans established that one pool evaluated had experienced material projected credit deterioration. As a result, the Company recorded a \$500,000 provision for loan losses to the allowance for loan losses related to the purchased impaired loans during the three-month period ended June 30, 2013. Since these loans are covered by loss share with the FDIC, the Company was able to increase its indemnification asset by \$400,000 resulting in a net provision for loan losses of \$100,000.

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

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

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The following tables present the balance in the allowance for loan losses for the covered loan portfolio for the three and nine-month periods ended September 30, 2013, and the allowance for loan losses and recorded investment in loans covered by FDIC loss share based on portfolio segment by impairment method as of September 30, 2013.

**Three Months Ended September 30, 2013**

	<b>Other</b>				<b>Consumer</b>		
	<b>Construction</b>	<b>Commercial</b>	<b>Residential</b>	<b>Commercial</b>	<b>&amp;</b>	<b>Other Unallocated</b>	<b>Total</b>
	<b>Land</b>	<b>Real</b>	<b>Real Estate</b>	<b>&amp; Industrial</b>	<b>Other</b>		
	<b>Development</b>	<b>Estate</b>	<b>Real Estate</b>	<b>&amp; Industrial</b>	<b>Other</b>	<b>Unallocated</b>	<b>Total</b>
	<b>(In thousands)</b>						
<b>Allowance for loan losses:</b>							
Beginning balance	\$ 161	\$ 472	\$ 286	\$ 33	\$	\$	\$ 952
Loans charged off							
Recoveries of loans previously charged off	15	6	133				154
Net loans recovered (charged off)	15	6	133				154
Provision for loan losses before benefit attributable to FDIC loss share agreements	(35)	84	(55)	6			
Benefit attributable to FDIC loss share agreements	28	(67)	44	(5)			
Net provision for loan losses	(7)	17	(11)	1			
Increase in FDIC indemnification asset	(28)	67	(44)	5			
Balance, September 30	\$ 141	\$ 562	\$ 364	\$ 39	\$	\$	\$ 1,106

**Nine Months Ended September 30, 2013**

	<b>Other</b>				<b>Consumer</b>		
	<b>Construction</b>	<b>Commercial</b>	<b>Residential</b>	<b>Commercial</b>	<b>&amp;</b>	<b>Other Unallocated</b>	<b>Total</b>
	<b>Land</b>	<b>Real</b>	<b>Real Estate</b>	<b>&amp; Industrial</b>	<b>Other</b>		
	<b>Development</b>	<b>Estate</b>	<b>Real Estate</b>	<b>&amp; Industrial</b>	<b>Other</b>	<b>Unallocated</b>	<b>Total</b>
	<b>(In thousands)</b>						
<b>Allowance for loan losses:</b>							
Beginning balance	\$ 1,169	\$ 4,005	\$ 228	\$ 60	\$	\$	\$ 5,462
Loans charged off	(720)	(3,426)	(724)	(157)			(5,027)
Recoveries of loans previously charged off	15	13	143				171
Net loans recovered (charged off)	(705)	(3,413)	(581)	(157)			(4,856)
	(323)	(30)	717	136			500



Provision for loan losses before benefit attributable to FDIC loss share agreements								
Benefit attributable to FDIC loss share agreements	258	24	(573)	(109)				(400)
Net provision for loan losses	(65)	(6)	144	27				100
Increase in FDIC indemnification asset	(258)	(24)	573	109				400
Balance, September 30	\$ 141	\$ 562	\$ 364	\$ 39	\$	\$	\$	\$ 1,106

## As of September 30, 2013

	Construction Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
<b>Allowance for loan losses:</b>							
Period end amount allocated to:							
Loans individually evaluated for impairment	\$	\$	\$	\$	\$	\$	\$
Loans collectively evaluated for impairment							
Loans evaluated for impairment balance, September 30							
Purchased credit impaired loans acquired	141	562	364	39			1,106
Balance, September 30	\$ 141	\$ 562	\$ 364	\$ 39	\$	\$	\$ 1,106
<b>Loans receivable:</b>							
Period end amount allocated to:							
Loans individually evaluated for impairment	\$	\$	\$	\$	\$	\$	\$
Loans collectively evaluated for impairment							
Loans evaluated for impairment balance, September 30							
Purchased credit impaired loans acquired	51,492	136,096	113,198	6,291	995		308,072

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Balance, September 30	\$ 51,492	\$ 136,096	\$ 113,198	\$ 6,291	\$ 995	\$	\$ 308,072
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The following tables present the balance in the allowance for loan losses for the covered loan portfolio for the nine-month period ended September 30, 2012 and the year ended December 31, 2012, and the allowance for loan losses and recorded investment in loans covered by FDIC loss share based on portfolio segment by impairment method as of December 31, 2012.

	Year Ended December 31, 2012						Total
	Other		Residential	Consumer		Unallocated	
	Construction	Commercial		Commercial	&		
	Land Development	Real Estate	Real Estate	& Industrial	Other		
							(In thousands)
<b>Allowance for loan losses:</b>							
Beginning balance	\$	\$	\$	\$	\$	\$	\$
Loans charged off			(76)		(278)		(354)
Recoveries of loans previously charged off							
Net loans recovered (charged off)			(76)		(278)		(354)
Provision for loan losses before benefit attributable to FDIC loss share agreements	1,531	5,245	370	78	278		7,502
Benefit attributable to FDIC loss share agreements	(1,225)	(4,197)	(296)	(62)	(222)		(6,002)
Net provision for loan losses	306	1,048	74	16	56		1,500
Increase in FDIC indemnification asset	1,225	4,197	296	62	222		6,002
Balance, September 30	1,531	5,245	294	78			7,148
Loans charged off	(648)	(970)	(56)	(14)			(1,688)
Recoveries of loans previously charged off			2				2
Net loans recovered (charged off)	(648)	(970)	(54)	(14)			(1,686)
Provision for loan losses before benefit attributable to FDIC loss share agreements	286	(270)	(12)	(4)			
Benefit attributable to FDIC loss share agreements	(229)	217	10	2			
Net provision for loan losses	57	(53)	(2)	(2)			
Increase in FDIC indemnification asset	229	(217)	(10)	(2)			
Balance, December 31	\$ 1,169	\$ 4,005	\$ 228	\$ 60	\$	\$	\$ 5,462

As of December 31, 2012

	Other							
	Construction	Commercial	Residential	Commercial	Consumer			
	Land	Real	Real	& Industrial	&	Other	Unallocated	Total
	Development	Estate	Estate					(In thousands)
<b>Allowance for loan losses:</b>								
Period end amount allocated to:								
Loans individually evaluated for impairment	\$	\$	\$	\$	\$	\$	\$	\$
Loans collectively evaluated for impairment								
Loans evaluated for impairment balance, December 31								
Purchased credit impaired loans acquired	1,169	4,005	228	60				5,462
Balance, December 31	\$ 1,169	\$ 4,005	\$ 228	\$ 60	\$	\$	\$	\$ 5,462
<b>Loans receivable:</b>								
Period end amount allocated to:								
Loans individually evaluated for impairment	\$	\$	\$	\$	\$	\$	\$	\$
Loans collectively evaluated for impairment								
Loans evaluated for impairment balance, December 31								
Purchased credit impaired loans acquired	66,713	167,005	135,192	14,668	1,306			384,884
Balance, December 31	\$ 66,713	\$ 167,005	\$ 135,192	\$ 14,668	\$ 1,306	\$	\$	\$ 384,884

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Changes in the carrying amount of the accretible yield for purchased credit impaired loans acquired were as follows for the nine-month period ended September 30, 2013 for the Company's covered and non-covered acquisitions:

	<b>Accretible Yield (In thousands)</b>	<b>Carrying Amount of Loans</b>
Balance at beginning of period	\$ 127,371	\$ 612,956
Reforecasted future interest payments for loan pools	9,159	
Accretion	(42,450)	42,450
Adjustment to yield	15,566	
Transfers to foreclosed assets held for sale covered by FDIC loss share		(11,103)
Payments received, net		(154,612)
Balance at end of period	\$ 109,646	\$ 489,691

The loan pools were evaluated by the Company and are currently forecasted to have a slower run-off than originally expected. As a result, the Company has reforecast the total accretible yield expectations for those loan pools by \$9.2 million. This updated forecast does not change the expected weighted average yields on the loan pools.

Five pools evaluated by the Company were determined to have a materially projected credit improvement. As a result of this improvement, the Company will recognize approximately \$15.6 million as an adjustment to yield over the weighted average life of the loans. Improvements in credit quality decrease the basis in the related indemnification assets. This positive event will reduce the indemnification asset by approximately \$12.5 million and increase our FDIC true-up liability by \$1.6 million. The \$12.5 million 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. The \$1.6 million will be expensed over the remaining true-up measurement date as other non-interest expense. This will result in approximately \$4.7 million of pre-tax net income being recognized going forward which may or may not be symmetrical depending on the weighted average life of the loans.

**7. Goodwill and Core Deposits and Other Intangibles**

Changes in the carrying amount and accumulated amortization of the Company's goodwill and core deposits and other intangibles at September 30, 2013 and December 31, 2012, were as follows:

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
	<b>(In thousands)</b>	
<b><u>Goodwill</u></b>		
Balance, beginning of period	\$ 85,681	\$ 59,663
Vision and Premier acquisitions		26,018

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Balance, end of period	\$ 85,681	\$	85,681
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**September 30, 2013    December 31, 2012**  
(In thousands)

<b><u>Core Deposit and Other Intangibles</u></b>			
Balance, beginning of period	\$ 12,061	\$	8,620
Vision Bank acquisition			3,190
Amortization expense	(2,406)		(2,018)
<b>Balance, September 30</b>	<b>\$ 9,655</b>		<b>9,792</b>
Premier and Heritage acquisitions			3,012
Amortization expense			(743)
<b>Balance, end of year</b>		<b>\$</b>	<b>12,061</b>

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The carrying basis and accumulated amortization of core deposits and other intangibles at September 30, 2013 and December 31, 2012 were:

	September 30, 2013	December 31, 2012
	(In thousands)	
Gross carrying basis	\$ 29,663	\$ 29,663
Accumulated amortization	(20,008)	(17,602)
Net carrying amount	\$ 9,655	\$ 12,061

Core deposit and other intangible amortization expense was approximately \$802,000 and \$694,000 for the three-months ended September 30, 2013 and 2012, respectively. Core deposit and other intangible amortization expense was approximately \$2.4 million and \$2.0 million for the nine-months ended September 30, 2013 and 2012, respectively. As of September 30, 2013, HBI's estimated amortization expense of core deposits and other intangibles for each of the years 2013 through 2017 is approximately: 2013 \$3.2 million; 2014 \$3.1 million; 2015 \$2.2 million; 2016 \$973,000; 2017 \$884,000. These projections exclude the previously announced Liberty Bancshares, Inc. ( Liberty ) acquisition.

The carrying amount of the Company's goodwill was \$85.7 million at both September 30, 2013 and December 31, 2012. Goodwill is tested annually for impairment during the fourth quarter. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

**8. Other Assets**

Other assets consists primarily of FDIC claims receivable, equity securities without a readily determinable fair value and other miscellaneous assets. As of September 30, 2013 and December 31, 2012 other assets were \$66.5 million and \$75.7 million, respectively.

An indemnification asset was created when the Company acquired FDIC covered loans. The indemnification asset represents the carrying amount of the right to receive payments from the FDIC for losses incurred on specified assets acquired from failed insured depository institutions or otherwise purchased from the FDIC that are covered by loss-sharing agreements with the FDIC. When the Company experiences a loss on the covered loans and subsequently requests reimbursement of the loss from the FDIC, the indemnification asset is reduced by the FDIC reimbursable amount. A corresponding claim receivable is consequently recorded in other assets until the cash is received from the FDIC. The FDIC claims receivable was \$31.2 million and \$45.2 million at September 30, 2013 and December 31, 2012, respectively.

The Company has equity securities without readily determinable fair values. These equity securities are outside the scope of ASC Topic 320, *Investments-Debt and Equity Securities*. They include items such as stock holdings in Federal Home Loan Bank, Federal Reserve Bank, Bankers' Bank and other miscellaneous holdings. The equity securities without a readily determinable fair value were \$27.1 million and \$20.2 million at September 30, 2013 and December 31, 2012, respectively and are accounted for at cost.

**9. Deposits**

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The aggregate amount of time deposits with a minimum denomination of \$100,000 was \$434.8 million and \$549.1 million at September 30, 2013 and December 31, 2012, respectively. Interest expense applicable to certificates in excess of \$100,000 totaled \$766,000 and \$1.7 million for the three months ended September 30, 2013 and 2012, respectively. Interest expense applicable to certificates in excess of \$100,000 totaled \$2.8 million and \$6.3 million for the nine months ended September 30, 2013 and 2012, respectively. As of September 30, 2013 and December 31, 2012, brokered deposits were \$23.8 million and \$56.9 million, respectively.

Deposits totaling approximately \$436.9 million and \$484.4 million at September 30, 2013 and December 31, 2012, respectively, were public funds obtained primarily from state and political subdivisions in the United States.



**Table of Contents****10. Securities Sold Under Agreements to Repurchase**

At September 30, 2013 and December 31, 2012, securities sold under agreements to repurchase totaled \$71.3 million and \$66.3 million, respectively. For the three-month periods ended September 30, 2013 and 2012, securities sold under agreements to repurchase daily weighted average totaled \$73.9 million and \$64.8 million, respectively. For the nine-month periods ended September 30, 2013 and 2012, securities sold under agreements to repurchase daily weighted average totaled \$72.1 million and \$68.4 million, respectively.

**11. FHLB Borrowed Funds**

The Company's Federal Home Loan Bank ( FHLB ) borrowed funds were \$270.2 million and \$130.4 million at September 30, 2013 and December 31, 2012, respectively. At September 30, 2013, \$170.0 million and \$100.2 million of the outstanding balance were short-term and long-term advances, respectively. All of the outstanding balance at December 31, 2012 was long-term advances. The FHLB advances mature from the current year to 2025 with fixed interest rates ranging from 0.210% to 4.799% and are secured by loans and investments securities. Expected maturities will differ from contractual maturities, because FHLB may have the right to call or prepay certain obligations.

Additionally, at September 30, 2013, the Company had no amount in letters of credit under a FHLB blanket borrowing line of credit, which are used to collateralize public deposits at September 30, 2013. The Company had \$90.5 million at December 31, 2012 in letters of credit under a FHLB blanket borrowing line of credit, which were used to collateralize public deposits at December 31, 2012.

**12. Subordinated Debentures**

Subordinated debentures at September 30, 2013 and December 31, 2012 consisted of guaranteed payments on trust preferred securities with the following components:

	September 30, 2013	December 31, 2012
	(In thousands)	
Subordinated debentures, issued in 2003, due 2033, fixed at 6.40%, during the first five years and at a floating rate of 3.15% above the three-month LIBOR rate, reset quarterly, thereafter. Retired during the first quarter of 2013.	\$	\$ 20,619
Subordinated debentures, issued in 2003, due 2033, floating rate of 3.15% above the three-month LIBOR rate, reset quarterly. Retired during the first quarter of 2013.		5,155
Subordinated debentures, issued in 2006, due 2036, fixed rate of 6.75% during the first five years and at a floating rate of 1.85% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	3,093	3,093

Total	\$ 3,093	\$ 28,867
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The trust preferred securities are tax-advantaged issues that qualify for Tier 1 capital treatment subject to certain limitations. Distributions on these securities are included in interest expense. Each of the trusts is a statutory business trust organized for the sole purpose of issuing trust securities and investing the proceeds in our subordinated debentures, the sole asset of each trust. The trust preferred securities of each trust represent preferred beneficial interests in the assets of the respective trusts and are subject to mandatory redemption upon payment of the subordinated debentures held by the trust. We wholly own the common securities of each trust. Each trust's ability to pay amounts due on the trust preferred securities is solely dependent upon our making payment on the related subordinated debentures. Our obligations under the subordinated securities and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by us of each respective trust's obligations under the trust securities issued by each respective trust.

Presently, the funds raised from the trust preferred offerings qualify as Tier 1 capital for regulatory purposes, subject to the applicable limit, with the balance qualifying as Tier 2 capital.

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The Company currently holds a \$3.1 million trust preferred security which is currently callable without penalty based on the terms of the specific agreement.

During the first quarter of 2013, the Company made the election to pay off \$25.8 million of subordinated debentures which had previously been approved by the Federal Reserve Bank of St. Louis. As a result of the Liberty acquisition, we are not projecting the Company to pay-off the remaining balance during 2013.

**13. Income Taxes**

The following is a summary of the components of the provision (benefit) for income taxes for the three and nine-month periods ended September 30:

	<b>Three Months Ended September 30, 2013</b>		<b>Nine Months Ended September 30, 2013</b>	
	<b>2012</b>	<b>2012</b>	<b>2012</b>	<b>2012</b>
	<b>(In thousands)</b>			
<b>Current:</b>				
Federal	\$ 6,635	\$ 10,619	\$ 17,691	\$ 23,331
State	1,342	2,100	3,563	4,501
Total current	7,977	12,719	21,254	27,832
<b>Deferred:</b>				
Federal	2,171	(3,096)	7,994	(1,757)
State	442	(615)	1,587	(349)
Total deferred	2,613	(3,711)	9,581	(2,106)
Provision for income taxes	\$ 10,590	\$ 9,008	\$ 30,835	\$ 25,726

The reconciliation between the statutory federal income tax rate and effective income tax rate is as follows for the three and nine-month periods ended September 30:

	<b>Three Months Ended September 30, 2013</b>		<b>Nine Months Ended September 30, 2013</b>	
	<b>2012</b>	<b>2012</b>	<b>2012</b>	<b>2012</b>
Statutory federal income tax rate	35.00%	35.00%	35.00%	35.00%
Effect of nontaxable interest income	(2.01)	(2.40)	(2.06)	(2.53)
Cash value of life insurance	(0.34)	(0.28)	(0.25)	(0.33)
State income taxes, net of federal benefit	4.01	3.84	3.97	3.76
Other	(0.08)	(0.28)	(0.13)	(0.07)
Effective income tax rate	36.58%	35.88%	36.53%	35.83%



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The types of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts that give rise to deferred income tax assets and liabilities, and their approximate tax effects, are as follows:

	September 30, 2013	December 31, 2012
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	\$ 15,225	\$ 19,999
Deferred compensation	1,721	1,331
Stock options	277	231
Real estate owned	6,143	9,211
Loan discounts	35,914	51,946
Tax basis premium/discount on acquisitions	21,482	23,914
Unrealized loss on securities available-for-sale	881	
Deposits	324	485
Other	5,464	7,239
<b>Gross deferred tax assets</b>	<b>87,431</b>	<b>114,356</b>
Deferred tax liabilities:		
Accelerated depreciation on premises and equipment	2,253	377
Unrealized gain on securities available-for-sale		7,747
Core deposit intangibles	751	1,506
Indemnification asset	36,550	54,009
FHLB dividends	896	889
Other	936	2,830
<b>Gross deferred tax liabilities</b>	<b>41,386</b>	<b>67,358</b>
<b>Net deferred tax assets</b>	<b>\$ 46,045</b>	<b>\$ 46,998</b>

**14. Common Stock and Compensation Plans**

On April 18, 2013 at the Annual Meeting of Shareholders of the Company, the shareholders approved, as proposed in the Proxy Statement, an amendment to the Company's Restated Articles of Incorporation to increase the number of authorized shares of common stock from 50,000,000 to 100,000,000.

On April 18, 2013, our Board of Directors declared a two-for-one stock split to be paid in the form of a 100% stock dividend on June 12, 2013 (the Payment Date) to shareholders of record at the close of business on May 22, 2013. The additional shares were distributed by the Company's transfer agent, Computershare, and the Company's common stock began trading on a split-adjusted basis on the NASDAQ Global Select Market on June 13, 2013. The stock split increased the Company's total shares of common stock outstanding as of June 12, 2013 from 28,121,596 shares to 56,243,192 shares (split adjusted). All previously reported share and per share data included in filings subsequent to the Payment Date are restated to reflect the retroactive effect of this two-for-one stock split.

***Stock Compensation Plans***

The Company has a stock option and performance incentive plan known as the Amended and Restated 2006 Stock Option and Performance Incentive Plan ( the Plan ). The purpose of the Plan is to attract and retain highly qualified officers, directors, key employees, and other persons, and to motivate those persons to improve our business results. The Plan provides for the granting of incentive nonqualified options to purchase stock or for the issuance of restricted shares up to 4,644,000 shares (split adjusted) of common stock in the Company. At September 30, 2013, the Company has approximately 1,625,000 shares of common stock remaining available for grants or issuance under the plan and approximately 2,600,000 shares reserved for issuance of common stock.

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The intrinsic value of the stock options outstanding and stock options vested at September 30, 2013 was \$21.4 million and \$18.3 million, respectively. The intrinsic value of the stock options exercised during the three-month period ended September 30, 2013 was approximately \$760,000. The intrinsic value of the stock options exercised during the nine-month period ended September 30, 2013 was approximately \$896,000. Total unrecognized compensation cost, net of income tax benefit, related to non-vested awards, which are expected to be recognized over the vesting periods, was approximately \$621,000 as of September 30, 2013. For the first nine months of 2013, the Company has expensed \$108,000 for the non-vested awards.

The table below summarized the transactions under the Company's stock option plans (split adjusted) at September 30, 2013 and December 31, 2012 and changes during the nine-month period and year then ended:

	<b>For the Nine Months Ended September 30, 2013</b>		<b>For the Year Ended December 31, 2012</b>	
	<b>Shares (000)</b>	<b>Weighted Average Exercisable Price</b>	<b>Shares (000)</b>	<b>Weighted Average Exercisable Price</b>
Outstanding, beginning of year	871	\$ 6.66	1,138	\$ 5.68
Granted	150	18.23	90	13.13
Forfeited			(2)	4.65
Exercised	(46)	5.98	(355)	5.17
Outstanding, end of period	975	8.47	871	6.66
Exercisable, end of period	751	\$ 6.07	766	\$ 5.86

Stock-based compensation expense for stock-based compensation awards granted is based on the grant date fair value. For stock option awards, the fair value is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. Additionally, there may be other factors that would otherwise have a significant effect on the value of employee stock options granted but are not considered by the model. Accordingly, while management believes that the Black-Scholes option-pricing model provides a reasonable estimate of fair value, the model does not necessarily provide the best single measure of fair value for the Company's employee stock options. The weighted-average fair value of options granted during the nine-months ended September 30, 2013 was \$3.32 per share (split adjusted). The weighted-average fair value of options granted during the year ended December 31, 2012 was \$3.59 per share (split adjusted). The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model based on the weighted-average assumptions for expected dividend yield, expected stock price volatility, risk-free interest rate, and expected life of options granted.

	<b>For the Nine Months Ended September 30, 2013</b>	<b>For the Year Ended December 31, 2012</b>
Expected dividend yield	1.54%	1.52%

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Expected stock price volatility	20.93%	30.56%
Risk-free interest rate	1.19%	1.47%
Expected life of options	6.5 years	6.5 years



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The following is a summary of currently outstanding and exercisable options (split adjusted) at September 30, 2013:

Exercise Prices	Options Outstanding			Options Exercisable	
	Options Outstanding Shares (000)	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Options Exercisable Shares (000)	Weighted-Average Exercise Price
\$ 3.08 to \$3.50	38	1.13	\$ 3.20	38	\$ 3.20
\$ 3.92 to \$4.34	55	1.62	4.23	55	4.23
\$ 4.78 to \$4.92	94	1.69	4.81	94	4.81
\$ 5.33 to \$5.33	199	2.10	5.33	199	5.33
\$ 5.54 to \$5.54	202	2.45	5.54	202	5.54
\$ 8.32 to \$8.60	84	4.28	8.57	84	8.57
\$ 9.25 to \$9.31	10	3.65	9.29	10	9.29
\$ 10.16 to \$11.37	55	3.55	10.33	53	10.29
\$ 13.12 to \$13.12	88	8.31	13.12	16	13.12
\$ 17.25 to \$19.08	150	9.44	18.23		
	975			751	

The table below summarized the activity for the Company's restricted stock issued and outstanding (split adjusted) at September 30, 2013 and December 31, 2012 and changes during the period and year then ended:

	As of September 30, 2013	As of December 31, 2012
	(In thousands)	
Beginning of year	269	97
Issued	35	208
Vested	(32)	(36)
Forfeited	(16)	
End of period	256	269

Amount of expense for nine months and twelve

months ended, respectively \$ 781 \$ 780

On August 2, 2012, 208,000 shares (split adjusted) of restricted common stock were issued to our named executive officers and certain other employees of the Company. These shares include 86,000 shares (split adjusted) subject to time vesting ( Restricted Shares ) and 122,000 shares (split adjusted) subject to performance based vesting ( Performance Shares ).

The Restricted Shares will cliff vest on the third annual anniversary of the grant date. The Performance Shares are set up to cliff vest on the third annual anniversary of the date that the performance goal is met. As of September 30, 2013, the performance goal was met when the Company averaged \$0.3125 diluted earnings per share (split adjusted) for the past four consecutive quarters or total diluted earnings per share of \$1.25 (split adjusted) during the same period. In accordance with the vesting terms of the Performance Shares agreements, the issued shares are due to fully vest on September 30, 2016.

On January 18, 2013, 18,000 shares (split adjusted) of restricted common stock were issued to each non-employee member of our Board of Directors and 4,000 shares (split adjusted) of restricted common stock to a regional president of our bank subsidiary for a total issuance of 22,000 shares (split adjusted) of restricted common stock. The restricted stock issued will vest equally each year over three years beginning on the first anniversary of the issuance.

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On June 4, 2013, 12,966 shares (split adjusted) of restricted common stock were issued to a regional president of our bank subsidiary. Of these issued shares, 9,666 shares (split adjusted) will vest equally each year over three years beginning on the first anniversary of the issuance. The remaining 3,000 shares (split adjusted) are subject to the previously discussed performance-based vesting.

The Company did not utilize a portion of its previously approved stock repurchase program during 2013. This program authorized the repurchase of 2,376,000 shares (split adjusted) of the Company's common stock. Shares repurchased to date under the program total 1,510,896 shares (split adjusted). The remaining balance available for repurchase is 865,104 shares (split adjusted) at September 30, 2013.

**15. Non-Interest Expense**

The table below shows the components of non-interest expense for the three and nine months ended September 30, 2013 and 2012:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>(In thousands)</b>			
Salaries and employee benefits	\$ 12,981	\$ 11,652	\$ 38,890	\$ 34,941
Occupancy and equipment	4,010	3,805	11,498	10,788
Data processing expense	1,114	1,137	3,855	3,599
Other operating expenses:				
Advertising	363	534	1,176	1,898
Merger and acquisition expenses	1,034	296	1,063	1,988
Amortization of intangibles	802	694	2,406	2,018
Electronic banking expense	926	809	2,749	2,330
Directors' fees	188	206	588	611
Due from bank service charges	136	137	437	412
FDIC and state assessment	684	588	1,991	1,742
Insurance	572	448	1,693	1,273
Legal and accounting	227	231	943	840
Other professional fees	404	411	1,367	1,263
Operating supplies	309	280	984	835
Postage	212	219	650	680
Telephone	291	270	885	792
Other expense	2,462	2,264	7,258	6,781
<b>Total other operating expenses</b>	<b>8,610</b>	<b>7,387</b>	<b>24,190</b>	<b>23,463</b>
<b>Total non-interest expense</b>	<b>\$ 26,715</b>	<b>\$ 23,981</b>	<b>\$ 78,433</b>	<b>\$ 72,791</b>

**16. Concentration of Credit Risks**

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

The diversity of the Company's economic base tends to provide a stable lending environment. Although the Company has a loan portfolio that is diversified in both industry and geographic area, a substantial portion of its debtors' ability to honor their contracts is dependent upon real estate values, tourism demand and the economic conditions prevailing in its market areas.

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**Table of Contents****17. Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses and certain concentrations of credit risk are reflected in Note 6, while deposit concentrations are reflected in Note 9.

Although the Company has a diversified loan portfolio, at September 30, 2013 and December 31, 2012, non-covered commercial real estate loans represented 57.7% and 56.0% of non-covered loans and 251.9% and 253.4% of total stockholders' equity, respectively. Non-covered residential real estate loans represented 27.2% and 29.1% of non-covered loans and 118.8% and 131.7% of total stockholders' equity at September 30, 2013 and December 31, 2012, respectively.

The current economic environment presents financial institutions with unprecedented circumstances and challenges which in some cases have resulted in large declines in the fair values of investments and other assets, constraints on liquidity and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans. The financial statements have been prepared using values and information currently available to the Company.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses and capital that could negatively impact the Company's ability to meet regulatory capital requirements and maintain sufficient liquidity.

**18. Commitments and Contingencies**

In the ordinary course of business, the Company makes various commitments and incurs certain contingent liabilities to fulfill the financing needs of its customers. These commitments and contingent liabilities include lines of credit and commitments to extend credit and issue standby letters of credit. The Company applies the same credit policies and standards as it does in the lending process when making these commitments. The collateral obtained is based on the assessed creditworthiness of the borrower.

At September 30, 2013 and December 31, 2012, commitments to extend credit of \$422.1 million and \$407.1 million, respectively, were outstanding. A percentage of these balances are participated out to other banks; therefore, the Company can call on the participating banks to fund future draws. Since some of these commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

Outstanding standby letters of credit are contingent commitments issued by the Company, generally to guarantee the performance of a customer in third-party borrowing arrangements. The term of the guarantee is dependent upon the credit worthiness of the borrower some of which are long-term. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments. The maximum amount of future payments the Company could be required to make under these guarantees at September 30, 2013 and December 31, 2012, is \$17.3 million and \$16.4 million, respectively.

The Company and/or its subsidiary bank have various unrelated legal proceedings, most of which involve loan foreclosure activity pending, which, in the aggregate, are not expected to have a material adverse effect on the

financial position and results of operations of the Company.

**Table of Contents****19. Regulatory Matters**

The Bank is subject to a legal limitation on dividends that can be paid to the parent company without prior approval of the applicable regulatory agencies. Arkansas bank regulators have specified that the maximum dividend limit state banks may pay to the parent company without prior approval is 75% of the current year earnings plus 75% of the retained net earnings of the preceding year. Since the Bank is also under supervision of the Federal Reserve, it is further limited if the total of all dividends declared in any calendar year by the Bank exceeds the Bank's net profits to date for that year combined with its retained net profits for the preceding two years. During the first nine months of 2013, the Company requested approximately \$41.2 million in dividends from its banking subsidiary. This dividend is equal to approximately 75% of the current year earnings December 2012 through August 2013 from its banking subsidiary.

During October 2013, the Company requested a previously regulatory approved \$50.0 million special dividend from the Bank in order to pay off the Small Business Lending Fund ( SBLF ) preferred stock acquired from Liberty Bancshares, Inc. during October 2013. Should the Company need to request additional dividends from the Bank during the remainder of 2013; regulatory approval will be required to do so.

The Federal Reserve Board's risk-based capital guidelines include the definitions for (1) a well-capitalized institution, (2) an adequately-capitalized institution, and (3) and undercapitalized institution. The criteria for a well-capitalized institution are: a 5% Tier 1 leverage capital ratio, a 6% Tier 1 risk-based capital ratio, and a 10% total risk-based capital ratio. As of September 30, 2013, the Bank met the capital standards for a well-capitalized institution. The Company's Tier 1 leverage capital ratio, Tier 1 risk-based capital ratio, and total risk-based capital ratio were 11.5%, 14.2%, and 15.4%, respectively, as of September 30, 2013.

**20. Additional Cash Flow Information**

The following is summary of the Company's additional cash flow information during the nine-month periods ended:

	<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(in thousands)</b>	
Interest paid	\$ 10,337	\$ 18,371
Income taxes paid	16,875	23,070
Assets acquired by foreclosure	12,522	20,082

**21. Financial Instruments**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets or liabilities

**Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

**Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Available-for-sale securities are the only material instruments valued on a recurring basis which are held by the Company at fair value. The Company does not have any Level 1 securities. Primarily all of the Company's securities are considered to be Level 2 securities. These Level 2 securities consist primarily of U.S. government-sponsored enterprises, mortgage-backed securities plus state and political subdivisions. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements



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consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. As of September 30, 2013 and December 31, 2012, Level 3 securities were immaterial. In addition, there were no material transfers between hierarchy levels during 2013 and 2012.

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

Impaired loans that are collateral dependent are the only material financial assets valued on a non-recurring basis which are held by the Company at fair value. Loan impairment is reported when full payment under the loan terms is not expected. Impaired loans are carried at the net realizable value of the collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require an increase, such increase is reported as a component of the provision for loan losses. The fair value of loans with specific allocated losses was \$76.3 million and \$97.8 million as of September 30, 2013 and December 31, 2012, respectively. This valuation is considered Level 3, consisting of appraisals of underlying collateral. The Company reversed approximately \$147,000 and \$101,000 of accrued interest receivable when non-covered impaired loans were put on non-accrual status during the three months ended September 30, 2013 and 2012, respectively. The Company reversed approximately \$453,000 and \$222,000 of accrued interest receivable when non-covered impaired loans were put on non-accrual status during the nine months ended September 30, 2013 and 2012, respectively.

Foreclosed assets held for sale are the only material non-financial assets valued on a non-recurring basis which are held by the Company at fair value, less estimated costs to sell. At foreclosure, if the fair value, less estimated costs to sell, of the real estate acquired is less than the Company's recorded investment in the related loan, a write-down is recognized through a charge to the allowance for loan losses. Additionally, valuations are periodically performed by management and any subsequent reduction in value is recognized by a charge to income. The fair value of foreclosed assets held for sale is estimated using Level 3 inputs based on appraisals of underlying collateral. As of September 30, 2013 and December 31, 2012, the fair value of foreclosed assets held for sale not covered by loss share, less estimated costs to sell was \$14.2 million and \$20.4 million, respectively.

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

**Fair Values of Financial Instruments**

The following methods and assumptions were used by the Company in estimating fair values of financial instruments as disclosed in these notes:

*Cash and cash equivalents and federal funds sold* For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

*Investment securities held-to-maturity* These securities consist primarily of U.S. government-sponsored enterprises, mortgage-backed securities plus state and political subdivisions. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions, among other things.

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*Loans receivable not covered by loss share, net of non-covered impaired loans and allowance* For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are assumed to approximate the carrying amounts. The fair values for fixed-rate loans are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics.

*Loans receivable covered by FDIC loss share, net of allowance* Fair values for loans are based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan, whether or not the loan was amortizing and current discount rates. Loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques. The discount rates used for loans are based on current market rates for new originations of comparable loans and include adjustments for liquidity concerns. The discount rate does not include a factor for credit losses as that has been included in the estimated cash flows.

*FDIC indemnification asset* Although this asset is a contractual receivable from the FDIC, there is no effective interest rate. The Bank will collect this asset over the next several years. The amount ultimately collected will depend on the timing and amount of collections and charge-offs on the acquired assets covered by the loss sharing agreement. While this asset was recorded at its estimated fair value at acquisition date, it is not practicable to complete a fair value analysis on a quarterly or annual basis. This would involve preparing a fair value analysis of the entire portfolio of loans and foreclosed assets covered by the loss sharing agreement on a quarterly or annual basis in order to estimate the fair value of the FDIC indemnification asset.

*Accrued interest receivable* The carrying amount of accrued interest receivable approximates its fair value.

*Deposits and securities sold under agreements to repurchase* The fair values of demand, savings deposits and securities sold under agreements to repurchase are, by definition, equal to the amount payable on demand and therefore approximate their carrying amounts. The fair values for time deposits are estimated using a discounted cash flow calculation that utilizes interest rates currently being offered on time deposits with similar contractual maturities.

*FHLB borrowed funds* For short-term instruments, the carrying amount is a reasonable estimate of fair value. The fair value of long-term debt is estimated based on the current rates available to the Company for debt with similar terms and remaining maturities.

*Accrued interest payable* The carrying amount of accrued interest payable approximates its fair value.

*Subordinated debentures* The fair value of subordinated debentures is estimated using the rates that would be charged for subordinated debentures of similar remaining maturities.

*Commitments to extend credit, letters of credit and lines of credit* The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. The fair value of these commitments is not material.

The following table presents the estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be

exchanged in a current transaction between willing parties other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.





**Table of Contents****22. Recent Accounting Pronouncements**

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

In February 2013, the FASB issued an update, ASU 2013-02, *Comprehensive Income (Topic 220): Reporting Items Reclassified Out of Accumulated Other Comprehensive Income*, which requires disclosure of amounts reclassified out of accumulated other comprehensive income in their entirety, by component, on the face of the statement of comprehensive income or in the notes to the financial statements. Amounts that are not required to be classified in their entirety to net income must be cross-referenced to other disclosures that provide additional detail. ASU 2013-02 is effective prospectively for fiscal years and interim periods beginning after January 1, 2013, and did not have an impact on the Company's financial position or results of operations.

Presently, the Company is not aware of any changes from the Financial Accounting Standards Board that will have a material impact on the Company's present or future financial statements.

**23. Subsequent Events**

**Business Combination** Subsequent to September 30, 2013, on the morning of October 24, 2013, Home BancShares, Inc. ( Home ), parent company of Centennial Bank ( Centennial ), completed its acquisition of Liberty Bancshares, Inc. ( Liberty ), parent company of Liberty Bank of Arkansas ( Liberty Bank ), pursuant to a previously announced definitive agreement and plan of merger whereby a wholly-owned acquisition subsidiary ( Acquisition Sub ) of Home merged with and into Liberty, resulting in Liberty becoming a wholly-owned subsidiary of Home. Immediately thereafter, Liberty Bank was merged into Centennial. Under the terms of the Agreement and Plan of Merger dated June 25, 2013 by and among Home, Centennial, Liberty, Liberty Bank and Acquisition Sub (the Merger Agreement ), Home will issue 8,763,930 shares of its common stock valued at approximately \$290.1 million as of October 23, 2013, plus \$30.0 million in cash in exchange for all outstanding shares of Liberty common stock. As expected, Home also repurchased all of Liberty's SBLF preferred stock held by the U.S. Treasury shortly after the closing.

The combined company now has approximately \$7.0 billion in total assets, \$5.4 billion in deposits, \$4.4 billion in loans, 153 branches, 186 ATMs, and 1,500 employees across Arkansas, Florida and Southern Alabama. The merger will significantly increase the Company's deposit market share in Arkansas making it the 2nd largest bank holding company headquartered in Arkansas.

The transaction is accretive to the Company's book value per common share and tangible book value per common share. On a pro forma basis as of September 30, 2013, the projected book value and tangible book value per common

share are \$12.84 and \$8.04, respectively. Additionally the Leverage ratio, Tier 1 risk-based capital, Total risk-based capital and Tangible common equity ratio are projected to be 8.3%, 10.5%, 11.2% and 7.9%, respectively as of September 30, 2013 on a pro forma basis.



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The following unaudited pro forma combined consolidated financial information is the preliminary determination of fair values of LBI's assets acquired and liabilities assumed as of the acquisition date. This information is subject to adjustment and may vary from the actual fair values assigned that will be recorded upon completion of the final fair value analysis. Currently, HBI is working to finalize its determination of the fair values of the acquired assets and assumed liabilities which could significantly change both the amount and the composition of these estimated purchase accounting adjustments.

	<b>Liberty Bank</b>		
	<b>Acquired from Liberty</b>	<b>Fair Value Adjustments</b>	<b>As Recorded by HBI</b>
	<b>(Dollars in thousands)</b>		
<b>Assets</b>			
Cash and due from banks	\$ 26,101	\$ (30,000)	\$ (3,899)
Interest-bearing deposits with other banks	4,270	(52,500)	(48,230)
Federal funds sold	4,600		4,600
Investment securities	731,249	(9,598)	721,651
Loans not covered by loss share	1,835,644	(96,060)	1,739,584
Allowance for loan losses	(21,964)	21,964	
<b>Total loans receivable</b>	<b>1,813,680</b>	<b>(74,096)</b>	<b>1,739,584</b>
Bank premises and equipment, net	82,879		82,879
Foreclosed assets held for sale not covered by loss share	34,795	(9,596)	25,199
Cash value of life insurance	3,669		3,669
Accrued interest receivable	10,455		10,455
Deferred tax asset	15,687	40,119	55,806
Goodwill	88,499	116,843	205,342
Core deposit intangibles	1,488	11,521	13,009
Other assets	5,487		5,487
<b>Total assets acquired</b>	<b>\$ 2,822,859</b>	<b>\$ (7,307)</b>	<b>\$ 2,815,552</b>
<b>Liabilities</b>			
<b>Deposits</b>			
Demand and non-interest-bearing	\$ 233,943	\$	\$ 233,943
Savings and interest-bearing transaction accounts	1,017,805		1,017,805
Time deposits	881,666	(1,383)	880,283
<b>Total deposits</b>	<b>2,133,414</b>	<b>(1,383)</b>	<b>2,132,031</b>
Securities sold under agreements to repurchase	83,376		83,376
FHLB borrowed funds	226,203	4,392	230,595
Accrued interest payable and other liabilities	4,231	17,500	21,731
Subordinated debentures	57,733		57,733
<b>Total liabilities assumed</b>	<b>2,504,957</b>	<b>20,509</b>	<b>2,525,466</b>

<b>Equity</b>			
Preferred stock	52,500	(52,500)	
Common stock	12	76	88
Capital surplus	167,089	122,909	289,998
Retained earnings	110,995	(110,995)	
Accumulated other comprehensive income	(4,340)	4,340	
Less: Treasury stock	(8,354)	8,354	
Total equity assumed	317,902	(27,816)	290,086
Total liabilities and equity assumed	\$ 2,822,859	\$ (7,307)	\$ 2,815,552

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Certain fair value measurements have not been completed, and the purchase price allocation remains preliminary due to the timing of the acquisition and due to the number of assets acquired and liabilities assumed. We will continue to review the estimated fair values of property and equipment, intangible assets, and other assets and liabilities, and to evaluate the assumed tax positions and contingencies.

The unaudited pro forma combined consolidated financial information presents how the combined financial information of HBI and LBI might have appeared had the businesses actually been combined. The following schedule represents the unaudited pro forma combined financial information as of the three and nine-month periods ended September 30, 2013 and 2012, assuming the acquisition was completed as of January 1, 2013 and 2012, respectively:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>(In thousands, except per share data)</b>			
Total interest income	\$ 75,215	\$ 71,741	\$ 223,620	\$ 216,649
Total non-interest income	16,352	17,483	49,676	49,652
Net income available to all shareholders	23,984	22,521	70,472	62,733
Basic earnings per common share	\$ 0.37	\$ 0.35	\$ 1.08	\$ 0.96
Diluted earnings per common share	0.37	0.34	1.08	0.96

The unaudited pro forma consolidated financial information is presented for illustrative purposes only and does not indicate the financial results of the combined company had the companies actually been combined at the beginning of the period presented and had the impact of possible revenue enhancements and expense efficiencies, among other factors, been considered and, accordingly, does not attempt to predict or suggest future results. It also does not necessarily reflect what the historical results of the combined company would have been had the companies been combined during this period.

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**Report of Independent Registered Public Accounting Firm**

Audit Committee, Board of Directors and Stockholders

Home BancShares, Inc.

Conway, Arkansas

We have reviewed the accompanying condensed consolidated balance sheet of Home BancShares, Inc. (the Company) as of September 30, 2013, and the related condensed consolidated statements of income and comprehensive income for the three-month and nine-month periods ended September 30, 2013 and 2012, and condensed consolidated statements of stockholders' equity and cash flows for the nine-month periods ended September 30, 2013 and 2012. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated March 4, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2012, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ **BKD**, LLP

Little Rock, Arkansas

November 7, 2013

**Table of Contents****Item 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with our Form 10-K, filed with the Securities and Exchange Commission on March 4, 2013, which includes the audited financial statements for the year ended December 31, 2012. *Unless the context requires otherwise, the terms "Company", "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 September 30, 2013, we had, on a consolidated basis, total assets of \$4.16 billion, loans receivable, net of \$2.65 billion, total deposits of \$3.25 billion, and stockholders' equity of \$545.1 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 sources 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 Three Months		As of or for the Nine Months	
	Ended September 30, 2013	2012	Ended September 30, 2013	2012
	(Dollars in thousands, except per share data <sup>(2)</sup> )			
Total assets	\$ 4,161,306	\$ 3,887,909	\$ 4,161,306	\$ 3,887,909
Loans receivable not covered by loss share	2,378,838	2,076,248	2,378,838	2,076,248
Loans receivable covered by FDIC loss share	308,072	407,416	308,072	407,416
Allowance for loan losses	38,748	54,440	38,748	54,440
FDIC claims receivable	31,168	24,580	31,168	24,580
Total deposits	3,248,818	3,132,469	3,248,818	3,132,469
Total stockholders' equity	545,142	509,978	545,142	509,978
Net income	18,363	16,095	53,570	46,083
Basic earnings per common share	0.33	0.29	0.96	0.82
Diluted earnings per common share	0.33	0.28	0.95	0.81
Diluted earnings per common share excluding				
intangible amortization <sup>(1)</sup>	0.33	0.29	0.97	0.83
Annualized net interest margin FTE	5.41%	4.65%	5.25%	4.65%
Efficiency ratio	45.67	46.24	45.56	47.35

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Annualized return on average assets	1.80	1.61	1.73	1.56
Annualized return on average common equity	13.63	12.78	13.53	12.60

- (1) See Table 17 Diluted Earnings Per Common Share Excluding Intangible Amortization for a reconciliation to GAAP for diluted earnings per common share excluding intangible amortization.
- (2) All per share amounts have been restated to reflect the effect of the 2-for-1 stock split during June 2013.

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**Table of Contents****Overview*****Results of Operations for Three Months Ended September 30, 2013 and 2012***

Our net income increased \$2.3 million or 14.1% to \$18.4 million for the three-month period ended September 30, 2013, from \$16.1 million for the same period in 2012. On a diluted earnings per common share basis, our earnings were \$0.33 and \$0.28 (split adjusted) for the three-month periods ended September 30, 2013 and 2012, respectively. The \$2.3 million increase in net income is primarily associated with the additional net interest income and other non-interest income resulting from our 2012 acquisitions of Heritage and Premier. Furthermore, there was \$1.2 million of additional gains from the sale of SBA loans, premises & equipment and OREO plus supplemental other income of \$271,000 from the recovery of a prior year loss. There was also a reduction in the provision for loan losses of \$167,000 in third quarter of 2013 when compared to the third quarter of 2012. These improvements were partially offset by a modest increase in the costs associated with the asset growth from our acquisitions and approximately \$738,000 of additional merger expenses.

During the third quarter of 2013, one pool of our covered loans sharing common risk characteristics paid off in its entirety. As a result of this payoff we collected \$1.9 million of unexpected cash flows. This unexpected positive cash flow resulted in the recognition of \$1.9 million as an extra adjustment to yield on loans for the third quarter of 2013. This positive event reduced the indemnification asset by approximately \$1.5 million of which the entire amount was recognized as a reduction of earnings for the third quarter of 2013, and increased our FDIC true-up liability by \$170,000 of which the entire amount was recognized as expense for the third quarter of 2013. The combined effect of this payoff on pre-tax net income was \$210,000 for the third quarter of 2013.

During the first quarter of 2013 impairment testing on the estimated cash flows of covered loans, five loan pools were determined to have a materially projected credit improvement. As a result of this improvement, the Company will recognize approximately \$15.6 million as an adjustment to yield over the weighted average life of the loans with \$1.9 million of this amount being recognized during the third quarter of 2013. Improvements in credit quality decrease the basis in the related indemnification asset and increase our FDIC true up liability. This positive event will reduce the indemnification asset by approximately \$12.5 million of which \$1.8 million was recognized for the third quarter of 2013, and increase our FDIC true-up liability by \$1.6 million of which \$57,000 was recognized for the third quarter of 2013. The \$12.5 million will be amortized over the weighted average life of the shared-loss agreements. This amortization will be shown as a reduction to FDIC indemnification non-interest income. The \$1.6 million will be expensed over the remaining true-up measurement date as other non-interest expense.

Our annualized net interest margin, on a fully taxable equivalent basis, was 5.41% for the three months ended September 30, 2013, compared to 4.65% for the same period in 2012. Our ability to improve pricing on interest bearing deposits combined with additional yield on FDIC loss sharing loans which more than offset the lower interest rates on newly originated loans in the loan portfolio during this historically low rate environment allowed the Company to expand net interest margin. Our acquisitions have helped improve the yield on the loan portfolio. For the three months ended September 30, 2013, the effective yield on non-covered loans and covered loans was 5.88% and 12.76%, respectively. Excluding the \$3.8 million of additional yield noted above for the third quarter, the pro forma effective yield on covered loans was 7.98%.

Our annualized return on average assets was 1.80% for the three months ended September 30, 2013, compared to 1.61% for the same period in 2012. Our annualized return on average common equity was 13.63% for the three months ended September 30, 2013, compared to 12.78% for the same period in 2012, respectively. The improvements in our ratios from 2012 to 2013 are consistent with the previously discussed changes in earnings for the three months ended September 30, 2013, compared to the same period in 2012.

Our efficiency ratio was 45.67% for the three months ended September 30, 2013, compared to 46.24% for the same period in 2012. The improvement in the efficiency ratio is primarily associated with additional net interest income and other non-interest income resulting from our 2012 acquisitions of Heritage and Premier combined with additional gains and recoveries offset by a modest increase in costs associated with the asset growth from our acquisitions and additional merger expenses.



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**Table of Contents*****Results of Operations for Nine Months Ended September 30, 2013 and 2012***

Our net income increased \$7.5 million or 16.2% to \$53.6 million for the nine-month period ended September 30, 2013, from \$46.1 million for the same period in 2012. On a diluted earnings per common share basis, our earnings were \$0.95 and \$0.81 (split adjusted) for the nine-month periods ended September 30, 2013 and 2012, respectively. The \$7.5 million increase in net income is primarily associated with the additional net interest income and other non-interest income resulting from our 2012 acquisitions of Vision, Heritage and Premier and a reduction in merger expenses by \$925,000. Furthermore, there was \$1.7 million of additional gains from the sale of SBA loans, premises & equipment, OREO and securities plus supplementary other income of \$271,000 from the recovery of a prior year loss. There was also a reduction in the provision for loan losses of \$650,000 in the first nine months of 2013 when compared to the first nine months 2012. These improvements were partially offset by a modest increase in the costs associated with the asset growth from our acquisitions.

During the third quarter of 2013, one pool of our covered loans sharing common risk characteristics paid off in its entirety. As a result of this payoff we collected \$1.9 million of unexpected cash flows. This unexpected positive cash flow resulted in the recognition of \$1.9 million as an extra adjustment to yield on loans for the third quarter of 2013. This positive event reduced the indemnification asset by approximately \$1.5 million of which the entire amount was recognized as a reduction of earnings for the third quarter of 2013, and increased our FDIC true-up liability by \$170,000 of which the entire amount was recognized as expense for the third quarter of 2013. The combined effect of this payoff on pre-tax net income was \$210,000 for the third quarter of 2013.

As discussed in the preceding section, impairment testing on the estimated cash flows of the covered loans during the first quarter of 2013 were determined to have a materially projected credit improvement. As a result of this impairment testing, the Company recognized \$6.1 million as an adjustment to yield over the weighted average life of the loans during the first nine months of 2013. Conversely, the indemnification asset was amortized by approximately \$5.9 million and the FDIC true-up expense was increased by approximately \$171,000 during the first nine months of 2013, respectively.

Our annualized net interest margin, on a fully taxable equivalent basis, was 5.25% for the nine months ended September 30, 2013, compared to 4.65% for the same period in 2012. Our ability to improve pricing on interest bearing deposits combined with additional yield on FDIC loss sharing loans which more than offset the lower interest rates on newly originated loans in the loan portfolio during this historically low rate environment allowed the Company to expand net interest margin. Our acquisitions have helped improve the yield on the loan portfolio. For the nine months ended September 30, 2013, the effective yield on non-covered loans and covered loans was 6.01% and 11.23%, respectively. Excluding the \$8.0 million of additional yield noted above for 2013, the pro forma effective yield on covered loans was 8.13%.

Our annualized return on average assets was 1.73% for the nine months ended September 30, 2013, compared to 1.56% for the same period in 2012. Our annualized return on average common equity was 13.53% for the nine months ended September 30, 2013, compared to 12.60% for the same period in 2012, respectively. The improvements in our ratios from 2012 to 2013 are consistent with the previously discussed changes in earnings for the nine months ended September 30, 2013, compared to the same period in 2012.

Our efficiency ratio was 45.56% for the nine months ended September 30, 2013, compared to 47.35% for the same period in 2012. The improvement in the efficiency ratio is primarily associated with additional net interest income and other non-interest income resulting from our 2012 acquisitions of Vision, Heritage and Premier combined with additional gains, recoveries and lower merger expenses offset by a modest increase in costs associated with the asset growth from our acquisitions.



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**Table of Contents*****Financial Condition as of and for the Period Ended September 30, 2013 and December 31, 2012***

Our total assets as of September 30, 2013 decreased \$80.8 million to \$4.16 billion from the \$4.24 billion reported as of December 31, 2012. Our loan portfolio not covered by loss share increased by \$47.6 million to \$2.38 billion as of September 30, 2013, from \$2.33 billion as of December 31, 2012. Our loan portfolio covered by loss share decreased by \$76.8 million to \$308.1 million as of September 30, 2013, from \$384.9 million as of December 31, 2012. The decrease in covered loans is primarily associated with pay-downs and payoffs in our covered loan portfolio. Stockholders' equity increased \$29.7 million to \$545.1 million as of September 30, 2013, compared to \$515.5 million as of December 31, 2012. The annualized improvement in stockholders' equity for the first nine months of 2013 was 7.7%. The increase in stockholders' equity is primarily associated with the \$40.2 million of comprehensive income less the \$12.1 million of dividends paid for 2013.

As of September 30, 2013, our non-performing non-covered loans increased to \$28.4 million, or 1.2%, of total non-covered loans from \$27.3 million, or 1.17%, of total non-covered loans as of December 31, 2012. The allowance for loan losses for non-covered loans as a percent of non-performing non-covered loans decreased to 132.38% as of September 30, 2013, compared to 165.62% as of December 31, 2012. Non-performing non-covered loans in Arkansas were \$7.1 million at September 30, 2013 compared to \$12.1 million as of December 31, 2012. Non-performing non-covered loans in Florida were \$21.3 million at September 30, 2013 compared to \$15.2 million as of December 31, 2012. Non-performing non-covered loans in Alabama were \$8,000 at September 30, 2013. As of December 31, 2012, no loans in Alabama were non-performing.

As of September 30, 2013, our non-performing non-covered assets improved to \$42.8 million, or 1.15%, of total non-covered assets from \$47.8 million, or 1.30%, of total non-covered assets as of December 31, 2012. Non-performing non-covered assets in Arkansas were \$17.2 million at September 30, 2013 compared to \$24.6 million as of December 31, 2012. Non-performing non-covered assets in Florida were \$25.5 million at September 30, 2013 compared to \$23.2 million as of December 31, 2012. Non-performing non-covered assets in Alabama were \$8,000 at September 30, 2013. As of December 31, 2012, no assets in Alabama were non-performing.

**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 in Note 1 of the audited consolidated financial statements included in our Form 10-K, filed with the Securities and Exchange Commission.

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, acquisition accounting for covered loans and related indemnification asset, investments, foreclosed assets held for sale, intangible assets, income taxes and stock options.

*Investments Available-for-sale.* Securities that are held as 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.* Except for loans acquired during our acquisitions, 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.

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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, 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 Company applies this policy even if delays or shortfalls in payment are expected to be insignificant. 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 collection of interest is doubtful, or generally when loans are 90 days or more past due. When accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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

*Acquisition Accounting, Acquired Loans and Related Indemnification Asset.* The Company accounts for its acquisitions under ASC Topic 805, *Business Combinations*, which requires the use of the acquisition 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. All loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820. For covered acquired loans fair value is 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.

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Over the life of the purchased credit impaired loans acquired, 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 accretible 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.

For our FDIC-assisted transactions, 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 as a reduction of the provision for loan losses. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the weighted-average remaining life of the loans) decrease the basis of the shared-loss agreements, with such decrease being amortized 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.

*Foreclosed Assets Held for Sale.* Real estate and personal properties acquired through or in lieu of loan foreclosure are to be sold and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Valuations are periodically performed by management, and the real estate and personal properties are carried at fair value less cost to sell. Gains and losses from the sale of other real estate and personal properties are recorded in non-interest income, and expenses used to maintain the properties are included in non-interest expenses.

*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.



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Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to the management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company and its subsidiary file consolidated tax returns. Its subsidiary provides 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***

On February 16, 2012, we acquired 17 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 million 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.

***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.

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.

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**Table of Contents*****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 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.

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.

***FDIC Indemnification Asset***

In conjunction with FDIC-assisted transactions, the Company entered into loss share agreements with the FDIC. These agreements cover realized losses on loans, foreclosed real estate and certain other assets. These loss share assets are measured separately from the loan portfolios because they are not contractually embedded in the loans and are not transferable with the loans should the Company choose to dispose of them. Fair values at the acquisition dates were estimated based on projected cash flows available for loss-share based on the credit adjustments estimated for each loan pool and the loss share percentages. The loss share assets are also separately measured from the related loans and foreclosed real estate and recorded as FDIC indemnification assets on the Consolidated Balance Sheets. Subsequent to the acquisition date, reimbursements received from the FDIC for actual incurred losses will reduce the loss share assets. Reductions to expected credit losses, to the extent such reductions to expected credit losses are the result of an improvement to the actual or expected cash flows from the covered assets, will also reduce the loss share assets. Increases in expected credit losses will require an increase to the allowance for loan losses and a corresponding increase to the loss share assets. As the loss share agreements approach the various expiration dates there could be unexpected volatility as future expected loan losses might become projected to occur outside of the loss share coverage reimbursement window.

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The following table summarizes the activity in the Company's FDIC indemnification asset during the periods indicated:

**Changes in FDIC Indemnification Asset**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>(Dollars in thousands)</b>			
Beginning balance	\$ 116,071	\$ 162,439	\$ 139,646	\$ 193,856
Incurred claims for FDIC covered credit losses	(11,702)	(9,724)	(31,402)	(47,592)
FDIC indemnification accretion/(amortization)	(3,177)	373	(7,452)	1,492
Reduction in provision for loan losses:				
Benefit attributable to FDIC loss share agreements		670	400	6,002
Ending balance	\$ 101,192	\$ 153,758	\$ 101,192	\$ 153,758

**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.

The amount of FDIC-assisted acquisitions true-up accrued at September 30, 2013 and December 31, 2012 was \$7.8 million and \$7.1 million, respectively.

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**Table of Contents*****Future Acquisitions***

*Liberty Bancshares, Inc.* On October 24, 2013, Home BancShares, Inc. ( Home ), parent company of Centennial Bank ( Centennial ), completed its acquisition of Liberty Bancshares, Inc. ( Liberty ), parent company of Liberty Bank of Arkansas ( Liberty Bank ), pursuant to a previously announced definitive agreement and plan of merger whereby a wholly-owned acquisition subsidiary ( Acquisition Sub ) of Home merged with and into Liberty, resulting in Liberty becoming a wholly-owned subsidiary of Home. Immediately thereafter, Liberty Bank was merged into Centennial. Under the terms of the Agreement and Plan of Merger dated June 25, 2013 by and among Home, Centennial, Liberty, Liberty Bank and Acquisition Sub (the Merger Agreement ), Home will issue 8,763,930 shares of its common stock valued at approximately \$290.1 million as of October 23, 2013, plus \$30.0 million in cash in exchange for all outstanding shares of Liberty common stock. As expected, Home also repurchased all of Liberty's SBLF preferred stock held by the U.S. Treasury shortly after the closing.

As of October 23, 2013, Liberty conducted banking business from 46 locations across Northeast, Northwest and Western Arkansas. Liberty held \$2.82 billion in assets, \$731.2 million in investment securities, \$4.6 million of federal funds sold, \$1.84 billion in loans, \$82.9 million of bank premises and equipment, \$34.8 million of foreclosed assets, \$3.7 million in cash value of life insurance, \$2.13 billion of deposits, \$226.2 million of FHLB borrowed funds and \$57.7 million of subordinated debentures.

The combined company now has approximately \$7.0 billion in total assets, \$5.4 billion in deposits, \$4.4 billion in net loans, 153 branches, 186 ATMs, and 1,500 employees across Arkansas, Florida and Southern Alabama. The merger will significantly increase the Company's deposit market share in Arkansas making it the 2nd largest bank holding company headquartered in Arkansas.

The transaction is accretive to the Company's book value per common share and tangible book value per common share. On a pro forma basis as of September 30, 2013, the projected book value and tangible book value per common share are \$12.84 and \$8.04, respectively. Additionally the Leverage ratio, Tier 1 risk-based capital, Total risk-based capital and Tangible common equity ratio are projected to be 8.3%, 10.5%, 11.2% and 7.9%, respectively as of September 30, 2013 on a pro forma basis.

Due to the size of the Liberty acquisition, we anticipate there will be substantial merger related expenses recorded in the fourth quarter of 2013. These expenses will significantly impact our profitability for the fourth quarter of 2013.

See Note 23 Subsequent Events in the Condensed Notes to Consolidated Financial Statements for an additional discussion for the acquisition of Liberty Bank.

In the near term, our principal acquisition focus will be closing on the Liberty acquisition. After closing, we will then immediately concentrate on the integration of the core banking systems and corporate culture to achieve the projected efficiencies. As we progress with our plans for the Liberty acquisition, we will continue to evaluate our growth plans for the Company. We still believe properly priced future bank acquisitions can be a profitable growth strategy. At the appropriate time, our principal acquisition focus will once again be to expand our presence in Florida, Arkansas, South Alabama and other nearby markets. While we remain diligent in evaluating potential bank acquisition opportunities, our objective is to do 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 the third quarter, the Company opened two de novo branch locations; one on Highway 30A in Seagrove, Florida and the other in Pensacola, Florida. The Company currently has no plans for additional de novo branch locations. As a result of our acquisition of Premier Bank in the fourth quarter of 2012, three branches closed in the Tallahassee, FL area during the second quarter of 2013. During the fourth quarter of 2013, the Company has plans to close one branch in Panama City, Florida. The Company has 92 branches in Arkansas, 54 branches in Florida and 7 branches in Alabama as of October 24, 2013.

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**Table of Contents****Results of Operations*****For Three Months Ended September 30, 2013 and 2012***

Our net income increased \$2.3 million or 14.1% to \$18.4 million for the three-month period ended September 30, 2013, from \$16.1 million for the same period in 2012. On a diluted earnings per common share basis, our earnings were \$0.33 and \$0.28 (split adjusted) for the three-month periods ended September 30, 2013 and 2012, respectively. The \$2.3 million increase in net income is primarily associated with the additional net interest income and other non-interest income resulting from our 2012 acquisitions of Heritage and Premier. Furthermore, there was \$1.2 million of additional gains from the sale of SBA loans, premises & equipment and OREO plus supplemental other income of \$271,000 from the recovery of a prior year loss. There was also a reduction in the provision for loan losses of \$167,000 in third quarter of 2013 when compared to the third quarter of 2012. These improvements were partially offset by a modest increase in the costs associated with the asset growth from our acquisitions and approximately \$738,000 of additional merger expenses.

***For Nine Months Ended September 30, 2013 and 2012***

Our net income increased \$7.5 million or 16.2% to \$53.6 million for the nine-month period ended September 30, 2013, from \$46.1 million for the same period in 2012. On a diluted earnings per common share basis, our earnings were \$0.95 and \$0.81 (split adjusted) for the nine-month periods ended September 30, 2013 and 2012, respectively. The \$7.5 million increase in net income is primarily associated with the additional net interest income and other non-interest income resulting from our 2012 acquisitions of Vision, Heritage and Premier and a reduction in merger expenses by \$925,000. Furthermore, there was \$1.7 million of additional gains from the sale of SBA loans, premises & equipment, OREO and securities plus supplementary other income of \$271,000 from the recovery of a prior year loss. There was also a reduction in the provision for loan losses of \$650,000 in the first nine months of 2013 when compared to the first nine months 2012. These improvements were partially offset by a modest increase in the costs associated with the asset growth from our acquisitions.

***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 (39.225% for the three and nine-month periods ended September 30, 2013 and 2012).

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, was lowered on December 16, 2008 to a historic low of 0.25% to 0% where it has remained since that time.

During the first quarter of 2013 impairment testing on the estimated cash flows of covered loans, five loan pools were determined to have a materially projected credit improvement. As a result of this improvement, the Company will recognize approximately \$15.6 million as an adjustment to yield over the weighted average life of the loans with \$1.9 million and \$6.1 million of this amount being recognized during the three-month and nine-month periods ended



September 30, 2013, respectively.

Additionally, during the third quarter of 2013, one pool of our covered loans sharing common risk characteristics paid off in its entirety. As a result of this payoff we collected \$1.9 million of unexpected cash flows. This unexpected positive cash flow resulted in the recognition of \$1.9 million as an extra adjustment to yield on loans during the three-month and nine-month periods ended September 30, 2013.

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Net interest income on a fully taxable equivalent basis increased \$7.7 million, or 19.3%, to \$47.4 million for the three-month period ended September 30, 2013, from \$39.7 million for the same period in 2012. This increase in net interest income was the result of a \$5.6 million increase in interest income combined with a \$2.1 million decrease in interest expense. The \$5.6 million increase in interest income was primarily the result of a higher level of earning assets combined with higher yields on our covered loans. The \$2.1 million decrease in interest expense for the three-month period ended September 30, 2013, is primarily the result of our interest bearing liabilities repricing in the lower interest rate environment combined with a decrease in the volume of our average time deposits and subordinated debentures. The repricing of our interest bearing liabilities in the lower interest rate environment resulted in a \$1.5 million decrease in interest expense. The lower level of our average time deposits and subordinated debentures offset by increases in the remaining interest bearing liabilities resulted in a reduction in interest expense of approximately \$620,000.

Net interest income on a fully taxable equivalent basis increased \$21.1 million, or 17.9%, to \$138.7 million for the nine-month period ended September 30, 2013, from \$117.7 million for the same period in 2012. This increase in net interest income was the result of a \$13.6 million increase in interest income combined with a \$7.4 million decrease in interest expense. The \$13.6 million increase in interest income was primarily the result of a higher level of earning assets combined with higher yields on our covered loans. The \$7.4 million decrease in interest expense for the nine-month period ended September 30, 2013, is primarily the result of our interest bearing liabilities repricing in the lower interest rate environment combined with a decrease in the volume of our average time deposits, FHLB borrowed funds and subordinated debentures. The repricing of our interest bearing liabilities in the lower interest rate environment resulted in a \$5.1 million decrease in interest expense. The lower level of our average time deposits, FHLB borrowed funds and subordinated debentures offset by increases in the remaining interest bearing liabilities resulted in a reduction in interest expense of approximately \$2.3 million.

Net interest margin, on a fully taxable equivalent basis, was 5.41% and 5.25% for the three and nine months ended September 30, 2013 compared to 4.65% and 4.65% for the same periods in 2012, respectively. Our ability to improve pricing on interest bearing deposits combined with additional yield on FDIC loss sharing loans which more than offset the lower interest rates on newly originated loans in the loan portfolio during this historically low rate environment allowed the Company to expand net interest margin. The effective yield on non-covered loans for the three months ended September 30, 2013 and 2012 was 5.88% and 6.05%, respectively. The effective yield on non-covered loans for the nine months ended September 30, 2013 and 2012 was 6.01% and 6.16%, respectively. The effective yield on covered loans for the three months ended September 30, 2013 and 2012 was 12.76% and 7.84%, respectively. The effective yield on covered loans for the nine months ended September 30, 2013 and 2012 was 11.23% and 7.84%, respectively. Excluding the \$3.8 million and \$8.0 million of additional yield for third quarter and first nine months of 2013, respectively, the pro forma effective yield on covered loans was 7.98% and 8.13%, respectively.

When adjusted for the previously discussed \$3.8 million of additional yield for third quarter, net interest margin, on a fully taxable equivalent basis, was 4.97% for the quarter just ended compared to 4.65% in the third quarter of 2012. When adjusted for the previously discussed \$8.0 million of additional yield for first nine months of 2013, net interest margin, on a fully taxable equivalent basis, was 4.94% for the nine months just ended compared to 4.65% for the first nine months of 2012.

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Tables 1 and 2 reflect an analysis of net interest income on a fully taxable equivalent basis for the three and nine-month periods ended September 30, 2013 and 2012, as well as changes in fully taxable equivalent net interest margin for the three and nine-months period ended September 30, 2013, compared to the same periods in 2012.

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

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	2012		2012	
	(Dollars in thousands)			
Interest income	\$ 49,176	\$ 43,542	\$ 145,409	\$ 131,619
Fully taxable equivalent adjustment	1,073	1,112	3,199	3,353
Interest income fully taxable equivalent	50,249	44,654	148,608	134,972
Interest expense	2,826	4,917	9,869	17,301
Net interest income fully taxable equivalent	\$ 47,423	\$ 39,737	\$ 138,739	\$ 117,671
Yield on earning assets fully taxable equivalent	5.73%	5.23%	5.62%	5.33%
Cost of interest-bearing liabilities	0.41	0.68	0.46	0.80
Net interest spread fully taxable equivalent	5.32	4.55	5.16	4.53
Net interest margin fully taxable equivalent	5.41	4.65	5.25	4.65

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

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
	vs. 2012	2013 vs. 2012
	(In thousands)	
Increase (decrease) in interest income due to change in earning assets	\$ 3,601	\$ 11,479
Increase (decrease) in interest income due to change in earning asset yields	1,994	2,157
(Increase) decrease in interest expense due to change in interest-bearing liabilities	620	2,342
(Increase) decrease in interest expense due to change in interest rates paid on interest-bearing liabilities	1,471	5,090
Increase (decrease) in net interest income	\$ 7,686	\$ 21,068



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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 three and nine-month periods ended September 30, 2013 and 2012, respectively. 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**

	Three Months Ended September 30,					
	2013			2012		
	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
(Dollars in thousands)						
<b>ASSETS</b>						
Earnings assets						
Interest-bearing balances due from banks	\$ 40,756	\$ 19	0.18%	\$ 192,192	\$ 115	0.24%
Federal funds sold	4,411	2	0.18	3,749	3	0.32
Investment securities taxable	579,867	2,645	1.81	573,083	2,598	1.80
Investment securities non-taxable	183,341	2,462	5.33	160,252	2,512	6.24
Loans receivable	2,668,421	45,121	6.71	2,468,151	39,426	6.35
Total interest-earning assets	3,476,796	50,249	5.73	3,397,427	44,654	5.23
Non-earning assets	569,829			578,519		
Total assets	\$ 4,046,625			\$ 3,975,946		
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>						
Liabilities						
Interest-bearing liabilities						
Savings and interest-bearing transaction accounts	\$ 1,691,077	\$ 637	0.15%	\$ 1,523,346	\$ 774	0.20%
Time deposits	832,149	1,173	0.56	1,095,268	2,514	0.91
Total interest-bearing deposits	2,523,226	1,810	0.28	2,618,614	3,288	0.50
Federal funds purchased	1,511	3	0.79	15		0.00
Securities sold under agreement to repurchase	73,924	87	0.47	64,779	107	0.66
FHLB borrowed funds	144,467	910	2.50	131,599	1,040	3.14
Subordinated debentures	3,093	16	2.05	41,978	482	4.57
Total interest-bearing liabilities	2,746,221	2,826	0.41	2,856,985	4,917	0.68

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Non-interest bearing liabilities				
Non-interest bearing deposits	738,526		597,287	
Other liabilities	27,315		20,695	
Total liabilities				
	3,512,062		3,474,967	
Stockholders equity	534,563		500,979	
Total liabilities and stockholders equity				
	\$ 4,046,625		\$ 3,975,946	
Net interest spread				
		5.32%		4.55%
Net interest income and margin	\$ 47,423	5.41%	\$ 39,737	4.65%

**Table of Contents****Table 3: Average Balance Sheets and Net Interest Income Analysis**

	Nine Months Ended September 30,					
	Average Balance	2013 Income / Expense	Yield / Rate	Average Balance	2012 Income / Expense	Yield / Rate
<b>(Dollars in thousands)</b>						
<b>ASSETS</b>						
Earnings assets						
Interest-bearing balances due from						
banks	\$ 108,646	\$ 203	0.25%	\$ 188,874	\$ 327	0.23%
Federal funds sold	10,060	15	0.20	4,527	8	0.24
Investment securities taxable	571,375	7,538	1.76	580,492	8,518	1.96
Investment securities non-taxable	173,796	7,275	5.60	155,636	7,505	6.44
Loans receivable	2,672,088	133,577	6.68	2,451,553	118,614	6.46
Total interest-earning assets	3,535,965	148,608	5.62	3,381,082	134,972	5.33
Non-earning assets	592,438			577,227		
Total assets	\$ 4,128,403			\$ 3,958,309		
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>						
Liabilities						
Interest-bearing liabilities						
Savings and interest-bearing transaction						
accounts	\$ 1,747,040	\$ 2,191	0.17%	\$ 1,457,121	\$ 2,788	0.26%
Time deposits	906,015	4,233	0.62	1,188,074	9,324	1.05
Total interest-bearing deposits	2,653,055	6,424	0.32	2,645,195	12,112	0.61
Federal funds purchased	510	3	0.79	232		0.00
Securities sold under agreement to						
repurchase	72,078	253	0.47	68,425	328	0.64
FHLB borrowed funds	135,093	2,926	2.90	138,288	3,334	3.22
Subordinated debentures	11,023	263	3.19	43,541	1,527	4.68
Total interest-bearing liabilities	2,871,759	9,869	0.46	2,895,681	17,301	0.80
Non-interest bearing liabilities						
Non-interest bearing deposits	704,123			551,628		
Other liabilities	22,967			22,563		
Total liabilities	3,598,849			3,469,872		
Stockholders equity	529,554			488,437		

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Total liabilities and stockholders equity	\$ 4,128,403		\$ 3,958,309	
Net interest spread		5.16%		4.53%
Net interest income and margin	\$ 138,739	5.25%	\$ 117,671	4.65%



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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 three-month and nine-month periods ended September 30, 2013 compared to the same periods in 2012, 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**

	Three Months Ended September 30, 2013 over 2012			Nine Months Ended September 30, 2013 over 2012		
	Volume	Yield/Rate	Total	Volume	Yield/Rate	Total
(In thousands)						
Increase (decrease) in:						
Interest income:						
Interest-bearing balances due from banks	\$ (75)	\$ (21)	\$ (96)	\$ (148)	\$ 24	\$ (124)
Federal funds sold	1	(2)	(1)	8	(1)	7
Investment securities taxable	31	16	47	(132)	(848)	(980)
Investment securities non-taxable	336	(386)	(50)	822	(1,052)	(230)
Loans receivable	3,308	2,387	5,695	10,929	4,034	14,963
Total interest income	3,601	1,994	5,595	11,479	2,157	13,636
Interest expense:						
Interest-bearing transaction and savings deposits	78	(215)	(137)	485	(1,082)	(597)
Time deposits	(515)	(826)	(1,341)	(1,883)	(3,208)	(5,091)
Federal funds purchased		3	3		3	3
Securities sold under agreement to repurchase	14	(34)	(20)	17	(92)	(75)
FHLB borrowed funds	95	(225)	(130)	(76)	(332)	(408)
Subordinated debentures	(292)	(174)	(466)	(885)	(379)	(1,264)
Total interest expense	(620)	(1,471)	(2,091)	(2,342)	(5,090)	(7,432)
Increase (decrease) in net interest income	\$ 4,221	\$ 3,465	\$ 7,686	\$ 13,821	\$ 7,247	\$ 21,068

**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 recently, 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 can create uncertainty in the financial markets. Despite these economic uncertainties, we continue to follow our historically conservative procedures for lending and evaluating the provision and allowance for loan losses. Our practice continues to be primarily traditional real estate lending with strong loan-to-value ratios.

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

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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 harshly impacted the real estate market in Florida. The economic conditions particularly in our Florida market have improved recently, 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. There was zero provision for covered loans for the three months ended September 30, 2013. There was \$100,000 provision for covered loans for the nine months ended September 30, 2013. There was \$167,000 and \$1.5 million provision for covered loans for the three and nine months ended September 30, 2012, respectively.

The provision for loan losses for covered loans for the three months ended September 30, 2013 was zero. The \$100,000 of provision for loan losses for the nine months ended September 30, 2013 is a result of impairment testing on the estimated cash flows of the covered loans during the second quarter of 2013 which established that one pool evaluated had experienced material projected credit deterioration. As a result of this projection, we recorded a \$500,000 provision for loan losses to the allowance for loan losses related to the purchased impaired loans at June 30, 2013. Since these loans are covered by loss share with the FDIC, we were able to increase the related indemnification asset by \$400,000 resulting in a net provision for loan losses of \$100,000.

The \$167,000 and \$1.5 million of provision for loan losses for the three and nine months ended September 30, 2012 is a result of impairment testing on the estimated cash flows of the covered loans during the second and third quarters of 2012 which established that two pools evaluated had experienced material 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 at September 30, 2012. Since these loans are covered by loss share with the FDIC, we were able to increase the related indemnification asset by \$6.0 million resulting in a net provision for loan losses of \$1.5 million.

Our provision for loan losses for non-covered loans was zero for the three months ended September 30, 2013 and 2012. Our provision for loan losses for non-covered loans increased \$750,000 for the nine months ended September 30, 2013, respectively, from zero for the nine months ended September 30, 2012. The net loans charged off for non-covered loans for the three and nine months ended September 30, 2013 were \$2.9 million and \$8.3 million compared to \$2.6 million and \$4.8 million for the same periods in 2012, respectively. Of the \$2.9 million and \$8.3 million net charged off for the non-covered impaired loans for the three and nine months ended September 30, 2013, approximately \$15,000 and \$1.2 million are from our Florida market, respectively. The remaining \$2.8 million and \$7.0 million predominately relates to net charge-offs on loans in our Arkansas market for the three and nine months ended September 30, 2013, respectively. See "Allowance for Loan Losses" in the Management's Discussion and Analysis for an additional discussion of Arkansas, Florida and Alabama charge-offs.

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



**Table of Contents****Non-Interest Income**

Total non-interest income was \$9.3 million and \$28.1 million for the three-month and nine-month periods ended September 30, 2013, respectively, compared to \$10.6 million and \$31.8 million for the same periods in 2012, respectively. 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/amortization.

Table 5 measures the various components of our non-interest income for the three-month and nine-month periods ended September 30, 2013 and 2012, respectively, as well as changes for the three-month and nine-month periods ended September 30, 2013 compared to the same periods in 2012.

**Table 5: Non-Interest Income**

	Three Months Ended		2013 Change		Nine Months Ended		2013 Change	
	September 30, 2013	2012	from 2012		September 30, 2013	2012	from 2012	
	(Dollars in thousands)							
Service charges on deposit accounts	\$ 4,072	\$ 3,834	\$ 238	6.2%	\$ 11,869	\$ 11,007	\$ 862	7.8%
Other service charges and fees	3,671	3,119	552	17.7	10,587	9,366	1,221	13.0
Mortgage lending income	1,527	1,550	(23)	(1.5)	4,518	3,731	787	21.1
Insurance commissions	519	512	7	1.4	1,642	1,501	141	9.4
Income from title services	156	112	44	39.3	401	329	72	21.9
Increase in cash value of life insurance	203	200	3	1.5	601	671	(70)	(10.4)
Dividends from FHLB, FRB, Bankers bank & other	179	182	(3)	(1.6)	755	532	223	41.9
Gain on sale of SBA loans	79	206	(127)	(61.7)	135	404	(269)	(66.6)
Gain (loss) on sale of premises and equipment, net	303	(5)	308	(6,160.0)	712	354	358	101.1
Gain (loss) on OREO, net	777	(222)	999	(450.0)	1,304	(170)	1,474	(867.1)
Gain (loss) on securities, net				0.0	111	10	101	1,010.0
FDIC indemnification accretion/(amortization), net	(3,177)	373	(3,550)	(951.7)	(7,452)	1,492	(8,944)	(599.5)
Other income	1,009	765	244	31.9	2,965	2,555	410	16.0

Total non-interest income	\$ 9,318	\$ 10,626	\$ (1,308)	(12.3)%	\$ 28,148	\$ 31,782	\$ (3,634)	(11.4)%
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Non-interest income decreased \$1.3 million, or 12.3%, to \$9.3 million for the three-month period ended September 30, 2013 from \$10.6 million for the same period in 2012. Non-interest income decreased \$3.6 million, or 11.4%, to \$28.1 million for the nine-month period ended September 30, 2013 from \$31.8 million for the same period in 2012.

The primary factors that resulted in the three month decrease was an increase in amortization on our FDIC indemnification asset offset by improvements related to service charges on deposits, other service charges and fees, changes in OREO gains and gains on premises and equipment.

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

The increase in service charges on deposit accounts and other service charges and fees are primarily from our 2012 acquisitions.

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The decrease in FDIC indemnification accretion/amortization, net is primarily associated with the impairment testing on the estimated cash flows of the covered loans during the first quarter of 2013 combined with a payoff during the third quarter of 2013 of one covered loan pool. As a result of the impairment testing, those loans were determined to have a materially projected credit improvement. Improvements in credit quality decrease the basis in the related indemnification asset. This positive event will reduce the indemnification asset by approximately \$12.5 million of which \$1.9 million was recognized for the three-month period ended September 30, 2013. The \$12.5 million is being amortized over the weighted average life of the shared-loss agreement. As a result of the covered pool payoff, an additional \$1.9 million of unexpected cash flows were recognized as an extra adjustment to yield on loans for the third quarter of 2013. This positive event reduced the indemnification asset by approximately \$1.5 million of which the entire amount was recognized as a reduction of earnings for the third quarter of 2013.

The primary factors that resulted in the nine month decrease was an increase in amortization on our FDIC indemnification asset offset by improvements related to service charges on deposits, other service charges and fees, mortgage lending income, dividends from FHLB, FRB, Bankers bank & other, changes in OREO gains, gains on premises and equipment and gain on securities.

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

The increase in service charges on deposit accounts and other service charges and fees are primarily from our 2012 acquisitions.

The increase in mortgage lending income is primarily related to increased mortgage lending activities resulting from the historically low rate environment during 2013 plus additional volume from the 2012 acquisitions.

The increase in dividends from FHLB, FRB, Bankers bank & other is primarily from a non-recurring dividend of approximately \$231,000 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.

The decrease in FDIC indemnification accretion/amortization, net is primarily associated with the impairment testing on the estimated cash flows of the covered loans during the first quarter of 2013 combined with a payoff during the third quarter of 2013 of one covered loan pool. As a result of the impairment testing, those loans were determined to have a materially projected credit improvement. Improvements in credit quality decrease the basis in the related indemnification asset. This positive event will reduce the indemnification asset by approximately \$12.5 million of which \$6.1 million was recognized for the nine-month period ended September 30, 2013. The \$12.5 million is being amortized over the weighted average life of the shared-loss agreement. As a result of the covered pool payoff, an additional \$1.9 million of unexpected cash flows were recognized as an extra adjustment to yield on loans for the third quarter of 2013. This positive event reduced the indemnification asset by approximately \$1.5 million of which the entire amount was recognized as a reduction of earnings for the third quarter of 2013.

The increase in other income is primarily from \$326,000 of tax-free life insurance proceeds during the first quarter of 2013. The proceeds were in connection with two former associates who were not currently with the Company.

***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.



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Table 6 below sets forth a summary of non-interest expense for the three-month and nine-month periods ended September 30, 2013 and 2012, as well as changes for the three-month and nine-month periods ended September 30, 2013 compared to the same periods in 2012.

**Table 6: Non-Interest Expense**

	Three Months Ended		2013 Change		Nine Months Ended		2013 Change	
	September 30, 2013	2012	from 2012		September 30, 2013	2012	from 2012	
(Dollars in thousands)								
Salaries and employee benefits	\$ 12,981	\$ 11,652	\$ 1,329	11.4%	\$ 38,890	\$ 34,941	\$ 3,949	11.3%
Occupancy and equipment	4,010	3,805	205	5.4	11,498	10,788	710	6.6
Data processing expense	1,114	1,137	(23)	(2.0)	3,855	3,599	256	7.1
Other operating expenses:								
Advertising	363	534	(171)	(32.0)	1,176	1,898	(722)	(38.0)
Merger and acquisition expenses	1,034	296	738	249.3	1,063	1,988	(925)	(46.5)
Amortization of intangibles	802	694	108	15.6	2,406	2,018	388	19.2
Electronic banking expense	926	809	117	14.5	2,749	2,330	419	18.0
Directors fees	188	206	(18)	(8.7)	588	611	(23)	(3.8)
Due from bank service charges	136	137	(1)	(0.7)	437	412	25	6.1
FDIC and state assessment	684	588	96	16.3	1,991	1,742	249	14.3
Insurance	572	448	124	27.7	1,693	1,273	420	33.0
Legal and accounting	227	231	(4)	(1.7)	943	840	103	12.3
Other professional fees	404	411	(7)	(1.7)	1,367	1,263	104	8.2
Operating supplies	309	280	29	10.4	984	835	149	17.8
Postage	212	219	(7)	(3.2)	650	680	(30)	(4.4)
Telephone	291	270	21	7.8	885	792	93	11.7
Other expense	2,462	2,264	198	8.7	7,258	6,781	477	7.0
<b>Total non-interest expense</b>	<b>\$ 26,715</b>	<b>\$ 23,981</b>	<b>\$ 2,734</b>	<b>11.4%</b>	<b>\$ 78,433</b>	<b>\$ 72,791</b>	<b>\$ 5,642</b>	<b>7.8%</b>

Non-interest expense, excluding merger expenses, increased \$2.0 million, or 8.4%, to \$25.7 million for the three-month period ended September 30, 2013, from \$23.7 million for the same period in 2012. Non-interest expense, excluding merger expenses, increased \$6.6 million, or 9.3%, to \$77.4 million for the nine-month period ended September 30, 2013, from \$70.8 million for the same period in 2012. These increases primarily result from additional expense associated with the acquisitions during 2012. The decrease in advertising is primarily the result of management at its discretion deciding to spend a reduced amount of advertising during the quarter just ended and the first nine months of 2013.

**Income Taxes**

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The provision for income taxes increased \$1.6 million, or 17.6%, to \$10.6 million for the three-month period ended September 30, 2013, from \$9.0 million as of September 30, 2012. The provision for income taxes increased \$5.1 million, or 19.9%, to \$30.8 million for the nine-month period ended September 30, 2013, from \$25.7 million as of September 30, 2012. The effective income tax rate was 36.6% and 36.5% for the three-month and nine-month periods ended September 30, 2013, respectively, compared to 35.9% and 35.8% for the same periods in 2012, respectively. The primary cause of the increase in taxes is the result of our higher earnings combined with our marginal tax rate of 39.225%.

**Table of Contents****Financial Condition as of and for the Period Ended September 30, 2013 and December 31, 2012**

Our total assets as of September 30, 2013 decreased \$80.8 million to \$4.16 billion from the \$4.24 billion reported as of December 31, 2012. Our loan portfolio not covered by loss share increased by \$47.6 million to \$2.38 billion as of September 30, 2013, from \$2.33 billion as of December 31, 2012. Our loan portfolio covered by loss share decreased by \$76.8 million to \$308.1 million as of September 30, 2013, from \$384.9 million as of December 31, 2012. The decrease in covered loans is primarily associated with pay-downs and payoffs in our covered loan portfolio. Stockholders' equity increased \$29.7 million to \$545.1 million as of September 30, 2013, compared to \$515.5 million as of December 31, 2012. The annualized improvement in stockholders' equity for the first nine months of 2012 was 7.7%. The increase in stockholders' equity is primarily associated with the \$40.2 million of comprehensive income less the \$12.1 million of dividends paid for 2013.

***Loans Receivable Not Covered by Loss Share***

Our non-covered loan portfolio averaged \$2.35 billion and \$2.05 billion during the three-month periods ended September 30, 2013 and 2012, respectively. Our non-covered loan portfolio averaged \$2.33 billion and \$2.00 billion during the nine-month periods ended September 30, 2013 and 2012, respectively. Non-covered loans were \$2.38 billion as of September 30, 2013, compared to \$2.33 billion as of December 31, 2012. The relatively static state of the non-covered loan portfolio when compared to our historical expansion rates was not unexpected. This is primarily associated with lower loan demand and payoffs in our non-covered portfolios as our customers have grown more cautious in this weaker economy.

The most significant components of the non-covered loan portfolio were commercial real estate, residential real estate, consumer, and commercial and industrial loans. These non-covered loans are primarily originated within our market areas of Central Arkansas, North Central Arkansas, Southern Arkansas, the Florida Keys, Southwestern Florida, Central Florida, the Florida Panhandle and South Alabama, and are generally secured by residential or commercial real estate or business or personal property within our market areas.

As of September 30, 2013, we had \$238.9 million of construction land development loans which were collateralized by land. This consisted of \$149.6 million for raw land and \$89.3 million for land with commercial and or residential lots.

Certain credit markets have experienced difficult conditions and volatility over the past several years, particularly Florida. Non-covered loans were \$1.56 billion, \$707.7 million and \$106.9 million as of September 30, 2013 in Arkansas, Florida and Alabama, respectively.

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

**Table 7: Loan Portfolio Not Covered by Loss Share**

	As of September 30, 2013	As of December 31, 2012
	(In thousands)	
Real estate:		
Commercial real estate loans:		
Non-farm/non-residential	\$ 1,026,937	\$ 1,019,039

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Construction/land development	314,232	254,800
Agricultural	31,906	32,513
Residential real estate loans:		
Residential 1-4 family	529,732	549,269
Multifamily residential	117,639	129,742
Total real estate	2,020,446	1,985,363
Consumer	30,478	37,462
Commercial and industrial	268,900	256,908
Agricultural	30,612	19,825
Other	28,402	31,641
Loans receivable not covered by loss share	\$ 2,378,838	\$ 2,331,199

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*Non-Covered Commercial Real Estate Loans.* We originate non-farm and non-residential loans (primarily secured by commercial real estate), construction/land development loans, and agricultural loans, which are generally secured by real estate located in our market areas. Our commercial mortgage loans are generally collateralized by first liens on real estate and amortized over a 15 to 25 year period with balloon payments due at the end of one to five years. These loans are generally underwritten by assessing cash flow (debt service coverage), primary and secondary source of repayment, the financial strength of any guarantor, the strength of the tenant (if any), the borrower's liquidity and leverage, management experience, ownership structure, economic conditions and industry specific trends and collateral. Generally, we will loan up to 85% of the value of improved property, 65% of the value of raw land and 75% of the value of land to be acquired and developed. A first lien on the property and assignment of lease is required if the collateral is rental property, with second lien positions considered on a case-by-case basis.

As of September 30, 2013, non-covered commercial real estate loans totaled \$1.37 billion, or 57.7% of our non-covered loan portfolio, which is comparable to \$1.31 billion, or 56.0% of our non-covered loan portfolio, as of December 31, 2012. Our Florida and Alabama non-covered commercial real estate loans are approximately 17.5% and 2.1% of our non-covered loan portfolio, respectively.

*Non-Covered Residential Real Estate Loans.* We originate one to four family, owner occupied residential mortgage loans generally secured by property located in our primary market areas. The majority of our non-covered residential mortgage loans consist of loans secured by owner occupied, single family residences. Non-covered residential real estate loans generally have a loan-to-value ratio of up to 90%. These loans are underwritten by giving consideration to the borrower's ability to pay, stability of employment or source of income, debt-to-income ratio, credit history and loan-to-value ratio.

As of September 30, 2013, non-covered residential real estate loans totaled \$647.4 million, or 27.2% of our non-covered loan portfolio, compared to \$679.0 million, or 29.1% of our non-covered loan portfolio, as of December 31, 2012. This decrease is primarily related to normal loan pay downs for these types of loans. Our Florida and Alabama non-covered residential real estate loans are approximately 10.0% and 1.8% of our non-covered loan portfolio, respectively.

*Non-Covered Consumer Loans.* Our non-covered consumer loan portfolio is composed of secured and unsecured loans originated by our banks. The performance of consumer loans will be affected by the local and regional economies as well as the rates of personal bankruptcies, job loss, divorce and other individual-specific characteristics.

As of September 30, 2013, our non-covered consumer loan portfolio totaled \$30.5 million, or 1.3% of our total non-covered loan portfolio, compared to the \$37.5 million, or 1.6% of our non-covered loan portfolio as of December 31, 2012. This decrease is associated with normal loan pay downs combined with reduced loan demand for these types of loans. Our Florida and Alabama non-covered consumer loans are less than 1% of our non-covered loan portfolio.

*Non-Covered Commercial and Industrial Loans.* Commercial and industrial loans are made for a variety of business purposes, including working capital, inventory, equipment and capital expansion. The terms for commercial loans are generally one to seven years. Commercial loan applications must be supported by current financial information on the borrower and, where appropriate, by adequate collateral. Commercial loans are generally underwritten by addressing cash flow (debt service coverage), primary and secondary sources of repayment, the financial strength of any guarantor, the borrower's liquidity and leverage, management experience, ownership structure, economic conditions and industry specific trends and collateral. The loan to value ratio depends on the type of collateral. Generally speaking, accounts receivable are financed at between 50% and 80% of accounts receivable less than 60 days past due. Inventory financing will range between 50% and 60% (with no work in process) depending on the borrower and

nature of inventory. We require a first lien position for those loans.

As of September 30, 2013, non-covered commercial and industrial loans outstanding totaled \$268.9 million, or 11.3% of our non-covered loan portfolio, which is comparable to \$256.9 million, or 11.0% of our non-covered loan portfolio, as of December 31, 2012. Our Florida and Alabama non-covered commercial and industrial loans are approximately 1.5% and 0.6% of our non-covered loan portfolio, respectively.

**Table of Contents*****Total Loans Receivable***

Table 8 presents total loans receivable by category.

**Table 8: Total Loans Receivable**

As of September 30, 2013

	Loans Receivable Not Covered by Loss Share	Loans Receivable Covered by FDIC Loss Share (In thousands)	Total Loans Receivable
Real estate:			
Commercial real estate loans			
Non-farm/non-residential	\$ 1,026,937	\$ 134,843	\$ 1,161,780
Construction/land development	314,232	51,492	365,724
Agricultural	31,906	1,253	33,159
Residential real estate loans			
Residential 1-4 family	529,732	102,673	632,405
Multifamily residential	117,639	10,525	128,164
Total real estate	2,020,446	300,786	2,321,232
Consumer	30,478	17	30,495
Commercial and industrial	268,900	6,291	275,191
Agricultural	30,612		30,612
Other	28,402	978	29,380
Total	\$ 2,378,838	\$ 308,072	\$ 2,686,910

***Non-Performing Assets Not Covered by Loss Share***

We classify our non-covered problem loans into three categories: past due loans, special mention loans and classified loans (accruing and non-accruing).

When management determines that a loan is no longer performing, and that collection of interest appears doubtful, the loan is placed on non-accrual status. Loans that are 90 days past due are placed on non-accrual status unless they are adequately secured and there is reasonable assurance of full collection of both principal and interest. Our management closely monitors all loans that are contractually 90 days past due, treated as special mention or otherwise classified or on non-accrual status.

We first reported non-covered loans acquired with deteriorated credit quality in our December 31, 2012 financial statements following our acquisitions of Heritage and Premier in the fourth quarter of 2012. The credit metrics most heavily impacted by our acquisition of acquired non-covered loans with deteriorated credit quality in our acquisitions of Heritage and Premier were the following credit quality indicators listed in Table 9 below:

Allowance for loan losses for non-covered loans to non-covered loans;

Non-performing non-covered assets to total non-covered assets; and

Non-performing non-covered loans to total non-covered loans.

On the date of acquisition, acquired credit-impaired loans are initially recognized at fair value, which incorporates the present value of amounts estimated to be collectible. As a result of the application of this accounting methodology, certain credit-related ratios, including those referenced above, may not necessarily be directly comparable with periods prior to the acquisition of the credit-impaired non-covered loans and non-covered non-performing assets, or comparable with other institutions.



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Table 9 sets forth information with respect to our non-performing non-covered assets as of September 30, 2013 and December 31, 2012. As of these dates, all non-performing non-covered restructured loans are included in non-accrual non-covered loans.

**Table 9: Non-performing Assets Not Covered by Loss Share**

	As of September 30, 2013	As of December 31, 2012
	(Dollars in thousands)	
Non-accrual non-covered loans	\$ 17,187	\$ 21,336
Non-covered loans past due 90 days or more (principal or interest payments)	11,248	5,937
<b>Total non-performing non-covered loans</b>	<b>28,435</b>	<b>27,273</b>
Other non-performing non-covered assets		
Non-covered foreclosed assets held for sale, net	14,158	20,393
Other non-performing non-covered assets	185	164
<b>Total other non-performing non-covered assets</b>	<b>14,343</b>	<b>20,557</b>
<b>Total non-performing non-covered assets</b>	<b>\$ 42,778</b>	<b>\$ 47,830</b>
Allowance for loan losses for non-covered loans to non-performing non-covered loans	132.38%	165.62%
Non-performing non-covered loans to total non-covered loans	1.20	1.17
Non-performing non-covered assets to total non-covered assets	1.15	1.30

*Note:* Purchased impaired non-covered loans are not classified as non-performing non-covered assets for the recognition of interest income as the pools are considered to be performing. However, for the purpose of calculating the non-performing credit metrics presented above, the Company has included all of the non-covered loans which are contractually 90 days past due and still accruing, including those in performing pools.

Our non-performing non-covered loans are comprised of non-accrual non-covered loans and accruing non-covered loans that are contractually past due 90 days. Our bank subsidiary recognizes income principally on the accrual basis of accounting. When loans are classified as non-accrual, the accrued interest is charged off and no further interest is accrued, unless the credit characteristics of the loan improve. If a loan is determined by management to be

uncollectible, the portion of the loan determined to be uncollectible is then charged to the allowance for loan losses. The Florida franchise contains approximately 74.9% and 55.6% of our non-performing non-covered loans as of September 30, 2013 and December 31, 2012, respectively.

Total non-performing non-covered loans were \$28.4 million as of September 30, 2013, compared to \$27.3 million as of December 31, 2012 for an increase of \$1.2 million. Of the \$1.2 million increase in non-performing loans, \$5.0 million is from a decrease in non-performing loans in our Arkansas market offset by a \$6.1 million increase in non-performing loans in our Florida market and a \$8,000 change in non-performing loans in Alabama.

Non-performing loans at September 30, 2013 are approximately \$7.1 million, \$21.3 million and \$8,000 in the Arkansas, Florida and Alabama markets, respectively.

Although the current state of the real estate market has improved, uncertainties still present in the national economy may continue to increase our level of non-performing non-covered loans. While we believe our allowance for loan losses is adequate at September 30, 2013, as additional facts become known about relevant internal and external factors that affect loan collectability and our assumptions, it may result in us making additions to the provision for loan losses during 2013. Our current or historical provision levels should not be relied upon as a predictor or indicator of future levels going forward.

Troubled debt restructurings ( TDR ) generally occur when a borrower is experiencing, or is expected to experience, financial difficulties in the near term. As a result, the Bank will work with the borrower to prevent further difficulties, and ultimately to improve the likelihood of recovery on the loan.

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During the recent real estate crisis, for the Nation in general and Florida in particular, it has become more common to restructure or modify the terms of certain loans under certain conditions. In those circumstances it may be beneficial to restructure the terms of a loan and work with the borrower for the benefit of both parties, versus forcing the property into foreclosure and having to dispose of it in an unfavorable and depressed real estate market. When we have modified the terms of a loan, we usually either reduce the monthly payment and/or interest rate for generally about three to twelve months. For our troubled debt restructurings that accrue interest at the time the loan is restructured, it would be a rare exception to have charged-off any portion of the loan. Only non-performing restructured loans are included in our non-performing non-covered loans. As of September 30, 2013, we had \$48.4 million of non-covered restructured loans that are in compliance with the modified terms and are not reported as past due or non-accrual in Table 9. Our Florida market contains \$29.2 million of these non-covered restructured loans.

To facilitate this process, a loan modification that might not otherwise be considered may be granted resulting in classification as a troubled debt restructuring. These loans can involve loans remaining on non-accrual, moving to non-accrual, or continuing on an accrual status, depending on the individual facts and circumstances of the borrower. Generally, a non-accrual loan that is restructured remains on non-accrual for a period of six months to demonstrate that the borrower can meet the restructured terms. However, performance prior to the restructuring, or significant events that coincide with the restructuring, are considered in assessing whether the borrower can pay the new terms and may result in the loan being returned to an accrual status after a shorter performance period. If the borrower's ability to meet the revised payment schedule is not reasonably assured, the loan will remain in a nonaccrual status.

The majority of the Bank's loan modifications relate to commercial lending and involve reducing the interest rate, changing from a principal and interest payment to interest-only, a lengthening of the amortization period, or a combination of some or all of the three. In addition, it is common for the Bank to seek additional collateral or guarantor support when modifying a loan. At September 30, 2013, the amount of troubled debt restructurings was \$49.9 million, a decrease of 18.1% from \$60.9 million at December 31, 2012. As of September 30, 2013 and December 31, 2012, 97.1% and 94.4%, respectively, of all restructured loans were performing to the terms of the restructure.

Total foreclosed assets held for sale not covered by loss share were \$14.2 million as of September 30, 2013, compared to \$20.4 million as of December 31, 2012 for a decrease of \$6.2 million. The foreclosed assets held for sale not covered by loss share are comprised of \$4.1 million of assets located in Florida with the remaining \$10.1 million of assets located in Arkansas. As of September 30, 2013, there were no foreclosed assets not covered by loss share in Alabama.

During the first nine months of 2013, we had one non-covered foreclosed property greater than \$1.0 million. This large development loan in northwest Arkansas has been in foreclosed assets since the first quarter of 2011. The carrying value was \$3.6 million at September 30, 2013. The Company does not currently anticipate any additional losses on this property. No other foreclosed assets held for sale not covered by loss share have a carrying value greater than \$1.0 million.

Table 10 shows the summary of foreclosed assets held for sale as of September 30, 2013 and December 31, 2012.

**Table 10: Total Foreclosed Assets Held For Sale**

<b>As of September 30, 2013</b>	<b>As of December 31, 2012</b>
<b>Total</b>	<b>Total</b>

	<b>Not Covered by Loss Share</b>	<b>Covered by FDIC Loss Share</b>		<b>Not Covered by Loss Share</b>	<b>Covered by FDIC Loss Share</b>	
	<b>(In thousands)</b>					
<b>Commercial real estate loans</b>						
Non-farm/non-residential	\$ 8,266	\$ 10,975	\$ 19,241	\$ 7,532	\$ 9,024	\$ 16,556
Construction/land development	2,772	8,395	11,167	7,343	13,586	20,929
Agricultural					599	599
<b>Residential real estate loans</b>						
Residential 1-4 family	3,120	4,950	8,070	5,518	8,317	13,835
<b>Total foreclosed assets held for sale</b>	<b>\$ 14,158</b>	<b>\$ 24,320</b>	<b>\$ 38,478</b>	<b>\$ 20,393</b>	<b>\$ 31,526</b>	<b>\$ 51,919</b>

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A loan is considered impaired when it is probable that we will not receive all amounts due according to the contracted terms of the loans. Impaired loans include non-performing loans (loans past due 90 days or more and non-accrual loans), criticized and/or classified loans with a specific allocation, loans categorized as TDRs and certain other loans identified by management that are still performing (loans included in multiple categories are only included once). As of September 30, 2013, average non-covered impaired loans were \$103.5 million compared to \$133.5 million as of December 31, 2012. As of September 30, 2013, non-covered impaired loans were \$92.0 million compared to \$127.2 million as of December 31, 2012 for a decrease of \$35.2 million. This decrease is primarily associated with the improvements in loan balances with a specific allocation and loans categorized as TDRs. As of September 30, 2013, our Florida and Alabama markets accounted for approximately \$48.0 million and \$116,000 of the non-covered impaired loans, respectively.

We evaluated loans purchased in conjunction with the 2010 FDIC-assisted acquisitions and the 2012 acquisitions of Heritage and Premier for impairment in accordance with the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Purchased loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected. All loans acquired in these transactions were deemed to be impaired loans. These loans were not classified as non-performing assets at September 30, 2013 and December 31, 2012, as the loans are accounted for on a pooled basis and the pools are considered to be performing. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all purchased impaired loans.

All non-covered loans acquired with deteriorated credit quality are considered impaired loans at the date of acquisition. Since the loans are accounted for on a pooled basis under ASC 310-30, individual loans are not classified as impaired.

Since the loans are accounted for on a pooled basis under ASC 310-30, individual loans subsequently restructured within the pools are not classified as TDRs in accordance with ASC 310-30-40. For non-covered loans acquired with deteriorated credit quality that were deemed TDRs prior to the Company's acquisition of them, these loans are also not considered TDRs as they are accounted for under ASC 310-30.

As of September 30, 2013 and December 31, 2012, there were no non-covered loans acquired with deteriorated credit quality on non-accrual status as a result of the loans being accounted for on the pool basis and the pools are considered to be performing for the accruing of interest income. Also, acquired loans contractually past due 90 days or more are accruing interest because the pools are considered to be performing for the purpose of accruing interest income.

**Table of Contents****Past Due and Non-Accrual Loans**

Table 11 shows the summary non-accrual loans as of September 30, 2013 and December 31, 2012:

**Table 11: Total Non-Accrual Loans**

	As of September 30, 2013			As of December 31, 2012		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
(In thousands)						
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	\$ 4,520	\$	\$ 4,520	\$ 3,659	\$	\$ 3,659
Construction/land development	1,536		1,536	2,680		2,680
Agricultural	98		98	140		140
Residential real estate loans						
Residential 1-4 family	9,398		9,398	9,972		9,972
Multifamily residential	336		336	3,215		3,215
Total real estate	15,888		15,888	19,666		19,666
Consumer	87		87	593		593
Commercial and industrial	1,212		1,212	1,077		1,077
Other						
Total non-accrual loans	\$ 17,187	\$	\$ 17,187	\$ 21,336	\$	\$ 21,336

If the non-accrual non-covered loans had been accruing interest in accordance with the original terms of their respective agreements, interest income of approximately \$296,000 and \$359,000 for the three-month periods ended September 30, 2013 and 2012, would have been recorded. If the non-accrual non-covered loans had been accruing interest in accordance with the original terms of their respective agreements, interest income of approximately \$962,000 and \$1.1 million for the nine-month periods ended September 30, 2013 and 2012, would have been recorded. The interest income recognized on the non-covered non-accrual loans for the three-month and nine-month periods ended September 30, 2013 and 2012 was considered immaterial.

Table 12 shows the summary of accruing past due loans 90 days or more as of September 30, 2013 and December 31, 2012:

**Table 12: Total Loans Accruing Past Due 90 Days or More**

	As of September 30, 2013			As of December 31, 2012		
	Not Covered by	Covered by FDIC	Total	Not Covered by	Covered by FDIC	Total

	Loss Share		Loss Share		Loss Share	
	Loss Share	Loss Share	Loss Share	Loss Share	Loss Share	Loss Share
	(In thousands)					
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	\$ 3,989	\$ 21,277	\$ 25,266	\$ 1,437	\$ 32,227	\$ 33,664
Construction/land development	1,866	9,467	11,333	1,296	14,962	16,258
Agricultural		183	183		548	548
Residential real estate loans						
Residential 1-4 family	4,473	12,679	17,152	2,589	20,005	22,594
Multifamily residential		347	347			
Total real estate	10,328	43,953	54,281	5,322	67,742	73,064
Consumer	37		37	95		95
Commercial and industrial	883	1,315	2,198	520	3,121	3,641
Other		531	531			
Total loans accruing past due 90 days or more	\$ 11,248	\$ 45,799	\$ 57,047	\$ 5,937	\$ 70,863	\$ 76,800

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The Company's total past due and non-accrual covered loans to total covered loans was 14.9% and 18.4% as of September 30, 2013 and December 31, 2012, respectively.

***Allowance for Loan Losses for Non-Covered Loans***

*Overview.* The allowance for loan losses for non-covered loans is maintained at a level which our management believes is adequate to absorb all probable losses on loans in the loan portfolio. The amount of the allowance is affected by: (i) loan charge-offs, which decrease the allowance; (ii) recoveries on loans previously charged off, which increase the allowance; and (iii) the provision of possible loan losses charged to income, which increases the allowance. In determining the provision for possible loan losses, it is necessary for our management to monitor fluctuations in the allowance resulting from actual charge-offs and recoveries and to periodically review the size and composition of the loan portfolio in light of current and anticipated economic conditions. If actual losses exceed the amount of allowance for loan losses for non-covered loans, our earnings could be adversely affected.

As we evaluate the allowance for loan losses for non-covered loans, we categorize it as follows: (i) specific allocations; (ii) allocations for criticized and classified assets with no specific allocation; (iii) general allocations for each major loan category; and (iv) miscellaneous allocations.

*Specific Allocations.* As a general rule, if a specific allocation is warranted, it is the result of an analysis of a previously classified credit or relationship. Typically, when it becomes evident through the payment history or a financial statement review that a loan or relationship is no longer supported by the cash flows of the asset and/or borrower and has become collateral dependent, we will use appraisals or other collateral analysis to determine if collateral impairment has occurred. The amount or likelihood of loss on this credit may not yet be evident, so a charge-off would not be prudent. However, if the analysis indicates that an impairment has occurred, then a specific allocation will be determined for this loan. If our existing appraisal is outdated or the collateral has been subject to significant market changes, we will obtain a new appraisal for this impairment analysis. The majority of the Company's impaired loans are collateral dependent at the present time, so third-party appraisals were used to determine the necessary impairment for these loans. Cash flow available to service debt was used for the other impaired loans. This analysis is performed each quarter in connection with the preparation of the analysis of the adequacy of the allowance for loan losses for non-covered loans, and if necessary, adjustments are made to the specific allocation provided for a particular loan.

For collateral dependent loans, we do not consider an appraisal outdated simply due to the passage of time. However, if market or other conditions have deteriorated and we believe that the current market value of the property is not within approximately 20% of the appraised value, we will consider the appraisal outdated and order a new appraisal for the impairment analysis. The recognition of any provision or related charge-off on a collateral dependent loan is either through annual credit analysis or, many times, when the relationship becomes delinquent. If the borrower is not current, we will update our credit and cash flow analysis to determine the borrower's repayment ability. If we determine this ability does not exist and it appears that the collection of the entire principal and interest is not likely, then the loan could be placed on non-accrual status. In any case, loans are classified as non-accrual no later than 105 days past due. If the loan requires a quarterly impairment analysis, this analysis is completed in conjunction with the completion of the analysis of the adequacy of the allowance for loan losses for non-covered loans. Any exposure identified through the impairment analysis is shown as a specific reserve on the individual impairment. If it is determined that a new appraisal is required, it is ordered and will be taken into consideration during the next completion of the impairment analysis.

Between the receipt of the original appraisal and the updated appraisal, we monitor the loan's repayment history and subject the loan to examination by our internal loan review. If the loan is over \$1.0 million, our policy requires an



annual credit review. In addition, we update all financial information and calculate the global repayment ability of the borrower/guarantors.

In estimating the net realizable value of the collateral, management may deem it appropriate to discount the appraisal based on the applicable circumstances. In such case, the amount charged off may result in loan principal outstanding being below fair value as presented in the appraisal.

As a general rule, when it becomes evident that the full principal and accrued interest of a loan may not be collected, or by law at 105 days past due, we will reflect that loan as non-performing. It will remain non-performing until it performs in a manner that it is reasonable to expect that we will collect the full principal and accrued interest.

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When the amount or likelihood of a loss on a loan has been determined, a charge-off should be taken in the period it is determined. If a partial charge-off occurs, the quarterly impairment analysis will determine if the loan is still impaired, and thus continues to require a specific allocation.

*Allocations for Criticized and Classified Assets not Individually Evaluated for Impairment.* We establish allocations for loans rated special mention through loss in accordance with the guidelines established by the regulatory agencies. A percentage rate is applied to each loan category to determine the level of dollar allocation.

*General Allocations.* We establish general allocations for each major loan category. This section also includes allocations to loans, which are collectively evaluated for loss such as residential real estate, commercial real estate, consumer loans and commercial and industrial loans. The allocations in this section are based on a historical review of loan loss experience and past due accounts. We give consideration to trends, changes in loan mix, delinquencies, prior losses, and other related information.

*Miscellaneous Allocations.* Allowance allocations other than specific, classified, and general are included in our miscellaneous section.

*Loans Collectively Evaluated for Impairment.* Non-covered loans collectively evaluated for impairment increased organically by approximately \$125.5 million for the quarter ended September 30, 2013 from \$1.94 billion at December 31, 2012 to \$2.07 billion at September 30, 2013. The percentage of the allowance for loan losses for non-covered loans allocated to non-covered loans collectively evaluated for impairment to the total non-covered loans collectively evaluated for impairment increased from 0.81% at December 31, 2012 to 1.06% at September 30, 2013. This increase is the result of the normal changes associated with the calculation of the allocation of the allowance for loan losses and includes routine changes from the previous year end reporting period such as organic loan growth, unallocated allowance, individual loan impairments, asset quality and net charge-offs.

*Charge-offs and Recoveries.* Total charge-offs increased to \$5.1 million and \$11.8 million for the three months and nine months ended September 30, 2013, respectively, compared to \$4.0 million and \$7.1 million for the same periods in 2012, respectively. Total recoveries increased to \$2.2 million and \$3.5 million for the three months and nine months ended September 30, 2013, respectively, compared to \$1.4 million and \$2.2 million for the same periods in 2012. For the three months ended September 30, 2013, the net charge-offs were \$2.8 million for Arkansas, \$15,000 for Florida and \$8,000 for Alabama, respectively, equaling a net charge-off position of \$2.9 million. For the nine months ended September 30, 2013, the net charge-offs were \$7.0 million for Arkansas, \$1.2 million for Florida and \$19,000 for Alabama, respectively, equaling a net charge-off position of \$8.3 million.

During the third quarter of 2013, there were \$5.1 million in charge-offs and \$2.2 million in recoveries. During the first nine months of 2013, there were \$11.8 million in charge-offs and \$3.5 million in recoveries. While the charge-offs and recoveries consisted of many relationships, there were three individual relationships consisting of charge-offs greater than \$1.0 million. Two relationships were Arkansas relationships consisting of real estate loans for \$2.9 million and \$1.5 million totaling \$4.4 million of debt. The total amount of charge-offs related to these relationships was \$3.3 million, which consists of approximately \$517,000 of residential 1-4 family, \$1.3 million of multifamily residential and \$1.5 million of non-farm/non-residential during the nine months ended 2013. The remaining loan relationship was a Florida relationship consisting of a non-farm/non-residential real estate loan totaling approximately \$6.7 million of debt. The total amount of the charge-off associated with this relationship was \$1.1 million during the nine months ended 2013.

We have not charged off an amount less than what was determined to be the fair value of the collateral as presented in the appraisal (for collateral dependent loans) for any period presented. Loans partially charged-off are placed on

non-accrual status until it is proven that the borrower's repayment ability with respect to the remaining principal balance can be reasonably assured. This is usually established over a period of 6-12 months of timely payment performance.

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Table 13 shows the allowance for loan losses, charge-offs and recoveries for non-covered loans as of and for the three-month and nine-month periods ended September 30, 2013 and 2012.

**Table 13: Analysis of Allowance for Loan Losses for Non-Covered Loans**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Balance, beginning of period	\$ 40,498	\$ 49,846	\$ 45,170	\$ 52,129
Loans charged off				
Real estate:				
Commercial real estate loans:				
Non-farm/non-residential	2,980	1,041	3,844	1,312
Construction/land development	392	525	560	838
Agricultural				
Residential real estate loans:				
Residential 1-4 family	787	1,475	2,713	2,575
Multifamily residential			2,291	95
Total real estate	4,159	3,041	9,408	4,820
Consumer	184	47	872	618
Commercial and industrial	438	549	619	758
Agricultural				
Other	320	347	881	858
Total loans charged off	5,101	3,984	11,780	7,054
Recoveries of loans previously charged off				
Real estate:				
Commercial real estate loans:				
Non-farm/non-residential	1,938	856	2,051	895
Construction/land development	4		19	7
Agricultural	1		1	233
Residential real estate loans:				
Residential 1-4 family	115	430	771	535
Multifamily residential	11		81	3
Total real estate	2,069	1,286	2,923	1,673
Consumer	33	28	123	96
Commercial and industrial	16	20	49	107
Agricultural				
Other	127	96	407	341
Total recoveries	2,245	1,430	3,502	2,217

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Net loans charged off (recovered)	2,856	2,554	8,278	4,837
Provision for loan losses for non-covered loans			750	
Balance, September 30	\$ 37,642	\$ 47,292	\$ 37,642	\$ 47,292
Net charge-offs (recoveries) on loans not covered by loss share to average non-covered loans	0.48%	0.50%	0.48%	0.32%
Allowance for loan losses for non-covered loans to period end non-covered loans	1.58	2.28	1.58	2.28
Allowance for loan losses for non-covered loans to net charge-offs (recoveries)	332	465	340	732

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*Allocated Allowance for Loan Losses for Non-Covered Loans.* We use a risk rating and specific reserve methodology in the calculation and allocation of our allowance for loan losses for non-covered loans. While the allowance is allocated to various loan categories in assessing and evaluating the level of the allowance, the allowance is available to cover charge-offs incurred in all loan categories. Because a portion of our portfolio has not matured to the degree necessary to obtain reliable loss data from which to calculate estimated future losses, the unallocated portion of the allowance is an integral component of the total allowance. Although unassigned to a particular credit relationship or product segment, this portion of the allowance is vital to safeguard against the imprecision inherent in estimating credit losses.

The changes for the period ended September 30, 2013 and the year ended December 31, 2012 in the allocation of the allowance for loan losses for non-covered loans for the individual types of loans are primarily associated with changes in the ASC 310 calculations, both individual and aggregate, and changes in the ASC 450 calculations. These calculations are affected by changes in individual loan impairments, changes in asset quality, net charge-offs during the period and normal changes in the outstanding loan portfolio, as well any changes to the general allocation factors due to changes within the actual characteristics of the loan portfolio.

Table 14 presents the allocation of allowance for loan losses for non-covered loans as of September 30, 2013 and December 31, 2012.

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

	As of September 30, 2013		As of December 31, 2012	
	Allowance Amount	% of loans <sup>(1)</sup>	Allowance Amount	% of loans <sup>(1)</sup>
(Dollars in thousands)				
Real estate:				
Commercial real estate loans:				
Non-farm/non-residential	\$ 16,517	43.2%	\$ 19,781	43.7%
Construction/land development	6,475	13.2	5,816	10.9
Agricultural	241	1.3	193	1.4
Residential real estate loans:				
Residential 1-4 family	5,936	22.3	10,467	23.6
Multifamily residential	2,127	4.9	3,346	5.6
Total real estate	31,296	84.9	39,603	85.2
Consumer	463	1.3	894	1.6
Commercial and industrial	2,190	11.3	3,870	11.0
Agricultural	588	1.3	394	0.8
Other		1.2		1.4
Unallocated	3,105		409	
Total	\$ 37,642	100.0%	\$ 45,170	100.0%

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

***Allowance for Loan Losses for Covered Loans***

Allowance for loan losses for covered loans were \$1.1 million and \$5.5 million at September 30, 2013 and December 31, 2012, respectively.

Total charge-offs decreased to zero for the three months ended September 30, 2013, compared to \$354,000 for the same period in 2012. Total recoveries increased to \$154,000 for the three months ended September 30, 2013, compared to zero for the same period in 2012. There was zero and \$167,000 of provision for loan losses taken on covered loans during the three months ended September 30, 2013 and 2012, respectively.

Total charge-offs increased to \$5.0 million for the nine months ended September 30, 2013, compared to \$354,000 for the same period in 2012. Total recoveries increased to \$171,000 for the nine months ended September 30, 2013, compared to zero for the same period in 2012. There was \$100,000 and \$1.5 million of provision for loan losses taken on covered loans during the nine months ended September 30, 2013 and 2012, respectively.

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**Table of Contents*****Investments and Securities***

Our securities portfolio is the second largest component of earning assets and provides a significant source of revenue. Securities within the portfolio are classified as held-to-maturity, available-for-sale, or trading based on the intent and objective of the investment and the ability to hold to maturity. Fair values of securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities. As of September 30, 2013 we had \$9.5 million of held-to-maturity securities. All of the held-to-maturity securities were invested in state and political subdivisions as of September 30, 2013. As of December 31, 2012, we had no held-to-maturity or trading securities.

Securities available-for-sale are reported at fair value with unrealized holding gains and losses reported as a separate component of stockholders' equity as other comprehensive income. Securities that are held as available-for-sale are used as a part of our asset/liability management strategy. Securities may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital, and other similar factors are classified as available-for-sale. Available-for-sale securities were \$839.6 million as of September 30, 2013, compared to \$726.2 million as of December 31, 2012. The estimated effective duration of our securities portfolio was 3.6 years as of September 30, 2013.

As of September 30, 2013, \$404.2 million, or 48.2%, of our available-for-sale securities were invested in mortgage-backed securities, compared to \$325.3 million, or 44.8%, of our available-for-sale securities as of December 31, 2012. To reduce our income tax burden, \$200.9 million, or 23.9%, of our available-for-sale securities portfolio as of September 30, 2013, was primarily invested in tax-exempt obligations of state and political subdivisions, compared to \$190.6 million, or 26.3%, of our available-for-sale securities as of December 31, 2012. Also, we had approximately \$183.2 million, or 21.8%, invested in obligations of U.S. Government-sponsored enterprises as of September 30, 2013, compared to \$190.7 million, or 26.3%, of our available-for-sale securities as of December 31, 2012.

Certain investment securities are valued at less than their historical cost. These declines are primarily the result of the rate for these investments yielding less than current market rates. Based on evaluation of available evidence, we believe the declines in fair value for these securities are temporary. It is our intent to hold these securities to recovery. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other than temporary impairment is identified.

See Note 3 Investment Securities to the Condensed Notes to Consolidated Financial Statements for the carrying value and fair value of investment securities.

***Deposits***

Our deposits averaged \$3.26 billion and \$3.36 billion for the three-month and nine-month periods ended September 30, 2013. Total deposits decreased \$234.6 million, or an annualized decrease of 9.0%, to \$3.25 billion as of September 30, 2013, from \$3.48 billion as of December 31, 2012. Deposits are our primary source of funds. We offer a variety of products designed to attract and retain deposit customers. Those products consist of checking accounts, regular savings deposits, NOW accounts, money market accounts and certificates of deposit. Deposits are gathered from individuals, partnerships and corporations in our market areas. In addition, we obtain deposits from state and local entities and, to a lesser extent, U.S. Government and other depository institutions.



Our policy also permits the acceptance of brokered deposits. As of September 30, 2013 and December 31, 2012, brokered deposits were \$23.8 million and \$56.9 million, respectively. Included in these brokered deposits are \$19.6 million and \$52.5 million of Certificate of Deposit Account Registry Service (CDARS) as of September 30, 2013 and December 31, 2012, respectively. CDARS are deposits of our customers we have swapped with other institutions. This gives our customers the potential for FDIC insurance of up to \$50 million.

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The interest rates paid are competitively priced for each particular deposit product and structured to meet our funding requirements. We will continue to manage interest expense through deposit pricing. We may allow higher rate deposits to run off during this current period of limited loan demand. We believe that additional funds can be attracted and deposit growth can be realized through deposit pricing if we experience increased loan demand or other liquidity needs.

The Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. The Federal Funds rate, which is the cost to banks of immediately available overnight funds, was lowered on December 16, 2008 to a historic low of 0.25% to 0% where it has remained since that time.

Table 15 reflects the classification of the average deposits and the average rate paid on each deposit category, which is in excess of 10 percent of average total deposits, for the three-month and nine-month periods ended September 30, 2013 and 2012.

**Table 15: Average Deposit Balances and Rates**

	Three Months Ended September 30,		2012	
	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
	(Dollars in thousands)			
Non-interest-bearing transaction accounts	\$ 738,526	%	\$ 597,287	%
Interest-bearing transaction accounts	1,469,958	0.16	1,351,319	0.28
Savings deposits	221,119	0.05	172,027	0.16
Time deposits:				
\$100,000 or more	427,422	0.71	606,410	1.13
Other time deposits	404,727	0.40	488,858	0.64
<b>Total</b>	<b>\$ 3,261,752</b>	<b>0.22%</b>	<b>\$ 3,215,901</b>	<b>0.44%</b>

	Nine Months Ended September 30,		2012	
	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
	(Dollars in thousands)			
Non-interest-bearing transaction accounts	\$ 704,123	%	\$ 551,628	%
Interest-bearing transaction accounts	1,532,649	0.18	1,294,434	0.19
Savings deposits	214,391	0.08	162,687	0.11
Time deposits:				
\$100,000 or more	473,704	0.80	665,521	1.27
Other time deposits	432,311	0.43	522,553	0.77
<b>Total</b>	<b>\$ 3,357,178</b>	<b>0.26%</b>	<b>\$ 3,196,823</b>	<b>0.47%</b>

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

We enter into short-term purchases of securities under agreements to resell (resale agreements) and sales of securities under agreements to repurchase (repurchase agreements) of substantially identical securities. The amounts advanced under resale agreements and the amounts borrowed under repurchase agreements are carried on the balance sheet at the amount advanced. Interest incurred on repurchase agreements is reported as interest expense. Securities sold under agreements to repurchase increased \$5.0 million, or 7.6%, from \$66.3 million as of December 31, 2012 to \$71.3 million as of September 30, 2013.

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**Table of Contents*****FHLB Borrowed Funds***

Our FHLB borrowed funds were \$270.2 million and \$130.4 million at September 30, 2013 and December 31, 2012, respectively. At September 30, 2013, \$170.0 million and \$100.2 million of the outstanding balance were short-term and long-term advances, respectively. All of the outstanding balance at December 31, 2012 was long-term advances. Our remaining FHLB borrowing capacity was \$632.5 million and \$640.5 million as of September 30, 2013 and December 31, 2012, respectively. Expected maturities will differ from contractual maturities, because FHLB may have the right to call or prepay certain obligations.

***Subordinated Debentures***

Subordinated debentures, which consist of guaranteed payments on trust preferred securities, were \$3.1 million and \$28.9 million as of September 30, 2013 and December 31, 2012, respectively.

The trust preferred securities are tax-advantaged issues that qualify for Tier 1 capital treatment subject to certain limitations. Distributions on these securities are included in interest expense. Each of the trusts is a statutory business trust organized for the sole purpose of issuing trust securities and investing the proceeds in our subordinated debentures, the sole asset of each trust. The trust preferred securities of each trust represent preferred beneficial interests in the assets of the respective trusts and are subject to mandatory redemption upon payment of the subordinated debentures held by the trust. We wholly own the common securities of each trust. Each trust's ability to pay amounts due on the trust preferred securities is solely dependent upon our making payment on the related subordinated debentures. Our obligations under the subordinated securities and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by us of each respective trust's obligations under the trust securities issued by each respective trust.

Presently, the funds raised from the trust preferred offerings qualify as Tier 1 capital for regulatory purposes, subject to the applicable limit, with the balance qualifying as Tier 2 capital. The Board of Governors of the Federal Reserve System recently announced the planned implementation of Basel III capital rules. Under these rules trust preferred securities will be phased out as Tier 1 capital for future periods.

As of December 31, 2012, the Company held \$28.9 million of trust preferred securities currently callable without penalty based on the terms of the specific agreements. Since these trust preferred securities are being phased out of Tier 1 capital, we have decided to begin the process of redeeming these instruments. During the first quarter of 2013, we redeemed approximately \$25.8 million in trust preferred securities. As a result of the Liberty acquisition, we are not projecting the Company to pay-off the remaining balance during 2013.

***Stockholders' Equity***

Stockholders' equity was \$545.1 million at September 30, 2013 compared to \$515.5 million at December 31, 2012, an increase of 5.8%. As of September 30, 2013 and December 31, 2012 our equity to asset ratio was 13.1% and 12.2% respectively. Book value per share was \$9.69 at September 30, 2013 compared to \$9.17 (split adjusted) at December 31, 2012, a 7.6% annualized increase.

***Common Stock Cash Dividends.*** We declared cash dividends on our common stock of \$0.075 per share and \$0.06 per share for the three-month periods ended September 30, 2013 and 2012 and \$0.215 and \$0.16 per share for the nine-month periods ended September 30, 2013 and 2012. The common stock dividend payout ratio for the three months ended September 30, 2013 and 2012 was 23.0% and 21.0%, respectively. The common stock dividend payout ratio for the nine months ended September 30, 2013 and 2012 was 22.6% and 19.6%, respectively. For the fourth

quarter of 2013, the Board of Directors declared a regular \$0.075 per share quarterly cash dividend payable December 4, 2013, to shareholders of record November 13, 2013.

*Two-for-One Stock Split.* On April 18, 2013, our Board of Directors declared a two-for-one stock split paid in the form of a 100% stock dividend on June 12, 2013 (the Payment Date ) to shareholders of record at the close of business on May 22, 2013. The additional shares were distributed by the Company's transfer agent, Computershare, and the Company's common stock began trading on a split-adjusted basis on the NASDAQ Global Select Market on June 13, 2013. The stock split increased the Company's total shares of common stock outstanding as of June 12, 2013 from 28,121,596 shares to 56,243,192 shares.

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All previously reported share and per share amounts have been restated to reflect the retroactive effect of the stock split.

**Liquidity and Capital Adequacy Requirements**

*Risk-Based Capital.* We as well as our bank subsidiary are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and other discretionary actions by regulators that, if enforced, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Our capital amounts and classifications are also subject to qualitative judgments by the regulators as to components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require us to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes that, as of September 30, 2013 and December 31, 2012, we met all regulatory capital adequacy requirements to which we were subject.

Table 16 presents our risk-based capital ratios as of September 30, 2013 and December 31, 2012.

**Table 16: Risk-Based Capital**

	<b>As of September 30, 2013</b>	<b>As of December 31, 2012</b>
	<b>(Dollars in thousands)</b>	
<b>Tier 1 capital</b>		
Stockholders equity	\$ 545,142	\$ 515,473
Qualifying trust preferred securities	3,000	28,000
Goodwill and core deposit intangibles, net	(94,525)	(96,785)
Unrealized (gain) loss on available-for-sale securities	1,364	(12,001)
Deferred tax assets	(547)	(3,529)
<b>Total Tier 1 capital</b>	<b>454,434</b>	<b>431,158</b>
<b>Tier 2 capital</b>		
Qualifying allowance for loan losses	38,748	38,807
<b>Total Tier 2 capital</b>	<b>38,748</b>	<b>38,807</b>
<b>Total risk-based capital</b>	<b>\$ 493,182</b>	<b>\$ 469,965</b>
Average total assets for leverage ratio	\$ 3,951,553	\$ 3,939,206
<b>Risk weighted assets</b>	<b>\$ 3,201,009</b>	<b>\$ 3,092,707</b>

Ratios at end of period		
Leverage ratio	11.50%	10.95%
Tier 1 risk-based capital	14.20	13.94
Total risk-based capital	15.41	15.20
Minimum guidelines		
Leverage ratio	4.00%	4.00%
Tier 1 risk-based capital	4.00	4.00
Total risk-based capital	8.00	8.00

As of the most recent notification from regulatory agencies, our bank subsidiary was well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, our banking subsidiary and we must maintain minimum leverage, Tier 1 risk-based capital, and total risk-based capital ratios as set forth in the table. There are no conditions or events since that notification that we believe have changed the bank subsidiary's category.

**Table of Contents****Non-GAAP Financial Measurements**

We had \$95.3 million, \$97.7 million, and \$86.9 million total goodwill, core deposit intangibles and other intangible assets as of September 30, 2013, December 31, 2012 and September 30, 2012, respectively. Because of our level of intangible assets and related amortization expenses, management believes diluted earnings per common share excluding intangible amortization, tangible book value per common share, return on average assets excluding intangible amortization, return on average tangible common equity excluding intangible amortization and tangible common equity to tangible assets are useful in evaluating our company. These calculations, which are similar to the GAAP calculation of diluted earnings per common share, book value, return on average assets, return on average common equity, and common equity to assets, are presented in Tables 17 through 21, respectively. All per share data has been restated to reflect the retroactive effect of the two-for-one stock split which occurred during June 2013.

**Table 17: Diluted Earnings Per Share Excluding Intangible Amortization**

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	(In thousands, except per share data)			
GAAP net income	\$ 18,363	\$ 16,095	\$ 53,570	\$ 46,083
Intangible amortization after-tax	487	421	1,462	1,226
Earnings excluding intangible amortization	\$ 18,850	\$ 16,516	\$ 55,032	\$ 47,309
GAAP diluted earnings per share	\$ 0.33	\$ 0.28	\$ 0.95	\$ 0.81
Intangible amortization after-tax		0.01	0.02	0.02
Diluted earnings per share excluding intangible amortization	\$ 0.33	\$ 0.29	\$ 0.97	\$ 0.83

**Table 18: Tangible Book Value Per Share**

	As of September 30, 2013	As of December 31, 2012
	(Dollars in thousands, except per share data)	
Book value per share: A/B	\$ 9.69	\$ 9.17
Tangible book value per share: (A-C-D)/B	7.99	7.43
(A) Total equity	\$ 545,142	\$ 515,473
(B) Shares outstanding	56,278	56,213
(C) Goodwill	\$ 85,681	\$ 85,681
(D) Core deposit and other intangibles	9,655	12,061





**Table of Contents****Table 19: Return on Average Assets Excluding Intangible Amortization**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Return on average assets: A/C	1.80%	1.61%	1.73%	1.56%
Return on average assets excluding intangible amortization: B/(C-D)	1.89	1.69	1.82	1.63
(A) Net income	\$ 18,363	\$ 16,095	\$ 53,570	\$ 46,083
Intangible amortization after-tax	487	421	1,462	1,226
(B) Earnings excluding intangible amortization	\$ 18,850	\$ 16,516	\$ 55,032	\$ 47,309
(C) Average assets	\$ 4,046,625	\$ 3,975,946	\$ 4,128,403	\$ 3,958,309
(D) Average goodwill, core deposits and other intangible assets	95,723	87,213	96,521	84,869

**Table 20: Return on Average Tangible Equity Excluding Intangible Amortization**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Return on average equity: A/C	13.63%	12.78%	13.53%	12.60%
Return on average tangible equity excluding intangible amortization: B/(C-D)	17.04	15.88	16.99	15.66
(A) Net income	\$ 18,363	\$ 16,095	\$ 53,570	\$ 46,083
(B) Earnings excluding intangible amortization	18,850	16,516	55,032	47,309
(C) Average equity	534,563	500,979	529,554	488,437
(D) Average goodwill, core deposits and other intangible assets	95,723	87,213	96,521	84,869

**Table 21: Tangible Equity to Tangible Assets**

	As of September 30, 2013	As of December 31, 2012
	(Dollars in thousands)	
Equity to assets: B/A	13.10%	12.15%
Tangible equity to tangible assets: (B-C-D)/(A-C-D)	11.06	10.08

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(A) Total assets	\$ 4,161,306	\$ 4,242,130
(B) Total equity	545,142	515,473
(C) Goodwill	85,681	85,681
(D) Core deposit and other intangibles	9,655	12,061

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We have \$490.2 million of purchased non-covered loans, which includes \$77.4 million of discount for credit losses on non-covered loans acquired at September 30, 2013. We had \$569.7 million of purchased non-covered loans, which included \$81.7 million of discount for credit losses on non-covered loans acquired at December 31, 2012. For purchased credit-impaired financial assets, GAAP requires a discount embedded in the purchase price that is attributable to the expected credit losses at the date of acquisition, which is a different approach from non-purchased-credit-impaired assets. While the discount for credit losses on purchased non-covered loans is not available for credit losses on non-purchased non-covered loans, management believes it is useful information to show the same accounting as if applied to all loans, including those acquired in a business combination. Therefore, management believes the allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired to total non-covered loans plus discount for credit losses on non-covered loans acquired is useful in evaluating our Company. This calculation, which is similar to the GAAP calculation of allowance for loan losses for non-covered loans to total non-covered loans, is presented in Table 22 below.

**Table 22: Allowance for Loan Losses for Non-Covered Loans to Total Non-Covered Loans**

	<b>As of September 30, 2013</b>		
	<b>Non-Covered Loans</b>	<b>Purchased Non-Covered Loans</b>	<b>Total</b>
	<b>(Dollars in thousands)</b>		
Loan balance reported (A)	\$ 1,966,070	\$ 412,768	\$ 2,378,838
Loan balance reported plus discount (B)	1,966,070	490,181	2,456,251
Allowance for loan losses for non-covered loans (C)	\$ 37,642	\$	\$ 37,642
Discount for credit losses on non-covered loans acquired (D)		77,413	77,413
Total allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired (E)	\$ 37,642	\$ 77,413	\$ 115,055
Allowance for loan losses for non-covered loans to total non-covered loans (C/A)	1.91%	N/A	1.58%
Discount for credit losses on non-covered loans acquired to non-covered loans acquired plus discount for credit losses on non-covered loans acquired (D/B)	N/A	15.79%	N/A
Allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired to total non-covered loans plus discount for credit losses on non-covered loans acquired (E/B)	N/A	N/A	4.68%

*Note:* Discount for credit losses on purchased credit impaired loans acquired are accounted for on a pool by pool basis and are not available to cover credit losses on non-acquired loans or other pools.



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	As of December 31, 2012		
	Non-Covered Loans	Purchased Non- Covered Loans	Total
	(Dollars in thousands)		
Loan balance reported (A)	\$ 1,843,249	\$ 487,950	\$ 2,331,199
Loan balance reported plus discount (B)	1,843,249	569,667	2,412,916
Allowance for loan losses for non-covered loans (C)	\$ 45,170	\$	\$ 45,170
Discount for credit losses on non-covered loans acquired (D)		81,717	81,717
Total allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired (E)	\$ 45,170	\$ 81,717	\$ 126,887
Allowance for loan losses for non-covered loans to total non-covered loans (C/A)	2.45%	N/A	1.94%
Discount for credit losses on non-covered loans acquired to non-covered loans acquired plus discount for credit losses on non-covered loans acquired (D/B)	N/A	14.34%	N/A
Allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired to total non-covered loans plus discount for credit losses on non-covered loans acquired (E/B)	N/A	N/A	5.26%

*Note:* Discount for credit losses on purchased credit impaired loans acquired are accounted for on a pool by pool basis and are not available to cover credit losses on non-acquired loans or other pools.

**Recently Issued Accounting Pronouncements**

See Note 22 to the Condensed Notes to Consolidated Financial Statements for a discussion of certain recently issued and recently adopted accounting pronouncements.

**Item 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*****Liquidity and Market Risk Management***

*Liquidity Management.* Liquidity refers to the ability or the financial flexibility to manage future cash flows to meet the needs of depositors and borrowers and fund operations. Maintaining appropriate levels of liquidity allows us to have sufficient funds available for reserve requirements, customer demand for loans, withdrawal of deposit balances and maturities of deposits and other liabilities. Our primary source of liquidity at our holding company is dividends paid by our bank subsidiary. Applicable statutes and regulations impose restrictions on the amount of dividends that

may be declared by our bank subsidiary. Further, any dividend payments are subject to the continuing ability of the bank subsidiary to maintain compliance with minimum federal regulatory capital requirements and to retain its characterization under federal regulations as a well-capitalized institution.

Our bank subsidiary has potential obligations resulting from the issuance of standby letters of credit and commitments to fund future borrowings to our loan customers. Many of these obligations and commitments to fund future borrowings to our loan customers are expected to expire without being drawn upon, therefore the total commitment amounts do not necessarily represent future cash requirements affecting our liquidity position.

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Liquidity needs can be met from either assets or liabilities. On the asset side, our primary sources of liquidity include cash and due from banks, federal funds sold, available-for-sale investment securities and scheduled repayments and maturities of loans. We maintain adequate levels of cash and cash equivalents to meet our day-to-day needs. As of September 30, 2013, our cash and cash equivalents were \$112.3 million, or 2.7% of total assets, compared to \$231.9 million, or 5.5% of total assets, as of December 31, 2012. Our available for sale investment securities and federal funds sold were \$850.3 million as of September 30, 2013 and \$743.4 million as of December 31, 2012.

Our available for sale investment portfolio is comprised of approximately 65.4% or \$548.7 million of securities which mature in less than five years. As of September 30, 2013 and December 31, 2012, \$538.9 million and \$532.8 million, respectively, of securities were pledged as collateral for various public fund deposits and securities sold under agreements to repurchase.

On the liability side, our principal sources of liquidity are deposits, borrowed funds, and access to capital markets. Customer deposits are our largest sources of funds. As of September 30, 2013, our total deposits were \$3.25 billion, or 78.1% of total assets, compared to \$3.48 billion, or 82.1% of total assets, as of December 31, 2012. We attract our deposits primarily from individuals, business, and municipalities located in our market areas.

We may occasionally use our Fed funds lines of credit in order to temporarily satisfy short-term liquidity needs. We have Fed funds lines with three other financial institutions pursuant to which we could have borrowed up to \$35.0 million on an unsecured basis as of September 30, 2013 and December 31, 2012. These lines may be terminated by the respective lending institutions at any time.

We also maintain lines of credit with the Federal Home Loan Bank. Our FHLB borrowed funds were \$270.2 million and \$130.4 million at September 30, 2013 and December 31, 2012, respectively. At September 30, 2013, \$170.0 million and \$100.2 million of the outstanding balance were short-term and long-term advances, respectively. All of the outstanding balance at December 31, 2012 was long-term advances. Our FHLB borrowing capacity was \$632.5 million and \$640.5 million as of September 30, 2013 and December 31, 2012, respectively.

We believe that we have sufficient liquidity to satisfy our current operations.

*Market Risk Management.* Our primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on a large portion of our assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which possess a short term to maturity. We do not hold market risk sensitive instruments for trading purposes.

*Asset/Liability Management.* Our management actively measures and manages interest rate risk. The asset/liability committees of the boards of directors of our holding company and bank subsidiary are also responsible for approving our asset/liability management policies, overseeing the formulation and implementation of strategies to improve balance sheet positioning and earnings, and reviewing our interest rate sensitivity position.

One of the tools that our management uses to measure short-term interest rate risk is a net interest income simulation model. This analysis calculates the difference between net interest income forecasted using base market rates and using a rising and a falling interest rate scenario. The income simulation model includes various assumptions regarding the re-pricing relationships for each of our products. Many of our assets are floating rate loans, which are assumed to re-price immediately, and proportional to the change in market rates, depending on their contracted index. Some loans and investments include the opportunity of prepayment (embedded options), and accordingly the simulation model uses indexes to estimate these prepayments and reinvest their proceeds at current yields. Our non-term deposit products re-price more slowly, usually changing less than the change in market rates and at our



discretion.

This analysis indicates the impact of changes in net interest income for the given set of rate changes and assumptions. It assumes the balance sheet remains static and that its structure does not change over the course of the year. It does not account for all factors that impact this analysis, including changes by management to mitigate the impact of interest rate changes or secondary impacts such as changes to our credit risk profile as interest rates change.

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Furthermore, loan prepayment rate estimates and spread relationships change regularly. Interest rate changes create changes in actual loan prepayment rates that will differ from the market estimates incorporated in this analysis. Changes that vary significantly from the assumptions may have significant effects on our net interest income.

*Interest Rate Sensitivity.* Our primary business is banking and the resulting earnings, primarily net interest income, are susceptible to changes in market interest rates. It is management's goal to maximize net interest income within acceptable levels of interest rate and liquidity risks.

A key element in the financial performance of financial institutions is the level and type of interest rate risk assumed. The single most significant measure of interest rate risk is the relationship of the repricing periods of earning assets and interest-bearing liabilities. The more closely the repricing periods are correlated, the less interest rate risk we assume. We use repricing gap and simulation modeling as the primary methods in analyzing and managing interest rate risk.

Gap analysis attempts to capture the amounts and timing of balances exposed to changes in interest rates at a given point in time. Our gap position as of September 30, 2013 was asset sensitive with a one-year cumulative repricing gap of 1.3%. During these periods, the amount of change our asset base realizes in relation to the total change in market interest rate exceeds that of the liability base.

We have a portion of our securities portfolio invested in mortgage-backed securities. Mortgage-backed securities are included based on their final maturity date. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Table 23 presents a summary of the repricing schedule of our interest-earning assets and interest-bearing liabilities (gap) as of September 30, 2013.

**Table 23: Interest Rate Sensitivity**

	Interest Rate Sensitivity Period							Total
	0-30 Days	31-90 Days	91-180 Days	181-365 Days	1-2 Years	2-5 Years	Over 5 Years	
(Dollars in thousands)								
Earning assets								
Interest-bearing deposits due from banks	\$ 35,080	\$	\$	\$	\$	\$	\$	\$ 35,080
Federal funds sold	10,700							10,700
Investment securities	52,598	72,369	48,389	77,694	103,955	195,554	298,529	849,088
Loans receivable	463,599	220,906	325,392	483,636	518,627	542,500	93,502	2,648,162
Total earning assets	561,977	293,275	373,781	561,330	622,582	738,054	392,031	3,543,030

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Interest-bearing liabilities								
Interest-bearing transaction and savings deposits	73,648	147,296	220,944	441,887	273,249	264,517	261,469	1,683,010
Time deposits	96,089	140,242	155,212	236,732	100,959	79,194	52	808,480
Federal funds purchased								
Securities sold under repurchase agreements	60,611				1,426	4,278	4,992	71,307
FHLB borrowed funds	170,106	13	19	137	5,283	59,263	35,411	270,232
Subordinated debentures	3,093							3,093
Total interest-bearing liabilities	403,547	287,551	376,175	678,756	380,917	407,252	301,924	2,836,122
Interest rate sensitivity gap	\$ 158,430	\$ 5,724	\$ (2,394)	\$ (117,426)	\$ 241,665	\$ 330,802	\$ 90,107	\$ 706,908
Cumulative interest rate sensitivity gap	\$ 158,430	\$ 164,154	\$ 161,760	\$ 44,334	\$ 285,999	\$ 616,801	\$ 706,908	
Cumulative rate sensitive assets to rate sensitive liabilities	139.3%	123.8%	115.2%	102.5%	113.4%	124.3%	124.9%	
Cumulative gap as a % of total earning assets	4.5%	4.6%	4.6%	1.3%	8.1%	17.4%	20.0%	

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**Item 4: CONTROLS AND PROCEDURES**

**Article I. Evaluation of Disclosure Controls**

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, the Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Additionally, our disclosure controls and procedures were also effective in ensuring that information required to be disclosed in our Exchange Act report is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer to allow timely decisions regarding required disclosures.

**Article II. Changes in Internal Control Over Financial Reporting**

There have not been any changes in the Company's internal controls over financial reporting during the quarter ended September 30, 2013, which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II: OTHER INFORMATION**

**Item 1: Legal Proceedings**

There are no material pending legal proceedings, other than ordinary routine litigation incidental to its business, to which Home BancShares, Inc. or its subsidiaries are a party or of which any of their property is the subject.

**Item 1A: Risk Factors**

There were no material changes from the risk factors set forth in Part I, Item 1A, Risk Factors, of our Form 10-K for the year ended December 31, 2012. See the discussion of our risk factors in the Form 10-K, as filed with the SEC. The risks described are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

**Item 2: Unregistered Sales of Equity Securities and Use of Proceeds**

Not applicable.

**Item 3: Defaults Upon Senior Securities**

Not applicable.

**Item 4: (Reserved)**



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**Item 5: Other Information**

Not applicable.

**Item 6: Exhibits**

12.1	Computation of Ratios of Earnings to Fixed Charges*
15	Awareness of Independent Registered Public Accounting Firm*
31.1	CEO Certification Pursuant Rule 13a-14(a)/15d-14(a)*
31.2	CFO Certification Pursuant Rule 13a-14(a)/15d-14(a)*
32.1	CEO Certification Pursuant 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes Oxley Act of 2002*
32.2	CFO Certification Pursuant 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes Oxley Act of 2002*
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*

\* Filed herewith

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**SIGNATURES**

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

**HOME BANCSHARES, INC.**

(Registrant)

Date: November 7, 2013

/s/ C. Randall Sims  
C. Randall Sims, Chief Executive Officer

Date: November 7, 2013

/s/ Randy E. Mayor  
Randy E. Mayor, Chief Financial Officer