HOME BANCSHARES INC
Form 10-Q
August 07, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended June 30, 2012

or

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Transition period from_____ to _____

Commission File Number: 000-51904

HOME BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Arkansas	**71-0682831**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
719 Harkrider, Suite 100, Conway, Arkansas	**72032**
(Address of principal executive offices)	**(Zip Code)**

(501) 328-4770

(Registrant s telephone number, including area code)

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 þ No ¨

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

Indicate by check mark 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	þ
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 þ

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practical date.

Common Stock Issued and Outstanding: 28,081,160 shares as of July 31, 2012.

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HOME BANCSHARES, INC.

FORM 10-Q

June 30, 2012

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of our statements contained in this document, including matters discussed under the caption Management s Discussion and Analysis of Financial Condition and Results of Operation are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements relate to future events or our future financial performance and include statements about the competitiveness of the banking industry, potential regulatory obligations, our entrance and expansion into other markets, our other business strategies and other statements that are not historical facts. Forward-looking statements are not guarantees of performance or results. When we use words like may, plan, contemplate, anticipate, believe, intend, co expect, project, predict, estimate, could, should, would, and similar expressions, you should consider them as identifying forward-look statements, although we may use other phrasing. These forward-looking statements involve risks and uncertainties and are based on our beliefs and assumptions, and on the information available to us at the time that these disclosures were prepared. These forward-looking statements involve risks and uncertainties and may not be realized due to a variety of factors, including, but not limited to, the following:

- the effects of future economic conditions, including inflation or a continued decrease in commercial real estate and residential housing values;
- governmental monetary and fiscal policies, as well as legislative and regulatory changes;
- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act and regulations to be issued thereunder;
- the risks of changes in interest rates or the level and composition of deposits, loan demand and the values of loan collateral, securities and interest sensitive assets and liabilities;
- the effects of terrorism and efforts to combat it;
- credit risks;
- the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in our market area and elsewhere, including institutions operating regionally, nationally and internationally, together with competitors offering banking products and services by mail, telephone and the Internet;
- the effect of any mergers, acquisitions or other transactions to which we or our subsidiaries may from time to time be a party, including our ability to successfully integrate any businesses that we acquire;
- the failure of assumptions underlying the establishment of our allowance for loan losses; and
- the failure of assumptions underlying the estimates of the fair values for our covered assets and FDIC indemnification receivable.

All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this Cautionary Note. Our actual results may differ significantly from those we discuss in these forward-looking statements. For other factors, risks and uncertainties that could cause our actual results to differ materially from estimates and projections contained in these forward-looking statements, see the Risk Factors section of our Form 10-K filed with the Securities and Exchange Commission on March 5, 2012.

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PART I: FINANCIAL INFORMATION

Item 1: Financial Statements

Home BancShares, Inc.

Consolidated Balance Sheets

(In thousands, except share data)	June 30, 2012 (Unaudited)	December 31, 2011
Assets		
Cash and due from banks	$ 71,078	$ 57,337
Interest-bearing deposits with other banks	287,452	126,967
Cash and cash equivalents	358,530	184,304
Federal funds sold	575	1,100
Investment securities available for sale	712,820	671,221
Loans receivable not covered by loss share	2,035,487	1,760,086
Loans receivable covered by FDIC loss share	432,422	481,739
Allowance for loan losses	(56,511)	(52,129)
Loans receivable, net	2,411,398	2,189,696
Bank premises and equipment, net	100,694	88,465
Foreclosed assets held for sale not covered by loss share	14,481	16,660
Foreclosed assets held for sale covered by FDIC loss share	35,008	35,178
FDIC indemnification asset	162,439	193,856
Cash value of life insurance	53,167	52,700
Accrued interest receivable	14,834	15,551
Deferred tax asset, net	31,115	22,850
Goodwill	77,090	59,663
Core deposit and other intangibles	10,486	8,620
Other assets	73,768	64,253
Total assets	$ 4,056,405	$ 3,604,117
Liabilities and Stockholders Equity		
Deposits:		
Demand and non-interest-bearing	$ 597,374	$ 464,581
Savings and interest-bearing transaction accounts	1,521,869	1,189,098
Time deposits	1,174,286	1,204,352
Total deposits	3,293,529	2,858,031
Securities sold under agreements to repurchase	66,620	62,319
FHLB borrowed funds	140,523	142,777
Accrued interest payable and other liabilities	15,967	22,593
Subordinated debentures	44,331	44,331
Total liabilities	3,560,970	3,130,051
Stockholders equity:		
Common stock, par value $0.01; shares authorized 50,000,000; shares issued and outstanding 28,078,767 in 2012 and 28,275,507 in 2011	281	283

Capital surplus	420,538	425,649
Retained earnings	64,478	40,130
Accumulated other comprehensive income	10,138	8,004
Total stockholders equity	495,435	474,066
Total liabilities and stockholders equity	$ 4,056,405	$ 3,604,117

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.

Consolidated Statements of Income

(In thousands, except per share data)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(Unaudited)			
Interest income:				
Loans	$ 40,365	$ 39,690	$ 78,871	$ 78,645
Investment securities				
Taxable	3,060	2,204	5,920	4,364
Tax-exempt	1,534	1,543	3,069	3,071
Deposits other banks	127	142	212	247
Federal funds sold	3	1	5	8
Total interest income	45,089	43,580	88,077	86,335
Interest expense:				
Interest on deposits	4,164	5,986	8,824	12,246
FHLB borrowed funds	1,134	1,227	2,294	2,518
Securities sold under agreements to repurchase	111	125	221	264
Subordinated debentures	521	543	1,045	1,081
Total interest expense	5,930	7,881	12,384	16,109
Net interest income	39,159	35,699	75,693	70,226
Provision for loan losses	1,333		1,333	1,250
Net interest income after provision for loan losses	37,826	35,699	74,360	68,976
Non-interest income:				
Service charges on deposit accounts	3,668	3,639	7,173	6,790
Other service charges and fees	3,223	2,602	6,247	4,886
Mortgage lending income	1,277	661	2,181	1,306
Insurance commissions	438	470	989	1,077
Income from title services	129	110	217	201
Increase in cash value of life insurance	214	287	471	526
Dividends from FHLB, FRB & bankers bank	175	181	350	322
Gain on sale of SBA loans	198		198	259
Gain (loss) on sale of premises and equipment, net	359	77	359	73
Gain (loss) on OREO, net	159	(1,007)	52	(1,101)
Gain (loss) on securities, net	(9)		10	
FDIC indemnification accretion	449	1,463	1,119	3,300
Other income	773	644	1,790	1,528
Total non-interest income	11,053	9,127	21,156	19,167
Non-interest expense:				
Salaries and employee benefits	11,903	10,680	23,289	21,758
Occupancy and equipment	3,552	3,648	6,983	7,361
Data processing expense	1,371	1,137	2,462	2,422
Other operating expenses	7,598	8,391	16,076	16,176

Total non-interest expense	24,424	23,856	48,810	47,717
Income before income taxes	24,455	20,970	46,706	40,426
Income tax expense	8,965	7,424	16,718	14,164
Net income available to all stockholders	15,490	13,546	29,988	26,262
Preferred stock dividends and accretion of discount on preferred stock		670		1,340
Net income available to common stockholders	$ 15,490	$ 12,876	$ 29,988	$ 24,922
Basic earnings per common share	$ 0.55	$ 0.46	$ 1.06	$ 0.88
Diluted earnings per common share	$ 0.55	$ 0.45	$ 1.06	$ 0.87

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.

Consolidated Statements of Comprehensive Income

(In thousands, except per share data)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net income	$ 15,490	$ 13,546	$ 29,988	$ 26,262
Net unrealized gain (loss) on available-for-sale securities	4,417	7,512	3,521	8,630
Less: reclassification adjustment for realized (gains) losses included in income	9		(10)	
Other comprehensive (loss) income, before tax effect	4,426	7,512	3,511	8,630
Tax effect	(1,736)	(2,947)	(1,377)	(3,386)
Other comprehensive (loss) income	2,690	4,565	2,134	5,244
Comprehensive income	$ 18,180	$ 18,111	$ 32,122	$ 31,506

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Home BancShares, Inc.

Consolidated Statements of Stockholders Equity

Six Months Ended June 30, 2012 and 2011

(In thousands, except share data)	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2011	$ 49,456	$ 285	$ 432,962	$ (6,079)	$ 301	$ 476,925
Comprehensive income:						
Net income				26,262		26,262
Other comprehensive income:						
Unrealized gain on investment securities available for sale, net of tax effect of $3,386					5,244	5,244
Comprehensive income						31,506
Accretion of discount on preferred stock	91			(91)		
Net issuance of 11,847 shares of common stock from exercise of stock options			97			97
Tax benefit from stock options exercised			66			66
Share-based compensation			181			181
Cash dividends Preferred stock 5%				(1,249)		(1,249)
Cash dividends Common Stock, $0.108 per share				(3,077)		(3,077)
Balances at June 30, 2011 (unaudited)	49,547	285	433,306	15,766	5,545	504,449
Comprehensive income:						
Net income				28,479		28,479
Other comprehensive income:						
Unrealized gain on investment securities available for sale, net of tax effect of $1,587					2,459	2,459
Comprehensive income						30,938
Repurchase of 50,000 shares of preferred stock and common stock warrant	(50,000)		(2,206)	906		(51,300)
Accretion of discount on preferred stock	453			(453)		
Net issuance of 79,093 shares of common stock from exercise of stock options		1	617			618
Repurchase of 300,000 shares of common stock		(3)	(6,765)			(6,768)
Tax benefit from stock options exercised			496			496
Share-based compensation			201			201
Cash dividends Preferred stock 5%				(37)		(37)
Cash dividends Common Stock, $0.16 per share				(4,531)		(4,531)
Balances at December 31, 2011		283	425,649	40,130	8,004	474,066
Comprehensive income:						
Net income				29,988		29,988
Other comprehensive income:						
Unrealized loss on investment securities					2,134	2,134

available for sale, net of tax effect of $1,377						
Comprehensive income						32,122
Net issuance of 36,733 shares of common stock from exercise of stock options plus issuance of 4,761 bonus shares of unrestricted common stock			545			545
Repurchase of 238,234 shares of common stock		(2)	(6,109)			(6,111)
Tax benefit from stock options exercised			221			221
Share-based compensation			232			232
Cash dividends Common Stock, $0.20 per share				(5,640)		(5,640)
Balances at June 30, 2012 (unaudited)	$	$ 281	$ 420,538	$ 64,478	$ 10,138	$ 495,435

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.

Consolidated Statements of Cash Flows

(In thousands)	Six Months Ended June 30, 2012	2011
	(Unaudited)	
Operating Activities		
Net income	$ 29,988	$ 26,262
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	2,956	3,307
Amortization/(accretion)	2,568	(48)
Share-based compensation	232	181
Tax benefits from stock options exercised	(221)	(66)
(Gain) loss on assets	(420)	720
Provision for loan losses	1,333	1,250
Deferred income tax effect	1,605	(7,065)
Increase in cash value of life insurance	(471)	(526)
Originations of mortgage loans held for sale	(74,377)	(48,968)
Proceeds from sales of mortgage loans held for sale	68,959	58,966
Changes in assets and liabilities:		
Accrued interest receivable	717	3,838
Other assets	27,637	19,953
Accrued interest payable and other liabilities	(11,476)	(7,038)
Net cash provided by (used in) operating activities	49,030	50,766
Investing Activities		
Net (increase) decrease in federal funds sold	525	20,253
Net (increase) decrease in loans net, excluding loans acquired	103,961	69,950
Purchases of investment securities available for sale	(254,059)	(144,039)
Proceeds from maturities of investment securities available for sale	212,375	79,164
Proceeds from sale of investment securities available for sale	1,243	
Proceeds from foreclosed assets held for sale	18,119	15,207
Proceeds from sale of SBA loans	3,000	4,524
Purchases of premises and equipment, net	(2,330)	(2,042)
Death benefits received		700
Net cash proceeds received in Vision acquisition	140,234	
Net cash provided by (used in) investing activities	223,068	43,717
Financing Activities		
Net increase (decrease) in deposits net, excluding deposits acquired	(88,934)	(62,005)
Net increase (decrease) in securities sold under agreements to repurchase	4,301	(8,827)
Net increase (decrease) in FHLB and other borrowed funds	(2,254)	(27,146)
Proceeds from exercise of stock options plus issuance of bonus shares of unrestricted common stock	545	97
Repurchase of common stock	(6,111)	
Tax benefits from stock options exercised	221	66
Dividends paid on preferred stock		(1,249)
Dividends paid on common stock	(5,640)	(3,077)
Net cash provided by (used in) financing activities	(97,872)	(102,141)

Net change in cash and cash equivalents	174,226	(7,658)
Cash and cash equivalents beginning of year	184,304	287,532
Cash and cash equivalents end of period	$ 358,530	$ 279,874

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 or Centennial). The Bank has locations in central Arkansas, north central Arkansas, southern Arkansas, the Florida Keys, central Florida, southwestern Florida, the Florida Panhandle and Baldwin County, 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 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 subsidiary. Significant intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications

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

Interim financial information

The accompanying unaudited consolidated financial statements as of June 30, 2012 and 2011 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 2011 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. 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Net income available to common stockholders	$ 15,490	$ 12,876	$ 29,988	$ 24,922
Average shares outstanding	28,095	28,491	28,162	28,480
Effect of common stock options	188	199	183	203
Diluted shares outstanding	28,283	28,690	28,345	28,683
Basic earnings per common share	$ 0.55	$ 0.46	$ 1.06	$ 0.88
Diluted earnings per common share	$ 0.55	$ 0.45	$ 1.06	$ 0.87

2. Business Combinations

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 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 has an opportunity to increase its deposit base and reduce transaction costs. The Company also expects to reduce costs through economies of scale.

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Pursuant to the Agreement, Centennial assumed approximately $522.8 million in customer deposits and acquired approximately $355.8 million in performing loans from Vision for the purchase price of approximately $27.9 million. Centennial did not purchase certain Vision performing loans nor any of its non-performing loans or other real estate owned. As part of the acquisition, Centennial acquired the real estate and other assets related to Vision s 17 banking offices, including eight locations in Baldwin County, Alabama, and nine locations in the Florida Panhandle counties of Bay, Gulf, Okaloosa, Santa Rosa and Walton. On July 12, 2012, the Company closed two of these branches located in Port St. Joe, Florida. These branch closures were completed to eliminate repetitive branches and maximize profitability. Included in the acquisition were the fixed assets located within the Vision offices, the safe deposit business conducted at the Vision offices, cash on hand, prepaid expenses and Vision s rights under contracts related to the Vision offices. Centennial also assumed the liabilities and obligations of Vision with respect to the safe deposit business, the assumed contracts, third-party leases for the real estate leased by Vision and equipment and operating leases related to the Vision offices. In addition, pursuant to the Agreement, Park granted Centennial a put option to sell an aggregate of $7.5 million of the purchased loans back to Park at cost for a period of up to six months after the closing date. As of June 30, 2012, the Company has exercised its option to sell back two loans with an unpaid principal balance of approximately $169,000. On the closing date, Park made a cash payment to Centennial of approximately $119.5 million.

Centennial Bank has determined that the acquisition of the net assets of Vision constitute a business combination as defined by the FASB ASC Topic 805, *Business Combinations*. Accordingly, the assets acquired and liabilities assumed are presented at their fair values as required. Fair values were determined based on the requirements of FASB ASC Topic 820, *Fair Value Measurements*. In many cases, the determination of these fair values required management to make estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change. These fair value estimates are subject to change for up to one year after the closing date of the acquisition as additional information relative to closing date fair values becomes available. In addition, the tax treatment is complex and subject to interpretations that may result in future adjustments of deferred taxes as of the acquisition date.

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

	Vision Bank		
	Acquired from Park	Fair Value Adjustments	As Recorded by HBI
	(Dollars in thousands)		
Assets			
Cash and due from banks	$ 20,711	$ 119,523	$ 140,234
Loans receivable	355,750		355,750
Loans receivable discount		(15,453)	(15,453)
Total loans receivable	355,750	(15,453)	340,297
Bank premises and equipment, net	12,496		12,496
Deferred tax asset		11,247	11,247
Goodwill		17,427	17,427
Core deposit intangibles		3,190	3,190
Other assets	4,612		4,612
Total assets acquired	$ 393,569	$ 135,934	$ 529,503
Liabilities			
Deposits			
Demand and non-interest-bearing	$ 78,073	$	$ 78,073
Savings and interest-bearing transaction accounts	273,134		273,134
Time deposits	171,627	1,598	173,225
Total deposits	522,834	1,598	524,432
Other liabilities	5,071		5,071
Total liabilities assumed	$ 527,905	$ 1,598	$ 529,503

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

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

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

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

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

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

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

The Company s operating results for 2012, include the operating results of the acquired assets and assumed liabilities subsequent to the acquisition date. Due to the significant fair value adjustments recorded, as well as not obtaining any non-performing assets, historical results are not believed to be relevant to the Company s results, and thus no pro forma information is presented.

For the year ended December 31, 2011, Vision has reported in its call report a net loss before income taxes, extraordinary items and other adjustments of approximately $28.7 million. On a carve-out basis factoring in only the assets and liabilities acquired or assumed by Centennial, the acquired portion of Vision would have resulted in net income before income taxes, extraordinary items and other adjustments for 2011 of approximately $8.8 million. The primary differences are Vision s provision for loan losses, which will not carry over due to Centennial not acquiring Vision s non-performing loans, and certain non-interest expenses which also will not carry over to Centennial.

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3. Investment Securities

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

	June 30, 2012 Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 269,084	$ 3,659	$ (143)	$ 272,600
Mortgage-backed securities	242,329	5,940	(180)	248,089
State and political subdivisions	168,237	7,748	(60)	175,925
Other securities	16,487	26	(307)	16,206
Total	$ 696,137	$ 17,373	$ (690)	$ 712,820

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

Assets, principally investment securities, having a carrying value of approximately $506.4 million and $403.2 million at June 30, 2012 and December 31, 2011, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. Also, investment securities pledged as collateral for repurchase agreements totaled approximately $66.6 million and $62.3 million at June 30, 2012 and December 31, 2011, respectively.

During the three and six month periods ended June 30, 2012, approximately $192,000 and $1.2 million, respectively, in available for sale securities were sold. The gross realized losses on the sales for the three month period ended June 30, 2012 totaled approximately $9,000. The gross realized gains and losses on the sales for the six month period ended June 30, 2012 totaled approximately $21,000 and $11,000, respectively. The income tax expense/benefit to net security gains and losses was 39.225% of the gross amounts.

During the three and six month periods ended June 30, 2011, no available for sale securities were sold.

The amortized cost and estimated fair value of securities at June 30, 2012, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	$ 246,844	$ 249,110

Due after one year through five years	239,849	245,547
Due after five years through ten years	178,924	186,229
Due after ten years	30,520	31,934
Total	$ 696,137	$ 712,820

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For purposes of the maturity tables, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on anticipated maturities. The mortgage-backed securities may mature earlier than their weighted-average contractual maturities because of principal prepayments.

The Company evaluates all securities quarterly to determine if any unrealized losses are deemed to be other than temporary. In completing these evaluations the Company follows the requirements of FASB ASC 320, *Investments Debt and Equity Securities.* Certain investment securities are valued less than their historical cost. These declines are primarily the result of the rate for these investments yielding less than current market rates. Based on evaluation of available evidence, management believes the declines in fair value for these securities are temporary. The Company does not intend to sell or believe it will be required to sell these investments before recovery of their amortized cost bases, which may be maturity. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

During the six month period ended June 30, 2012, no securities were deemed to have other-than-temporary impairment besides securities for which impairment was taken in prior periods.

As of June 30, 2012, the Company had $19,000 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 69.9% 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.

The following shows gross unrealized losses and estimated fair value of investment securities available for sale, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position as of June 30, 2012 and December 31, 2011:

	June 30, 2012					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. government-sponsored enterprises	$ 15,308	$ (129)	$ 5,782	$ (14)	$ 21,090	$ (143)
Mortgage-backed securities	20,148	(180)			20,148	(180)
State and political subdivisions	6,414	(55)	1,205	(5)	7,619	(60)
Other securities	7,805	(307)	120		7,925	(307)
Total	$ 49,675	$ (671)	$ 7,107	$ (19)	$ 56,782	$ (690)

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

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4. Loans Receivable Not Covered by Loss Share

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

	June 30, 2012	December 31, 2011
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 856,334	$ 698,986
Construction/land development	269,371	361,846
Agricultural	28,570	28,535
Residential real estate loans		
Residential 1-4 family	481,018	349,543
Multifamily residential	106,206	56,909
Total real estate	1,741,499	1,495,819
Consumer	37,146	37,923
Commercial and industrial	197,278	176,276
Agricultural	31,741	21,784
Other	27,823	28,284
Loans receivable not covered by loss share	$ 2,035,487	$ 1,760,086

During the three and six-month periods ended June 30, 2012, the Company sold $2.8 million of the guaranteed portions of SBA loans, which resulted in a gain of approximately $198,000. The Company did not sell any of the guaranteed portions of SBA loans during the three-month period ended June 30, 2011. During the six-month period ended June 30, 2011, the Company sold $4.2 million of the guaranteed portion of certain SBA loans, which resulted in a gain of approximately $259,000.

Mortgage loans held for sale of approximately $15.7 million and $10.3 million at June 30, 2012 and December 31, 2011, respectively, are included in residential 1-4 family loans. Mortgage loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis. Gains and losses resulting from sales of mortgage loans are recognized when the respective loans are sold to investors. Gains and losses are determined by the difference between the selling price and the carrying amount of the loans sold, net of discounts collected or paid. The Company obtains forward commitments to sell mortgage loans to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. The forward commitments acquired by the Company for mortgage loans in process of origination are not mandatory forward commitments. These commitments are structured on a best efforts basis; therefore the Company is not required to substitute another loan or to buy back the commitment if the original loan does not fund. Typically, the Company delivers the mortgage loans within a few days after the loans are funded. These commitments are derivative instruments and their fair values at June 30, 2012 and December 31, 2011 were not material.

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5. Loans Receivable Covered by FDIC Loss Share

The Company evaluated loans purchased in conjunction with the 2010 acquisitions of under purchase and assumption agreements with the Federal Deposit Insurance Corporation (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 covered impaired loans as of June 30, 2012 and December 31, 2011 for the Company s FDIC-assisted transactions:

	June 30, 2012	December 31, 2011
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 187,802	$ 189,380
Construction/land development	74,989	103,535
Agricultural	2,737	3,155
Residential real estate loans		
Residential 1-4 family	136,498	148,692
Multifamily residential	10,216	8,933
Total real estate	412,242	453,695
Consumer	71	334
Commercial and industrial	19,541	26,884
Other	568	826
Loans receivable covered by FDIC loss share (1)	$ 432,422	$ 481,739

(1) These loans were not classified as nonperforming assets at June 30, 2012 and December 31, 2011, as the loans are accounted for on a pooled basis and the pools are considered to be performing. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all purchased impaired loans. Additionally, as of June 30, 2012 and December 31, 2011, $82.6 million and $118.6 million, respectively, were accruing past due loans 90 days or more.

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

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Changes in the carrying amount of the accretable yield for purchased impaired and non-impaired loans were as follows for the period ended June 30, 2012 for the Company s FDIC-assisted acquisitions.

	Accretable Yield	Carrying Amount of Loans
	(In thousands)	
Balance at beginning of period	$ 113,553	$ 481,739
Reforecasted future interest payments for loan pools	2,141	
Accretion	(17,887)	17,887
Transfers to foreclosed assets held for sale covered by FDIC loss share		(13,844)
Payments received, net		(53,360)
Balance at end of period	$ 97,807	$ 432,422

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 accretable yield expectations for those loan pools by $2.1 million. This updated forecast does not change the expected weighted average yields on the loan pools.

6. Allowance for Loan Losses and Credit Quality

The following table presents a summary of changes in the allowance for loan losses for the non-covered and covered loan portfolios for the period ended June 30, 2012:

	For Loans Not Covered by Loss Share	For Loans Covered by FDIC Loss Share	Total
		(In thousands)	
Allowance for loan losses:			
Beginning balance	$ 52,129	$	$ 52,129
Loans charged off	(3,070)		(3,070)
Recoveries of loans previously charged off	787		787
Net loans recovered (charged off)	(2,283)		(2,283)
Provision for loan losses before benefit attributable to FDIC loss share agreements		6,665	6,665
Benefit attributable to FDIC loss share agreements		(5,332)	(5,332)
Net provision for loan losses		1,333	1,333
Increase in FDIC indemnification asset		5,332	5,332
Balance, June 30	$ 49,846	$ 6,665	$ 56,511

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Allowance for Loan Losses and Credit Quality for Non-Covered Loans

The following tables present the balance in the allowance for loan losses for the non-covered loan portfolio for the three-month and six-month periods ended June 30, 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 June 30, 2012. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories. Additionally, the Company s discount which is accreted into income over the weighted-average life of the loans on non-covered loans acquired was $16.1 million and $2.5 million at June 30, 2012 and December 31, 2011, respectively.

	Three Months Ended June 30, 2012						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
Beginning balance	$ 9,408	$ 18,779	$ 12,697	$ 6,944	$ 3,100	$ 86	$ 51,014
Loans charged off	(267)	(212)	(480)	(3)	(639)		(1,601)
Recoveries of loans previously charged off	3	248	68	7	107		433
Net loans recovered (charged off)	(264)	36	(412)	4	(532)		(1,168)
Provision for loan losses	(3,848)	2,343	57	990	12	446	
Balance, June 30	$ 5,296	$ 21,158	$ 12,342	$ 7,938	$ 2,580	$ 532	$ 49,846

	Six Months Ended June 30, 2012						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
Beginning balance	$ 7,945	$ 20,368	$ 12,196	$ 6,308	$ 3,258	$ 2,054	$ 52,129
Loans charged off	(313)	(271)	(1,195)	(209)	(1,082)		(3,070)
Recoveries of loans previously charged off	7	272	108	87	313		787
Net loans recovered (charged off)	(306)	1	(1,087)	(122)	(769)		(2,283)
Provision for loan losses	(2,343)	789	1,233	1,752	91	(1,522)	
Balance, June 30	$ 5,296	$ 21,158	$ 12,342	$ 7,938	$ 2,580	$ 532	$ 49,846

	As of June 30, 2012						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 3,124	$ 15,234	$ 7,806	$ 5,522	$ 1,487	$	$ 33,173
Loans collectively evaluated for impairment	2,172	5,924	4,536	2,416	1,093	532	16,673
Balance, June 30	$ 5,296	$ 21,158	$ 12,342	$ 7,938	$ 2,580	$ 532	$ 49,846

Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 35,364	$ 102,301	$ 30,882	$ 12,984	$ 2,219	$	$ 183,750
Loans collectively evaluated for impairment	234,007	782,603	556,342	184,294	94,491		1,851,737
Balance, June 30	$ 269,371	$ 884,904	$ 587,224	$ 197,278	$ 96,710	$	$ 2,035,487

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The following tables present the balance in the allowance for loan losses for the non-covered loan portfolio for the year ended December 31, 2011, 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, 2011. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories.

	Year Ended December 31, 2011						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Beginning balance	$ 12,002	$ 17,247	$ 14,297	$ 6,357	$ 1,022	$ 2,423	$ 53,348
Loans charged off	(231)	(20)	(784)	(152)	(1,995)		(3,182)
Recoveries of loans previously charged off	6	163	248	4,616	335		5,368
Net loans recovered (charged off)	(225)	143	(536)	4,464	(1,660)		2,186
Provision for loan losses	(459)	1,751	563	(3,702)	3,088	9	1,250
Balance, June 30	11,318	19,141	14,324	7,119	2,450	2,432	56,784
Loans charged off	(3,359)	(4,056)	(2,515)	(419)	(1,164)		(11,513)
Recoveries of loans previously charged off	821	115	2,229	1,201	242		4,608
Net loans recovered (charged off)	(2,538)	(3,941)	(286)	782	(922)		(6,905)
Provision for loan losses	(835)	5,168	(1,842)	(1,593)	1,730	(378)	2,250
Balance, December 31	$ 7,945	$ 20,368	$ 12,196	$ 6,308	$ 3,258	$ 2,054	$ 52,129

	As of December 31, 2011						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 4,428	$ 15,050	$ 8,485	$ 3,503	$ 2,205	$	$ 33,671
Loans collectively evaluated for impairment	3,517	5,318	3,711	2,805	1,053	2,054	18,458
Balance, December 31	$ 7,945	$ 20,368	$ 12,196	$ 6,308	$ 3,258	$ 2,054	$ 52,129
Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 25,534	$ 105,516	$ 29,818	$ 9,535	$ 2,798	$	$ 173,201
Loans collectively evaluated for impairment	336,312	622,005	376,634	166,741	85,193		1,586,885
Balance, December 31	$ 361,846	$ 727,521	$ 406,452	$ 176,276	$ 87,991	$	$ 1,760,086

The following is an aging analysis for the non-covered loan portfolio as of June 30, 2012 and December 31, 2011:

	June 30, 2012						
	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due	Current Loans	Total Loans Receivable	Accruing Loans Past Due 90 Days or More
	(In thousands)						
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$ 2,729	$ 1,773	$ 6,030	$ 10,532	$ 845,802	$ 856,334	$
Construction/land development	1,817	863	2,862	5,542	263,829	269,371	770
Agricultural			159	159	28,411	28,570	
Residential real estate loans							
Residential 1-4 family	4,371	2,525	13,158	20,054	460,964	481,018	534
Multifamily residential		1,316		1,316	104,890	106,206	
Total real estate	8,917	6,477	22,209	37,603	1,703,896	1,741,499	1,304
Consumer	384	193	845	1,422	35,724	37,146	22
Commercial and industrial	821	54	1,879	2,754	194,524	197,278	
Agricultural and other	577	16	1,203	1,796	57,768	59,564	
Total	$ 10,699	$ 6,740	$ 26,136	$ 43,575	$ 1,991,912	$ 2,035,487	$ 1,326

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

Non-accruing loans not covered by loss share at June 30, 2012 and December 31, 2011 were $24.8 million and $26.5 million, respectively.

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The following is a summary of the non-covered impaired loans as of June 30, 2012 and December 31, 2011:

	June 30, 2012						
				Three Months Ended		Six 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
	(In thousands)						
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$ 76,659	$ 72,081	$ 15,234	$ 72,201	$ 960	$ 74,860	$ 1,960
Construction/land development	16,596	16,220	3,124	19,077	205	19,252	501
Agricultural	33	33		17	1	11	1
Residential real estate loans Residential 1-4 family	23,227	20,571	5,227	21,893	169	21,343	401
Multifamily residential	6,658	6,658	2,579	6,617	84	6,603	166
Total real estate	123,173	115,563	26,164	119,805	1,419	122,069	3,029
Consumer	737	712	344	1,156	12	1,302	26
Commercial and industrial	13,830	12,253	5,522	11,016	172	10,217	324
Agricultural and other	1,203	1,203	1,143	1,203		1,203	21
Total	$ 138,943	$ 129,731	$ 33,173	$ 133,180	$ 1,603	$ 134,791	$ 3,400

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

All of the Company s non-covered impaired loans have a specific allocation of the allowance for loan losses, with the exception of certain troubled debt restructurings (TDR) where the discounted cash flows under the restructuring are greater than or equal to those under the original terms of the loan. Interest recognized on non-covered impaired loans during the three months ended June 30, 2012 and 2011 was approximately

$1.6 million and $1.4 million, respectively. Interest recognized on non-covered impaired loans during the six months ended June 30, 2012 and 2011 was approximately $3.4 million and $2.6 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 by class as of June 30, 2012 and December 31, 2011:

	June 30, 2012			
	Risk Rated 6	**Risk Rated 7**	**Risk Rated 8**	**Classified Total**
	(In thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	$ 53,063	$	$	$ 53,063
Construction/land development	5,824	26		5,850
Agricultural	159			159
Residential real estate loans				
Residential 1-4 family	21,832	110		21,942
Multifamily residential	4,880			4,880
Total real estate	85,758	136		85,894
Consumer	1,688			1,688
Commercial and industrial	12,461	16		12,477
Agricultural and other	1,251			1,251
Total	$ 101,158	$ 152	$	$ 101,310

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

Loans may be classified, but not considered impaired, due to one of the following reasons: (1) The Company has established minimum dollar amount thresholds for loan impairment testing. All loans over $250,000 that are rated 5 or worse are individually assessed for impairment on a quarterly basis. Loans rated 6 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 June 30, 2012 and December 31, 2011:

	June 30, 2012 (In thousands)						
	Risk Rated 1	Risk Rated 2	Risk Rated 3	Risk Rated 4	Risk Rated 5	Classified Total	Total
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$ 9	$ 57	$ 393,419	$ 365,547	$ 44,239	$ 53,063	$ 856,334
Construction/land development	298	524	87,952	149,341	25,406	5,850	269,371
Agricultural			11,003	17,408		159	28,570
Residential real estate loans							
Residential 1-4 family	376	153	309,178	137,657	11,712	21,942	481,018
Multifamily residential			34,665	64,883	1,778	4,880	106,206
Total real estate	683	734	836,217	734,836	83,135	85,894	1,741,499
Consumer	9,466	139	17,109	7,751	993	1,688	37,146
Commercial and industrial	12,450	1,245	88,982	79,000	3,124	12,477	197,278
Agricultural and other	26	2,300	25,602	30,383	2	1,251	59,564
Total	$ 22,625	$ 4,418	$ 967,910	$ 851,970	$ 87,254	$ 101,310	$ 2,035,487

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

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The following is a presentation of non-covered TDR s by class:

	June 30, 2012					
	Number of Loans	Pre-Modification Outstanding Balance	Rate Modification	Term Modification	Rate & Term Modification	Post-Modification Outstanding Balance
			(In thousands)			
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	28	$ 39,312	$ 21,824	$ 2,764	$ 7,189	$ 31,777
Construction/land development	3	8,114	7,462		405	7,867
Agricultural	1	34		33		33
Residential real estate loans						
Residential 1-4 family	13	9,107	5,044	125	264	5,433
Multifamily residential	2	4,586	3,787			3,787
Total real estate	47	61,153	38,117	2,922	7,858	48,897
Commercial and industrial	4	336	305		16	321
Total	51	$ 61,489	$ 38,422	$ 2,922	$ 7,874	$ 49,218

	December 31, 2011					
	Number of Loans	Pre-Modification Outstanding Balance	Rate Modification	Term Modification	Rate & Term Modification	Post-Modification Outstanding Balance
			(In thousands)			
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	27	$ 39,420	$ 22,739	$ 5,319	$ 4,326	$ 32,384
Construction/land development	6	11,114	7,642	34	3,259	10,935
Residential real estate loans						
Residential 1-4 family	16	9,572	5,055	124	771	5,950
Multifamily residential	2	4,586	3,692			3,692
Total real estate	51	64,692	39,128	5,477	8,356	52,961
Commercial and industrial	5	534	115		195	310
Total	56	$ 65,226	$ 39,243	$ 5,477	$ 8,551	$ 53,271

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

	June 30, 2012		December 31, 2011	
	Number of Loans	Recorded Balance	Number of Loans	Recorded Balance
	(In thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	4	$ 4,579	3	$ 4,147
Construction/land development			1	112

Residential real estate loans					
Residential 1-4 family	5		2,260	3		1,805
Total real estate	9		6,839	7		6,064
Commercial and industrial	1		92	1		10
Total	10	$	6,931	8	$	6,074

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Allowance for Loan Losses and Credit Quality for Covered Loans

During the second quarter of 2012, impairment testing on the estimated cash flows of the covered loans established that two pools evaluated had experienced material projected credit deterioration. As a result, the Company recorded a $6.6 million provision for loan losses to the allowance for loan losses related to the purchased impaired loans during the three month period ended June 30, 2012. Since these loans are covered by loss share with the FDIC, the Company was able to increase its indemnification asset by $5.3 million resulting in a net provision for loan losses of $1.3 million. There were no allowances for loan losses related to the purchased impaired loans at December 31, 2011.

The following tables present the balance in the allowance for loan losses for the covered loan portfolio for the three-month and six-month periods ended June 30, 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 June 30, 2012. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories.

	Three Months Ended June 30, 2012						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
Beginning balance	$	$	$	$	$	$	$
Loans charged off							
Recoveries of loans previously charged off							
Net loans recovered (charged off)							
Provision for loan losses before benefit attributable to FDIC loss share agreements	1,527	4,391	533	59	155		6,665
Benefit attributable to FDIC loss share agreements	(1,222)	(3,513)	(426)	(47)	(124)		(5,332)
Net provision for loan losses	305	878	107	12	31		1,333
Increase in FDIC indemnification asset	1,222	3,513	426	47	124		5,332
Balance, June 30	$ 1,527	$ 4,391	$ 533	$ 59	$ 155	$	$ 6,665

	Six Months Ended June 30, 2012						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
Beginning balance	$	$	$	$	$	$	$
Loans charged off							
Recoveries of loans previously charged off							
Net loans recovered (charged off)							
Provision for loan losses before	1,527	4,391	533	59	155		6,665

benefit attributable to FDIC loss

share agreements

Benefit attributable to FDIC loss share agreements	(1,222)	(3,513)	(426)	(47)	(124)		(5,332)
Net provision for loan losses	305	878	107	12	31		1,333
Increase in FDIC indemnification asset	1,222	3,513	426	47	124		5,332
Balance, June 30	$ 1,527	$ 4,391	$ 533	$ 59	$ 155	$	$ 6,665

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	As of June 30, 2012						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$	$	$	$	$	$	$
Loans collectively evaluated for impairment	1,527	4,391	533	59	155		6,665
Balance, June 30	$ 1,527	$ 4,391	$ 533	$ 59	$ 155	$	$ 6,665
Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$	$	$	$	$	$	$
Loans collectively evaluated for impairment	74,989	190,538	146,715	19,541	639		432,422
Balance, June 30	$ 74,989	$ 190,538	$ 146,715	$ 19,541	$ 639	$	$ 432,422

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 June 30, 2012 and December 31, 2011, were as follows:

	June 30, 2012	December 31, 2011
	(In thousands)	
Goodwill		
Balance, beginning of period	$ 59,663	$ 59,663
Vision Bank acquisition	17,427	
Balance, end of period	$ 77,090	$ 59,663

	2012	2011
	(In thousands)	
Core Deposit and Other Intangibles		
Balance, beginning of period	$ 8,620	$ 11,447
Vision Bank acquisition	3,190	
Amortization expense	(1,324)	(1,417)
Balance, June 30	$ 10,486	10,030
Amortization expense		(1,410)
Balance, end of year		$ 8,620

The carrying basis and accumulated amortization of core deposits and other intangibles at June 30, 2012 and December 31, 2011 were:

	June 30, 2012	**December 31, 2011**
	(In thousands)	
Gross carrying basis	$ 26,651	$ 23,461
Accumulated amortization	16,165	14,841
Net carrying amount	$ 10,486	$ 8,620

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Core deposit and other intangible amortization was approximately $694,000 and $704,000 for each of the three-months ended June 30, 2012 and 2011, respectively. Core deposit and other intangible amortization was approximately $1.3 million and $1.4 million for each of the six-months ended June 30, 2012 and 2011, respectively. Including the Vision acquisition completed as of February 16, 2012, HBI s estimated amortization expense of core deposits and other intangibles for each of the years 2012 through 2016 is approximately: 2012 $2.7 million; 2013 $2.8 million; 2014 $2.6 million; 2015 $1.8 million; 2016 $543,000.

The carrying amount of the Company s goodwill was $77.1 million at June 30, 2012 and $59.7 million at December 31, 2011. 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. Deposits

The aggregate amount of time deposits with a minimum denomination of $100,000 was $685.5 million and $703.2 million at June 30, 2012 and December 31, 2011, respectively. Interest expense applicable to certificates in excess of $100,000 totaled $2.1 million and $3.1 million for the three months ended June 30, 2012 and 2011, respectively. Interest expense applicable to certificates in excess of $100,000 totaled $4.6 million and $6.4 million for the six months ended June 30, 2012 and 2011, respectively. As of June 30, 2012 and December 31, 2011, brokered deposits were $104.4 million and $103.4 million, respectively.

Deposits totaling approximately $486.7 million and $279.8 million at June 30, 2012 and December 31, 2011, respectively, were public funds obtained primarily from state and political subdivisions in the United States.

9. Securities Sold Under Agreements to Repurchase

At June 30, 2012 and December 31, 2011, securities sold under agreements to repurchase totaled $66.6 million and $62.3 million, respectively. For the three month periods ended June 30, 2012 and June 30, 2011, securities sold under agreements to repurchase daily weighted average totaled $71.5 million and $68.2 million, respectively. For the six month periods ended June 30, 2012 and June 30, 2011, securities sold under agreements to repurchase daily weighted average totaled $70.3 million and $69.6 million, respectively.

10. FHLB Borrowed Funds

The Company s FHLB borrowed funds were $140.5 million and $142.8 million at June 30, 2012 and December 31, 2011. All of the outstanding balance at June 30, 2012 and December 31, 2011 were long-term advances. The FHLB advances mature from the current year to 2025 with fixed interest rates ranging from 2.020% to 4.799% and are secured by loans and investments securities. Expected maturities will differ from contractual maturities, because FHLB may have the right to call or prepay certain obligations.

Additionally, the Company had $90.5 million and $135.0 million at June 30, 2012 and December 31, 2011, respectively, in letters of credit under a FHLB blanket borrowing line of credit, which are used to collateralize public deposits at June 30, 2012 and December 31, 2011, respectively.

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11. Income Taxes

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(In thousands)			
Current:				
Federal	$ 5,777	$ 8,762	$ 12,712	$ 17,782
State	1,359	1,821	2,401	3,447
Total current	7,136	10,583	15,113	21,229
Deferred:				
Federal	1,526	(2,530)	1,339	(5,894)
State	303	(629)	266	(1,171)
Total deferred	1,829	(3,159)	1,605	(7,065)
Provision for income taxes	$ 8,965	$ 7,424	$ 16,718	$ 14,164

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Statutory federal income tax rate	35.00%	35.00%	35.00%	35.00%
Effect of nontaxable interest income	(2.50)	(2.89)	(2.60)	(2.99)
Cash value of life insurance	(0.31)	(0.48)	(0.35)	(0.46)
State income taxes, net of federal benefit	4.42	3.70	3.71	3.66
Other	0.05	0.07	0.03	(0.17)
Effective income tax rate	36.66%	35.40%	35.79%	35.04%

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:

	June 30, 2012	December 31, 2011
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 19,578	$ 20,474
Deferred compensation	1,438	1,839
Stock options	326	317
Real estate owned	8,433	9,189
Loan discounts	46,244	57,095
Tax basis premium/discount on acquisitions	24,471	14,306
Deposits	677	357

Other	4,462	5,236
Gross deferred tax assets	105,629	108,813
Deferred tax liabilities:		
Accelerated depreciation on premises and equipment	2,093	2,299
Unrealized gain on securities	6,544	5,167
Core deposit intangibles	749	1,159
Indemnification asset	63,034	75,254
FHLB dividends	884	879
Other	1,210	1,205
Gross deferred tax liabilities	74,514	85,963
Net deferred tax assets	$ 31,115	$ 22,850

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12. Common Stock and Compensation Plans

Stock Compensation Plans

The Company has a stock option and performance incentive plan. The purpose of the plan is to attract and retain highly qualified officers, directors, key employees, and other persons, and to motivate those persons to improve our business results. On April 19, 2012, our shareholders approved the Amended and Restated 2006 Stock Option and Performance Incentive Plan (the Plan). As a result of the required shareholder approval at the Annual Shareholder Meeting held on April 19, 2012, the Plan has become effective as of February 27, 2012 and increased the number of shares reserved for issuance under the Plan by 540,000 shares. As of April 19, 2012, this plan provided for the granting of incentive nonqualified options to purchase stock or for the issuance of restricted shares up to 2,322,000 of common stock in the Company. As of April 19, 2012, the Company has approximately 1,000,000 shares of common stock remaining available for grants or issuance under the plan and approximately 1,598,000 shares reserved for issuance of common stock.

The intrinsic value of the stock options outstanding and stock options vested at June 30, 2012 was $10.4 million and $10.1 million, respectively. The intrinsic value of the stock options exercised during the three-month period ended June 30, 2012 was approximately $441,000. The intrinsic value of the stock options exercised during the six-month period ended June 30, 2012 was approximately $627,000. 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 $291,000 as of June 30, 2012. For the first six months of 2012, the Company has expensed $42,000 for the non-vested awards.

The table below summarized the transactions under the Company s stock option plans at June 30, 2012 and December 31, 2011 and changes during the six-month period and year then ended:

	For the Six Months Ended June 30, 2012		For the Year Ended December 31, 2011	
	Shares (000)	Weighted Average Exercisable Price	Shares (000)	Weighted Average Exercisable Price
Outstanding, beginning of year	569	$ 11.36	660	$ 10.88
Granted	45	26.25		
Forfeited*		11.09		
Exercised	(37)	10.63	(91)	7.87
Expired				
Outstanding, end of period	577	12.57	569	11.36
Exercisable, end of period	522	$ 11.27	550	$ 11.13

* Share amount rounded to zero when rounding to the thousands.

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 six-months ended June 30, 2012, was $7.18. There were no options granted during 2011. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model based on the weighted-average assumptions for expected dividend yield, expected stock price volatility, risk-free interest rate, and expected life of options granted. During first six months of 2012, none of the stock options granted were to executive officers of the Company.

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	For the Six Months Ended June 30, 2012	For the Year Ended December 31, 2011
Expected dividend yield	1.52%	Not applicable
Expected stock price volatility	30.56%	Not applicable
Risk-free interest rate	1.47%	Not applicable
Expected life of options	6.5 years	Not applicable

The following is a summary of currently outstanding and exercisable options at June 30, 2012:

	Options Outstanding			Options Exercisable	
Exercise Prices	Options Outstanding Shares (000)	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Options Exercisable Shares (000)	Weighted-Average Exercise Price
$ 6.17 to $7.01	53	1.70	$ 6.28	53	$ 6.28
$ 7.85 to $8.68	61	2.02	8.53	61	8.53
$ 9.55 to $9.83	50	3.00	9.62	50	9.62
$ 10.66 to $10.66	102	3.41	10.66	102	10.66
$ 11.09 to $11.09	172	3.70	11.09	172	11.09
$ 16.65 to $17.82	56	5.23	17.28	49	17.30
$ 18.50 to $18.62	9	5.01	18.59	8	18.58
$ 20.33 to $22.74	29	4.88	20.78	27	20.62
$ 26.25 to $26.25	45	9.56	26.25		
	577			522	

The table below summarized the activity for the Company s restricted stock issued and outstanding at June 30, 2012 and December 31, 2011 and changes during the periods then ended:

	As of June 30, 2012	As of December 31, 2011
	(in thousands)	
Beginning of year	49	22
Issued		32
Vested	(16)	(5)
End of period	33	49
Amount of expense	$ 190	$ 351

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

During the first six months of 2012, the Company utilized a portion of its previously approved stock repurchase program. This program authorized the repurchase of 1,188,000 shares of the Company s common stock. For the second quarter of 2012, the Company repurchased a total of 32,634 shares with a weighted average stock price of $27.72. For the six-months period ended June 30, 2012, the Company repurchased a total of 238,234 shares with a weighted average stock price of $25.62. The Company believes the stock repurchased at this price is an excellent investment. The 2012 earnings were used to fund these repurchases. Combining all the shares repurchased to date under the program will bring the total to 538,234 shares. The remaining balance available for repurchase is 649,766 shares at June 30, 2012.

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13. Non-Interest Expense

The table below shows the components of non-interest expense for the three months and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Salaries and employee benefits	$ 11,903	$ 10,680	$ 23,289	$ 21,758
Occupancy and equipment	3,552	3,648	6,983	7,361
Data processing expense	1,371	1,137	2,462	2,422
Other operating expenses:				
Advertising	904	1,015	1,364	2,013
Merger expenses			1,692	11
Amortization of intangibles	694	704	1,324	1,417
Electronic banking expense	728	697	1,521	1,356
Directors fees	193	179	405	364
Due from bank service charges	159	119	275	259
FDIC and state assessment	516	1,058	1,154	2,151
Insurance	424	408	825	779
Legal and accounting	287	462	609	909
Other professional fees	354	569	852	982
Operating supplies	291	322	555	611
Postage	240	242	461	487
Telephone	276	259	522	522
Other expense	2,532	2,357	4,517	4,315
Total other operating expenses	7,598	8,391	16,076	16,176
Total non-interest expense	$ 24,424	$ 23,856	$ 48,810	$ 47,717

14. 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 Baldwin County, 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.

15. 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 8.

Although the Company has a diversified loan portfolio, at June 30, 2012 and December 31, 2011, non-covered commercial real estate loans represented 56.7% and 61.9% of non-covered loans and 233.0% and 229.8% of total stockholders equity, respectively. Non-covered residential real estate loans represented 28.8% and 23.1% of non-covered loans and 118.5% and 85.7% of total stockholders equity at June 30, 2012 and December 31, 2011, respectively.

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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.

16. 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 June 30, 2012 and December 31, 2011, commitments to extend credit of $331.3 million and $292.4 million, respectively, were outstanding. A percentage of these balances is 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 June 30, 2012 and December 31, 2011, is $21.5 million and $22.8 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.

17. 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 six months of 2012, the Company requested approximately $23.3 million in dividends from its banking subsidiary. This dividend is equal to approximately 75% of the current month earnings December through May from its banking subsidiary.

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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 June 30, 2012, 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 11.08%, 15.78%, and 17.04%, respectively, as of June 30, 2012.

18. Additional Cash Flow Information

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

	Six Months Ended June 30,	
	2012	2011
	(in thousands)	
Interest paid	$ 12,985	$ 16,612
Income taxes paid	17,170	15,350
Assets acquired by foreclosure	15,679	25,247
FDIC-assisted acquisition fixed assets acquired yet to have a cash settlement		9,381

19. Financial Instruments

FASB ASC 820, *Fair Value Measurements and Disclosures,* defines fair value as 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. FASB ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

Available-for-sale securities are the only material instruments valued on a recurring basis which are held by the Company at fair value. The Company does not have any Level 1 securities. Primarily all of the Company s securities are considered to be Level 2 securities. These Level 2 securities consist primarily of U.S. government-sponsored enterprises, mortgage-backed securities plus state and political subdivisions. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions, among other things. As of June 30, 2012, Level 3 securities were immaterial.

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

Impaired loans that are collateral dependent are the only material financial assets valued on a non-recurring basis which are held by the Company at fair value. Loan impairment is reported when full payment under the loan terms is not expected. Impaired loans are carried at the net realizable value of the collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require increase, such increase is reported as a component of the provision for loan losses. The fair value of loans with specific allocated losses was $96.6 million and $104.4 million as of June 30, 2012 and December 31, 2011, respectively. This valuation is considered Level 3, consisting of appraisals of underlying collateral. The Company reversed approximately $72,000 of accrued interest receivable when non-covered impaired loans were put on non-accrual status during the three months ended June 30, 2012. The Company reversed approximately $121,000 of accrued interest receivable when non-covered impaired loans were put on non-accrual status during the six months ended June 30, 2012.

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 June 30, 2012 and December 31, 2011, the fair value of foreclosed assets held for sale not covered by loss share, less estimated costs to sell was $14.5 million and $16.7 million, respectively.

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

Fair Values of Financial Instruments

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

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

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

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

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

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

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

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

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

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

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.

	June 30, 2012		
	Carrying Amount	Fair Value	Level
	(In thousands)		
Financial assets:			
Cash and cash equivalents	$ 358,530	$ 358,530	1
Federal funds sold	575	575	1
Loans receivable not covered by loss share, net of non-covered impaired loans and allowance	1,889,083	1,867,704	3
Loans receivable covered by FDIC loss share, net of allowance	425,757	425,757	3
FDIC indemnification asset	162,439	162,439	3
Accrued interest receivable	14,834	14,834	1
Financial liabilities:			
Deposits:			
Demand and non-interest bearing	$ 597,374	$ 597,374	1
Savings and interest-bearing transaction accounts	1,521,869	1,521,869	1
Time deposits	1,174,286	1,177,593	3
Federal funds purchased			N/A
Securities sold under agreements to repurchase	66,620	66,620	1
FHLB and other borrowed funds	140,523	149,729	2
Accrued interest payable	1,872	1,872	1
Subordinated debentures	44,331	46,828	3

	December 31, 2011		
	Carrying Amount	Fair Value	Level
	(In thousands)		
Financial assets:			
Cash and cash equivalents	$ 184,304	$ 184,304	1
Federal funds sold	1,100	1,100	1
Loans receivable not covered by loss share, net of non-covered impaired loans and allowance	1,603,606	1,587,453	3
Loans receivable covered by FDIC loss share	481,739	481,739	3
FDIC indemnification asset	193,856	193,856	3
Accrued interest receivable	15,551	15,551	1
Financial liabilities:			
Deposits:			
Demand and non-interest bearing	$ 464,581	$ 464,581	1
Savings and interest-bearing transaction accounts	1,189,098	1,189,098	1
Time deposits	1,204,352	1,209,689	3
Federal funds purchased			N/A
Securities sold under agreements to repurchase	62,319	62,319	1
FHLB and other borrowed funds	142,777	150,789	2
Accrued interest payable	2,125	2,125	1
Subordinated debentures	44,331	47,109	3

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20. Recent Accounting Pronouncements

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.

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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 June 30, 2012, and the related condensed consolidated statements of income and comprehensive income for the three-month and six-month periods ended June 30, 2012 and 2011, and condensed consolidated statements of stockholders equity and cash flows for the six-month periods ended June 30, 2012 and 2011. 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, 2011, and the related consolidated statements of income, stockholders equity and cash flows for the year then ended (not presented herein); and in our report dated March 5, 2012, 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, 2011, 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
August 7, 2012

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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 5, 2012, which includes the audited financial statements for the year ended December 31, 2011. *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 June 30, 2012, we had, on a consolidated basis, total assets of $4.06 billion, loans receivable of $2.47 billion, total deposits of $3.29 billion, and stockholders equity of $495.4 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 Ended June 30,		As of or for the Six Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars in thousands, except per share data)			
Total assets	$ 4,056,405	$ 3,694,469	$ 4,056,405	$ 3,694,469
Loans receivable not covered by loss share	2,035,487	1,812,718	2,035,487	1,812,718
Loans receivable covered by FDIC loss share	432,422	548,236	432,422	548,236
FDIC loss share receivable	40,912	31,251	40,912	31,251
Total deposits	3,293,529	2,899,793	3,293,529	2,899,793
Total stockholders equity	495,435	504,449	495,435	504,449
Net income	15,490	13,546	29,988	26,262
Net income available to common stockholders	15,490	12,876	29,988	24,922
Basic earnings per common share	0.55	0.46	1.06	0.88
Diluted earnings per common share	0.55	0.45	1.06	0.87
Diluted earnings per common share excluding intangible amortization (1)	0.57	0.46	1.09	0.90
Annualized net interest margin FTE	4.65%	4.69%	4.65%	4.65%
Efficiency ratio	46.22	50.39	47.92	50.54
Annualized return on average assets	1.53	1.47	1.53	1.43
Annualized return on average common equity	12.80	11.64	12.51	11.50

(1) See Table 17 Diluted Earnings Per Share Excluding Intangible Amortization for a reconciliation to GAAP for diluted earnings per share excluding intangible amortization.

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Overview

Results of Operations for Three Months Ended June 30, 2012 and 2011

Our net income increased 14.4% to $15.5 million for the three-month period ended June 30, 2012, from $13.5 million for the same period in 2011. On a diluted earnings per share basis, our earnings were $0.55 and $0.45 for the three-month periods ended June 30, 2012 and 2011, respectively. The $2.0 million increase in net income is primarily associated with additional net income resulting from our 2012 Vision acquisition combined with non-recurring gains during 2012 offset by the expected reduction in income from FDIC indemnification accretion and a provision for loan losses on covered loans as a result of an impairment of the estimated cash flows on two covered loan pools.

Our annualized return on average assets was 1.53% for the three months ended June 30, 2012, compared to 1.47% for the same period in 2011. Our annualized return on average common equity was 12.80% for the three months ended June 30, 2012, compared to 11.64% for the same period in 2011, respectively. The improvements in our ratios from 2011 to 2012 are consistent with the previously discussed changes in earnings for the three months ended June 30, 2012, compared to the same period in 2011.

Our annualized net interest margin, on a fully taxable equivalent basis, was 4.65% for the three months ended June 30, 2012, compared to 4.69% for the same period in 2011. Our ability to improve pricing on interest bearing deposits to offset the lowering of interest rates in the loan portfolio during this lower rate environment allowed the Company to maintain a solid net interest margin. Our FDIC-assisted acquisitions have helped improve the yield on the loan portfolio. For the three months ended June 30, 2012 the effective yield on non-covered loans and covered loans was 6.21% and 7.91%, respectively.

Our efficiency ratio was 46.22% for the three months ended June 30, 2012, compared to 50.39% for the same period in 2011. The improvement in the efficiency ratio is primarily associated with increased net interest income and non-interest income resulting from our 2012 Vision acquisition combined with non-recurring gains offset by the expected reduction in income from FDIC indemnification accretion and increased costs associated with the asset growth from the Vision acquisition.

Results of Operations for Six Months Ended June 30, 2012 and 2011

Our net income increased 14.2% to $30.0 million for the six-month period ended June 30, 2012, from $26.3 million for the same period in 2011. On a diluted earnings per share basis, our earnings were $1.06 and $0.87 for the six-month periods ended June 30, 2012 and 2011, respectively. The $3.7 million increase in net income is primarily associated with additional net income resulting from our 2012 Vision acquisition combined with non-recurring gains during 2012 versus losses during 2011 offset by merger expenses and the expected reduction in income from FDIC indemnification accretion. The total provision for loan losses was approximately $1.3 million for both periods.

Our annualized return on average assets was 1.53% for the six months ended June 30, 2012, compared to 1.43% for the same period in 2011. Our annualized return on average common equity was 12.51% for the six months ended June 30, 2012, compared to 11.50% for the same period in 2011, respectively. The improvements in our ratios from 2011 to 2012 are consistent with the previously discussed changes in earnings for the six months ended June 30, 2012, compared to the same period in 2011.

Our annualized net interest margin, on a fully taxable equivalent basis, was 4.65% for the six months ended June 30, 2012, equal to the 4.65% for the same period in 2011. Our ability to improve pricing on interest bearing deposits to offset the lowering of interest rates in the loan portfolio during this lower rate environment allowed the Company to maintain a solid net interest margin. Our FDIC-assisted acquisitions have helped improve the yield on the loan portfolio. For the six months ended June 30, 2012 the effective yield on non-covered loans and covered loans was 6.21% and 7.84%, respectively.

Our efficiency ratio was 47.92% for the six months ended June 30, 2012, compared to 50.54% for the same period in 2011. The improvement in the efficiency ratio is primarily associated with increased net interest income and non-interest income resulting from our 2012 Vision acquisition combined with non-recurring gains during 2012 versus losses during 2011 offset by merger expenses, the expected reduction in income from FDIC indemnification accretion and increased costs associated with the asset growth from the Vision acquisition.

Financial Condition as of and for the Period Ended June 30, 2012 and December 31, 2011

Our total assets as of June 30, 2012 increased $452.3 million to $4.06 billion from the $3.60 billion reported as of December 31, 2011. Excluding the $529.5 million of assets acquired from our 2012 acquisition of Vision, our total assets as of June 30, 2012 decreased $77.2 million, an annualized decline of 4.31%. Our loan portfolio not covered by loss share increased by $275.4 million to $2.04 billion as of June 30, 2012, from $1.76 billion as of December 31, 2011. Excluding the $340.3 million of loans acquired from our 2012 acquisition of Vision, our loan portfolio not covered by loss share decreased by $64.9 million, an annualized reduction of 7.4%. Our loan portfolio covered by loss share decreased by $49.3 million, an annualized reduction of 20.6%, to $432.4 million as of June 30, 2012, from $481.7 million as of December 31, 2011. Stockholders equity increased $21.4 million to $495.4 million as of June 30, 2012, compared to $474.1 million as of December 31, 2011. The annualized improvement in stockholders equity for the first six months of 2012 was 9.1%. The decrease in loans is primarily associated with historically low loan demand and payoffs in our non-covered and covered loan portfolios. The increase in stockholders equity is primarily associated with the $32.1 million of comprehensive income less the $5.6 million of dividends paid for 2012 and $6.1 million used to repurchase 238,234 shares of common stock.

As of June 30, 2012, our non-performing non-covered loans decreased to $26.1 million, or 1.28%, of total non-covered loans from $27.5 million, or 1.56%, of total non-covered loans as of December 31, 2011. The allowance for loan losses as a percent of non-performing loans increased to 190.7% as of June 30, 2012, compared to 189.6% as of December 31, 2011. Non-performing non-covered loans in Arkansas were $8.1 million at June 30, 2012 compared to $7.8 million as of December 31, 2011. Non-performing non-covered loans in Florida were $17.5 million at June 30, 2012 compared to $19.7 million as of December 31, 2011. As of June 30, 2012, loans of approximately $498,000 in Alabama were non-performing.

As of June 30, 2012, our non-performing non-covered assets improved to $40.7 million, or 1.19%, of total non-covered assets from $44.2 million, or 1.53%, of total non-covered assets as of December 31, 2011. Non-performing non-covered assets in Arkansas were $20.4 million at June 30, 2012 compared to $20.0 million as of December 31, 2011. Non-performing non-covered assets in Florida were $19.7 million at June 30, 2012 compared to $24.2 million as of December 31, 2011. As of June 30, 2012, asset of approximately $498,000 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.

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Investments. Securities available for sale are reported at fair value with unrealized holding gains and losses reported as a separate component of stockholders equity and other comprehensive income (loss), net of taxes. Securities that are held as available for sale are used as a part of our asset/liability management strategy. Securities that may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital, and other similar factors are classified as available for sale.

Loans Receivable Not Covered by Loss Share and Allowance for Loan Losses. Substantially all of our loans receivable not covered by loss share are reported at their outstanding principal balance adjusted for any charge-offs, as it is management s intent to hold them for the foreseeable future or until maturity or payoff, except for mortgage loans held for sale. Interest income on loans is accrued over the term of the loans based on the principal balance outstanding.

The allowance for loan losses is established through a provision for loan losses charged against income. The allowance represents an amount that, in management s judgment, will be adequate to absorb probable credit losses on identifiable loans that may become uncollectible and probable credit losses inherent in the remainder of the loan portfolio. The amounts of provisions for loan losses are based on management s analysis and evaluation of the loan portfolio for identification of problem credits, internal and external factors that may affect collectability, relevant credit exposure, particular risks inherent in different kinds of lending, current collateral values and other relevant factors.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows, or collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical charge-off experience and expected loss given default derived from the Bank s internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risking 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.

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Acquisition Accounting, Covered Loans and Related Indemnification Asset. The Company accounts for its acquisitions under ASC Topic 805, *Business Combinations*, which requires the use of the purchase method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date as the fair value of the loans acquired incorporates assumptions regarding credit risk. Loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820, exclusive of the shared-loss agreements with the Federal Deposit Insurance Corporation (FDIC). The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

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

Because the FDIC will reimburse the Company for certain acquired loans should the Company experience a loss, an indemnification asset is recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectability or contractual limitations. The shared-loss agreements on the acquisition date reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties.

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.

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Income Taxes. The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, Income Taxes). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

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

The Company and its 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

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

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

Future Acquisitions

In our continuing evaluation of our growth plans for the Company, we believe properly priced bank acquisitions can complement our organic growth and de novo branching growth strategies. In the near term, our principal acquisition focus will be to expand our presence in Florida, Arkansas, Southern Alabama and other nearby markets through pursuing additional FDIC-assisted acquisition opportunities and non FDIC-assisted bank acquisitions. While we seek to be a successful bidder to the FDIC on one or more additional failed depository institutions within our targeted markets, there is no assurance that we will be the winning bidder on other FDIC-assisted transactions.

We will continue evaluating all types of potential bank acquisitions to determine what is in the best interest of our Company. Our goal in making these decisions is to maximize the return to our investors.

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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. Presently, we are evaluating additional opportunities but have no firm commitments for any additional de novo branch locations. During July, we closed two branches acquired in the Vision acquisition. These branch closures were completed to eliminate repetitive branches and maximize profitability from the Vision transaction. After these closures the Company now has 47 branches in Arkansas, 46 branches in Florida and 8 branches in Alabama. The Company expects two strategic branch closures during the third quarter of 2012 associated with the acquisition of Vision.

Results of Operations

For Three Months Ended June 30, 2012 and 2011

Our net income increased 14.4% to $15.5 million for the three-month period ended June 30, 2012, from $13.5 million for the same period in 2011. On a diluted earnings per share basis, our earnings were $0.55 and $0.45 for the three-month periods ended June 30, 2012 and 2011, respectively. The $2.0 million increase in net income is primarily associated with additional net income resulting from our 2012 Vision acquisition combined with non-recurring gains during 2012 offset by the expected reduction in income from FDIC indemnification accretion and a provision for loan losses on covered loans as a result of an impairment of the estimated cash flows on two covered loan pools.

For Six Months Ended June 30, 2012 and 2011

Our net income increased 14.2% to $30.0 million for the six-month period ended June 30, 2012, from $26.3 million for the same period in 2011. On a diluted earnings per share basis, our earnings were $1.06 and $0.87 for the six-month periods ended June 30, 2012 and 2011, respectively. The $3.7 million increase in net income is primarily associated with additional net income resulting from our 2012 Vision acquisition combined with non-recurring gains during 2012 versus losses during 2011 offset by merger expenses and the expected reduction in income from FDIC indemnification accretion. The total provision for loan losses was approximately $1.3 million for both periods.

Net Interest Income

Net interest income, our principal source of earnings, is the difference between the interest income generated by earning assets and the total interest cost of the deposits and borrowings obtained to fund those assets. Factors affecting the level of net interest income include the volume of earning assets and interest-bearing liabilities, yields earned on loans and investments and rates paid on deposits and other borrowings, the level of non-performing loans and the amount of non-interest-bearing liabilities supporting earning assets. Net interest income is analyzed in the discussion and tables below on a fully taxable equivalent basis. The adjustment to convert certain income to a fully taxable equivalent basis consists of dividing tax-exempt income by one minus the combined federal and state income tax rate.

The Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. The Federal Funds rate, which is the cost to banks of immediately available overnight funds, began in 2008 at 4.25%. During 2008, the rate decreased 400 to 425 basis points to a low of 0.25% to 0% on December 16, 2008, where the rate has remained.

Net interest income on a fully taxable equivalent basis increased $3.5 million, or 9.4%, to $40.3 million for the three-month period ended June 30, 2012, from $36.8 million for the same period in 2011. This increase in net interest income was the result of a $1.5 million increase in interest income combined with a $2.0 million decrease in interest expense. The $1.5 million increase in interest income was primarily the result of a higher level of earning assets offset by the repricing of our earning assets. The higher level of earning assets resulted in an increase in interest income of $3.1 million, while the repricing of our earning assets resulted in a $1.6 million decrease in interest income for the three-month period ended June 30, 2012. The $2.0 million decrease in interest expense for the three-month period ended June 30, 2012, is primarily the result of our interest bearing liabilities repricing in the lower interest rate environment offset by an increase in our interest bearing liabilities. The repricing of our interest bearing liabilities in the lower interest rate environment resulted in a $1.9 million decrease in interest expense. The change in the level of our interest bearing liabilities resulted in a reduction in interest expense of $67,000.

Net interest income on a fully taxable equivalent basis increased $5.5 million, or 7.6%, to $77.9 million for the six-month period ended June 30, 2012, from $72.4 million for the same period in 2011. This increase in net interest income was the result of a $1.8 million increase in interest income combined with a $3.7 million decrease in interest expense. The $1.8 million increase in interest income was primarily the result of a higher level of earning assets offset by the repricing of our earning assets. The higher level of earning assets resulted in an increase in interest income of $3.3 million, while the repricing of our earning assets resulted in a $1.6 million decrease in interest income for the six-month period ended June 30, 2012. The $3.7 million decrease in interest expense for the six-month period ended June 30, 2012, is primarily the result of our interest bearing liabilities repricing in the lower interest rate environment offset by an increase in our interest bearing liabilities. The repricing of our interest bearing liabilities in the lower interest rate environment resulted in a $3.3 million decrease in interest expense. The change in the level of our interest bearing liabilities resulted in a reduction in interest expense of $459,000.

Net interest margin, on a fully taxable equivalent basis, was 4.65% and 4.65% for the three and six months ended June 30, 2012 compared to 4.69% and 4.65% for the same periods in 2011, respectively. Our ability to improve pricing on interest bearing deposits to offset the lowering of interest rates in the loan portfolio during this lower rate environment allowed the Company to maintain net interest margin at a level consistent with most recent quarterly performance. The effective yield on non-covered loans for the three months ended June 30, 2012 and 2011 was 6.21% and 6.60%, respectively. The effective yield on covered loans for the three months ended June 30, 2012 and 2011 was 7.91% and 6.95%, respectively. The effective yield on non-covered loans for the six months ended June 30, 2012 and 2011 was 6.21% and 6.49%, respectively. The effective yield on covered loans for the six months ended June 30, 2012 and 2011 was 7.84% and 6.93%, respectively.

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Tables 1 and 2 reflect an analysis of net interest income on a fully taxable equivalent basis for the three-month and six-month periods ended June 30, 2012 and 2011, as well as changes in fully taxable equivalent net interest margin for the three-month and six-month periods ended June 30, 2012, compared to the same period in 2011.

Table 1: Analysis of Net Interest Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars in thousands)			
Interest income	$ 45,089	$ 43,580	$ 88,077	$ 86,335
Fully taxable equivalent adjustment	1,126	1,117	2,241	2,225
Interest income fully taxable equivalent	46,215	44,697	90,318	88,560
Interest expense	5,930	7,881	12,384	16,109
Net interest income fully taxable equivalent	$ 40,285	$ 36,816	$ 77,934	$ 72,451
Yield on earning assets fully taxable equivalent	5.33%	5.69%	5.39%	5.68%
Cost of interest-bearing liabilities	0.79	1.15	0.85	1.18
Net interest spread fully taxable equivalent	4.54	4.54	4.54	4.50
Net interest margin fully taxable equivalent	4.65	4.69	4.65	4.65

Table 2: Changes in Fully Taxable Equivalent Net Interest Margin

	Three Months Ended June 30, 2012 vs. 2011	Six Months Ended June 30, 2012 vs. 2011
	(In thousands)	
Increase (decrease) in interest income due to change in earning assets	$ 3,084	$ 3,349
Increase (decrease) in interest income due to change in earning asset yields	(1,566)	(1,591)
(Increase) decrease in interest expense due to change in interest-bearing liabilities	67	459
(Increase) decrease in interest expense due to change in interest rates paid on interest-bearing liabilities	1,884	3,266
Increase (decrease) in net interest income	$ 3,469	$ 5,483

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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-month and six-month periods ended June 30, 2012 and 2011. 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 June 30,					
	2012			2011		
	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
	(Dollars in thousands)					
ASSETS						
Earnings assets						
Interest-bearing balances due from banks	$ 222,822	$ 127	0.23%	$ 234,497	$ 142	0.24%
Federal funds sold	6,875	3	0.18	2,030	1	0.20
Investment securities taxable	599,585	3,060	2.05	374,163	2,204	2.36
Investment securities non-taxable	155,317	2,498	6.47	148,566	2,500	6.75
Loans receivable	2,501,464	40,527	6.52	2,391,825	39,850	6.68
Total interest-earning assets	3,486,063	46,215	5.33	3,151,081	44,697	5.69
Non-earning assets	586,198			552,445		
Total assets	$ 4,072,261			$ 3,703,526		
LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities						
Interest-bearing liabilities						
Savings and interest-bearing transaction accounts	$ 1,519,151	$ 1,003	0.27%	$ 1,127,525	$ 1,384	0.49%
Time deposits	1,228,764	3,161	1.03	1,348,513	4,602	1.37
Total interest-bearing deposits	2,747,915	4,164	0.61	2,476,038	5,986	0.97
Federal funds purchased	303		0.00			0.00
Securities sold under agreement to repurchase	71,485	111	0.62	68,235	125	0.73
FHLB borrowed funds	140,577	1,134	3.24	150,154	1,227	3.28
Subordinated debentures	44,331	521	4.73	44,331	543	4.91
Total interest-bearing liabilities	3,004,611	5,930	0.79	2,738,758	7,881	1.15
Non-interest bearing liabilities						
Non-interest bearing deposits	559,554			441,371		
Other liabilities	21,445			30,256		
Total liabilities	3,585,610			3,210,385		
Stockholders equity	486,651			493,141		
Total liabilities and stockholders equity	$ 4,072,261			$ 3,703,526		
Net interest spread			4.54%			4.54%
Net interest income and margin		$ 40,285	4.65%		$ 36,816	4.69%

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Table 3: Average Balance Sheets and Net Interest Income Analysis

	Six Months Ended June 30,					
	2012			2011		
	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
	(Dollars in thousands)					
ASSETS						
Earnings assets						
Interest-bearing balances due from banks	$ 187,196	$ 212	0.23%	$ 209,761	$ 247	0.24%
Federal funds sold	4,920	5	0.20	9,196	8	0.18
Investment securities taxable	584,238	5,920	2.04	356,646	4,364	2.47
Investment securities non-taxable	153,303	4,993	6.55	151,397	4,974	6.63
Loans receivable	2,443,163	79,188	6.52	2,415,199	78,967	6.59
Total interest-earning assets	3,372,820	90,318	5.39	3,142,199	88,560	5.68
Non-earning assets	576,573			556,363		
Total assets	$ 3,949,393			$ 3,698,562		
LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities						
Interest-bearing liabilities						
Savings and interest-bearing transaction accounts	$ 1,423,645	$ 2,014	0.28%	$ 1,116,993	$ 2,831	0.51%
Time deposits	1,234,986	6,810	1.11	1,375,386	9,415	1.38
Total interest-bearing deposits	2,658,631	8,824	0.67	2,492,379	12,246	0.99
Federal funds purchased	342		0.00			0.00
Securities sold under agreement to repurchase	70,268	221	0.63	69,638	264	0.76
FHLB borrowed funds	141,669	2,294	3.26	154,641	2,518	3.28
Subordinated debentures	44,331	1,045	4.74	44,331	1,081	4.92
Total interest-bearing liabilities	2,915,241	12,384	0.85	2,760,989	16,109	1.18
Non-interest bearing liabilities						
Non-interest bearing deposits	528,547			424,343		
Other liabilities	23,507			26,654		
Total liabilities	3,467,295			3,211,986		
Stockholders equity	482,098			486,576		
Total liabilities and stockholders equity	$ 3,949,393			$ 3,698,562		
Net interest spread			4.54%			4.50%
Net interest income and margin		$ 77,934	4.65%		$ 72,451	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 six-month periods ended June 30, 2012 compared to the same period in 2011, 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 June 30, 2012 over 2011			Six Months Ended June 30, 2012 over 2011		
	Volume	Yield/Rate	Total	Volume	Yield/Rate	Total
	(In thousands)					
Increase (decrease) in:						
Interest income:						
Interest-bearing balances due from banks	$ (7)	$ (8)	$ (15)	$ (26)	$ (9)	$ (35)
Federal funds sold	2		2	(4)	1	(3)
Investment securities taxable	1,182	(326)	856	2,408	(852)	1,556
Investment securities non-taxable	111	(113)	(2)	62	(43)	19
Loans receivable	1,796	(1,119)	677	909	(688)	221
Total interest income	3,084	(1,566)	1,518	3,349	(1,591)	1,758
Interest expense:						
Interest-bearing transaction and savings deposits	386	(767)	(381)	646	(1,463)	(817)
Time deposits	(382)	(1,059)	(1,441)	(897)	(1,708)	(2,605)
Federal funds purchased						
Securities sold under agreement to repurchase	6	(20)	(14)	2	(45)	(43)
FHLB borrowed funds	(77)	(16)	(93)	(210)	(14)	(224)
Subordinated debentures		(22)	(22)		(36)	(36)
Total interest expense	(67)	(1,884)	(1,951)	(459)	(3,266)	(3,725)
Increase (decrease) in net interest income	$ 3,151	$ 318	$ 3,469	$ 3,808	$ 1,675	$ 5,483

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.

During these tough economic times, the Company continues to follow our historical conservative procedures for lending and evaluating the provision and allowance for loan losses. We have not and do not participate in higher risk lending such as subprime. Our practice continues to be primarily traditional real estate lending with strong loan-to-value ratios. While there have been declines in our collateral value, particularly in Florida, these declines have been addressed in our assessment of the adequacy of the allowance for loan losses.

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

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

Our Company is primarily a real estate lender in Arkansas and Florida. As such we are subject to declines in asset quality when real estate prices fall during a recession. The current recession has harshly impacted the real estate market in Florida. During 2008, many real estate values declined in the 20 plus percent range in Florida. The Florida real estate prices continue to be significantly below the historical levels but for now the rate of decline has not been as dramatic. The Arkansas economy in our markets has been more stable over the past several years with no boom or bust. As a result, the Arkansas economy did fare better with its real estate values.

During the first quarter of 2008, we began to experience a decline in our asset quality, particularly in the Florida market. In 2008, non-performing non-covered loans started the year at $3.3 million but ended the year at $29.9 million. As of December 31, 2009 and 2010, non-performing non-covered loans were $39.9 million and $49.5 million, respectively. During 2011, we decreased the balance in non-performing non-covered loans $22.0 million to $27.5 million at December 31, 2011. Non-performing non-covered loans at June 30, 2012 were $26.1 million.

The provision for loan losses represents management s determination of the amount necessary to be charged against the current period s earnings, to maintain the allowance for loan losses at a level that is considered adequate in relation to the estimated risk inherent in the loan portfolio. The total provision was $1.3 million for the three months ended June 30, 2012 and zero for the same period in 2011 for an increase of $1.3 million. The total provision for loan losses was approximately $1.3 million for both six month periods ended June 30, 2012 and 2011, respectively.

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

The net loans charged off for non-covered loans for the three and six-month periods ended June 30, 2012 were $1.2 million and $2.3 million compared to net loans recovered of $3.2 million and $2.2 million for the same periods in 2011. The allowance for loan losses to total non-covered loans was 2.45% and 2.96% at June 30, 2012 and December 31, 2011, respectively. Excluding the acquisition of solely performing loans from Vision during the first quarter, our allowance for loan losses to total non-covered loans would have been 2.94% at June 30, 2012. The allowance for loan losses for non-covered loans was deemed adequate for the second quarter of 2012 without a provision for loan loss.

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

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Non-Interest Income

Total non-interest income was $11.1 million and $21.2 million for the three-month and six-month periods ended June 30, 2012 compared to $9.1 million and $19.2 million for the same periods in 2011, 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.

Table 5 measures the various components of our non-interest income for the three-month and six-month periods ended June 30, 2012 and 2011, respectively, as well as changes for the three-month and six-month periods ended June 30, 2012 compared to the same periods in 2011.

Table 5: Non-Interest Income

	Three Months Ended June 30,		2012 Change from 2011		Six Months Ended June 30,		2012 Change from 2011	
	2012	2011			2012	2011		
	(Dollars in thousands)							
Service charges on deposit accounts	$ 3,668	$ 3,639	$ 29	0.8%	$ 7,173	$ 6,790	$ 383	5.6%
Other service charges and fees	3,223	2,602	621	23.9	6,247	4,886	1,361	27.9
Mortgage lending income	1,277	661	616	93.2	2,181	1,306	875	67.0
Insurance commissions	438	470	(32)	(6.8)	989	1,077	(88)	(8.2)
Income from title services	129	110	19	17.3	217	201	16	8.0
Increase in cash value of life insurance	214	287	(73)	(25.4)	471	526	(55)	(10.5)
Dividends from FHLB, FRB & bankers bank	175	181	(6)	(3.3)	350	322	28	8.7
Gain on sale of SBA loans	198		198	100.0	198	259	(61)	(23.6)
Gain (loss) on sale of premises and equipment, net	359	77	282	366.2	359	73	286	391.8
Gain (loss) on OREO, net	159	(1,007)	1,166	(115.8)	52	(1,101)	1,153	(104.7)
Gain (loss) on securities, net	(9)		(9)	(100.0)	10		10	100.0
FDIC indemnification accretion	449	1,463	(1,014)	(69.3)	1,119	3,300	(2,181)	(66.1)
Other income	773	644	129	20.0	1,790	1,528	262	17.1
Total non-interest income	$ 11,053	$ 9,127	$ 1,926	21.1%	$ 21,156	$ 19,167	$ 1,989	10.4%

Non-interest income increased $1.9 million, or 21.1%, to $11.1 million for the three-month period ended June 30, 2012 from $9.1 million for the same period in 2011. Non-interest income increased $2.0 million, or 10.4%, to $21.2 million for the six-month period ended June 30, 2012 from $19.2 million for the same period in 2011.

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

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 acquisition of Vision Bank plus increased inter-change transaction activity.

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

The increase in other income is primarily from our acquisition of Vision plus new rental income. In the Florida Keys we were able to lease out part of our excess facilities capacity. This lease is expected to produce approximately $246,000 of rental income during 2012.

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

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Because the FDIC will reimburse us for certain acquired loans should we experience a loss, an indemnification asset was recorded at fair value at the acquisition date. The difference between the fair value recorded at the acquisition date and the gross reimbursements expected to be received from the FDIC are accreted into income over the life of the indemnification asset using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties. Because of this time value of money type accretion, the accretion amounts are expected to be higher in initial periods and decline during future periods. In addition, we will see further reductions as pools evaluated by the Company are determined to have a materially projected credit improvement. Improvements in credit quality decrease the basis in the related indemnification assets. This positive event will reduce the indemnification asset. This reduction will be amortized over the weighted average life of the loans or the life of the shared-loss agreements, whichever is shorter. The amortization will be shown as a reduction to FDIC indemnification non-interest income going forward. During future periods, the amortization could offset the accretion in its entirety. For the third quarter of 2012, we are projecting FDIC indemnification accretion to decline to approximately $375,000 for the three months ended September 30, 2012.

Non-Interest Expense

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

Table 6 below sets forth a summary of non-interest expense for the three-month and six-month periods ended June 30, 2012 and 2011, as well as changes for the three-month and six-month periods ended June 30, 2012 compared to the same periods in 2011.

Table 6: Non-Interest Expense

	Three Months Ended June 30,		2012 Change from 2011		Six Months Ended June 30,		2012 Change from 2011	
	2012	2011			2012	2011		
	(Dollars in thousands)							
Salaries and employee benefits	$ 11,903	$ 10,680	$ 1,223	11.5%	$ 23,289	$ 21,758	$ 1,531	7.0%
Occupancy and equipment	3,552	3,648	(96)	(2.6)	6,983	7,361	(378)	(5.1)
Data processing expense	1,371	1,137	234	20.6	2,462	2,422	40	1.7
Other operating expenses:								
Advertising	904	1,015	(111)	(10.9)	1,364	2,013	(649)	(32.2)
Merger and acquisition expenses				0.0	1,692	11	1,681	15,281.8
Amortization of intangibles	694	704	(10)	(1.4)	1,324	1,417	(93)	(6.6)
Electronic banking expense	728	697	31	4.4	1,521	1,356	165	12.2
Directors fees	193	179	14	7.8	405	364	41	11.3
Due from bank service charges	159	119	40	33.6	275	259	16	6.2
FDIC and state assessment	516	1,058	(542)	(51.2)	1,154	2,151	(997)	(46.4)
Insurance	424	408	16	3.9	825	779	46	5.9
Legal and accounting	287	462	(175)	(37.9)	609	909	(300)	(33.0)
Other professional fees	354	569	(215)	(37.8)	852	982	(130)	(13.2)
Operating supplies	291	322	(31)	(9.6)	555	611	(56)	(9.2)
Postage	240	242	(2)	(0.8)	461	487	(26)	(5.3)
Telephone	276	259	17	6.6	522	522		0.0
Other expense	2,532	2,357	175	7.4	4,517	4,315	202	4.7
Total non-interest expense	$ 24,424	$ 23,856	$ 568	2.4%	$ 48,810	$ 47,717	$ 1,093	2.3%

Non-interest expense increased $568,000, or 2.4%, to $24.4 million for the three-month period ended June 30, 2012, from $23.9 million for the same period in 2011. Non-interest expense increased $1.1 million, or 2.3%, to $48.8 million for the six-month period ended June 30, 2012, from $47.7 million for the same period in 2011. The primary factors that resulted in the some of the more significant changes include:

- An increase in personnel costs and data processing primarily resulting from additional expense associated with the acquisition of Vision on February 16, 2012.

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

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

- $1.7 million of merger expenses during the first quarter related to the acquisition of Vision.

Income Taxes

The provision for income taxes increased $1.5 million, or 20.8%, to $8.9 million for the three-month period ended June 30, 2012, from $7.4 million as of June 30, 2011. The provision for income taxes increased $2.6 million, or 18.0%, to $16.7 million for the six-month period ended June 30, 2012, from $14.1 million as of June 30, 2011. The effective income tax rate was 36.7% for the three-month period ended June 30, 2012, compared to 35.4% for the same period in 2011. The effective income tax rate was 35.8% for the six-month period ended June 30, 2012, compared to 35.0% for the same period in 2011. The primary cause of the increase in taxes is the result of our higher earnings combined with our marginal tax rate of 39.225%.

Financial Condition as of and for the Period Ended June 30, 2012 and December 31, 2011

Our total assets as of June 30, 2012 increased $452.3 million to $4.06 billion from the $3.60 billion reported as of December 31, 2011. Excluding the $529.5 million of assets acquired from our 2012 acquisition of Vision, our total assets as of June 30, 2012 decreased $77.2 million, an annualized decline of 4.31%. Our loan portfolio not covered by loss share increased by $275.4 million to $2.04 billion as of June 30, 2012, from $1.76 billion as of December 31, 2011. Excluding the $340.3 million of loans acquired from our 2012 acquisition of Vision, our loan portfolio not covered by loss share decreased by $64.9 million, an annualized reduction of 7.4%. Our loan portfolio covered by loss share decreased by $49.3 million, an annualized reduction of 20.6%, to $432.4 million as of June 30, 2012, from $481.7 million as of December 31, 2011. Stockholders equity increased $21.4 million to $495.4 million as of June 30, 2012, compared to $474.1 million as of December 31, 2011. The annualized improvement in stockholders equity for the first six months of 2012 was 9.1%. The decrease in loans is primarily associated with historically low loan demand and payoffs in our non-covered and covered loan portfolios. The increase in stockholders equity is primarily associated with the $32.1 million of comprehensive income less the $5.6 million of dividends paid for 2012 and $6.1 million used to repurchase 238,234 shares of common stock.

Loans Receivable Not Covered by Loss Share

Our non-covered loan portfolio averaged $2.06 billion and $1.83 billion during the three-month periods ended June 30, 2012 and 2011, respectively. Our non-covered loan portfolio averaged $1.98 billion and $1.85 billion during the three-month periods ended June 30, 2012 and 2011, respectively. Non-covered loans were $2.04 billion as of June 30, 2012, compared to $1.76 billion as of December 31, 2011. Excluding the $340.3 million of loans acquired from our 2012 acquisition of Vision, our loan portfolio not covered by loss share decreased by $64.9 million, an annualized reduction of 7.4%. The decline in the legacy loan portfolio from our historical expansion rates was not unexpected. The decrease in loans is primarily associated with historically low loan demand and payoffs in our non-covered and covered loan portfolios as our customers have grown more cautious in this weaker economy.

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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 June 30, 2012, we had $150.1 million of construction land development loans which were collateralized by land. This consisted of $91.7 million for raw land and $58.4 million for land with commercial and or residential lots.

Certain of our credit markets have experienced difficult conditions and volatility, particularly Florida. Excluding the acquisition of Vision, our legacy Florida market currently is approximately 14.4% of our loan portfolio not covered by loss share.

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 June 30, 2012	As of December 31, 2011
	(In thousands)	
Real estate:		
Commercial real estate loans:		
Non-farm/non-residential	$ 856,334	$ 698,986
Construction/land development	269,371	361,846
Agricultural	28,570	28,535
Residential real estate loans:		
Residential 1-4 family	481,018	349,543
Multifamily residential	106,206	56,909
Total real estate	1,741,499	1,495,819
Consumer	37,146	37,923
Commercial and industrial	197,278	176,276
Agricultural	31,741	21,784
Other	27,823	28,284
Loans receivable not covered by loss share	$ 2,035,487	$ 1,760,086

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 June 30, 2012, non-covered commercial real estate loans totaled $1.15 billion, or 56.7% of our non-covered loan portfolio, compared to $1.09 billion, or 61.9% of our non-covered loan portfolio, as of December 31, 2011. Excluding the approximately $159.6 million of non-covered commercial real estate loans acquired from Vision, non-covered commercial real estate loans decreased by approximately $94.6 million. This decrease is primarily related to the reclassification of $61.2 million of non-covered construction/land development loans to permanent financing of residential real estate, normal loan pay downs and limited loan demand. Our Florida and Alabama non-covered commercial real estate loans are approximately 12.6% and 3.6% 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 June 30, 2012, non-covered residential real estate loans totaled $587.2 million, or 28.8% of our non-covered loan portfolio, compared to $406.5 million, or 23.1% of our non-covered loan portfolio, as of December 31, 2011. Excluding the approximately $142.9 million of non-covered residential real estate loans acquired from Vision, non-covered residential real estate loans increased by approximately $37.9 million. This increase is primarily related to the reclassification of $61.2 million of non-covered construction/land development loans offset by normal payoffs and pay downs combined with limited loan demand. Our Florida and Alabama non-covered residential real estate loans are approximately 8.4% and 3.0% 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 June 30, 2012, our non-covered consumer loan portfolio totaled $37.1 million, or 1.8% of our total non-covered loan portfolio, compared to the $37.9 million, or 2.2% of our non-covered loan portfolio as of December 31, 2011. Excluding the approximately $3.4 million of non-covered consumer loans acquired from Vision, non-covered consumer loans decreased by approximately $4.2 million. This decrease is associated with normal payoffs and pay downs combined with limited loan demand. Our Florida and Alabama non-covered consumer loans are approximately 0.9% and 0.1% of our non-covered loan portfolio, respectively.

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

As of June 30, 2012, non-covered commercial and industrial loans outstanding totaled $197.3 million, or 9.7% of our non-covered loan portfolio, compared to $176.3 million, or 10.0% of our non-covered loan portfolio, as of December 31, 2011. Excluding the approximately $29.9 million of non-covered commercial and industrial loans acquired from Vision, non-covered commercial and industrial loans decreased by approximately $8.9 million. This decrease is primarily related to normal loan pay downs combined with limited loan demand. Our Florida and Alabama non-covered commercial and industrial loans are approximately 0.9% and 1.0% of our non-covered loan portfolio, respectively.

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Total Loans Receivable

Table 8 presents total loans receivable by category.

Table 8: Total Loans Receivable

As of June 30, 2012

	Loans Receivable Not Covered by Loss Share	Loans Receivable Covered by FDIC Loss Share	Total Loans Receivable
		(In thousands)	
Real estate:			
Commercial real estate loans			
Non-farm/non-residential	$ 856,334	$ 187,802	$ 1,044,136
Construction/land development	269,371	74,989	344,360
Agricultural	28,570	2,737	31,307
Residential real estate loans			
Residential 1-4 family	481,018	136,498	617,516
Multifamily residential	106,206	10,216	116,422
Total real estate	1,741,499	412,242	2,153,741
Consumer	37,146	71	37,217
Commercial and industrial	197,278	19,541	216,819
Agricultural	31,741		31,741
Other	27,823	568	28,391
Total	$ 2,035,487	$ 432,422	$ 2,467,909

Non-Performing Assets Not Covered by Loss Share

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

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

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Table 9 sets forth information with respect to our non-performing non-covered assets as of June 30, 2012 and December 31, 2011. 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 June 30, 2012	As of December 31, 2011
	(Dollars in thousands)	
Non-accrual non-covered loans	$ 24,810	$ 26,496
Non-covered loans past due 90 days or more (principal or interest payments)	1,326	993
Total non-performing non-covered loans	26,136	27,489
Other non-performing non-covered assets		
Non-covered foreclosed assets held for sale, net	14,481	16,660
Other non-performing non-covered assets	79	8
Total other non-performing non-covered assets	14,560	16,668
Total non-performing non-covered assets	$ 40,696	$ 44,157
Allowance for loan losses for non-covered loans to non-performing non-covered loans	190.72%	189.64%
Non-performing non-covered loans to total non-covered loans	1.28	1.56
Non-performing non-covered assets to total non-covered assets	1.19	1.53

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.

Total non-performing non-covered loans were $26.1 million as of June 30, 2012, compared to $27.5 million as of December 31, 2011 for a decrease of $1.4 million. Of the $1.4 million decrease in non-performing loans, $274,000 is from an increase in non-performing loans in our Arkansas market, a $2.1 million from a decrease in non-performing loans in our Florida market and an increase of $498,000 in non-performing loans in Alabama from our Vision acquisition. Non-performing loans at June 30, 2012 are $8.1 million, $17.5 million and $498,000 in the Arkansas, Florida and Alabama markets, respectively.

Since December 31, 2007, the weakened real estate market, particularly in Florida, has and may continue to impact our level of non-performing non-covered loans. While we believe our allowance for loan losses is adequate at June 30, 2012, as additional facts become known about relevant internal and external factors that affect loan collectability and our assumptions, it may result in us making additions to the provision for loan losses during the remainder of 2012 and or 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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In this current 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 June 30, 2012, we had $42.3 million of non-covered restructured loans that are in compliance with the modified terms and are not reported as past due or non-accrual in Table 10. Our Florida market contains $22.9 million of these non-covered restructured loans.

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

The majority of the Bank s loan modifications relate to commercial lending and involve reducing the interest rate, changing from a principal and interest payment to interest-only, a lengthening of the amortization period, or a combination of some or all of the three. In addition, it is common for the Bank to seek additional collateral or guarantor support when modifying a loan. The amount of troubled debt restructurings had been increasing through 2010 as the Bank continued to work with borrowers who were experiencing financial difficulties. This appears to be a strategy which has proven successful as the amount of troubled debt restructurings has declined by 7.6% from $53.3 million at December 31, 2011 to $49.2 million at June 30, 2012. 85.9% and 88.6% of all restructured loans were performing to the terms of the restructure as of June 30, 2012 and December 31, 2011, respectively.

Total foreclosed assets held for sale not covered by loss share were $14.5 million as of June 30, 2012, compared to $16.7 million as of December 31, 2011 for a decrease of $2.2 million. The foreclosed assets held for sale not covered by loss share are comprised of $2.2 million of assets located in Florida with the remaining $12.3 million of assets located in Arkansas.

During the first six months of 2012, we had one non-covered foreclosed property greater than $1.0 million. This large development loan in northwest Arkansas was moved into foreclosed assets during the first quarter of 2011 with no additional charge-off required at the time of foreclosure. The carrying value was $3.7 million at June 30, 2012. The losses on this loan were addressed during the fourth quarter of 2010 and the Company does not currently anticipate any additional losses on this property. No other foreclosed assets held for sale not covered by loss share have a carrying value greater than $1.0 million.

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At June 30, 2012, total foreclosed assets held for sale were $49.5 million. Table 10 shows the summary of foreclosed assets held for sale as of June 30, 2012 and December 31, 2011.

Table 10: Total Foreclosed Assets Held For Sale

	As of June 30, 2012			As of December 31, 2011		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
	(In thousands)					
Commercial real estate loans						
Non-farm/non-residential	$ 7,206	$ 11,202	$ 18,408	$ 8,159	$ 10,166	$ 18,325
Construction/land development	3,480	14,719	18,199	4,822	14,796	19,618
Agricultural	529	599	1,128	525	599	1,124
Residential real estate loans						
Residential 1-4 family	3,266	8,488	11,754	3,154	9,617	12,771
Total foreclosed assets held for sale	$ 14,481	$ 35,008	$ 49,489	$ 16,660	$ 35,178	$ 51,838

A loan is considered impaired when it is probable that we will not receive all amounts due according to the contracted terms of the loans. Impaired loans may include non-performing loans (loans past due 90 days or more and non-accrual loans) and certain other loans identified by management that are still performing. As of June 30, 2012, average non-covered impaired loans were $134.8 million compared to $111.8 million as of December 31, 2011. The adoption of ASU No. 2011-02 during the third quarter of 2011 which required troubled debt restructurings to be classified as impaired loans was primarily the reason for the increase in average non-covered impaired loans. As of June 30, 2012, non-covered impaired loans were $129.7 million compared to $138.0 million as of December 31, 2011 for a decrease of $8.3 million. Fewer loans classified as TDRs as of June 30, 2012 when compared to December 31, 2011 accounted for $4.1 million of this decrease. As of June 30, 2012, our Florida and Alabama markets accounted for $55.5 and $1.6 million of the non-covered impaired loans, respectively.

We evaluated loans purchased in conjunction with the FDIC-assisted acquisitions 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. All covered loans acquired in these transactions were deemed to be covered impaired loans. These loans were not classified as non-performing assets at June 30, 2012 and 2011, as the loans are accounted for on a pooled basis and the pools are considered to be performing. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all purchased impaired loans.

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

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Past Due and Non-Accrual Loans

Table 11 shows the summary non-accrual loans as of June 30, 2012 and December 31, 2011:

Table 11: Total Non-Accrual Loans

	As of June 30, 2012			As of December 31, 2011		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
	(In thousands)					
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	$ 6,030	$	$ 6,030	$ 7,055	$	$ 7,055
Construction/land development	2,092		2,092	2,226		2,226
Agricultural	159		159	178		178
Residential real estate loans						
Residential 1-4 family	12,624		12,624	12,867		12,867
Total real estate	20,905		20,905	22,326		22,326
Consumer	823		823	1,369		1,369
Commercial and industrial	1,879		1,879	1,598		1,598
Other	1,203		1,203	1,203		1,203
Total non-accrual loans	$ 24,810	$	$ 24,810	$ 26,496	$	$ 26,496

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 $423,000 and $527,000 for the three-month periods ended June 30, 2012 and 2011, 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 $832,000 and $1.3 million for the six-month periods ended June 30, 2012 and 2011, would have been recorded. The interest income recognized on the non-covered non-accrual loans for the three-month and six-month periods ended June 30, 2012 and 2011 was considered immaterial.

Table 12 shows the summary of accruing past due loans 90 days or more as of June 30, 2012 and December 31, 2011:

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

	As of June 30, 2012			As of December 31, 2011		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
	(In thousands)					
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	$	$ 29,854	$ 29,854	$	$ 34,765	$ 34,765
Construction/land development	770	23,989	24,759		42,808	42,808
Agricultural		455	455		328	328
Residential real estate loans						
Residential 1-4 family	534	24,646	25,180	750	35,452	36,202

Multifamily residential				92		92
Total real estate	1,304	78,944	80,248	842	113,353	114,195
Consumer	22		22	132	265	397
Commercial and industrial		3,692	3,692	19	4,995	5,014
Other						
Total loans accruing past due 90 days or more	$ 1,326	$ 82,636	$ 83,962	$ 993	$ 118,613	$ 119,606

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The Company s total past due and non-accrual covered loans to total covered loans was 19.1% and 24.6% as of June 30, 2012 and December 31, 2011, respectively.

Allowance for Loan Losses

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

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

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

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

Between the receipt of the original appraisal and the updated appraisal, we monitor the loan s repayment history and subject the loan to examination by our internal loan review. If the loan is over $1.0 million, our policy requires an annual credit review. In addition, we update all financial information and calculate the global repayment ability of the borrower/guarantors.

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

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

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

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

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

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

Charge-offs and Recoveries. Total charge-offs remained the same at $1.6 million for the three months ended June 30, 2012, compared to $1.6 million for the same period in 2011. Total charge-offs decreased to $3.1 million for the six months ended June 30, 2012, compared to $3.2 million for the same period in 2011. Total recoveries decreased to $433,000 for the three months ended June 30, 2012, compared to $4.8 million for the same period in 2011. Total recoveries decreased to $787,000 for the six months ended June 30, 2012, compared to $5.4 million for the same period in 2011. For the three months ended June 30, 2012, the net charge-offs were $678,000 for Arkansas and $490,000 for Florida, respectively, equaling a net charge-off position of $1.2 million. For the six months ended June 30, 2012, the net charge-offs were $1.2 million for Arkansas and $1.1 million for Florida, respectively, equaling a net charge-off position of $2.3 million.

During the second quarter of 2012, there were $1.6 million in charge-offs and $433,000 in recoveries. During the first six months of 2012, there were $3.1 million in charge-offs and $787,000 in recoveries. While the charge-offs and recoveries consisted of many relationships, there were no individual relationships consisting of charge-offs greater than $1.0 million

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 six-month periods ended June 30, 2012 and 2011.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars in thousands)			
Balance, beginning of period	$ 51,014	$ 53,591	$ 52,129	$ 53,348
Loans charged off				
Real estate:				
Commercial real estate loans:				
Non-farm/non-residential	212	4	271	20
Construction/land development	267	228	313	231
Agricultural				
Residential real estate loans:				
Residential 1-4 family	480	455	1,100	484
Multifamily residential		300	95	300
Total real estate	959	987	1,779	1,035
Consumer	370	46	571	1,526
Commercial and industrial	3	58	209	152
Agricultural				
Other	269	469	511	469
Total loans charged off	1,601	1,560	3,070	3,182
Recoveries of loans previously charged off				
Real estate:				
Commercial real estate loans:				
Non-farm/non-residential	26	57	39	130
Construction/land development	3	4	7	6
Agricultural	222	16	233	33
Residential real estate loans:				
Residential 1-4 family	65	18	105	248
Multifamily residential	3		3	
Total real estate	319	95	387	417
Consumer	16	(93)	68	43
Commercial and industrial	7	4,459	87	4,616
Agricultural				
Other	91	292	245	292
Total recoveries	433	4,753	787	5,368
Net loans charged off (recovered)	1,168	(3,193)	2,283	(2,186)
Provision for loan losses for non-covered loans				1,250
Balance, June 30	$ 49,846	$ 56,784	$ 49,846	$ 56,784
Discount on non-covered loans acquired	16,112	4,990	16,112	4,990
Net charge-offs (recoveries) to average non-covered loans	0.23%	(0.70)%	0.23%	(0.24)%
Allowance for loan losses for non-covered loans to period end non-covered loans	2.45	3.13	2.45	3.13

Allowance for loan losses for non-covered loans plus acquisition discount to period end total non-covered loans plus acquisition discount	3.21	3.40	3.21	3.40
Allowance for loan losses for non-covered loans to net charge-offs (recoveries)	1,061	(443)	1,086	(1,288)

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

The changes for the period ended June 30, 2012 and the year ended December 31, 2011 in the allocation of the allowance for loan losses for the individual types of loans are primarily associated with changes in the ASC 310 calculations, both individual and aggregate, and changes in the ASC 450 calculations. These calculations are affected by changes in individual loan impairments, changes in asset quality, net charge-offs during the period and normal changes in the outstanding loan portfolio, as well any changes to the general allocation factors due to changes within the actual characteristics of the loan portfolio.

Table 14 presents the allocation of allowance for loan losses for non-covered loans as of June 30, 2012 and December 31, 2011.

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

	As of June 30, 2012		As of December 31, 2011	
	Allowance Amount	% of loans(1)	Allowance Amount	% of loans(1)
	(Dollars in thousands)			
Real estate:				
Commercial real estate loans:				
Non-farm/non-residential	$ 20,967	42.1%	$ 20,160	39.7%
Construction/land development	5,296	13.2	7,945	20.6
Agricultural	191	1.4	208	1.6
Residential real estate loans:				
Residential 1-4 family	8,961	23.6	9,586	19.9
Multifamily residential	3,381	5.2	2,610	3.2
Total real estate	38,796	85.5	40,509	85.0
Consumer	1,043	1.8	1,780	2.2
Commercial and industrial	7,938	9.7	6,308	10.0
Agricultural	1,537	1.6	1,478	1.2
Other		1.4		1.6
Unallocated	532		2,054	
Total	$ 49,846	100.0%	$ 52,129	100.0%

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

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 June 30, 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 $712.8 million as of June 30, 2012, compared to $671.2 million as of December 31, 2011. The estimated effective duration of our securities portfolio was 2.3 years as of June 30, 2012.

As of June 30, 2012, $248.1 million, or 34.8%, of our available-for-sale securities were invested in mortgage-backed securities, compared to $142.3 million, or 21.2%, of our available-for-sale securities as of December 31, 2011. To reduce our income tax burden, $175.9 million, or 24.7%, of our available-for-sale securities portfolio as of June 30, 2012, was primarily invested in tax-exempt obligations of state and political subdivisions, compared to $167.1 million, or 24.9%, of our available-for-sale securities as of December 31, 2011. Also, we had approximately $272.6 million, or 38.2%, invested in obligations of U.S. Government-sponsored enterprises as of June 30, 2012, compared to $348.0 million, or 51.8%, of our available-for-sale securities as of December 31, 2011.

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 $3.31 billion and $3.19 billion for the three-month and six-month periods ended June 30, 2012, respectively. Total deposits increased $435.5 million, or an increase of 15.2%, to $3.29 billion as of June 30, 2012, from $2.86 billion as of December 31, 2011. Excluding the $524.4 million of deposits acquired from our 2012 acquisition of Vision, our deposits decreased by $88.9 million, an annualized reduction of 6.3%. 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 June 30, 2012 and December 31, 2011, brokered deposits were $104.4 million and $103.4 million, respectively. Included in these brokered deposits are $64.0 million and $41.9 million of Certificate of Deposit Account Registry Service (CDARS) as of June 30, 2012 and December 31, 2011, respectively. CDARS are deposits we have swapped our customer with other institutions. This gives our customer the potential for FDIC insurance of up to $50 million.

The interest rates paid are competitively priced for each particular deposit product and structured to meet our funding requirements. We will continue to manage interest expense through deposit pricing. 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, began in 2008 at 4.25%. During 2008, the rate decreased 400 to 425 basis points to a low of 0.25% to 0% on December 16, 2008, where the rate has remained.

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Table 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 six-month periods ended June 30, 2012 and 2011.

Table 15: Average Deposit Balances and Rates

	Three Months Ended June 30,			
	2012		2011	
	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
	(Dollars in thousands)			
Non-interest-bearing transaction accounts	$ 559,554	%	$ 441,371	%
Interest-bearing transaction accounts	1,353,916	0.28	997,509	0.50
Savings deposits	165,235	0.17	130,016	0.43
Time deposits:				
$100,000 or more	682,545	1.03	556,798	1.85
Other time deposits	546,219	1.04	791,715	1.03
Total	$ 3,307,469	0.51%	$ 2,917,409	0.82%

	Six Months Ended June 30,			
	2012		2011	
	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
	(Dollars in thousands)			
Non-interest-bearing transaction accounts	$ 528,547	%	$ 424,343	%
Interest-bearing transaction accounts	1,265,679	0.30	990,007	0.52
Savings deposits	157,966	0.18	126,986	0.44
Time deposits:				
$100,000 or more	695,402	1.10	562,948	1.79
Other time deposits	539,585	1.11	812,438	1.10
Total	$ 3,187,179	0.56%	$ 2,916,722	0.85%

Securities Sold Under Agreements to Repurchase

We enter into short-term purchases of securities under agreements to resell (resale agreements) and sales of securities under agreements to repurchase (repurchase agreements) of substantially identical securities. The amounts advanced under resale agreements and the amounts borrowed under repurchase agreements are carried on the balance sheet at the amount advanced. Interest incurred on repurchase agreements is reported as interest expense. Securities sold under agreements to repurchase increased $4.3 million, or 6.9%, from $62.3 million as of December 31, 2011 to $66.6 million as of June 30, 2012.

FHLB Borrowed Funds

Our FHLB borrowed funds were $140.5 million and $142.8 at June 30, 2012 and December 31, 2011, respectively. All of the outstanding balance for June 30, 2012 and December 31, 2011 were issued as long-term advances. Our remaining FHLB borrowing capacity was $375.0 million and $468.8 million as of June 30, 2012 and December 31, 2011, respectively. Expected maturities will differ from contractual maturities, because FHLB may have the right to call or prepay certain obligations.

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Subordinated Debentures

Subordinated debentures, which consist of guaranteed payments on trust preferred securities, were $44.3 million as of June 30, 2012 and December 31, 2011.

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

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

The Company holds $44.3 million of trust preferred securities which are currently callable without penalty based on the terms of the specific agreements. Since these trust preferred securities are being phased out of Tier 1 capital, we have decided to begin the process of redeeming these instruments. During the third quarter of 2012, we have been approved and are planning to pay off $15.5 million of subordinated debentures currently at a fixed rate of 6.81%. We are evaluating the remaining subordinated debentures and may pay off part or all of the remaining subordinated debentures during the fourth quarter of 2012 and/or the first quarter of 2013.

Stockholders Equity

Stockholders equity was $495.4 million at June 30, 2012 compared to $474.1 million at December 31, 2011, an increase of 4.5%. As of June 30, 2012 and December 31, 2011 our equity to asset ratio was 12.2% and 13.2%, respectively. Book value per share was $17.64 at June 30, 2012 compared to $16.77 at December 31, 2011.

Common Stock Cash Dividends. We declared cash dividends on our common stock of $0.10 and 0.054 per share for the three-month periods ended June 30, 2012 and 2011 and $0.20 and 0.108 per share for the six-month periods ended June 30, 2012 and 2011, respectively. The common stock dividend payout ratio for the three months ended June 30, 2012 and 2011 was 18.14% and 11.4%, respectively. The common stock dividend payout ratio for the six months ended June 30, 2012 and 2011 was 18.81% and 11.7%, respectively. For the third quarter of 2012, the Board of Directors declared a regular $0.12 per share quarterly cash dividend payable September 5, 2012, to shareholders of record August 15, 2012.

Stock Repurchase Program. During the first six months of 2012, the Company utilized a portion of its previously approved stock repurchase program. This program authorized the repurchase of 1,188,000 shares of the Company s common stock. For the first quarter of 2012, the Company repurchased a total of 205,600 shares with a weighted average stock price of $25.29. For the second quarter of 2012, the Company repurchased a total of 32,634 shares with a weighted average stock price of $27.72. The Company believes the stock repurchased at this price is an excellent investment. The first and second quarter earnings, respectively, were used to fund these repurchases. Combining all the shares repurchased to date under the program will bring the total to 538,234 shares. The remaining balance available for repurchase is 649,766 shares at June 30, 2012.

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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 June 30, 2012 and December 31, 2011, we met all regulatory capital adequacy requirements to which we were subject.

Table 16 presents our risk-based capital ratios as of June 30, 2012 and December 31, 2011.

Table 16: Risk-Based Capital

	As of June 30, 2012	As of December 31, 2011
	(Dollars in thousands)	
Tier 1 capital		
Stockholders equity	$ 495,435	$ 474,066
Qualifying trust preferred securities	43,000	43,000
Goodwill and core deposit intangibles, net	(86,522)	(67,131)
Unrealized (gain) loss on available-for-sale securities	(10,138)	(8,004)
Total Tier 1 capital	441,775	441,931
Tier 2 capital		
Qualifying allowance for loan losses	35,252	32,670
Total Tier 2 capital	35,252	32,670
Total risk-based capital	$ 477,027	$ 474,601
Average total assets for leverage ratio	$ 4,072,261	$ 3,541,739
Risk weighted assets	$ 2,798,904	$ 2,594,155
Ratios at end of period		
Leverage ratio	11.08%	12.48%
Tier 1 risk-based capital	15.78	17.04
Total risk-based capital	17.04	18.30
Minimum guidelines		
Leverage ratio	4.00%	4.00%
Tier 1 risk-based capital	4.00	4.00
Total risk-based capital	8.00	8.00

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

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Non-GAAP Financial Measurements

We had $87.6 million, $68.3 million, and $69.7 million total goodwill, core deposit intangibles and other intangible assets as of June 30, 2012, December 31, 2011 and June 30, 2011, respectively. Because of our level of intangible assets and related amortization expenses, management believes diluted earnings per 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 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.

Table 17: Diluted Earnings Per Share Excluding Intangible Amortization

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
	(In thousands, except per share data)			
GAAP net income available to common stockholders	$ 15,490	$ 12,876	$ 29,988	$ 24,922
Intangible amortization after-tax	422	428	805	861
Earnings available to common stockholders excluding intangible amortization	$ 15,912	$ 13,304	$ 30,793	$ 25,783
GAAP diluted earnings per common share	$ 0.55	$ 0.45	$ 1.06	$ 0.87
Intangible amortization after-tax	0.02	0.01	0.03	0.03
Diluted earnings per common share excluding intangible amortization	$ 0.57	$ 0.46	$ 1.09	$ 0.90

Table 18: Tangible Book Value Per Share

	As of June 30, 2012	**As of December 31, 2011**
	(Dollars in thousands, except per share data)	
Book value per common share: A/B	$ 17.64	$ 16.77
Tangible book value per common share: (A-C-D)/B	14.53	14.35
(A) Total common equity	$ 495,435	$ 474,066
(B) Common shares outstanding	28,079	28,276
(C) Goodwill	$ 77,090	$ 59,663
(D) Core deposit and other intangibles	10,486	8,620

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Table 19: Return on Average Assets Excluding Intangible Amortization

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars in thousands)			
Return on average assets: A/C	1.53%	1.47%	1.53%	1.43%
Return on average assets excluding intangible amortization: B/(C-D)	1.61	1.54	1.60	1.51
(A) Net income available to all stockholders	$ 15,490	$ 13,546	$ 29,988	$ 26,262
Intangible amortization after-tax	422	428	805	861
(B) Earnings excluding intangible amortization	$ 15,912	$ 13,974	$ 30,793	$ 27,123
(C) Average assets	$ 4,072,261	$ 3,703,526	$ 3,949,393	$ 3,698,562
(D) Average goodwill, core deposits and other intangible assets	87,909	70,031	83,684	70,384

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars in thousands)			
Return on average common equity: A/C	12.80%	11.64%	12.51%	11.50%
Return on average tangible common equity excluding intangible amortization: B/(C-D)	16.05	14.28	15.54	14.18
(A) Net income available to common stockholders	$ 15,490	$ 12,876	$ 29,988	$ 24,922
(B) Earnings available to common stockholders excluding intangible amortization	15,912	13,304	30,793	25,783
(C) Average common equity	486,651	443,622	482,098	437,080
(D) Average goodwill, core deposits and other intangible assets	87,909	70,031	83,684	70,384

Table 21: Tangible Equity to Tangible Assets

	As of June 30, 2012	As of December 31, 2011
	(Dollars in thousands)	
Equity to assets: B/A	12.21%	13.02%
Tangible equity to tangible assets: (B-D-E)/(A-D-E)	10.28	11.36
(A) Total assets	$ 4,056,405	$ 3,640,117
(B) Total equity	495,435	474,066
(D) Goodwill	77,090	59,663
(E) Core deposit and other intangibles	10,486	8,620

Recently Issued Accounting Pronouncements

See Note 20 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 loans customers are expected to expire without being drawn upon, therefore the total commitment amounts do not necessarily represent future cash requirements affecting our liquidity position.

Liquidity needs can be met from either assets or liabilities. On the asset side, our primary sources of liquidity include cash and due from banks, federal funds sold, available-for-sale investment securities and scheduled repayments and maturities of loans. We maintain adequate levels of cash and cash equivalents to meet our day-to-day needs. As of June 30, 2012, our cash and cash equivalents were $358.5 million, or 8.8% of total assets, compared to $184.3 million, or 5.1% of total assets, as of December 31, 2011. Our investment securities and federal funds sold were $713.4 million as of June 30, 2012 and $672.3 million as of December 31, 2011.

As of June 30, 2012 and December 31, 2011, $506.4 million and $403.2 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 June 30, 2012, our total deposits were $3.29 billion, or 81.2% of total assets, compared to $2.86 billion, or 79.3% of total assets, as of December 31, 2011. We attract our deposits primarily from individuals, business, and municipalities located in our market areas.

We may occasionally use our Fed funds lines of credit in order to temporarily satisfy short-term liquidity needs. We have Fed funds lines with three other financial institutions pursuant to which we could have borrowed up to $35.0 million on an unsecured basis as of June 30, 2012 and December 31, 2011. These lines may be terminated by the respective lending institutions at any time.

We also maintain lines of credit with the Federal Home Loan Bank. Our FHLB borrowed funds were $140.5 million at June 30, 2012 and $142.8 million at December 31, 2011. All of the outstanding balances at June 30, 2012 and December 31, 2011 were issued as long-term advances. Our FHLB borrowing capacity was $375.0 million and $468.8 million as of June 30, 2012 and December 31, 2011.

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

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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. The information provided should be read in connection with our audited consolidated financial statements included in our Form 10-K filed with the Securities and Exchange Commission on March 5, 2012.

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

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

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

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

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 June 30, 2012 was asset sensitive with a one-year cumulative repricing gap of 10.0%. 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.

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Table 22 presents a summary of the repricing schedule of our interest-earning assets and interest-bearing liabilities (gap) as of June 30, 2012.

Table 22: Interest Rate Sensitivity

	Interest Rate Sensitivity Period							
	0-30 Days	31-90 Days	91-180 Days	181-365 Days	1-2 Years	2-5 Years	Over 5 Years	Total
	(Dollars in thousands)							
Earning assets								
Interest-bearing deposits due from banks	$ 287,452	$	$	$	$	$	$	$ 287,452
Federal funds sold	575							575
Investment securities	42,735	45,962	66,164	94,474	97,476	129,164	236,845	712,820
Loans receivable	556,031	241,766	302,946	533,519	394,027	353,812	29,297	2,411,398
Total earning assets	886,793	287,728	369,110	627,993	491,503	482,976	266,142	3,412,245
Interest-bearing liabilities								
Interest-bearing transaction and savings deposits	65,961	131,922	197,883	395,766	250,209	242,591	237,537	1,521,869
Time deposits	147,653	231,268	223,971	340,798	130,699	99,780	117	1,174,286
Federal funds purchased								
Securities sold under repurchase agreements	56,627				1,332	3,997	4,664	66,620
FHLB borrowed funds	10,108	17	26	149	30,309	10,573	89,341	140,523
Subordinated debentures	28,866					15,465		44,331
Total interest- bearing liabilities	309,215	363,207	421,880	736,713	412,549	372,406	331,659	2,947,629
Interest rate sensitivity gap	$ 577,578	$ (75,479)	$ (52,770)	$ (108,720)	$ 78,954	$ 110,570	$ (65,517)	$ 464,616
Cumulative interest rate sensitivity gap	$ 577,578	$ 502,099	$ 449,329	$ 340,609	$ 419,563	$ 530,133	$ 464,616	
Cumulative rate sensitive assets to rate sensitive liabilities	286.8%	174.7%	141.1%	118.6%	118.7%	120.3%	115.8%	
Cumulative gap as a % of total earning assets	16.9%	14.7%	13.2%	10.0%	12.3%	15.5%	13.6%	

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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 June 30, 2012, 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, 2011. 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)

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: August 7, 2012

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

Date: August 7, 2012

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