HOME BANCSHARES INC
Form 10-K
March 10, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-K

(Mark One)

þ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Fiscal Year Ended December 31, 2010

or

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

Commission File Number: 000-51904

HOME BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

(501) 328-4770

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

None	N/A
Title of each class	Name of each exchange on which registered

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $0.01 per share

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

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 o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a 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 o No þ

The aggregate market value of the registrant s common stock, par value $0.01 per share, held by non-affiliates on June 30, 2010, was $499.7 million based upon the last trade price as reported on the NASDAQ Global Select Market of $22.81.

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: 28,477,160 shares as of February 24, 2011.

Documents incorporated by reference: Part III is incorporated by reference from the registrant s Proxy Statement relating to its 2010 Annual Meeting to be held on April 21, 2011.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this Cautionary Note. Our actual results may differ significantly from those we discuss in these forward-looking statements. For other factors, risks and uncertainties that could cause our actual results to differ materially from estimates and projections contained in these forward-looking statements, see Risk Factors .

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PART I

Item 1. BUSINESS

Company Overview

Home BancShares, Inc. (Home BancShares, which may also be referred to in this document as we, us or the Company) is a Conway, Arkansas headquartered bank holding company registered under the federal Bank Holding Company Act of 1956. The Company s common stock is traded through the NASDAQ Global Select Market under the symbol HOMB. We are primarily engaged in providing a broad range of commercial and retail banking and related financial services to businesses, real estate developers and investors, individuals and municipalities through our wholly owned community bank subsidiary Centennial Bank (the Bank). The Bank has locations in central Arkansas, north central Arkansas, southern Arkansas, the Florida Keys, central Florida, southwestern Florida and the Florida Panhandle. Although the Company has a diversified loan portfolio, at December 31, 2010 and 2009, commercial real estate loans represented 61.7% and 62.1% of gross loans and 319.3% and 260.5% of total stockholders equity, respectively. The Company s total assets, total deposits, total revenue and net income for each of the past three years are as follows:

	As of or for the Years Ended December 31,		
	2010	2009	2008
		(In thousands)	
Total assets	$3,762,646	$2,684,865	$2,580,093
Total deposits	2,961,798	1,835,423	1,847,908
Total revenue (interest income plus non-interest income)	216,171	162,912	174,435
Net income	17,591	26,806	10,116

Home BancShares acquires, organizes and invests in community banks that serve attractive markets. Our community banking team is built around experienced bankers with strong local relationships. The Company was formed in 1998 by an investor group led by John W. Allison, our Chairman, and Robert H. Bunny Adcock, Jr., our Vice Chairman. After obtaining a bank charter, we established First State Bank in Conway, Arkansas, in 1999. We acquired and integrated Community Bank, Bank of Mountain View and Centennial Bank in 2003, 2005 and 2008, respectively. Home BancShares and its founders were also involved in the formation of Twin City Bank and Marine Bank, both of which we acquired and integrated in 2005. During 2008 and 2009, we merged all of our banks into one charter and adopted Centennial Bank as the common name. In 2010, we acquired six banks in Florida through Federal Deposit Insurance Corporation assisted transactions, including Old Southern Bank, Key West Bank, Coastal Community Bank, Bayside Savings Bank, Wakulla Bank and Gulf State Community Bank. In 2010, we integrated the acquisitions Old Southern Bank, Key West Bank, and Bayside Savings Bank. The conversions for Coastal Community Bank, Wakulla Bank and Gulf State Community Bank are scheduled to be completed during the first quarter of 2011.

We believe that many individuals and businesses prefer banking with a locally managed community bank capable of providing flexibility and quick decisions. The execution of our community banking strategy has allowed us to rapidly build our network of banking operations through acquisitions. The following are the financial details concerning our acquisitions during the previous five years.

Centennial Bank On January 1, 2008, we acquired Centennial Bancshares, Inc. and its subsidiary, Centennial Bank. Centennial Bank had total assets of $234.1 million, loans of $192.8 million and total deposits of $178.8 million on the date of acquisition. The consideration for the merger was $25.4 million, which was paid approximately 4.6%, or $1.2 million, in cash and 95.4%, or $24.3 million, in shares of our common stock. In connection with the acquisition, $3.0 million of the purchase price, consisting of $139,000 in cash and 154,502 shares (adjusted for the 8% stock dividend in 2008 and the 10% stock dividend in 2010) of our common stock, was placed in escrow related to possible losses from identified loans and an IRS examination. In the first quarter of 2008, the IRS examination was completed which resulted in $1.0 million of the escrow proceeds being released. In the fourth quarter of 2009, approximately $334,000 of losses from the escrowed loans was identified. After we were reimbursed 100% for those losses, the remaining escrow funds were released. In addition to the consideration given at the time of the merger, the merger agreement provided for additional contingent consideration to Centennial s stockholders of up to a maximum of $4.0 million, which could be paid in cash or our common stock at the election of the former Centennial accredited stockholders, based upon the 2008 earnings performance. The final contingent consideration was computed and agreed upon in the amount of $3.1 million on March 11, 2009. We paid this amount to the former Centennial stockholders on a pro rata basis on March 12, 2009. All of the former Centennial stockholders elected to receive the contingent consideration in cash. As a result of this transaction, we recorded total goodwill of $15.4 million and a core deposit intangible of $694,000 during 2008 and 2009.

Investment in White River Bancshares In January 2005, we purchased 20% of the common stock during the formation of White River Bancshares, Inc. of Fayetteville, Arkansas for $9.1 million. White River Bancshares owns all of the stock of Signature Bank of Arkansas, with branch locations in northwest Arkansas. In January 2006, White River Bancshares issued an additional $15.0 million of common stock. To maintain our 20% ownership, we made an additional investment of $3.0 million in January 2006. During April 2007, White River Bancshares acquired 100% of the stock of Brinkley Bancshares, Inc. in Brinkley, Arkansas. As a result, we made a $2.6 million additional investment in White River Bancshares on June 29, 2007 to maintain our 20% ownership. On March 3, 2008, White River Bancshares repurchased our 20% investment in their company which resulted in a one-time gain of $6.1 million.

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

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

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

See Note 2 Business Combinations to the Consolidated Financial Statements for an additional discussion for the acquisition of Old Southern.

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

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

See Note 2 Business Combinations to the Consolidated Financial Statements for an additional discussion for the acquisition of Key West.

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

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

See Note 2 Business Combinations to the Consolidated Financial Statements for an additional discussion for the acquisition of Coastal and Bayside.

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

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

See Note 2 Business Combinations to the Consolidated Financial Statements for an additional discussion for the acquisition of Wakulla.

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

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

See Note 2 Business Combinations to the Consolidated Financial Statements for an additional discussion for the acquisition of Gulf State.

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Our Management Team

The following table sets forth, as of December 31, 2010, information concerning the individuals who are our executive officers.

Name	Age	Positions Held with Home BancShares, Inc.	Positions Held with Centennial Bank
John W. Allison	64	Chairman of the Board	Chairman of the Board
C. Randall Sims	56	Chief Executive Officer and Director	Chief Executive Officer, President and Director
Randy E. Mayor	45	Chief Financial Officer, Treasurer and Director	Chief Financial Officer and Director
Brian S. Davis	45	Chief Accounting Officer and Investor Relations Officer	
Kevin D. Hester	47	Chief Lending Officer	Chief Lending Officer and Director
Robert F. Birch, Jr.	60		Regional President
Tracy M. French	49		Regional President

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Our Growth Strategy

Our goals are to achieve growth in earnings per share and to create and build stockholder value. Our growth strategy entails the following:

Organic growth We believe that our current branch network provides us with the capacity to grow within our existing market areas. We also believe we are well positioned to attract new business and additional experienced personnel as a result of ongoing changes in our competitive markets as well as economic opportunities related to the recent relocation of out-of-state businesses to central Arkansas and the Fayetteville Shale natural gas reserve in north central Arkansas. We believe the Central Florida market entered into during 2010 as a result of our FDIC acquisitions will give us new opportunities for organic growth. The Orlando MSA has approximately $36.8 billion in deposits of which we have a market share of less than 1%.

Strategic acquisitions We believe that properly priced bank acquisitions can complement our organic growth and de novo branching growth strategies. In the near term, our principal acquisition focus will be to continue to expand our presence in Arkansas and other nearby markets, and in Florida, through pursuing FDIC-assisted acquisition opportunities. We are continually evaluating potential bank acquisitions to determine what is in the best interests of our Company. Our goal in making these decisions is to maximize the return to our shareholders and enhancing our franchise.

De novo branching As opportunities arise, we will continue to open new (commonly referred to as *de novo*) branches in our current markets and in other attractive market areas. During 2010, no *de novo* branches were opened. We have no current plans for any additional *de novo* branch locations.

Community Banking Philosophy

Our community banking philosophy consists of four basic principles:

- manage our community banking franchise with experienced bankers and community bank boards who are empowered to make customer-related decisions quickly;

- provide exceptional service and develop strong customer relationships;

- pursue the business relationships of our board of directors, community bank boards, executive officers, stockholders, and customers to actively promote our community bank; and

- maintain our commitment to the communities we serve by supporting civic and nonprofit organizations.

These principles which make up our community banking philosophy are the driving force for our business. As we have streamlined our legacy business by moving to a unified banking network, we have preserved lending authority with local management in most cases and transitioned our former bank boards of directors into advisory boards that maintain an integral connection to the communities we serve. These advisory boards are empowered with lending authority of up to $6 million in their respective geographic areas. This allows us to capitalize on the strong relationships that our community bank board members and officers have established in their respective communities to maintain and grow our business. Through experienced and empowered local bankers and board members, we are committed to maintaining a community banking experience for our customers.

At the outset, the acquisitions are managed by the executive management of the legacy bank using a committee approach. It has not been determined at this time whether we will create additional advisory boards in the new markets that we are serving through the acquisitions.

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Operating Goals

Our operating goals focus on maintaining strong credit quality, increasing profitability, finding experienced bankers, and maintaining a fortress balance sheet:

Maintain strong credit quality Credit quality is our first priority. We employ a set of credit standards designed to ensure the proper management of credit risk. Our management team plays an active role in monitoring compliance with these credit standards in the different communities served by Centennial Bank. We have a centralized loan review process, which we believe enables us to take prompt action on potential problem loans. This centralized review process also applies to our banking operations in Florida, where the majority of our current non-performing loans were originated, and provides for close monitoring of the quality of our Florida loans. These efforts are supplemented by the relocation of our former director of loan review from our corporate headquarters in Arkansas to Florida to monitor our Florida operations and collections directly. In addition, in 2010 we promoted the chief lending officer of our Conway region to the chief lending officer of the Company. As a result, he has assumed responsibility in that capacity over lending in our Florida market. Despite placing experienced management in Florida and promoting experienced management from within the Company to monitor loan quality, the declining market as well as other nonrecurring items led to a total impairment charge of approximately $53.4 million for certain loans in December of 2010. Of the $53.4 million total impairment charge, $22.8 million was related to several borrowing relationships in Florida while $30.6 million was primarily related to a $22.7 million borrowing relationship in Arkansas as well as $2.2 million in fraudulent Arkansas loans associated with the issuance of fraudulent rural improvement district bonds sold to various financial institutions in Arkansas. We believe this impairment charge was an uncommon occurrence due mostly to difficult economic conditions in our Florida market and unique circumstances involving the Arkansas borrower and fraudulent bonds. We are committed to maintaining high credit quality standards.

Continue to improve profitability We intend to improve our profitability and achieve high performance ratios as we continue to utilize the available capacity of our newer branches and employees. Since December 2008, we have consolidated our six bank charters into one as part of our Build a Better Bank (B3) program. During 2009, we began to see the benefits of the B3 program, which continued into 2010. Our core efficiency ratio improved from 54.0% for the year ended 2009 to 49.6% for the year ended 2010. Efficiency ratio is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income. Our core efficiency ratio is calculated similarly using core non-interest expense and core non-interest income, which exclude nonrecurring items such as the expenses associated with the FDIC-assisted acquisitions in 2010 or the completion of the charter consolidation in 2009 and nonrecurring gains or losses. These improvements in core operating efficiency are being driven by, among other factors, improvements in our net interest margin, growth in fee income and the streamlining of processes in our lending and retail operations and improvements in our purchasing power.

Attract and motivate experienced bankers We believe a major factor in our success has been our ability to attract and motivate bankers who have experience in and knowledge of their local communities. Hiring and retaining experienced relationship bankers has been integral to our ability to grow quickly when entering new markets.

Maintain a fortress balance sheet We intend to maintain a strong balance sheet through a focus on four key governing principles: (1) maintain strong loan loss reserves; (2) remain well capitalized; (3) pursue high performance metrics including return on tangible equity (ROTE), return on assets (ROA), core efficiency ratio and net interest margin; and (4) retain liquidity at the bank holding company level that can be utilized should attractive acquisition opportunities be identified or for internal capital needs. Despite the December 2010 charge-off, we were able to maintain capital levels significantly above the regulatory capital requirements, without the need for additional capital, as a result of our focus on these governing principles.

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Our Market Areas

As of December 31, 2010, we conducted business principally through 45 branches located in central Arkansas, 2 branches in north central Arkansas, 2 branches in southern Arkansas, 9 branches in the Florida Keys, 6 branches in central Florida, 3 branches in southwestern Florida and 29 branches in the Florida Panhandle. Our branch footprint includes markets in which we are the deposit market share leader as well as markets where we believe we have significant opportunities for deposit market share growth.

Our Arkansas market has experienced less volatility than our Florida market over the past 4 years, which has served to offset the weakness experienced in our Florida market. The recent national economic downturn has led to increases in defaults and foreclosures, and increases in the number and dollars of loan modifications primarily in the Florida market. However, the overall effect on the strength of the Company has been limited since the non-covered Florida loan portfolio only consists of 16.6% of total non-covered loans as of December 31, 2010.

Lending Activities

We originate loans primarily secured by single and multi-family real estate, residential construction and commercial buildings. In addition, we make loans to small and medium-sized commercial businesses as well as to consumers for a variety of purposes.

Our loan portfolio as of December 31, 2010, was comprised as follows:

	Loans Receivable Not Covered by Loss Share	Loans Receivable Covered by FDIC Loss Share	Total Loans Receivable	Percentage of portfolio
	(Dollars in thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	$ 805,635	$ 208,678	$ 1,014,313	41.1%
Construction/land development	348,768	127,340	476,108	19.3
Agricultural	26,798	5,454	32,252	1.3
Residential real estate loans				
Residential 1-4 family	371,381	180,914	552,295	22.3
Multifamily residential	59,319	9,176	68,495	2.8
Total real estate	1,611,901	531,562	2,143,463	86.8
Consumer	51,642	498	52,140	2.1
Commercial and industrial	184,014	42,443	226,457	9.2
Agricultural	16,549	63	16,612	0.7
Other	28,268	1,210	29,478	1.2
Total	$ 1,892,374	$ 575,776	$ 2,468,150	100.0%

Real Estate Non-farm/Non-residential. Non-farm/non-residential real estate loans consist primarily of loans secured by income-producing properties, such as shopping/retail centers, hotel/motel properties, office buildings, and industrial/warehouse properties. Commercial lending on income-producing property typically involves higher loan principal amounts, and the repayment of these loans is dependent, in large part, on sufficient income from the properties collateralizing the loans to cover operating expenses and debt service. This category of loans also includes specialized properties such as churches, marinas, and nursing homes. Additionally, we make commercial mortgage loans to entities to operate in these types of properties, and the repayment of these loans is dependent, in large part, on the cash flow generated by these entities in the operations of the business. Often, a secondary source of repayment will include the sale of the subject collateral. When this is the case, it is generally our practice to obtain an independent appraisal of this collateral within the Interagency Appraisal and Evaluation Guidelines.

Real Estate Construction/Land Development. This category of loans includes loans to residential and commercial developers to purchase raw land and to develop this land into residential and commercial land developments. In addition, this category includes construction loans for all of the types of real estate loans made by the Bank, including both commercial and residential. These loans are generally secured by a first lien on the real estate being purchased or developed. Often, the primary source of repayment will be the sale of the subject collateral. When this is the case, it is generally our practice to obtain an independent appraisal of this collateral within the Interagency Appraisal and Evaluation Guidelines.

Real Estate Residential. Our residential mortgage loan program primarily originates loans to individuals for the purchase of residential property. We generally do not retain long-term, fixed-rate residential real estate loans in our portfolio due to interest rate and collateral risks. Residential mortgage loans to individuals retained in our loan portfolio primarily consisted of 22.3% owner occupied 1-4 family properties and 2.8% non-owner occupied 1-4 family properties (rental). The primary source of repayment for these loans is generally the income and/or assets of the individual to whom the loan is made. Often, a secondary source of repayment will include the sale of the subject collateral. When this is the case, it is generally our practice to obtain an independent appraisal of this collateral within the Interagency Appraisal and Evaluation Guidelines.

Consumer. While our focus is on service to small and medium-sized businesses, we also make a variety of loans to individuals for personal, family and household purposes, including secured and unsecured installment and term loans. The primary source of repayment for these loans is generally the income and/or assets of the individual to whom the loan is made. When secured, we may independently assess the value of the collateral provided using a third-party valuation source.

Commercial and Industrial. Our commercial and industrial loan portfolio primarily consisted of 47.1% inventory/AR financing, 20.6% equipment/vehicle financing and 32.3% other, including letters of credit at less than 1%. This category includes loans to smaller business ventures, credit lines for working capital and short-term inventory financing, for example. These loans are typically secured by the assets of the business, and are supplemented by personal guaranties of the principals and often mortgages on the principals primary residences. The primary source of repayment may be conversion of the assets into cash flow, as in inventory and accounts receivable, or may be cash flow generated by operations, as in equipment/vehicle financing. Assessing the value of inventory can involve many factors including, but not limited to, type, age, condition, level of conversion and marketability, and can involve applying a discount factor or obtaining an independent valuation, based on the assessment of the above factors. Assessing the value of accounts receivable can involve many factors including, but not limited to, concentration, aging, and industry, and can involve applying a discount factor or obtaining an independent valuation, based on the assessment of the above factors. Assessing the value of equipment/vehicles may involve a third-party valuation source, where applicable.

Credit Risks. The principal economic risk associated with each category of the loans that we make is the creditworthiness of the borrower and the ability of the borrower to repay the loan. General economic conditions and the strength of the services and retail market segments affect borrower creditworthiness. General factors affecting a commercial borrower s ability to repay include interest rates, inflation and the demand for the commercial borrower s products and services as well as other factors affecting a borrower s customers, suppliers and employees.

Risks associated with real estate loans also include fluctuations in the value of real estate, new job creation trends, tenant vacancy rates, and in the case of commercial borrowers, the quality of the borrower s management. Consumer loan repayments depend upon the borrower s financial stability and are more likely to be adversely affected by divorce, job loss, illness and other personal hardships.

Lending Policies. We have established common loan documentation procedures and policies, based on the type of loan, for our bank subsidiary. The board of directors periodically reviews these policies for validity. In addition, it has been and will continue to be our practice to attempt to independently verify information provided by our borrowers, including assets and income. We have not made loans similar to those commonly referred to as no doc or stated income loans. We focus on the primary and secondary methods of repayment, and prepare global cash flows where appropriate. There are legal restrictions on the dollar amount of loans available for each lending relationship. The Arkansas Banking Code provides that no loan relationship may exceed 20% of a bank s risk based capital, and we are in compliance with this restriction. In addition, we are not dependent upon any single lending relationship for an amount exceeding 10% of our revenues. As of December 31, 2010, the maximum amount outstanding to a single borrower was $44.9 million. As a community lender, we believe from time to time it is in our best interest to agree to modifications or restructurings. These modifications/restructurings can take the form of a reduction in interest rate, a move to interest-only from principal and interest payments, or a lengthening in the amortization period or any combination thereof. Furthermore, we may make an additional loan or loans to a borrower or related interest of a borrower who is past due more than 90 days. These circumstances will be very limited in nature, and when approved by the appropriate lending authority, will likely involve obtaining additional collateral that will improve the collectability of the overall relationship. It is our belief that judicious usage of these tools can improve the quality of our loan portfolio by providing our borrowers an improved probability of survival during difficult economic times.

Loan Approval Procedures. Our bank subsidiary has supplemented our common loan policies to establish their own loan approval procedures as follows:

> *Individual Authorities.* The board of directors of Centennial Bank establishes the authorization levels for individual loan officers on a case-by-case basis. Generally, the more experienced a loan officer, the higher the authorization level. The approval authority for individual loan officers ranges from $25,000 to $500,000 for secured loans and from $1,000 to $100,000 for unsecured loans.

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Officers Loan Committees. Our bank subsidiary also gives its Officers Loan Committees loan approval authority. Credits in excess of individual loan limits are submitted to the region s Officers Loan Committee. The Officers Loan Committee consists of members of the senior management team of that region and is chaired by that region s chief lending officer. The regional Officers Loan Committees have approval authority up to $1.0 million secured and $100,000 unsecured.

Directors Loan Committee. Each region throughout our bank subsidiary has a Directors Loan Committee consisting of outside directors and senior lenders of that region. Generally, each region requires a majority of outside directors be present to establish a quorum. Generally, this committee is chaired either by the Regional Chief Lending Officer or the Regional President. The regional Directors Loan Committees have approval authority up to $6.0 million secured and $500,000 unsecured.

Regional Loan Committee. The board of directors of Centennial Bank established the Regional Loan Committee consisting of senior lenders from all regions. This committee requires five voting members to establish a quorum, and is chaired by the Chief Lending Officer of the Bank. The Regional Loan Committee has approval authority up to the in-house consolidated lending limit of $20.0 million.

Currently, our board of directors has established an in-house consolidated lending limit of $20.0 million to any one borrowing relationship without obtaining the approval of any two of our Chairman, our Chief Executive Officer, and our director Richard H. Ashley. We have nine separate relationships that exceed this in-house limit, of which one is to a related party.

Deposits and Other Sources of Funds

Our principal source of funds for loans and investing in securities is core deposits. We offer a wide range of deposit services, including checking, savings, money market accounts and certificates of deposit. We obtain most of our deposits from individuals and small businesses, and municipalities in our market areas. We believe that the rates we offer for core deposits are competitive with those offered by other financial institutions in our market areas. Additionally, our policy also permits the acceptance of brokered deposits. Secondary sources of funding include advances from the Federal Home Loan Banks of Dallas and Atlanta, the Federal Reserve Bank Discount Window and other borrowings. These secondary sources enable us to borrow funds at rates and terms which, at times, are more beneficial to us.

Other Banking Services

Given customer demand for increased convenience and account access, we offer a range of products and services, including 24-hour internet banking and voice response information, cash management, overdraft protection, direct deposit, safe deposit boxes, United States savings bonds and automatic account transfers. We earn fees for most of these services. We also receive ATM transaction fees from transactions performed by our customers participating in a shared network of automated teller machines and a debit card system that our customers can use throughout the United States, as well as in other countries.

Insurance

Centennial Insurance Agency, Inc. is an independent insurance agency, originally founded in 1959 and purchased July 1, 2000, by Centennial Bank. Centennial Insurance Agency writes policies for commercial and personal lines of business. It is subject to regulation by the Arkansas Insurance Department. The offices of Centennial Insurance Agency are located in Jacksonville, Cabot, and Conway, Arkansas.

Cook Insurance Agency, Inc. is an independent insurance agency, originally founded in 1913 and acquired November 19, 2010, by Centennial Bank during the FDIC acquisition of Gulf State Community Bank. Cook Insurance Agency writes policies for commercial and personal lines of business. It is subject to regulation by the Florida Insurance Department. The offices of Cook Insurance Agency are located in Apalachicola and Crawfordville, Florida.

During 2011, the Company plans to merge the book of business of Cook Insurance Agency into the Centennial Insurance Agency.

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Trust Services

Centennial Trust provides trust services, focusing primarily on personal trusts, corporate trusts and employee benefit trusts. In the fourth quarter of 2006, we made a strategic decision to enter into an agent agreement for the management of our trust services to a non-affiliated third party. This change was to improve the overall profitability of our trust efforts. Centennial Trust still has ownership rights to the trust assets under management.

Competition

As of December 31, 2010, we conducted business through 96 branches in our primary market areas of Pulaski, Faulkner, Lonoke, Stone, Saline, White, Dallas, Cleveland, Conway, and Cleburne Counties in Arkansas and Monroe, Franklin, Bay, Leon, Wakulla, Orange, Calhoun, Gulf, Seminole, Charlotte, Lake, Liberty and Collier Counties in Florida. Many other commercial banks, savings institutions and credit unions have offices in our primary market areas. These institutions include many of the largest banks operating in Arkansas and Florida, including some of the largest banks in the country. Many of our competitors serve the same counties we do. Our competitors often have greater resources, have broader geographic markets, have higher lending limits, offer various services that we may not currently offer and may better afford and make broader use of media advertising, support services and electronic technology than we do. To offset these competitive disadvantages, we depend on our reputation as having greater personal service, consistency, and flexibility and the ability to make credit and other business decisions quickly.

Employees

On December 31, 2010, we had 698 full-time equivalent employees. Except for employees acquired in acquisitions, we expect that our 2011 staffing levels will approximate those at year end 2010. We consider our employee relations to be good, and we have no collective bargaining agreements with any employees.

Troubled Asset Relief Program

The Emergency Economic Stabilization Act of 2008 (EESA) authorized the United States Department of the Treasury (the Treasury) to take actions to restore stability and liquidity to the financial system in the U.S., and created the Troubled Asset Relief Program, or TARP . Using TARP s authority, the Treasury established the Capital Purchase Program allowing qualified financial institutions to sell senior preferred stock and warrants to the Treasury, with the proceeds of those sales qualifying as Tier 1 regulatory capital in an amount between 1% and 3% of risk-weighted assets.

Given the uncertainty in the financial markets in late 2008 after the collapse of Lehman Brothers and the struggles of others financial institutions, Home BancShares decided, even with our acceptable capital ratios, to apply to receive $50.0 million of TARP funds to further strengthen our capital levels. While there was no formula or procedure used to determine the amount requested, we concluded that $50.0 million was a prudent amount of funds for the Company in the face of a financial industry crisis. We are using the Capital Purchase Program funds to increase and maintain capital levels in order to pursue acquisition and merger opportunities.

On January 16, 2009, we issued and sold to the Treasury 50,000 shares of our Fixed Rate Cumulative Perpetual Preferred Stock Series A, liquidation preference of $1,000 per share, and a ten-year warrant to purchase up to 316,943 shares of our common stock, par value $0.01 per share, at an exercise price of $23.664 per share. The aggregate purchase price for the securities was $50.0 million in cash. Cumulative dividends on the Series A preferred shares will accrue on the liquidation preference at a rate of 5% per annum for the first five years, and at a rate of 9% per annum thereafter. The aggregate dollar amount of dividends on preferred stock is $2.5 million per year until 2014 and $4.5 million per year thereafter. If the Company fails to pay in full the dividends on the Series A preferred shares for six dividend periods, whether or not consecutive, the holder of the Series A preferred shares will have the right to elect two directors to our board of directors. The Company has paid in full all of the dividends required as of this report.

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The Series A preferred shares qualify as Tier 1 capital. They are callable at par after three years. Under our agreement with the Treasury, prior to January 16, 2012, the shares may only be redeemed after a qualifying equity offering of any Tier 1 perpetual preferred or common stock. However, under the American Recovery and Reinvestment Act of 2009 (ARRA), subject to consultation with our federal banking regulator, the Treasury must permit us to redeem the shares at any time without regard to whether we have replaced such funds from any other source or to any waiting period. The Treasury must approve any quarterly cash dividend on our common stock above $0.0545 per share (adjusted for the 10% stock dividend in 2010) or share repurchases until January 16, 2012, unless the Series A preferred shares are paid off in whole or transferred to a third party. It also grants certain registration rights to the holders of the preferred shares, the warrant and the common stock to be issued under the warrant and subjects the Company to certain of the executive compensation limitations included in the EESA. Home BancShares is complying with the executive compensation limitations of the ARRA and therefore will not pay any cash bonus compensation to the top five executives for 2010. Prior to the ARRA restrictions, Home BancShares paid discretionary cash bonuses to senior executives. Under the current restrictions the Company has issued restricted stock instead of cash bonuses.

These requirements and restrictions include, among others, the following: (i) a prohibition on paying or accruing bonuses, retention awards and incentive compensation, other than qualifying long-term restricted stock or pursuant to certain preexisting employment contracts, to the Company s five most highly-compensated employees; (ii) a general prohibition on providing severance benefits, or other benefits due to a change in control of the Company, to the Company s senior executive officers (SEOs) and next five most highly compensated employees; (iii) a requirement to make subject to clawback any bonus, retention award, or incentive compensation paid to any of the SEOs and any of the next twenty most highly compensated employees if such compensation was based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria; (iv) a requirement to establish a policy on luxury or excessive expenditures; (v) a requirement to provide shareholders with a non-binding advisory say on pay vote on executive compensation; (vi) a prohibition on deducting more than $500,000 in annual compensation, including performance-based compensation, to the executives covered under Internal Revenue Code Section 162(m); (vii) a requirement that the compensation committee of the board of directors evaluate and review on a semi-annual basis the risks involved in employee compensation plans; and (viii) a prohibition on providing tax gross-ups to the Company s SEOs and the next 20 most highly compensated employees. These requirements and restrictions will remain applicable to the Company until it has redeemed the Series A preferred stock in full.

On February 6, 2009, we filed a Form S-3 with the Securities and Exchange Commission, as required by the Securities Purchase Agreement (SPA) executed in connection with the sale of preferred stock and warrants. The S-3 registered for sale by selling shareholders the preferred stock, the warrants, and underlying common stock. The initial selling shareholder is the Treasury. Its successor and transferors may also sell pursuant to the registration statement. The Company will not receive any proceeds from these sales.

As a condition to the closing of the transaction, each of the Company s SEOs (as defined in the SPA), (i) executed a waiver voluntarily waiving any claim against the Treasury or the Company for any changes to such SEO s compensation or benefits that are required to comply with the regulation issued by the Treasury under the TARP Capital Purchase Program as published in the Federal Register on October 20, 2008, and acknowledging that the regulation may require modification of the compensation, bonus, incentive and other benefit plans, arrangements and policies and agreements (including so-called golden parachute agreements) as they relate to the period the Treasury holds any equity or debt securities of the Company acquired through the TARP Capital Purchase Program; and (ii) entered into a letter agreement with the Company amending the Benefit Plans with respect to such SEO as may be necessary, during the period that the Treasury owns any debt or equity securities of the Company acquired pursuant to the SPA or the warrant, as necessary to comply with Section 111(b) of the EESA.

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In September 2009, we raised common equity through an underwritten public offering by issuing 6,261,750 shares of common stock at $18.05 (10% stock dividend adjusted), which met the requirements of a qualifying equity offering. The proceeds of this offering exceeded the aggregate purchase price of the Series A preferred shares ($50.0 million); therefore, the number of shares of common stock underlying the ten-year warrant has been reduced by half, resulting in the Treasury now holding a warrant to purchase 158,471.50 shares of our common stock at an exercise price of $23.664 per share (10% stock dividend adjusted). The total net proceeds of the offering after deducting underwriting discounts and commissions and offering expenses were $107.3 million, which triggered the reduction in the shares underlying the warrant. If we repay the TARP funds, we have the right to repurchase the warrant for fair market value. Fair market value for repurchase of the warrant will be subject to negotiation, and there can be no assurance that we will be able to repurchase the warrant. With the additional $107.3 million in proceeds from our public offering, the Company has the resources to pay back TARP funds. However, with the continued failure of a record number of financial institutions across the nation, the economic concerns that originally prompted the receipt of TARP funds have not fully subsided. In addition, due to the fact Home BancShares has and is actively pursuing FDIC assisted transactions, and the pressure of capitalizing the new assets, we believe it is still prudent to maintain high capital ratios.

The additional TARP capital has put our Company in a position of a strong balance sheet. Home BancShares has no senior classes of securities, and while there is dilution to the common shareholder, our Company has experienced positive results in performance and growth that has further enhanced our capital and book value. We expect that, in the foreseeable future, Home BancShares will continue to have the ability to repay TARP if the economy provides evidence that the additional capital may not be needed. Based upon our current cash position, our historical performance and our continued compliance with the TARP provisions, there is no evidence that the Treasury will require an appointment to our board of directors, and there is no evidence that TARP proceeds will have a significant impact on the operations of our Company.

Small Business Lending Fund

On September 27, 2010, the President signed into law the Small Business Jobs Act of 2010. That act created the Small Business Lending Fund (SBLF), which provides up to $30 billion in funds to encourage community banks to lend to small businesses. Under the SBLF, which is unrelated to TARP, the Treasury provides capital to qualifying banks and bank holding companies with less than $10 billion in assets by purchasing from the institution shares of Tier 1-qualifying senior perpetual non-cumulative preferred stock with a liquidation preference of $1,000 per share. Institutions, such as the Company, with total assets of more than $1 billion but less than $10 billion may borrow between 1% and 3% of their risk-weighted assets.

Companies that are participants in the TARP Capital Purchase Program who have not redeemed, or applied to redeem, their senior preferred shares issued to the Treasury and who are in material compliance with the Capital Purchase Programs s terms, are current on their dividend payments to the Treasury and have not missed more than one dividend payment are eligible to participate in the SBLF. On February 14, 2011, the Company applied to participate in the SBLF in an amount equal to the TARP funds we received in 2009. If our application is approved and we decide to participate in this program, our Series A preferred shares issued to the Treasury will be refinanced from the Capital Purchase Program to the SBLF program. Although the SBLF does not require any new issuance of warrants to the Treasury, the warrants we issued to the Treasury under the Capital Purchase Program would remain outstanding even after such a refinancing, unless the Company repurchases the warrants from the Treasury. Upon completion of the refinancing, we would no longer be a participant in the Capital Purchase Program. As a result, we would no longer be subject to the requirements of the EESA and ARRA, including the executive compensation restrictions, applicable to TARP recipients. There are no similar restrictions for participants in the SBLF.

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Similar to the TARP Capital Purchase Program, recipients of SBLF funding are required to pay quarterly dividends to the Treasury on the senior preferred shares. The initial dividend rate will not exceed 5% and will be based on the bank s increase in lending to small businesses from its baseline average at June 30, 2010 to the date of the SBLF investment. The dividend rate will then be adjusted quarterly for the next nine quarters based on the bank s increase in qualified small business lending. An increase of 10% or more in the bank s small business lending measured from the baseline to the applicable quarter will result in a reduction of the dividend rate to 1%. If the bank s small business lending has increased between 2.5% and 10%, the dividend rate will be lowered to between 2% and 4%. The dividend rate in effect at the beginning of the tenth quarter will be locked-in for the next two years if, at that date, the bank has increased small business lending from the baseline. For former TARP participants, if the bank s small business lending has not increased by the eighth quarter, the dividend rate will increase to 7% (considered a 2% lending incentive fee) beginning the first quarter after the fifth anniversary of the bank s Capital Purchase Program funding. The rate will then increase to 9% after 4.5 years from the date of the SBLF investment, regardless of the bank s previous rate, until all of the senior preferred shares are redeemed.

We based our decision to apply to refinance our TARP capital under the SBLF on the potential opportunity to lower our dividend payments and thus reduce our costs of maintaining this capital. If we receive approval from the Treasury to participate in the SBLF, we will have an opportunity to determine whether our participation in this program is in the best interests of the Company and our shareholders before we commit to this program. Participants in the SBLF may exit the program at any time, with the approval of their primary regulator, by repaying the SBLF funds in full along with any accrued dividends.

SUPERVISION AND REGULATION

General

We and our bank subsidiary are subject to extensive state and federal banking regulations that impose restrictions on and provide for general regulatory oversight of our company and its operations. These laws generally are intended to protect depositors, the deposit insurance fund of the Federal Deposit Insurance Corporation (FDIC) and the banking system as a whole, and not stockholders. The following discussion describes the material elements of the regulatory framework that applies to us.

Financial Regulatory Reform

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which contains a comprehensive set of provisions designed to govern the practices and oversight of financial institutions and other participants in the financial markets. The Dodd-Frank Act made extensive changes in the regulation of financial institutions and their holding companies. It requires various federal agencies to adopt a broad range of new rules and regulations, and to prepare numerous studies and reports for Congress. These studies could potentially result in additional legislative or regulatory action.

The Dodd-Frank Act includes provisions that, among other things, will:

- Centralize responsibility for consumer financial protection by creating a new agency, the Bureau of Consumer Financial Protection, responsible for implementing, examining, and enforcing compliance with federal consumer financial laws.

- Create the Financial Stability Oversight Council that will recommend to the Federal Reserve increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity.

- Provide mortgage reform provisions regarding a customer s ability to repay, restricting variable-rate lending by requiring that the ability to repay variable-rate loans be determined by using the maximum rate that will apply during the first five years of a variable-rate loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions.

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- Change the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminate the ceiling on the size of the Deposit Insurance Fund (DIF), and increase the floor on the size of the DIF, which generally will require an increase in the level of assessments for institutions with assets in excess of $10 billion.

- Make permanent the $250,000 limit for federal deposit insurance and provide unlimited federal deposit insurance until January 1, 2013 for noninterest-bearing demand transaction accounts at all insured depository institutions.

- Implement corporate governance revisions, including with regard to executive compensation and proxy access by shareholders, which apply to all public companies, not just financial institutions.

- Repeal the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transactions and other accounts.

- Amend the Electronic Funds Transfer Act to, among other things, give the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over $10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer.

Home BancShares

We are a bank holding company registered under the federal Bank Holding Company Act of 1956 (the Bank Holding Company Act) and are subject to supervision, regulation and examination by the Federal Reserve Board. The Bank Holding Company Act and other federal laws subject bank holding companies to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations.

Acquisitions of Banks. The Bank Holding Company Act requires every bank holding company to obtain the Federal Reserve Board s prior approval before:

- acquiring direct or indirect ownership or control of any voting shares of any bank if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the bank s voting shares;

- acquiring all or substantially all of the assets of any bank; or

- merging or consolidating with any other bank holding company.

Under the Bank Holding Company Act, if adequately capitalized and adequately managed, we, as well as other banks located within Arkansas or Florida, may purchase a bank located outside of Arkansas or Florida. Conversely, an adequately capitalized and adequately managed bank holding company located outside of Arkansas or Florida may purchase a bank located inside Arkansas or Florida. In each case, however, restrictions may be placed on the acquisition of a bank that has only been in existence for a limited amount of time or will result in specified concentrations of deposits. For example, Florida law prohibits a bank holding company from acquiring control of a Florida financial institution until the target institution has been incorporated for three years.

Permitted Activities. A bank holding company is generally permitted under the Bank Holding Company Act to engage in or acquire direct or indirect control of more than 5% of the voting shares of any company engaged in the following activities:

- banking or managing or controlling banks; and

- any activity that the Federal Reserve Board determines to be so closely related to banking as to be a proper incident to the business of banking.

Activities that the Federal Reserve Board has found to be so closely related to banking as to be a proper incident to the business of banking include: factoring accounts receivable; making, acquiring, brokering or servicing loans and usual related activities; leasing personal or real property; operating a non-bank depository institution, such as a savings association; trust company functions; financial and investment advisory activities; conducting discount securities brokerage activities; underwriting and dealing in government obligations and money market instruments; providing specified management consulting and counseling activities; performing selected data processing services and support services; acting as agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions; and performing selected insurance underwriting activities.

Gramm-Leach-Bliley Act; Financial Holding Companies. The Gramm-Leach-Bliley Financial Modernization Act of 1999 revised and expanded the provisions of the Bank Holding Company Act by including a new section that permits a bank holding company to elect to become a financial holding company to engage in a full range of activities that are financial in nature. The qualification requirements and the process for a bank holding company that elects to be treated as a financial holding company require that all of the subsidiary banks controlled by the bank holding company at the time of election to become a financial holding company must be and remain at all times well-capitalized and well managed. We elected to become a financial holding company initially, but withdrew that election in 2008.

Support of Subsidiary Institutions. Under the Dodd-Frank Act and Federal Reserve Board policy, we are required to act as a source of financial strength for our bank subsidiary and to commit resources to support the bank. Under current federal law, the Federal Reserve may require us to make capital injections into our bank subsidiary and may charge us with engaging in unsafe and unsound practices if we fail to commit resources to our bank subsidiary or if we undertake actions that the Federal Reserve believes might jeopardize our ability to commit resources to the bank. As a result, an obligation to support our bank subsidiary may be required at times when, without this requirement, we might not be inclined to provide it.

Safe and Sound Banking Practices. Bank holding companies are not permitted to engage in unsafe and unsound banking practices. The Federal Reserve Board s Regulation Y, for example, generally requires a holding company to give the Federal Reserve Board prior notice of any redemption or repurchase of its own equity securities, if the consideration to be paid, together with the consideration paid for any repurchases or redemptions in the preceding year, is equal to 10% or more of the company s consolidated net worth. The Federal Reserve Board may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. Depending upon the circumstances, the Federal Reserve Board could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

The Federal Reserve Board has broad authority to prohibit activities of bank holding companies and their non-banking subsidiaries which represent unsafe and unsound banking practices or which constitute violations of laws or regulations, and can assess civil money penalties for certain activities conducted on a knowing and reckless basis, if those activities caused a substantial loss to a depository institution. The penalties can be as high as $1 million for each day the activity continues.

Annual Reporting; Examinations. We are required to file annual reports with the Federal Reserve Board, and such additional information as the Federal Reserve Board may require pursuant to the Bank Holding Company Act. The Federal Reserve Board may examine a bank holding company or any of its subsidiaries, and charge the company for the cost of such examination.

Capital Adequacy Requirements. The Federal Reserve Board has adopted a system using risk-based capital guidelines to evaluate the capital adequacy of bank holding companies having $500 million or more in assets on a consolidated basis. We currently have consolidated assets in excess of $500 million, and are therefore subject to the Federal Reserve Board s capital adequacy guidelines.

Under the guidelines, specific categories of assets are assigned different risk weights, based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a risk-weighted asset base. The guidelines require a minimum total risk-based capital ratio of 8.0% (of which at least 4.0% is required to consist of Tier 1 capital elements). Total capital is the sum of Tier 1 and Tier 2 capital. As of December 31, 2010, our Tier 1 risk-based capital ratio was 16.69% and our total risk-based capital ratio was 17.95%. Well capitalized is a Tier 1 and total risk-based capital ratio in excess of 6% and 10%, respectively. Thus, we are considered well capitalized for regulatory purposes.

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In addition to the risk-based capital guidelines, the Federal Reserve Board uses a leverage ratio as an additional tool to evaluate the capital adequacy of bank holding companies. The leverage ratio is a company s Tier 1 capital divided by its average total consolidated assets. Certain highly-rated bank holding companies may maintain a minimum leverage ratio of 3.0%, but other bank holding companies are required to maintain a leverage ratio of at least 4.0%. Well capitalized is a leverage ratio in excess of 5%. As of December 31, 2010, our leverage ratio was 12.15%.

The federal banking agencies risk-based and leverage ratios are minimum supervisory ratios generally applicable to banking organizations that meet certain specified criteria. The federal bank regulatory agencies may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. Federal Reserve Board guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions, substantially above the minimum supervisory levels, without significant reliance on intangible assets.

The Dodd-Frank Act includes certain provisions concerning the capital regulations of the federal banking agencies. These provisions, often referred to as the Collins Amendment, are intended to subject bank holding companies to the same capital requirements as their bank subsidiaries and to eliminate or significantly reduce the use of hybrid capital instruments, especially trust preferred securities, as regulatory capital. Under the Collins Amendment, trust preferred securities issued by a company, such as our Company, with total consolidated assets of less than $15 billion before May 19, 2010 and treated as regulatory capital are grandfathered, but any such securities issued later are not eligible as regulatory capital. The banking regulators must develop regulations setting minimum risk-based and leverage capital requirements for holding companies and banks on a consolidated basis that are no less stringent than the generally applicable requirements in effect for depository institutions under the prompt corrective action regulations discussed below. The banking regulators also must seek to make capital standards countercyclical so that the required levels of capital increase in times of economic expansion and decrease in times of economic contraction. The Dodd-Frank Act requires these new capital regulations to be adopted by the Federal Reserve in final form 18 months after the date of enactment of the act. To date, no proposed regulations have been issued.

Subsidiary Bank

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

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

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

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FDIC Insurance and Assessments. Before enactment of the EESA in 2008, deposit accounts were insured by the FDIC up to a maximum of $100,000 per separately insured depositor and up to a maximum of $250,000 for self-directed retirement accounts. The EESA temporarily raised the limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor. The Dodd-Frank Act permanently increased the depositor coverage limit to $250,000.

In October 2008, separate from the EESA, the FDIC established the Temporary Liquidity Guarantee Program (the TLG Program). As a participant in the deposit guarantee portion of the TLG Program, we were subject to an annual coverage charge of 15 basis points for noninterest-bearing deposit accounts exceeding the existing deposit insurance limit of $250,000. The deposit guarantee portion of the TLG Program expired on December 31, 2010. On that date, Section 343 of the Dodd-Frank Act took effect, which extended the deposit insurance coverage for noninterest-bearing deposit accounts previously covered by the TLG Program. However, Section 343 will not require banks to pay an annual coverage charge for the noninterest-bearing accounts.

These initiatives, along with the high number of bank failures, placed additional stress on the Deposit Insurance Fund (DIF). In order to maintain a strong funding position and restore reserve ratios of the DIF to 1.15% of insured deposits, the FDIC increased assessment rates of insured institutions uniformly by seven cents for every $100 of deposits beginning with the first quarter of 2009. Additional changes followed beginning April 1, 2009, which require riskier institutions to pay a larger share of premiums by factoring in rate adjustments based on secured liabilities and unsecured debt levels.

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

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

The prepaid assessment rate for 2011 and 2012, scheduled to be effective on January 1, 2011, was to equal the institution s modified third quarter 2009 total base assessment rate plus three basis points. Our prepaid assessment base was to be calculated using our third quarter 2009 assessment base, adjusted quarterly for a five percent annual growth rate in the assessment base through the end of 2012. However, in October 2010, the FDIC adopted a new DIF restoration program to help bolster the DIF reserve ratio to 1.35% by September 2020 as required by the Dodd-Frank Act. Under the new plan, the FDIC will forego the three basis point assessment rate increase scheduled to take effect on January 1, 2011, and maintain the current schedule of assessment rates for all depository institutions. The new plan provides that, at least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required.

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On February 7, 2011, the FDIC approved a final rule implementing changes to the deposit insurance assessment system, as authorized by the Dodd-Frank Act, to be effective April 1, 2011. The final rule, among other things, changes the assessment base for insured depository institutions from adjusted domestic deposits to the institution s average consolidated total assets during an assessment period less average tangible equity capital (Tier 1 capital) during that period. The rule also suspends indefinitely the requirement of the FDIC to pay dividends from the DIF when it reaches 1.5% of insured deposits. In lieu of the dividends, the FDIC is adopting progressively lower assessment rate schedules when the reserve ratio exceeds 2.0% and 2.5%, respectively. The lower rate schedules are intended to prevent the DIF from becoming unnecessarily large while providing more stable and predictable assessment rates. Additionally, the final rule creates a new scorecard method of calculating assessment rates for institutions with assets of more than $10 billion (large institutions) and institutions with $50 billion or more in total assets controlled by a U.S. parent company with $500 billion or more in assets (highly complex institutions). This new pricing system for large institutions and highly complex institutions is expected to create higher assessment rates for institutions with high-risk asset concentration, less stable balance sheet liquidity, or higher loss severity in the event of a failure. The FDIC expects that this will result in lower assessments by at least 5% for most other banks. We expect, but cannot guarantee, that our deposit insurance assessments will decrease as a result of these changes.

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

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

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

Capital Requirements. Our bank subsidiary is also subject to certain restrictions on the payment of dividends as a result of the requirement that it maintain adequate levels of capital in accordance with guidelines promulgated from time to time by applicable regulators. The regulating agencies consider a bank s capital levels when taking action on various types of applications and when conducting supervisory activities related to the safety and soundness of individual banks and the banking system. The Federal Reserve Bank monitors the capital adequacy of our bank subsidiary by using a combination of risk-based guidelines and leverage ratios.

The FDIC Improvement Act. The Federal Deposit Insurance Corporation Improvement Act of 1991, or FDICIA, made a number of reforms addressing the safety and soundness of the deposit insurance system, supervision of domestic and foreign depository institutions, and improvement of accounting standards. This statute also limited deposit insurance coverage, implemented changes in consumer protection laws and provided for least-cost resolution and prompt regulatory action with regard to troubled institutions.

FDICIA requires every bank with total assets in excess of $500 million to have an annual independent audit made of the bank s financial statements by a certified public accountant to verify that the financial statements of the bank are presented in accordance with generally accepted accounting principles and comply with such other disclosure requirements as prescribed by the FDIC. FDICIA also places certain restrictions on activities of banks depending on their level of capital.

The capital classification of a bank affects the frequency of examinations of the bank and impacts the ability of the bank to engage in certain activities and affects the deposit insurance premiums paid by such bank. Under FDICIA, the federal banking regulators are required to conduct a full-scope, on-site examination of every bank at least once every 12 months. An exception to this requirement, however, provides that a bank that (i) has assets of less than $500 million, (ii) is categorized as well-capitalized, (iii) during its most recent examination, was found to be well managed and its composite rating was outstanding or, in the case of a bank with total assets of not more than $100 million, outstanding or good, (iv) is not currently subject to a formal enforcement proceeding or order by the FDIC or the appropriate federal banking agency and (v) has not been subject to a change in control during the last 12 months, need only be examined once every 18 months.

Brokered Deposits. Under FDICIA, banks may be restricted in their ability to accept brokered deposits, depending on their capital classification. Well-capitalized banks are permitted to accept brokered deposits, but all banks that are not well-capitalized are not permitted to accept such deposits. The FDIC may, on a case-by-case basis, permit banks that are adequately capitalized to accept brokered deposits if the FDIC determines that acceptance of such deposits would not constitute an unsafe or unsound banking practice with respect to the bank.

Federal Home Loan Bank System. The Federal Home Loan Bank system, of which our bank subsidiary is a member, consists of regional FHLBs governed and regulated by the Federal Housing Finance Board, or FHFB. The FHLBs serve as reserve or credit facilities for member institutions within their assigned regions. They are funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB system. They make loans (i.e., advances) to members in accordance with policies and procedures established by the FHLB and the Boards of Directors of each regional FHLB.

As a system member, our bank subsidiary is entitled to borrow from the FHLB of its respective regions and is required to own a certain amount of capital stock in the FHLB. Our bank subsidiary is in compliance with the stock ownership rules described above with respect to such advances, commitments and letters of credit and home mortgage loans and similar obligations. All loans, advances and other extensions of credit made by the FHLB to our bank subsidiary are secured by a portion of its respective loan portfolio, certain other investments and the capital stock of the FHLB held by such bank.

Mortgage Banking Operations. Our bank subsidiary is subject to the rules and regulations of FHA, VA, FNMA, FHLMC and GNMA with respect to originating, processing, selling and servicing mortgage loans and the issuance and sale of mortgage-backed securities. Those rules and regulations, among other things, prohibit discrimination and establish underwriting guidelines which include provisions for inspections and appraisals, require credit reports on prospective borrowers and fix maximum loan amounts, and, with respect to VA loans, fix maximum interest rates. Mortgage origination activities are subject to, among others, the Equal Credit Opportunity Act, Federal Truth-in-Lending Act and the Real Estate Settlement Procedures Act and the regulations promulgated thereunder which, among other things, prohibit discrimination and require the disclosure of certain basic information to mortgagors concerning credit terms and settlement costs. Our bank subsidiary is also subject to regulation by the Arkansas State Bank Department, as applicable, with respect to, among other things, the establishment of maximum origination fees on certain types of mortgage loan products.

Payment of Dividends

We are a legal entity separate and distinct from our bank subsidiary and other affiliated entities. The principal sources of our cash flow, including cash flow to pay dividends to our stockholders, are dividends that our bank subsidiary pays to us as its sole stockholder. Statutory and regulatory limitations apply to the dividends that our bank subsidiary can pay to us, as well as to the dividends we can pay to our stockholders.

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The policy of the Federal Reserve Board that a bank holding company should serve as a source of strength to its subsidiary bank also results in the position of the Federal Reserve Board that a bank holding company should not maintain a level of cash dividends to its stockholders that places undue pressure on the capital of its bank subsidiary or that can be funded only through additional borrowings or other arrangements that may undermine the bank holding company s ability to serve as such a source of strength. Our ability to pay dividends is also subject to the provisions of Arkansas law.

There are certain state-law limitations on the payment of dividends by our bank subsidiary. Centennial Bank, which is subject to Arkansas banking laws, may not declare or pay a dividend of 75% or more of the net profits of such bank after all taxes for the current year plus 75% of the retained net profits for the immediately preceding year without the prior approval of the Arkansas State Bank Commissioner. Members of the Federal Reserve System must also comply with the dividend restrictions with which a national bank would be required to comply. Among other things, these restrictions require that if losses have at any time been sustained by a bank equal to or exceeding its undivided profits then on hand, no dividend may be paid. Although we have regularly paid dividends on our common stock beginning with the second quarter of 2003, there can be no assurances that we will be able to pay dividends in the future under the applicable regulatory limitations.

The payment of dividends by us, or by our bank subsidiary, may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. The federal banking agencies have indicated that paying dividends that deplete a depository institution s capital base to an inadequate level would be an unsafe and unsound banking practice. Under FDICIA, a depository institution may not pay any dividend if payment would result in the depository institution being undercapitalized.

On January 16, 2009, we entered into a Letter Agreement with the Treasury in connection with our issuance to the Treasury of the Series A preferred shares and warrants for common stock under the Capital Purchase Program. The Letter Agreement provides that prior to the earlier of January 16, 2012 and the date we redeem all the Series A preferred shares or they have been transferred to a third party by the Treasury, we may not, without their approval, increase our quarterly dividend on common stock above $0.0545 per share (10% stock dividend adjusted).

Restrictions on Transactions with Affiliates

We and our bank subsidiary are subject to Section 23A of the Federal Reserve Act. An affiliate of a bank is any company or entity that controls, is controlled by, or is under common control with the bank. In general, Section 23A imposes a limit on the amount of such transactions, and also requires certain levels of collateral for loans to affiliated parties. It also limits the amount of advances to third parties which are collateralized by the securities or obligations of the Bank or its nonbanking affiliates.

Affiliate transactions are also subject to Section 23B of the Federal Reserve Act which generally requires that certain other transactions between the Bank and its affiliates be on terms substantially the same, or at least as favorable to the Bank, as those prevailing at that time for comparable transactions with or involving other non-affiliated persons.

The restrictions on loans to directors, executive officers, principal stockholders and their related interests (collectively, the insiders) contained in the Federal Reserve Act and Regulation O apply to all insured institutions and their subsidiaries and holding companies. These restrictions include limits on loans to one borrower and conditions that must be met before such a loan can be made. There is also an aggregate limitation on all loans to insiders and their related interests. These loans cannot exceed the institution s total unimpaired capital and surplus, and the FDIC may determine that a lesser amount is appropriate. Insiders are subject to enforcement actions for knowingly accepting loans in violation of applicable restrictions.

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Privacy

Under the Gramm-Leach-Bliley Act, financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third parties except under narrow circumstances, such as the processing of transactions requested by the consumer or when the financial institution is jointly sponsoring a product or service with a nonaffiliated third party. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers. We and our subsidiary have established policies and procedures to assure our compliance with all privacy provisions of the Gramm-Leach-Bliley Act.

Anti-Terrorism and Money Laundering Legislation

Our bank subsidiary is subject to the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA PATRIOT Act), the Bank Secrecy Act and rules and regulations of the Office of Foreign Assets Control (the OFAC). These statutes and related rules and regulations impose requirements and limitations on specific financial transactions and account relationships intended to guard against money laundering and terrorism financing. Our bank subsidiary has established a customer identification program pursuant to Section 326 of the USA PATRIOT Act and the Bank Secrecy Act, and otherwise has implemented policies and procedures intended to comply with the foregoing rules.

Proposed Legislation and Regulatory Action

New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations and competitive relationships of financial institutions operating and doing business in the United States. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

Effect of Governmental Monetary Polices

Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve Board s monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve Board affect the levels of bank loans, investments and deposits through its control over the issuance of United States government securities, its regulation of the discount rate applicable to banks and its influence over reserve requirements to which banks are subject. We cannot predict the nature or impact of future changes in monetary and fiscal policies.

AVAILABLE INFORMATION

We are subject to the information requirements of the Securities Exchange Act of 1934. Accordingly, we file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. You can also review our filings by accessing the website maintained by the SEC at http://www.sec.gov. The site contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. In addition, we maintain a website at http://www.homebancshares.com. We make available on our website copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to such documents as soon as practicable after we electronically file such materials with or furnish such documents to the SEC.

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Item 1A. RISK FACTORS

Our business exposes us to certain risks. Risks and uncertainties that management is not aware of or focused on may also adversely affect our business and operation. The following is a discussion of the most significant risks and uncertainties that may affect our business, financial condition and future results.

Risks Related to Our Industry

Difficult market and economic conditions have continued to adversely affect our industry and our business.

The banking industry, and particularly community banks, in 2010 continued to experience effects of the uncertainty in the financial markets and related economic downturn that resulted from negative developments beginning in the latter half of 2007 in the sub-prime mortgage market and the securitization markets for such loans, together with substantial volatility in oil prices and other factors. The dramatic declines in the housing market in 2008 and 2009, with decreasing home prices and increasing delinquencies and foreclosures, have continued to negatively impact the credit performance of mortgage and construction loans and result in significant write-downs of assets by many financial institutions. In addition, the values of real estate collateral supporting many loans have declined and may remain depressed for some time. Reduced availability of commercial credit and sustained higher unemployment have negatively impacted the credit performance of commercial and consumer credit, resulting in additional write-downs. As a result of this market turmoil and tightening of credit, our industry has continued to experience increased commercial and consumer deficiencies, reduced customer confidence, increased market volatility and generally reduced business activity. Lending by financial institutions to their customers and to each other remained anemic in 2010 due to continued concerns over the stability of the financial markets and the economy, and depository institutions continued to experience increased competition for deposits with decreased access to deposits and borrowings. The resulting economic pressure on consumers and businesses and the reduced confidence in the financial markets may adversely affect our business, financial condition, results of operations and stock price.

While general economic trends have shown signs of improving in recent months, we cannot be certain that the current market and economic conditions will substantially improve in the near future. Our ability to assess the creditworthiness of customers and to estimate the losses inherent in our credit exposure is made more complex by these difficult market and economic conditions. A worsening of these conditions would likely exacerbate the adverse effects of the recent market and economic conditions on us, our customers and the other financial institutions in our market. As a result, we may experience additional increases in foreclosures, delinquencies and customer bankruptcies as well as more restricted access to funds. Any such negative events may have an adverse effect on our business, financial condition, results of operations and stock price.

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

The EESA authorized the Treasury, under the TARP program, to purchase from financial institutions and their holding companies up to $700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions and their holding companies. The purpose of TARP was to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase their lending to customers and to one another. The Treasury allocated $250 billion toward TARP s Capital Purchase Program to fund the purchase of equity securities from participating institutions. As described above, we issued to the Treasury Series A preferred shares and a warrant to purchase shares of our common stock pursuant to TARP s Capital Purchase Program in January 2009.

The EESA followed, and has been followed by, numerous actions by the Federal Reserve, the U.S. Congress, the Treasury, the FDIC, the SEC and others to address the current liquidity and credit crisis that followed the sub-prime meltdown that commenced in 2007. These measures include homeowner relief that encourages loan restructuring and modification; the establishment of significant liquidity and credit facilities for financial institutions and investment banks; the lowering of the federal funds rate; emergency action against short selling practices; a temporary guaranty program for money market funds; the establishment of a commercial paper funding facility to provide back-stop liquidity to commercial paper issuers; efforts by the Federal Reserve to purchase U.S. Treasury bonds; and coordinated international efforts to address illiquidity and other weaknesses in the banking sector.

In July 2010, the President signed into law the Dodd-Frank Act, which contains a comprehensive set of provisions designed to govern the practices and oversight of financial institutions and other participants in the financial markets. The act mandates multiple studies, which could result in additional legislative or regulatory action. Due to the comprehensive nature of the Dodd-Frank Act and the potential for new measures, the full impact of the act is difficult to assess.

The purposes of these legislative and regulatory actions were to stabilize the U.S. banking system and to prevent future financial crises like the one experienced in 2008 and 2009. While the banking system has achieved some stabilization, it is unknown whether the EESA, the Dodd-Frank Act and the other regulatory initiatives described above will produce broad, long-term stabilization. Should these or other legislative or regulatory initiatives fail to fully stabilize the financial markets and prevent similar future crises, our business, financial condition, results of operations and prospects could be materially and adversely affected.

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

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

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

Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. The Dodd-Frank Act, enacted in July 2010, instituted major changes to the banking and financial institutions regulatory regimes in light of the recent performance of and government intervention in the financial services sector. As the provisions of the Dodd-Frank Act and the regulations promulgated under the act are implemented, there could be additional new federal or state laws, regulations and policies regarding lending and funding practices and liquidity standards. Additionally, financial institution regulatory agencies are expected to be very aggressive in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement actions. Negative developments in the financial services industry or other new legislation or regulations could adversely impact our operations and our financial performance by subjecting us to additional costs, restricting our business operations, including our ability to originate or sell loans, and/or increasing the ability of non-banks to offer competing financial services.

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

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

The recently-enacted Dodd-Frank Act included provisions which repealed all federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts. As a result, one year after the date of enactment of the act, on July 21, 2011, financial institutions may begin paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. The Company does not yet know what interest rates other institutions may offer. Depending on competitive responses, we may choose to begin offering interest on demand deposits to attract additional customers or to maintain current customers and existing deposit balances. If we take such action, our interest expense will increase and our net interest margin will decrease, which could have a material adverse effect on our business, financial condition and results of operations.

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

In 2008, the EESA temporarily raised the limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor, and the FDIC took additional temporary measures to provide increased coverage on certain deposit accounts in response to the recent financial crisis. In July 2010, the Dodd-Frank Act made permanent the $250,000 per depositor coverage limit.

The FDIC has taken a number of actions since 2008 in order to maintain a strong funding position and restore reserve ratios of the Deposit Insurance Fund (DIF) depleted by the increased deposit insurance coverage and the high number of bank failures. Such actions have included a uniform increase in assessment rates of insured institutions, modifications to the risk-based rate assessment system, a one-time special assessment, and requiring prepayment of estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012, in lieu of a second special assessment.

In October 2010, the FDIC adopted a new DIF restoration program to help further bolster the DIF reserve ratio as required by the Dodd-Frank Act. Under the new plan, the FDIC will forego a three basis point assessment rate increase scheduled to take place on January 1, 2011, and maintain the current schedule of assessment rates for all depository institutions. The new plan provides that, at least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required.

On February 7, 2011, the FDIC approved a final rule implementing additional changes to the deposit insurance assessment system, as authorized by the Dodd-Frank Act, to be effective April 1, 2011. The final rule, among other things, changes the assessment base for insured institutions from adjusted domestic deposits to average consolidated total assets less average tangible equity capital (Tier 1 capital). The rule also suspends indefinitely certain requirements of the FDIC to pay dividends from the DIF to prevent the DIF from becoming unnecessarily large and adopts, in place of the dividends, progressively lower assessment rate schedules when the reserve ratio exceeds certain levels. Additionally, the final rule changes the method of calculating assessment rates for large institutions and highly complex institutions, which the FDIC expects to result in higher assessment rates for these institutions and lower assessments for most other banks.

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

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

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

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As of December 31, 2010, our one-year ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities was 120.2% and our cumulative repricing gap position was 10.8% of total earning assets, resulting in a limited impact on earnings for various interest rate change scenarios. Floating rate loans made up 20.8% of our $2.47 billion loan portfolio. A loan is considered fixed rate if the loan is currently at its adjustable floor or ceiling. As a result of the declines in the interest rate environment since 2008, as of December 31, 2010, we had approximately $193.3 million of loans that cannot be additionally priced down but could price up if rates were to return to higher levels. In addition, 68.6% of our loans receivable and 75.1% of our time deposits at December 31, 2010, were scheduled to reprice within 12 months and our other rate sensitive asset and rate sensitive liabilities composition is subject to change. Significant composition changes in our rate sensitive assets or liabilities could result in a more unbalanced position and interest rate changes would have more of an impact on our earnings.

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

Risks Related to Our Business

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

Management makes various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of our secured loans. We endeavor to maintain an allowance for loan losses that we consider adequate to absorb future losses that may occur in our loan portfolio. In determining the size of the allowance, we analyze our loan portfolio based on our historical loss experience, volume and classification of loans, volume and trends in delinquencies and non-accruals, national and local economic conditions, and other pertinent information. During 2010, we increased the allowance for loan losses by 24.2% due to the continued adverse economic conditions in our Florida market, particularly related to real estate, and to the increase in our impaired loans. As a result, as of December 31, 2010, our allowance for loan losses was approximately $53.3 million, or 2.2% of our total loans receivable.

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

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

As of December 31, 2010, the primary composition of our loan portfolio was as follows:

- commercial real estate loans (excludes construction and land development) of $1.05 billion, or 42.4% of total loans;
- construction and land development loans of $476.1 million, or 19.3% of total loans;
- commercial and industrial loans of $226.5 million, or 9.2% of total loans;
- residential real estate loans of $620.8 million, or 25.1% of total loans; and
- consumer loans of $52.1 million, or 2.1% of total loans.

Commercial real estate, construction and land development and commercial and industrial loans, which comprised 70.9% of our total loan portfolio as of December 31, 2010, expose us to a greater risk of loss than our residential real estate and consumer loans, which comprised 27.2% of our total loan portfolio as of December 31, 2010. Commercial real estate and land development loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential loans. Consequently, an adverse development with respect to one commercial loan or one credit relationship exposes us to a significantly greater risk of loss compared to an adverse development with respect to one residential mortgage loan.

Approximately 96% of our loans are to the borrowers of the two states in which we have our market area, Arkansas and Florida. An adverse development with respect to the market conditions of these specific market areas could expose us to a greater risk of loss than a portfolio that is spread among a larger geography base.

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

We have 86.8% of our loans as real estate loans primarily in Arkansas and Florida where we have our market area, and this poses a concentration risk, especially when the Florida area suffers from depressed sales prices and low sales, combined with increased delinquencies and foreclosures on residential and commercial real estate loans.

Deterioration in local economic and housing markets has led to loan losses and reduced earnings and could lead to additional loan losses and reduced earnings.

Over the past three years, there has been a dramatic decrease in housing and real estate values, coupled with a significant increase in the rate of unemployment, in our Florida markets. These trends have contributed to an increase in our non-performing loans and reduced asset quality. As of December 31, 2010, our non-performing loans totaled approximately $49.5 million, or 2.62% of total non-covered loans. Non-performing assets were approximately $61.2 million as of this same date, or 2.08% of total non-covered assets. In addition, we had approximately $19.6 million in accruing loans that were between 30 and 89 days delinquent as of December 31, 2010. If market conditions further deteriorate, they may lead to additional valuation adjustments on our loan portfolios and real estate owned as banks continue to reassess the market value of their loan portfolios, the losses associated with the loans in default and the net realizable value of real estate owned.

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

While we believe our allowance for loan losses is adequate as of December 31, 2010, as additional facts become known about relevant internal and external factors that affect loan collectability and our assumptions, it may result in our making additions to the provision for loan losses during 2011. Any failure by management to closely monitor the status of the market and make the necessary changes could have a negative effect on our operating results.

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

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

As of December 31, 2010, loans in the Florida market totaled $890.0 million, or 36.1% of our loans receivable. Of those loans, approximately 35.3% are not subject to loss sharing with the FDIC. Of the Florida loans for which we do not have loss sharing, approximately 86.7% were secured by real estate. The difficult local economic conditions have adversely affected the values of our real estate collateral in Florida and will likely continue to do so for the foreseeable future. The real estate collateral in each case provides an alternate source of repayment on our loans in the event of default by the borrower but may deteriorate in value during the time credit is extended. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected.

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

We have a concentration of exposure to a number of individual borrowers. Under applicable law, our bank subsidiary is generally permitted to make loans to one borrowing relationship up to 20% of its Tier 1 capital plus the allowance for loan losses. As of December 31, 2010, the legal lending limit of our bank subsidiary for secured loans was approximately $65.6 million. Currently, our board of directors has established an in-house lending limit of $20.0 million to any one borrowing relationship without obtaining the approval of any two of our Chairman, our Chief Executive Officer and our director Richard H. Ashley. Currently, we have a total of $267.1 million committed to the aggregate group of borrowers whose total debt exceeds the established in-house lending limit of $20.0 million.

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

Customers who are builders and developers face greater difficulty in selling their homes in markets where the decrease in housing and real estate values are more pronounced. Consequently, we are facing increased delinquencies and non-performing assets as these customers are forced to default on their loans. We do not anticipate that the housing market will improve substantially in the near-term, and accordingly, additional downgrades, provisions for loan losses and charge-offs relating to our loan portfolios may occur.

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

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

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

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

The TARP Capital Purchase Program and recent legislation impose certain executive compensation and corporate governance requirements, which could adversely affect us and our business, including our ability to recruit and retain qualified employees.

The securities purchase agreement we entered into in connection with our participation in the TARP Capital Purchase Program required us to adopt the Treasury s standards for executive compensation and corporate governance while the Treasury holds securities issued by us pursuant to the TARP Capital Purchase Program, including any common stock issuable under the warrants we issued to the Treasury. These standards generally apply to our chief executive officer, chief financial officer and the three next most highly compensated senior executive officers. The ARRA imposed further limitations on compensation while the Treasury holds equity issued by us pursuant to the TARP Capital Purchase Program.

The Treasury released an interim final rule on TARP standards for compensation and corporate governance on June 10, 2009, which implemented and further expanded the limitations and restrictions imposed on executive compensation and corporate governance by the TARP Capital Purchase Program and ARRA. The rules apply to us as a recipient of funds under the TARP Capital Purchase Program. The rules clarify prohibitions on bonus payments, provide guidance on the use of restricted stock awards, expand restrictions on golden parachute payments, mandate enforcement of clawback provisions unless unreasonable to do so, outline the steps compensation committees must take when evaluating risks posed by compensation arrangements, and require the adoption and disclosure of a luxury expenditure policy, among other things. New requirements under the rules include enhanced disclosure of perquisites and the use of compensation consultants, and a prohibition on tax gross-up payments.

On January 25, 2011, the SEC adopted a final rule implementing certain executive compensation and corporate governance provisions of the Dodd-Frank Act. These provisions make applicable to all public companies certain requirements similar to those already imposed on participants in the TARP Capital Purchase Program. The new SEC rule requires public companies to provide their shareholders with non-binding advisory votes (i) at least once every three years on the compensation paid to their named executive officers, and (ii) at least once every six years on whether they should have a say on pay vote every one, two or three years. A separate, non-binding advisory shareholder vote will be required regarding golden parachute compensation arrangements for named executive officers when a shareholder vote takes place on mergers, acquisitions, dispositions or other transactions that would trigger the parachute payments. Also, the SEC is required to ensure that national listing exchanges, such as the New York Stock Exchange and the NASDAQ, prohibit the listing of any companies that fail to adopt clawback policies pursuant to which incentive-based compensation paid to executives will be subject to clawback based on financial results which were subsequently restated within three years of such payment. The amount of the clawback is the amount in excess of what would have been paid under the restated results. As a participant in the TARP program, we are exempted from the say on frequency vote requirement and are already subject to an annual say on pay vote requirement under the ARRA, as well as similar clawback requirements. However, if we redeem our Series A preferred shares held by the Treasury and terminate our participation in TARP, we will be subject to all of the requirements of the new SEC rule.

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

If we participate in the SBLF program, we may not meet SBLF lending goals.

We recently applied to participate in the Small Business Lending Fund (SBLF). If we participate in the SBLF, our senior preferred shares issued under the Capital Purchase Program would be refinanced to the SBLF program. The SBLF is designed to stimulate lending to small businesses and requires banks to increase lending to small businesses in order to benefit from favorable dividend rates on the senior preferred shares issued to the Treasury. If our lending to small businesses increases, the dividend rate that we must pay to the Treasury could fall to as low as 1%. However, if we do not increase our lending to small businesses after the first two years in the SBLF, we will be required to pay an additional 2% quarterly dividend penalty above the 5% dividend rate we currently pay under the Capital Purchase Program. Such an increase would occur approximately one year before the scheduled increase in our dividend rate under the Capital Purchase Program to 9%.

The future demands for additional lending are unclear and uncertain. To avoid this 2% dividend penalty, we could be forced to make loans that involve risks or terms that we would not otherwise find acceptable or in our shareholders best interest. Such loans could adversely affect our results of operation and financial condition and may be in conflict with bank regulations and requirements as to liquidity and capital. If we fail to meet SBLF lending goals, such failure could adversely affect our results of operation and financial condition by increasing our overall cost of capital.

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

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

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

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

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

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

- the inability to obtain all required regulatory approvals;
- significant costs and anticipated operating losses associated with establishing a *de novo* branch or a new bank;
- the inability to secure the services of qualified senior management;
- the local market may not accept the services of a new bank owned and managed by a bank holding company headquartered outside of the market area of the new bank;
- economic downturns in the new market;

the inability to obtain attractive locations within a new market at a reasonable cost; and

the additional strain on management resources and internal systems and controls.

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

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

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

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

Our growth strategy includes strategic acquisitions of banks. We have acquired 11 banks since we started our first subsidiary bank in 1999, including three in 2005, one in 2008, and six in 2010, and will continue to consider strategic acquisitions, with a primary focus on Arkansas and Florida. In most cases, other than in connection with FDIC-assisted transactions, our acquisition of a bank includes the acquisition of all of the target bank s assets and liabilities, including its loan portfolio. There may be instances when we, under our normal operating procedures, may find after the acquisition that there may be additional losses or undisclosed liabilities with respect to the assets and liabilities of the target bank, and, with respect to its loan portfolio, that the ability of a borrower to repay a loan may have become impaired, the quality of the value of the collateral securing a loan may fall below our standards, or the allowance for loan losses may not be adequate. One or more of these factors might cause us to have additional losses or liabilities, additional loan charge-offs, or increases in allowances for loan losses, which would have a negative impact upon our financial condition and results of operations.

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

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

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

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

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

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

Our management is responsible for establishing and maintaining effective disclosure controls and procedures that are designed to cause the material information that we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 to be recorded, processed, summarized, and reported to the extent applicable within the time periods required by the SEC s rules and forms. The internal controls over financial reporting of our FDIC-assisted acquisitions were excluded from the evaluation of effectiveness of our disclosure controls and procedures as of the period ended December 31, 2010, because of the timing of the acquisitions. As a result of the acquisitions, however, we may be implementing changes to processes, information technology systems and other components of internal control over financial reporting as part of our integration activities. Notwithstanding any changes to our disclosure controls and procedures resulting from our evaluation of the same after the acquisitions, our control systems, no matter how well designed and operated, may not result in the material information that we are required to disclose in our SEC reports being recorded, processed, summarized, and reported adequately. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected.

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

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

Competition from other financial institutions may adversely affect our profitability.

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

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

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

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

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

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

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

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

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

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

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

Federal and state regulatory authorities require us and our bank subsidiary to maintain adequate levels of capital to support our operations. While we believe that the $50 million in capital we obtained through the sale of the Series A preferred shares to the Treasury in January 2009, the $107.3 million we raised in a public offering of our common stock in September and October 2009 (net of underwriting discounts and commissions and other offering expenses) pursuant to a shelf registration statement, and our pre-existing capital (which already exceeded the federal and state capital requirements) will be sufficient to support our current operations, anticipated expansion and potential acquisitions, factors such as faster than anticipated growth, reduced earning levels, operating losses, changes in economic conditions, revisions in regulatory requirements, or additional acquisition opportunities may lead us to seek additional capital.

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

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

Our directors and executive officers, as a group, beneficially owned 22.5% of our common stock as of December 31, 2010. Consequently, if they vote their shares in concert, they can significantly influence the outcome of all matters submitted to our shareholders for approval, including the election of directors. The interests of our officers and directors may conflict with the interests of other holders of our common stock, and they may take actions affecting the Company with which you disagree.

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

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

Risks Related to Owning Our Stock

Regulatory and contractual restrictions may limit or prevent us from paying dividends on the Series A preferred shares and our common stock.

Unlike indebtedness, where principal and interest would customarily be payable on specified due dates, with respect to the Series A preferred shares and our common stock, dividends are payable only when, as and if authorized and declared by our board of directors and depend on, among other things, our results of operations, financial condition, debt service requirements, other cash needs and any other factors our board of directors deems relevant and, under Arkansas law, may be paid only out of lawfully available funds.

We are an entity separate and distinct from our bank subsidiary and derive substantially all of our revenue in the form of dividends from that subsidiary. Accordingly, we are and will be dependent upon dividends from our bank subsidiary to pay the principal of and interest on our indebtedness, to satisfy our other cash needs and to pay dividends on the Series A preferred shares and our common stock. The ability of our bank subsidiary to pay dividends is subject to its ability to earn net income and to meet certain regulatory requirements. In the event it is unable to pay dividends to us, we may not be able to pay dividends on the Series A preferred shares or our common stock. Also, our right to participate in a distribution of assets upon a subsidiary s liquidation or reorganization is subject to the prior claims of the subsidiary s creditors.

We are also subject to certain contractual restrictions that could prohibit us from declaring or paying dividends or making liquidation payments on our common stock or the Series A preferred shares.

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

We have $44.3 million of subordinated debentures issued in connection with trust preferred securities. Payments of the principal and interest on the trust preferred securities are unconditionally guaranteed by us. The subordinated debentures are senior to our shares of common stock and the Series A preferred shares. As a result, we must make payments on the subordinated debentures (and the related trust preferred securities) before any dividends can be paid on the Series A preferred shares and our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the debentures must be satisfied before any distributions can be made to the holders of the Series A preferred shares or our common stock. We have the right to defer distributions on the subordinated debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid to holders of our capital stock (including the Series A preferred shares and our common stock). If we elect to defer or if we default with respect to our obligations to make payments on these subordinated debentures, this would likely have a material adverse effect on the market value of the Series A preferred shares and our common stock. Moreover, without notice to or consent from the holders of the Series A preferred shares or our common stock, we may issue additional series of subordinated debt securities in the future with terms similar to those of our existing subordinated debt securities or enter into other financing agreements that limit our ability to purchase or to pay dividends or distributions on our capital stock, including our common stock.

The securities purchase agreement between us and the Treasury limits our ability to pay dividends on and repurchase our common stock.

The securities purchase agreement between us and the Treasury provides that prior to the earlier of January 16, 2012 and the date on which all of the Series A preferred shares have been redeemed by us or transferred by the Treasury to third parties, we may not, without the consent of the Treasury, (a) increase the cash dividend on our common stock above $0.0545 per share (adjusted for our 10% stock dividend in 2010) or (b) subject to limited exceptions, redeem, repurchase or otherwise acquire any shares of our common stock or preferred stock (other than the Series A preferred shares) or any trust preferred securities issued by us. In addition, we are unable to pay any dividends on our common stock unless we are current in our dividend payments on the Series A preferred shares. These restrictions, together with the potentially dilutive impact of the warrant we issued to the Treasury, could have a negative effect on the value of our common stock. Moreover, holders of our common stock are entitled to receive dividends only when, as and if declared by our board of directors. Although we have historically paid cash dividends on our common stock, we are not required to do so and our board of directors could reduce or eliminate our common stock dividend in the future.

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

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

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

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