HOME BANCSHARES INC
Form 10-Q
August 07, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

or

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

Commission File Number: 000-51904

HOME BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Arkansas	**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 x 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 x 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	x
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 x

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: 56,251,423 shares as of August 2, 2013.

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HOME BANCSHARES, INC.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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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, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and due from banks	$ 75,148	$ 101,972
Interest-bearing deposits with other banks	97,576	129,883
Cash and cash equivalents	172,724	231,855
Federal funds sold	2,475	17,148
Investment securities available-for-sale	736,406	726,223
Loans receivable not covered by loss share	2,339,242	2,331,199
Loans receivable covered by FDIC loss share	329,802	384,884
Allowance for loan losses	(41,450)	(50,632)
Loans receivable, net	2,627,594	2,665,451
Bank premises and equipment, net	119,737	113,883
Foreclosed assets held for sale not covered by loss share	15,985	20,393
Foreclosed assets held for sale covered by FDIC loss share	27,073	31,526
FDIC indemnification asset	116,071	139,646
Cash value of life insurance	59,401	59,219
Accrued interest receivable	14,424	16,305
Deferred tax asset, net	46,655	46,998
Goodwill	85,681	85,681
Core deposit and other intangibles	10,457	12,061
Other assets	56,654	75,741
Total assets	$ 4,091,337	$ 4,242,130
Liabilities and Stockholders Equity		
Deposits:		
Demand and non-interest-bearing	$ 733,374	$ 666,414
Savings and interest-bearing transaction accounts	1,735,280	1,784,047
Time deposits	856,581	1,032,991
Total deposits	3,325,235	3,483,452
Securities sold under agreements to repurchase	73,461	66,278
FHLB borrowed funds	130,251	130,388
Accrued interest payable and other liabilities	25,787	17,672
Subordinated debentures	3,093	28,867
Total liabilities	3,557,827	3,726,657
Stockholders equity:		
Common stock, par value $0.01; shares authorized 100,000,000 in 2013 and 50,000,000 shares in 2012; shares issued and outstanding 56,243,423 in 2013 and 56,213,054 (split adjusted) in 2012	562	281
Capital surplus	416,795	416,354

Retained earnings	114,172	86,837
Accumulated other comprehensive income	1,981	12,001
Total stockholders equity	533,510	515,473
Total liabilities and stockholders equity	$ 4,091,337	$ 4,242,130

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.

Consolidated Statements of Income

(In thousands, except per share data[1])	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(Unaudited)			
Interest income:				
Loans	$ 44,036	$ 40,365	$ 88,195	$ 78,871
Investment securities				
Taxable	2,490	3,060	4,893	5,920
Tax-exempt	1,467	1,534	2,948	3,069
Deposits other banks	86	127	184	212
Federal funds sold	6	3	13	5
Total interest income	48,085	45,089	96,233	88,077
Interest expense:				
Interest on deposits	2,129	4,164	4,614	8,824
FHLB borrowed funds	1,012	1,134	2,016	2,294
Securities sold under agreements to repurchase	86	111	166	221
Subordinated debentures	17	521	247	1,045
Total interest expense	3,244	5,930	7,043	12,384
Net interest income	44,841	39,159	89,190	75,693
Provision for loan losses	850	1,333	850	1,333
Net interest income after provision for loan losses	43,991	37,826	88,340	74,360
Non-interest income:				
Service charges on deposit accounts	4,088	3,668	7,797	7,173
Other service charges and fees	3,479	3,223	6,916	6,247
Mortgage lending income	1,619	1,277	2,991	2,181
Insurance commissions	444	438	1,123	989
Income from title services	136	129	245	217
Increase in cash value of life insurance	218	214	398	471
Dividends from FHLB, FRB, Bankers bank & other	401	175	576	350
Gain on sale of SBA loans		198	56	198
Gain (loss) on sale of premises and equipment, net	394	359	409	359
Gain (loss) on OREO, net	441	159	527	52
Gain (loss) on securities, net	111	(9)	111	10
FDIC indemnification accretion/amortization, net	(2,283)	449	(4,275)	1,119
Other income	757	773	1,956	1,790
Total non-interest income	9,805	11,053	18,830	21,156
Non-interest expense:				
Salaries and employee benefits	12,957	11,903	25,909	23,289
Occupancy and equipment	3,894	3,552	7,488	6,983
Data processing expense	1,231	1,371	2,741	2,462
Other operating expenses	7,773	7,598	15,580	16,076

Total non-interest expense	25,855	24,424	51,718	48,810
Income before income taxes	27,941	24,455	55,452	46,706
Income tax expense	10,282	8,965	20,245	16,718
Net income	$ 17,659	$ 15,490	$ 35,207	$ 29,988
Basic earnings per common share	$ 0.32	$ 0.28	$ 0.63	$ 0.53
Diluted earnings per common share	$ 0.31	$ 0.27	$ 0.62	$ 0.53

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

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Home BancShares, Inc.

Consolidated Statements of Comprehensive Income

(In thousands)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(unaudited)			
Net income	$ 17,659	$ 15,490	$ 35,207	$ 29,988
Net unrealized gain (loss) on available-for-sale securities	(14,142)	4,417	(16,377)	3,521
Less: reclassification adjustment for realized (gains) losses included in income	(111)	9	(111)	(10)
Other comprehensive income (loss), before tax effect	(14,253)	4,426	(16,488)	3,511
Tax effect	5,591	(1,736)	6,468	(1,377)
Other comprehensive income (loss)	(8,662)	2,690	(10,020)	2,134
Comprehensive income	$ 8,997	$ 18,180	$ 25,187	$ 32,122

Home BancShares, Inc.

Consolidated Statements of Stockholders Equity

Six Months Ended June 30, 2013 and 2012

(In thousands, except share data[1])	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2012	$ 283	$ 425,649	$ 40,130	$ 8,004	$ 474,066
Comprehensive income:					
Net income			29,988		29,988
Other comprehensive income (loss)				2,134	2,134
Net issuance of 73,466 shares of common stock from exercise of stock options plus issuance of 9,522 bonus shares of unrestricted common stock		545			545
Repurchase of 476,468 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, $0.10 per share			(5,640)		(5,640)
Balances at June 30, 2012 (unaudited)	281	420,538	64,478	10,138	495,435
Comprehensive income:					
Net income			33,034		33,034
Other comprehensive income (loss)				1,863	1,863
Net issuance of 281,948 shares of common stock from exercise of stock options	2	1,411			1,413
Repurchase of 434,428 shares of common stock	(3)	(7,435)			(7,438)
Tax benefit from stock options exercised		1,156			1,156
Share-based compensation	1	684			685
Cash dividends Common Stock, $0.19 per share			(10,675)		(10,675)

Balances at December 31, 2012		281	416,354	86,837	12,001	515,473
Comprehensive income:						
Net income				35,207		35,207
Other comprehensive income (loss)					(10,020)	(10,020)
Net issuance of 11,701 shares of common stock from exercise of stock options			79			79
Two for one stock split during June 2013		281	(281)			
Tax benefit from stock options exercised			48			48
Share-based compensation			595			595
Cash dividends Common Stock, $0.14 per share				(7,872)		(7,872)
Balances at June 30, 2013 (unaudited)	$	562	$ 416,795	$ 114,172	$ 1,981	$ 533,510

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

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Home BancShares, Inc.

Consolidated Statements of Cash Flows

(In thousands)	Six Months Ended June 30, 2013	2012
	(Unaudited)	
Operating Activities		
Net income	$ 35,207	$ 29,988
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	3,212	2,956
Amortization/(accretion)	290	2,568
Share-based compensation	595	232
Tax benefits from stock options exercised	(48)	(221)
(Gain) loss on assets	(1,318)	(420)
Provision for loan losses	850	1,333
Deferred income tax effect	6,811	1,605
Increase in cash value of life insurance	(398)	(471)
Originations of mortgage loans held for sale	(66,673)	(74,377)
Proceeds from sales of mortgage loans held for sale	58,567	68,959
Changes in assets and liabilities:		
Accrued interest receivable	1,881	717
Indemnification and other assets	46,165	27,637
Accrued interest payable and other liabilities	8,163	(11,476)
Net cash provided by (used in) operating activities	93,304	49,030
Investing Activities		
Net (increase) decrease in federal funds sold	14,673	525
Net (increase) decrease in loans net, excluding loans acquired	38,923	103,961
Purchases of investment securities available-for-sale	(153,852)	(254,059)
Proceeds from maturities of investment securities available-for-sale	123,942	212,375
Proceeds from sale of investment securities available-for-sale	278	1,243
Proceeds from foreclosed assets held for sale	15,042	18,119
Proceeds from sale of SBA loans	592	3,000
Purchases of premises and equipment, net	(8,657)	(2,330)
Death benefits received	540	
Net cash proceeds received in market acquisitions		140,234
Net cash provided by (used in) investing activities	31,481	223,068
Financing Activities		
Net increase (decrease) in deposits net, excluding deposits acquired	(158,217)	(88,934)
Net increase (decrease) in securities sold under agreements to repurchase	7,183	4,301
Net increase (decrease) in FHLB and other borrowed funds	(137)	(2,254)
Retirement of subordinated debentures	(25,000)	
Repurchase of common stock		(6,111)
Proceeds from exercise of stock options	79	545
Tax benefits from stock options exercised	48	221
Dividends paid on common stock	(7,872)	(5,640)
Net cash provided by (used in) financing activities	(183,916)	(97,872)

Net change in cash and cash equivalents	(59,131)	174,226
Cash and cash equivalents beginning of year	231,855	184,304
Cash and cash equivalents end of period	$ 172,724	$ 358,530

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.

Condensed Notes to Consolidated Financial Statements

(Unaudited)

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

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

Operating Segments

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

Use of Estimates

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

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

Principles of Consolidation

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

Reclassifications

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

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Interim financial information

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

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

Earnings per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Net income	$ 17,659	$ 15,490	$ 35,207	$ 29,988
Average shares outstanding	56,234	56,190	56,228	56,325
Effect of common stock options	343	376	327	366
Diluted shares outstanding	56,577	56,566	56,555	56,691
Basic earnings per common share	$ 0.32	$ 0.28	$ 0.63	$ 0.53
Diluted earnings per common share	$ 0.31	$ 0.27	$ 0.62	$ 0.53

2. Business Combinations

Acquisition Vision Bank

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

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

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

Acquisition Heritage Bank of Florida

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

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

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

Acquisition Premier Bank

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

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

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

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

Acquisition Liberty Bancshares, Inc.

On June 25, 2013, Home BancShares, Inc. announced the signing of a definitive agreement for Liberty Bancshares, Inc. (Liberty), parent company of Liberty Bank of Arkansas, to merge into Home BancShares, Inc. Under the terms of the agreement, shareholders of Liberty will receive $250 million of HBI stock plus $30 million in cash.

Upon completion of the transaction, the combined company will have approximately $7.0 billion in total assets, $5.6 billion in deposits, $4.4 billion in net loans, 151 branches, 186 ATMs, and 1,500 employees across Arkansas, Florida and Southern Alabama. The merger will significantly increase the Company s deposit market share in Arkansas making it the 2nd largest bank holding company headquartered in Arkansas.

The acquisition is expected to close late in the third quarter or early in the fourth quarter of 2013 and is subject to Home and Liberty shareholder approval, regulatory approval, and other conditions set forth in the merger agreement. Pursuant to the terms of the merger agreement, Liberty Bank will merge with and into Centennial Bank immediately after the merger of Liberty with and into Home. Subject to the receipt of requisite approvals, Home expects to repurchase all of Liberty s Small Business Lending Fund preferred stock held by the U.S. Treasury shortly after the closing.

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3. Investment Securities

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

	June 30, 2013 Available-for-sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 196,050	$ 1,741	$ (1,520)	$ 196,271
Mortgage-backed securities	304,839	3,975	(2,349)	306,465
State and political subdivisions	194,643	4,211	(2,787)	196,067
Other securities	37,614	257	(268)	37,603
Total	$ 733,146	$ 10,184	$ (6,924)	$ 736,406

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

Assets, principally investment securities, having a carrying value of approximately $538.4 million and $532.8 million at June 30, 2013 and December 31, 2012, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. Also, investment securities pledged as collateral for repurchase agreements totaled approximately $73.5 million and $66.3 million at June 30, 2013 and December 31, 2012, respectively.

The amortized cost and estimated fair value of securities at June 30, 2013, 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	$ 227,905	$ 227,939
Due after one year through five years	257,389	258,735
Due after five years through ten years	220,568	221,645
Due after ten years	27,284	28,087
Total	$ 733,146	$ 736,406

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.

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During the three-month period ended June 30, 2013, $167,000 in available-for-sale securities were sold. The gross realized gains on these sales totaled approximately $111,000. The income tax expense/benefit to net security gains and losses was 39.225% of the gross amounts.

During the three-month and six-month periods ended June 30, 2012, $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.

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, 2013, no securities were deemed to have other-than-temporary impairment besides securities for which impairment was taken in prior periods.

As of June 30, 2013, the Company had approximately $26,000 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 66.1% 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, 2013 and December 31, 2012:

	June 30, 2013					
	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	$ 89,660	$ (1,494)	$ 5,087	$ (26)	$ 94,747	$ (1,520)
Mortgage-backed securities	139,122	(2,349)			139,122	(2,349)
State and political subdivisions	57,584	(2,787)			57,584	(2,787)
Other securities	16,104	(268)			16,104	(268)
Total	$ 302,470	$ (6,898)	$ 5,087	$ (26)	$ 307,557	$ (6,924)

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

4. Loans Receivable Not Covered by Loss Share

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

	June 30, 2013	December 31, 2012
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 1,003,391	$ 1,019,039
Construction/land development	281,994	254,800
Agricultural	31,119	32,513
Residential real estate loans		
Residential 1-4 family	528,260	549,269
Multifamily residential	120,899	129,742
Total real estate	1,965,663	1,985,363
Consumer	32,671	37,462
Commercial and industrial	287,351	256,908
Agricultural	26,462	19,825
Other	27,095	31,641
Loans receivable not covered by loss share	$ 2,339,242	$ 2,331,199

During the three and six-month periods ended June 30, 2013, the Company sold $536,000 of the guaranteed portion of an SBA loan, which resulted in a gain of approximately $56,000. 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.

Mortgage loans held for sale of approximately $20.6 million and $22.0 million at June 30, 2013 and December 31, 2012, respectively, are included in residential 1-4 family loans. Mortgage loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis. Gains and losses resulting from sales of mortgage loans are recognized when the respective loans are sold to investors. Gains and losses are determined by the difference between the selling price and the carrying amount of the loans sold, net of discounts collected or paid. The Company obtains forward commitments to sell mortgage loans to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. The forward commitments acquired by the Company for mortgage loans in process of origination are not mandatory forward commitments. These commitments are structured on a best efforts basis; therefore, the Company is not required to substitute another loan or to buy back the commitment if the original loan does not fund. Typically, the Company delivers the mortgage loans within a few days after the loans are funded. These commitments are derivative instruments and their fair values at June 30, 2013 and December 31, 2012 were not material.

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

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

5. Loans Receivable Covered by FDIC Loss Share

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

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

	June 30, 2013	December 31, 2012
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 143,922	$ 164,723
Construction/land development	56,447	66,713
Agricultural	1,784	2,282
Residential real estate loans		
Residential 1-4 family	107,612	125,625
Multifamily residential	10,644	9,567
Total real estate	320,409	368,910
Consumer	20	39
Commercial and industrial	8,193	14,668
Other	1,180	1,267
Loans receivable covered by FDIC loss share (1)	$ 329,802	$ 384,884

(1) These loans were not classified as non-performing assets at June 30, 2013 and December 31, 2012, as the loans are accounted for on a pooled basis and the pools are considered to be performing. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all purchased impaired loans. Additionally, as of June 30, 2013 and December 31, 2012, $57.8 million and $70.9 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.

6. Allowance for Loan Losses, Credit Quality and Other

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

	For Loans Not Covered by Loss Share	For Loans Covered by FDIC Loss Share	Total
		(In thousands)	
Allowance for loan losses:			
Beginning balance	$ 45,170	$ 5,462	$ 50,632
Loans charged off	(6,679)	(5,027)	(11,706)
Recoveries of loans previously charged off	1,257	17	1,274
Net loans recovered (charged off)	(5,422)	(5,010)	(10,432)
Provision for loan losses for non-covered loans	750		750
Provision for loan losses before benefit attributable to FDIC loss share agreements		500	500
Benefit attributable to FDIC loss share agreements		(400)	(400)
Net provision for loan losses		100	100
Increase in FDIC indemnification asset		400	400
Balance, June 30	$ 40,498	$ 952	$ 41,450

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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 and six-month periods ended June 30, 2013 and the allowance for loan losses and recorded investment in loans not covered by loss share based on portfolio segment by impairment method as of June 30, 2013. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories. Additionally, the Company s discount for credit losses on non-covered loans acquired was $80.3 million and $81.7 million at June 30, 2013 and December 31, 2012, respectively.

	Three Months Ended June 30, 2013						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial (In thousands)	Consumer & Other	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 6,197	$ 18,511	$ 9,829	$ 2,827	$ 1,037	$ 3,901	$ 42,302
Loans charged off	(50)	(619)	(2,164)	(146)	(382)		(3,361)
Recoveries of loans previously charged off		96	546	18	147		807
Net loans recovered (charged off)	(50)	(523)	(1,618)	(128)	(235)		(2,554)
Provision for loan losses	309	173	204	(2)	251	(185)	750
Balance, June 30	$ 6,456	$ 18,161	$ 8,415	$ 2,697	$ 1,053	$ 3,716	$ 40,498

	Six Months Ended June 30, 2013						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial (In thousands)	Consumer & Other	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 5,816	$ 19,974	$ 13,813	$ 3,870	$ 1,288	$ 409	$ 45,170
Loans charged off	(168)	(864)	(4,217)	(181)	(1,249)		(6,679)
Recoveries of loans previously charged off	15	113	726	33	370		1,257
Net loans recovered (charged off)	(153)	(751)	(3,491)	(148)	(879)		(5,422)
Provision for loan losses	793	(1,062)	(1,907)	(1,025)	644	3,307	750
Balance, June 30	$ 6,456	$ 18,161	$ 8,415	$ 2,697	$ 1,053	$ 3,716	$ 40,498

	As of June 30, 2013						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial (In thousands)	Consumer & Other	Unallocated	Total
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 3,959	$ 11,184	$ 2,408	$ 1	$	$	$ 17,552
Loans collectively evaluated for impairment	2,497	6,977	6,007	2,696	1,053	3,716	22,946
	6,456	18,161	8,415	2,697	1,053	3,716	40,498

Loans evaluated for impairment, balance, June 30							
Purchased credit impaired loans acquired							
Balance, June 30	$ 6,456	$ 18,161	$ 8,415	$ 2,697	$ 1,053	$ 3,716	$ 40,498
Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 28,509	$ 79,030	$ 17,840	$ 1,799	$ 403	$	$ 127,581
Loans collectively evaluated for impairment	241,405	870,594	556,213	266,317	82,525		2,017,054
Loans evaluated for impairment balance, June 30	269,914	949,624	574,053	268,116	82,928		2,144,635
Purchased credit impaired loans acquired	12,080	84,886	75,106	19,235	3,300		194,607
Balance, June 30	$ 281,994	$ 1,034,510	$ 649,159	$ 287,351	$ 86,228	$	$ 2,339,242

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

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	Year Ended December 31, 2012						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial (In thousands)	Consumer & Other	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 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
Loans charged off	(773)	(1,113)	(3,228)	(1,133)	(1,476)		(7,723)
Recoveries of loans previously charged off	2	932	570	37	256		1,797
Net loans recovered (charged off)	(771)	(181)	(2,658)	(1,096)	(1,220)		(5,926)
Provision for loan losses	1,291	(1,003)	4,129	(2,972)	(72)	(123)	1,250
Balance, December 31	$ 5,816	$ 19,974	$ 13,813	$ 3,870	$ 1,288	$ 409	$ 45,170

	As of December 31, 2012						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial (In thousands)	Consumer & Other	Unallocated	Total
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 4,070	$ 14,215	$ 9,365	$ 1,421	$ 338	$	$ 29,409
Loans collectively evaluated for impairment	1,746	5,759	4,448	2,449	950	409	15,761
Loans evaluated for impairment balance, December 31	5,816	19,974	13,813	3,870	1,288	409	45,170
Purchased credit impaired loans acquired							
Balance, December 31	$ 5,816	$ 19,974	$ 13,813	$ 3,870	$ 1,288	$ 409	$ 45,170
Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 28,181	$ 93,610	$ 33,994	$ 3,690	$ 746	$	$ 160,221
Loans collectively evaluated for impairment	210,333	862,128	559,066	227,447	83,932		1,942,906
Loans evaluated for impairment balance, December 31	238,514	955,738	593,060	231,137	84,678		2,103,127
Purchased credit impaired loans acquired	16,286	95,814	85,951	25,771	4,250		228,072

Balance, December 31	$ 254,800	$ 1,051,552	$ 679,011	$ 256,908	$ 88,928	$	$ 2,331,199

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

	June 30, 2013						
	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	$ 3,537	$ 715	$ 8,529	$ 12,781	$ 990,610	$ 1,003,391	$ 5,073
Construction/land development	1,579	99	4,856	6,534	275,460	281,994	1,906
Agricultural			108	108	31,011	31,119	
Residential real estate loans							
Residential 1-4 family	3,344	1,109	12,810	17,263	510,997	528,260	3,601
Multifamily residential		10	340	350	120,549	120,899	
Total real estate	8,460	1,933	26,643	37,036	1,928,627	1,965,663	10,580
Consumer	333	317	406	1,056	31,615	32,671	85
Commercial and industrial	500	679	2,263	3,442	283,909	287,351	849
Agricultural and other	165	15		180	53,377	53,557	
Total	$ 9,458	$ 2,944	$ 29,312	$ 41,714	$ 2,297,528	$ 2,339,242	$ 11,514

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

Non-accruing loans not covered by loss share at June 30, 2013 and December 31, 2012 were $17.8 million and $21.3 million, respectively.

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

				June 30, 2013			
				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)			
Loans without a specific valuation allowance							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$ 5,825	$ 5,825	$	$ 3,978	$ 77	$ 5,176	$ 109
Construction/land development				264		176	8
Agricultural							
Residential real estate loans							
Residential 1-4 family	1,665	1,368		1,672	16	1,232	34
Multifamily residential	1,335	69		668	1	445	1
Total real estate	8,825	7,262		6,582	94	7,029	152
Consumer							
Commercial and industrial	6	6		6		101	
Agricultural and other							
Total loans without a specific valuation allowance	8,831	7,268		6,588	94	7,130	152
Loans with a specific valuation allowance							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	52,336	51,311	11,184	51,579	613	56,406	1,201
Construction/land development	25,080	25,038	3,959	23,490	222	22,448	406
Agricultural	108	108		113		75	
Residential real estate loans							
Residential 1-4 family	10,524	10,499	1,278	11,134	70	13,802	111
Multifamily residential	2,327	2,327	1,130	2,357	15	5,076	30
Total real estate	90,375	89,283	17,551	88,673	920	97,807	1,748
Consumer	403	402		416	2	526	2
Commercial and industrial	1,793	1,793	1	1,799	6	1,914	12
Agricultural and other							
Total loans with a specific valuation allowance	92,571	91,478	17,552	90,888	928	100,247	1,762
Total impaired loans							
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	58,161	57,136	11,184	55,557	690	61,582	1,310
Construction/land development	25,080	25,038	3,959	23,754	222	22,624	414
Agricultural	108	108		113		75	
Residential real estate loans							
Residential 1-4 family	12,189	11,867	1,278	12,806	86	15,034	145
Multifamily residential	3,662	2,396	1,130	3,024	16	5,521	31
Total real estate	99,200	96,545	17,551	95,254	1,014	104,836	1,900
Consumer	403	402		416	2	526	2
Commercial and industrial	1,799	1,799	1	1,805	6	2,015	12

Agricultural and other							
Total impaired loans	$ 101,402	$ 98,746	$ 17,552	$ 97,475	$ 1,022	$ 107,377	$ 1,914

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

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	December 31, 2012			Year Ended	
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses (In thousands)	Average Recorded Investment	Interest Recognized
Loans without a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	$ 7,574	$ 7,571	$	$ 2,478	$ 73
Construction/land development				1,314	
Agricultural					
Residential real estate loans					
Residential 1-4 family	353	353		712	4
Multifamily residential					
Total real estate	7,927	7,924		4,504	77
Consumer					
Commercial and industrial	292	292		134	2
Agricultural and other					
Total loans without a specific valuation allowance	8,219	8,216		4,638	79
Loans with a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	67,378	66,060	14,215	71,882	3,755
Construction/land development	20,592	20,366	4,070	19,489	956
Agricultural				7	1
Residential real estate loans					
Residential 1-4 family	19,364	19,138	6,852	20,518	806
Multifamily residential	10,515	10,515	2,513	7,716	353
Total real estate	117,849	116,079	27,650	119,612	5,871
Consumer	752	746	338	1,078	51
Commercial and industrial	2,219	2,144	1,421	7,232	411
Agricultural and other				962	21
Total loans with a specific valuation allowance	120,820	118,969	29,409	128,884	6,354
Total impaired loans					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	74,952	73,631	14,215	74,360	3,828
Construction/land development	20,592	20,366	4,070	20,803	956
Agricultural				7	1
Residential real estate loans					
Residential 1-4 family	19,717	19,491	6,852	21,230	810
Multifamily residential	10,515	10,515	2,513	7,716	353
Total real estate	125,776	124,003	27,650	124,116	5,948
Consumer	752	746	338	1,078	51
Commercial and industrial	2,511	2,436	1,421	7,366	413
Agricultural and other				962	21
Total impaired loans	$ 129,039	$ 127,185	$ 29,409	$ 133,522	$ 6,433

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

Interest recognized on non-covered impaired loans during the three months ended June 30, 2013 and 2012 was approximately $1.0 million and $1.6 million, respectively. Interest recognized on non-covered impaired loans during the six months ended June 30, 2013 and 2012 was approximately $1.9 million and $3.4 million, respectively. The amount of interest recognized on non-covered impaired loans on the cash basis is not materially different than the accrual basis.

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

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

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

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

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

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

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

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

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

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

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

	June 30, 2013
	Risk Rated 6