HOME BANCSHARES INC
Form 10-Q
May 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 March 31, 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: 28,115,248 shares as of May 1, 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 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)	March 31, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and due from banks	$ 95,604	$ 101,972
Interest-bearing deposits with other banks	206,753	129,883
Cash and cash equivalents	302,357	231,855
Federal funds sold	2,850	17,148
Investment securities available-for-sale	724,929	726,223
Loans receivable not covered by loss share	2,309,146	2,331,199
Loans receivable covered by FDIC loss share	358,669	384,884
Allowance for loan losses	(45,935)	(50,632)
Loans receivable, net	2,621,880	2,665,451
Bank premises and equipment, net	117,534	113,883
Foreclosed assets held for sale not covered by loss share	18,861	20,393
Foreclosed assets held for sale covered by FDIC loss share	29,928	31,526
FDIC indemnification asset	126,275	139,646
Cash value of life insurance	59,185	59,219
Accrued interest receivable	14,367	16,305
Deferred tax asset, net	40,907	46,998
Goodwill	85,681	85,681
Core deposit and other intangibles	11,259	12,061
Other assets	69,494	75,741
Total assets	$ 4,225,507	$ 4,242,130
Liabilities and Stockholders Equity		
Deposits:		
Demand and non-interest-bearing	$ 717,830	$ 666,414
Savings and interest-bearing transaction accounts	1,810,957	1,784,047
Time deposits	936,649	1,032,991
Total deposits	3,465,436	3,483,452
Securities sold under agreements to repurchase	77,194	66,278
FHLB borrowed funds	130,369	130,388
Accrued interest payable and other liabilities	21,020	17,672
Subordinated debentures	3,093	28,867
Total liabilities	3,697,112	3,726,657
Stockholders equity:		
Common stock, par value $0.01; shares authorized 50,000,000; shares issued and outstanding 28,114,297 in 2013 and 28,106,527 in 2012	281	281
Capital surplus	416,741	416,354
Retained earnings	100,730	86,837

Accumulated other comprehensive income		10,643		12,001
Total stockholders equity		528,395		515,473
Total liabilities and stockholders equity	$	4,225,507	$	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)	Three Months Ended March 31, 2013	2012
	(Unaudited)	
Interest income:		
Loans	$ 44,159	$ 38,506
Investment securities		
Taxable	2,403	2,860
Tax-exempt	1,481	1,535
Deposits other banks	98	85
Federal funds sold	7	2
Total interest income	48,148	42,988
Interest expense:		
Interest on deposits	2,485	4,660
FHLB borrowed funds	1,004	1,160
Securities sold under agreements to repurchase	80	110
Subordinated debentures	230	524
Total interest expense	3,799	6,454
Net interest income	44,349	36,534
Provision for loan losses		
Net interest income after provision for loan losses	44,349	36,534
Non-interest income:		
Service charges on deposit accounts	3,709	3,505
Other service charges and fees	3,437	3,024
Mortgage lending income	1,372	904
Insurance commissions	679	551
Income from title services	109	88
Increase in cash value of life insurance	180	257
Dividends from FHLB, FRB, Bankers bank & other	175	175
Gain on sale of SBA loans	56	
Gain (loss) on sale of premises and equipment, net	15	
Gain (loss) on OREO, net	86	(107)
Gain (loss) on securities, net		19
FDIC indemnification accretion	(1,992)	670
Other income	1,199	1,017
Total non-interest income	9,025	10,103
Non-interest expense:		
Salaries and employee benefits	12,952	11,386
Occupancy and equipment	3,594	3,431
Data processing expense	1,510	1,091
Other operating expenses	7,807	8,478

Total non-interest expense	25,863	24,386
Income before income taxes	27,511	22,251
Income tax expense	9,963	7,753
Net income	$ 17,548	$ 14,498
Basic earnings per common share	$ 0.62	$ 0.51
Diluted earnings per common share	$ 0.62	$ 0.51

See Condensed Notes to Consolidated Financial Statements.

Home BancShares, Inc.

Consolidated Statements of Comprehensive Income

(In thousands, except per share data)	Three Months Ended March 31, 2013	2012
	(unaudited)	
Net income	$ 17,548	$ 14,498
Net unrealized gain (loss) on available-for-sale securities	(2,235)	(896)
Less: reclassification adjustment for realized (gains) losses included in income		(19)
Other comprehensive income (loss), before tax effect	(2,235)	(915)
Tax effect	877	359
Other comprehensive income (loss)	(1,358)	(556)
Comprehensive income	$ 16,190	$ 13,942

Home BancShares, Inc.

Consolidated Statements of Stockholders Equity

Three Months Ended March 31, 2013 and 2012

(In thousands, except share data)	Preferred Stock	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				14,498		14,498
Other comprehensive income (loss)					(556)	(556)
Net issuance of 16,291 shares of common stock from exercise of stock options plus issuance of 4,761 bonus shares of unrestricted common stock			394			394
Repurchase of 205,600 shares of common stock		(2)	(5,204)			(5,206)
Tax benefit from stock options exercised			51			51
Share-based compensation			116			116
Cash dividends Common Stock, $0.10 per share				(2,828)		(2,828)
Balances at March 31, 2012 (unaudited)		281	421,006	51,800	7,448	480,535
Comprehensive income:						
Net income				48,524		48,524
Other comprehensive income (loss)					4,553	4,553
Net issuance of 161,416 shares of common stock from exercise of stock options		2	1,562			1,564
Repurchase of 249,848 shares of common stock		(3)	(8,340)			(8,343)
Tax benefit from stock options exercised			1,326			1,326
Share-based compensation		1	800			801
Cash dividends Common Stock, $0.48 per share				(13,487)		(13,487)

Balances at December 31, 2012		281	416,354	86,837	12,001	515,473
Comprehensive income:						
Net income				17,548		17,548
Other comprehensive income (loss)					(1,358)	(1,358)
Net issuance of 3,603 shares of common stock from exercise of stock options			126			126
Tax benefit from stock options exercised			24			24
Share-based compensation			237			237
Cash dividends Common Stock, $0.13 per share				(3,655)		(3,655)
Balances at March 31, 2013 (unaudited)	$	$ 281	$ 416,741	$ 100,730	$ 10,643	$ 528,395

See Condensed Notes to Consolidated Financial Statements.

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Home BancShares, Inc.

Consolidated Statements of Cash Flows

(In thousands)	Three Months Ended March 31, 2013	2012
	(Unaudited)	
Operating Activities		
Net income	$ 17,548	$ 14,498
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,610	1,453
Amortization/(accretion)	365	1,172
Share-based compensation	237	116
Tax benefits from stock options exercised	(24)	(51)
(Gain) loss on assets	(483)	88
Provision for loan losses		
Deferred income tax effect	6,968	(224)
Increase in cash value of life insurance	(180)	(257)
Originations of mortgage loans held for sale	(46,476)	(28,232)
Proceeds from sales of mortgage loans held for sale	46,307	29,530
Changes in assets and liabilities:		
Accrued interest receivable	1,938	(294)
Indemnification and other assets	20,836	20,344
Accrued interest payable and other liabilities	3,372	(210)
Net cash provided by (used in) operating activities	52,018	37,933
Investing Activities		
Net (increase) decrease in federal funds sold	14,298	(275)
Net (increase) decrease in loans net, excluding loans acquired	37,440	72,037
Purchases of investment securities available-for-sale	(76,991)	(162,878)
Proceeds from maturities of investment securities available-for-sale	74,495	70,981
Proceeds from sale of investment securities available-for-sale		1,051
Proceeds from foreclosed assets held for sale	8,980	3,482
Proceeds from sale of SBA loans	592	
Purchases of premises and equipment, net	(5,246)	(1,166)
Death benefits received	540	
Net cash proceeds received in market acquisitions		140,234
Net cash provided by (used in) investing activities	54,108	123,466
Financing Activities		
Net increase (decrease) in deposits net, excluding deposits acquired	(18,016)	(2,064)
Net increase (decrease) in securities sold under agreements to repurchase	10,916	10,212
Net increase (decrease) in FHLB and other borrowed funds	(19)	(24)
Retirement of subordinated debentures	(25,000)	
Repurchase of common stock		(5,206)
Proceeds from exercise of stock options	126	394
Tax benefits from stock options exercised	24	51
Dividends paid on common stock	(3,655)	(2,828)
Net cash provided by (used in) financing activities	(35,624)	535

Net change in cash and cash equivalents	70,502	161,934
Cash and cash equivalents beginning of year	231,855	184,304
Cash and cash equivalents end of period	$ 302,357	$ 346,238

See Condensed Notes to Consolidated Financial Statements.

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.

Interim financial information

The accompanying unaudited consolidated financial statements as of March 31, 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. 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 March 31, 2013	Three Months Ended March 31, 2012
	(In thousands)	
Net income available to common stockholders	$ 17,548	$ 14,498
Average shares outstanding	28,111	28,230
Effect of common stock options	156	181
Diluted shares outstanding	28,267	28,411
Basic earnings per common share	$ 0.62	$ 0.51
Diluted earnings per common share	$ 0.62	$ 0.51

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.

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.

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Acquisition Heritage Bank of Florida

On November 2, 2012, Centennial Bank acquired all the deposits and substantially all the assets of Heritage Bank 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.

FDIC-Assisted Acquisitions Other Matters

In an FDIC-assisted acquisition, we may acquire certain assets and assume certain liabilities of the former institution with or without a loss share agreement with the Federal Deposit Insurance Corporation (FDIC). Any regulatory agreements or orders that existed for the former institution do not apply to the assuming institution. We, as the assuming institution, are evaluated separately by our regulators and any weaknesses of the former institution are considered in the separate evaluation. Also, the loss share agreement helps to mitigate any weaknesses that may have existed in the former institution.

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3. Investment Securities

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

	March 31, 2013 Available-for-sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 188,993	$ 2,805	$ (91)	$ 191,707
Mortgage-backed securities	316,149	7,815	(229)	323,735
State and political subdivisions	179,352	7,188	(244)	186,296
Other securities	22,922	323	(54)	23,191
Total	$ 707,416	$ 18,131	$ (618)	$ 724,929

	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 $543.0 million and $532.8 million at March 31, 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 $77.2 million and $66.3 million at March 31, 2013 and December 31, 2012, respectively.

The amortized cost and estimated fair value of securities at March 31, 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	$ 215,936	$ 218,237
Due after one year through five years	236,905	242,540
Due after five years through ten years	224,755	233,273
Due after ten years	29,820	30,879
Total	$ 707,416	$ 724,929

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.

During the three-month period ended March 31, 2013, no available-for-sale securities were sold.

During the three-month period ended March 31, 2012, $1.1 million in available-for-sale securities were sold. The gross realized gains on these sales totaled approximately $19,000. 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 three month period ended March 31, 2013, no securities were deemed to have other-than-temporary impairment besides securities for which impairment was taken in prior periods.

As of March 31, 2013, the Company had approximately $30,000 in unrealized losses, which have been in continuous loss positions for more than twelve months. Excluding impairment write downs taken in prior periods, the Company s assessments indicated that the cause of the market depreciation was primarily the change in interest rates and not the issuer s financial condition, or downgrades by rating agencies. In addition, approximately 64.0% 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 March 31, 2013 and December 31, 2012:

	March 31, 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	$ 15,560	$ (61)	$ 5,204	$ (30)	$ 20,764	$ (91)
Mortgage-backed securities	40,985	(229)			40,985	(229)
State and political subdivisions	19,819	(244)			19,819	(244)
Other securities	6,531	(54)			6,531	(54)
Total	$ 82,895	$ (588)	$ 5,204	$ (30)	$ 88,099	$ (618)

	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)

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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:

	March 31, 2013	December 31, 2012
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 1,014,301	$ 1,019,039
Construction/land development	254,673	254,800
Agricultural	34,288	32,513
Residential real estate loans		
Residential 1-4 family	531,698	549,269
Multifamily residential	122,998	129,742
Total real estate	1,957,958	1,985,363
Consumer	33,823	37,462
Commercial and industrial	269,463	256,908
Agricultural	16,573	19,825
Other	31,329	31,641
Loans receivable not covered by loss share	$ 2,309,146	$ 2,331,199

During the three -month period ended March 31, 2013, the Company sold $536,000 of the guaranteed portion of an SBA loan, which resulted in a gain of approximately $56,000. The Company did not sell any of the guaranteed portions of SBA loans during the three-month period ended March 31, 2012.

Mortgage loans held for sale of approximately $22.0 million at both March 31, 2013 and December 31, 2012 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 March 31, 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.

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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 March 31, 2013 and December 31, 2012 for the Company:

	March 31, 2013	December 31, 2012
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 155,345	$ 164,723
Construction/land development	58,384	66,713
Agricultural	2,256	2,282
Residential real estate loans		
Residential 1-4 family	120,246	125,625
Multifamily residential	9,443	9,567
Total real estate	345,674	368,910
Consumer	28	39
Commercial and industrial	11,712	14,668
Other	1,255	1,267
Loans receivable covered by FDIC loss share (1)	$ 358,669	$ 384,884

(1) These loans were not classified as non-performing assets at March 31, 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 March 31, 2013 and December 31, 2012, $65.3 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 three months ended March 31, 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	(3,318)	(1,840)	(5,158)
Recoveries of loans previously charged off	450	11	461
Net loans recovered (charged off)	(2,868)	(1,829)	(4,697)
Balance, March 31	$ 42,302	$ 3,633	$