



BANK of the OZARKS<sup>®</sup>, Inc.  
2011 Annual Report







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This report contains forward-looking statements and reflects management's current views of future economic circumstances, industry conditions, Company performance and financial results. These forward-looking statements are subject to a number of factors and uncertainties which could cause the Company's actual results and experience to materially differ from anticipated results and expectations expressed in such forward-looking statements. A description of certain factors which may affect operating results may be found in Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption "Forward-Looking Information" contained elsewhere in this report.

*All scenic photographs from Bank of the Ozarks' trade area.*





## To Our Shareholders

We are very pleased to report our eleventh consecutive year of record net income. Our 2011 net income was a record \$101.3 million, up 58.3% from 2010 and our earnings per common share were also a record \$2.94, up 56.4% from 2010. During 2011 we achieved record net interest income, our best net interest margin as a public company, record service charge income and favorable results for asset quality. The strong earnings momentum we achieved in 2011 provides a solid foundation on which to build.

During 2011 we made three FDIC-assisted acquisitions, each of which generated bargain purchase gains and operating net income following the acquisition. These acquisitions added new offices and customers to our existing franchise in Georgia and Florida.

With our excellent team of bankers, strong capital position, favorable deposit base, abundant sources of liquidity, solid credit culture, proven revenue generating capabilities and excellent franchise footprint, we feel we are in a great position to profit from opportunities in 2012.

As you read this annual report, we hope you will be pleased with our accomplishments in 2011 and share our enthusiasm for the future.

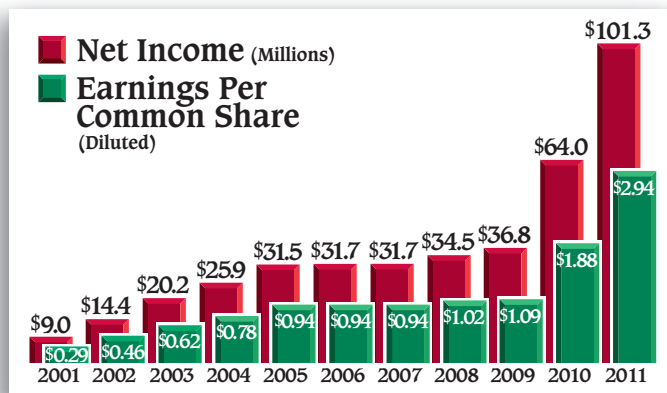
George Gleason  
*Chairman and Chief Executive Officer*



## A Long-Term Perspective

The record results we achieved in 2011 reflect our commitment to excellence and our focus on long-term goals. For many years, we have worked hard to build and improve our Company. Our constant pursuit of adding new customers, building relationships, improving performance and enhancing efficiency has produced great results. The following graphs provide a long-term perspective.

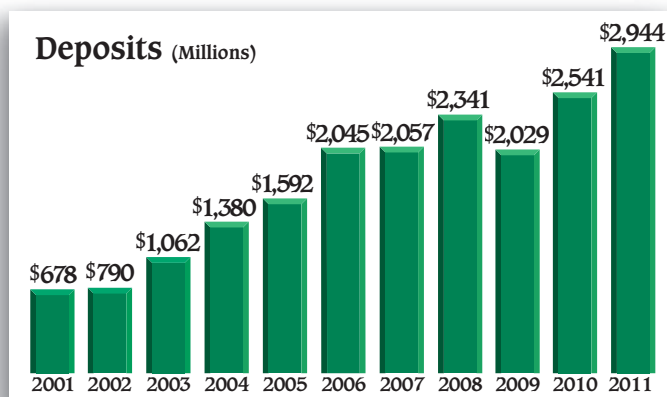
Our Company is focused on both growth and profitability. We have achieved excellent long-term growth in loans, leases and deposits, while our net income and diluted earnings per common share have grown at similar rates.



*Over the past ten years, we have achieved compounded annual growth rates of 27.5% in net income and 26.1% in diluted earnings per common share.*

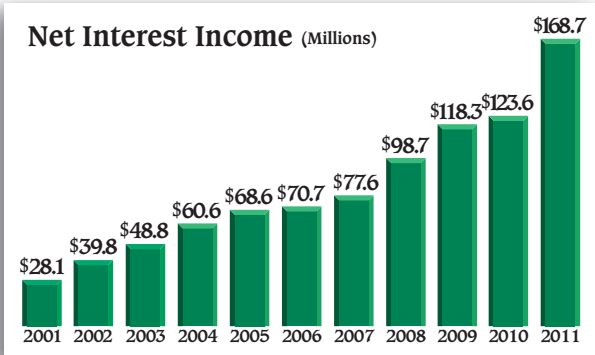


*Over the past ten years, our loans and leases, including covered loans, have grown at a compounded annual rate of 15.9%.*

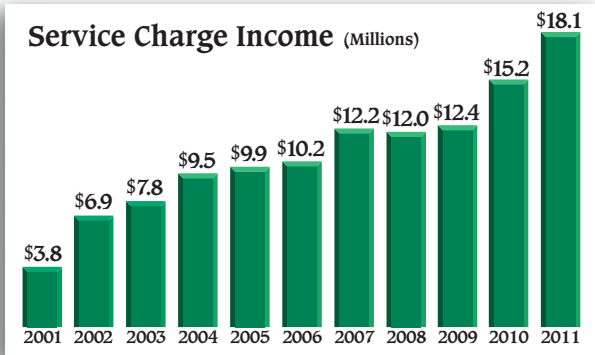


*Over the past ten years, our deposits have grown at a compounded annual rate of 15.8%.*

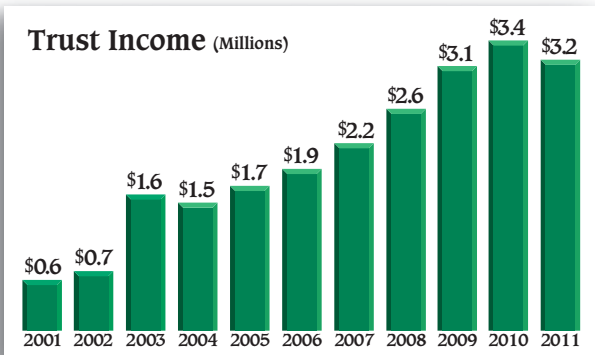
Net interest income is our largest revenue component, and income from service charges, trust and mortgage lending have traditionally been our three principal sources of non-interest income.



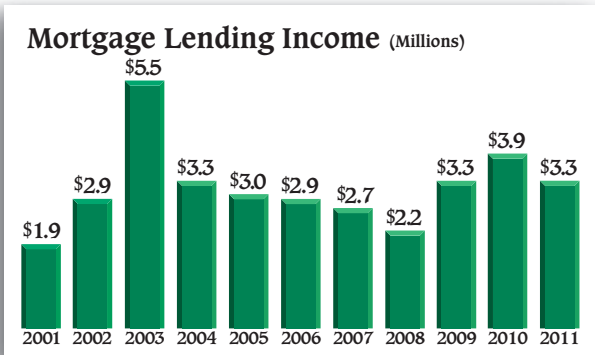
*Net interest income has grown over the last ten years at a compounded annual rate of 19.6%.*



*Income from service charges on deposit accounts has grown at a compounded annual rate of 17.0% over the past ten years.*

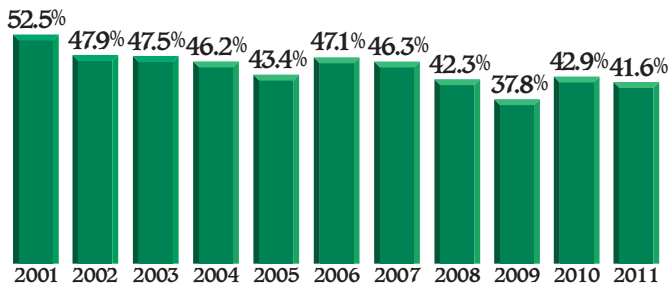


*Over the past ten years, trust income has grown at a compounded annual rate of 18.2%.*



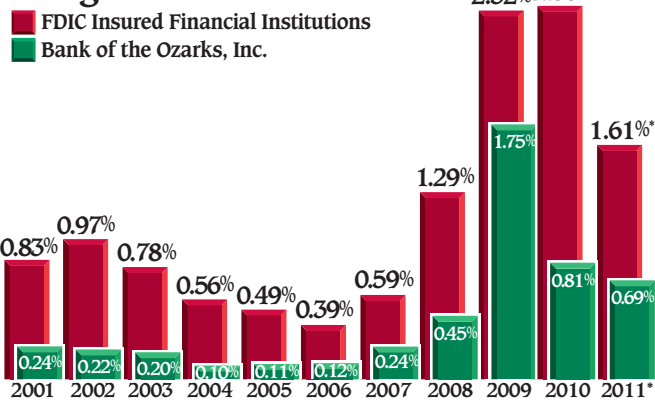
*Mortgage lending is a valuable service to our customers and an important source of non-interest income, but it is cyclical in nature and varies with interest rate and housing market conditions.*

## Efficiency Ratios



*Over the past decade we have significantly improved our efficiency ratio and have become one of the nation's most efficient bank holding companies.*

## Charge-Off Ratios

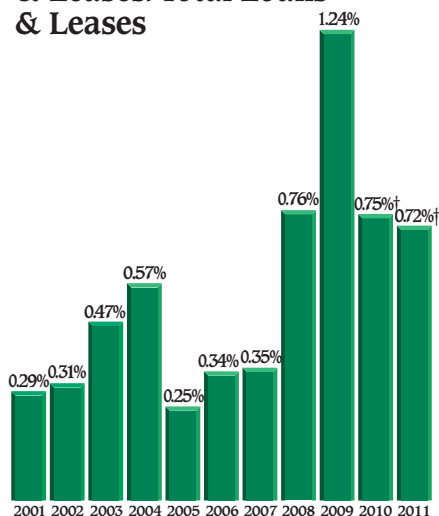


*We consider the net charge-off ratio as the ultimate measure of asset quality. Our net charge-off ratio has consistently compared favorably with the ratio for all FDIC insured institutions as a group.*

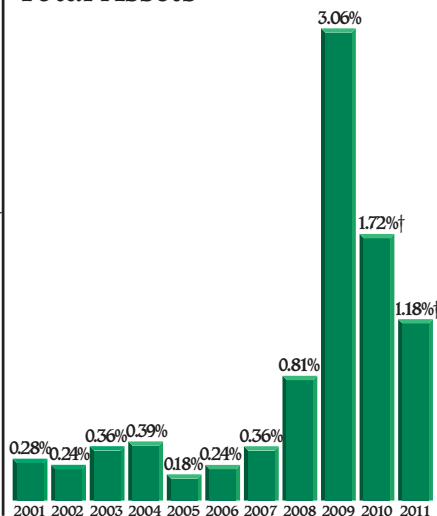
Source: Data from the FDIC Quarterly Banking Profile for 3Q11.  
\*FDIC data for 2011 is annualized September 30, 2011 data.

*Maintaining good asset quality has been an important factor in our historically strong growth in net income, and this has never been more important than in the recent challenging economic conditions.*

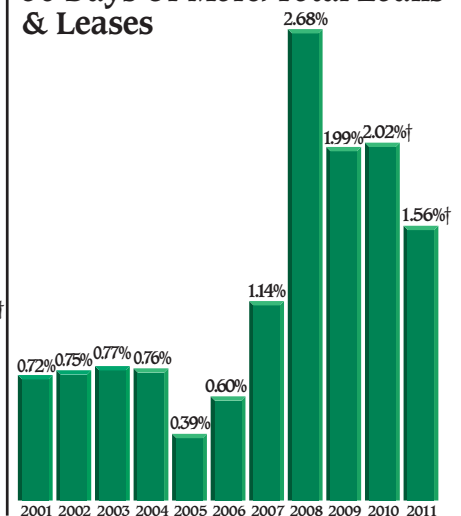
## Nonperforming Loans & Leases/Total Loans & Leases



## Nonperforming Assets/Total Assets



## Loans & Leases Past Due 30 Days Or More/Total Loans & Leases



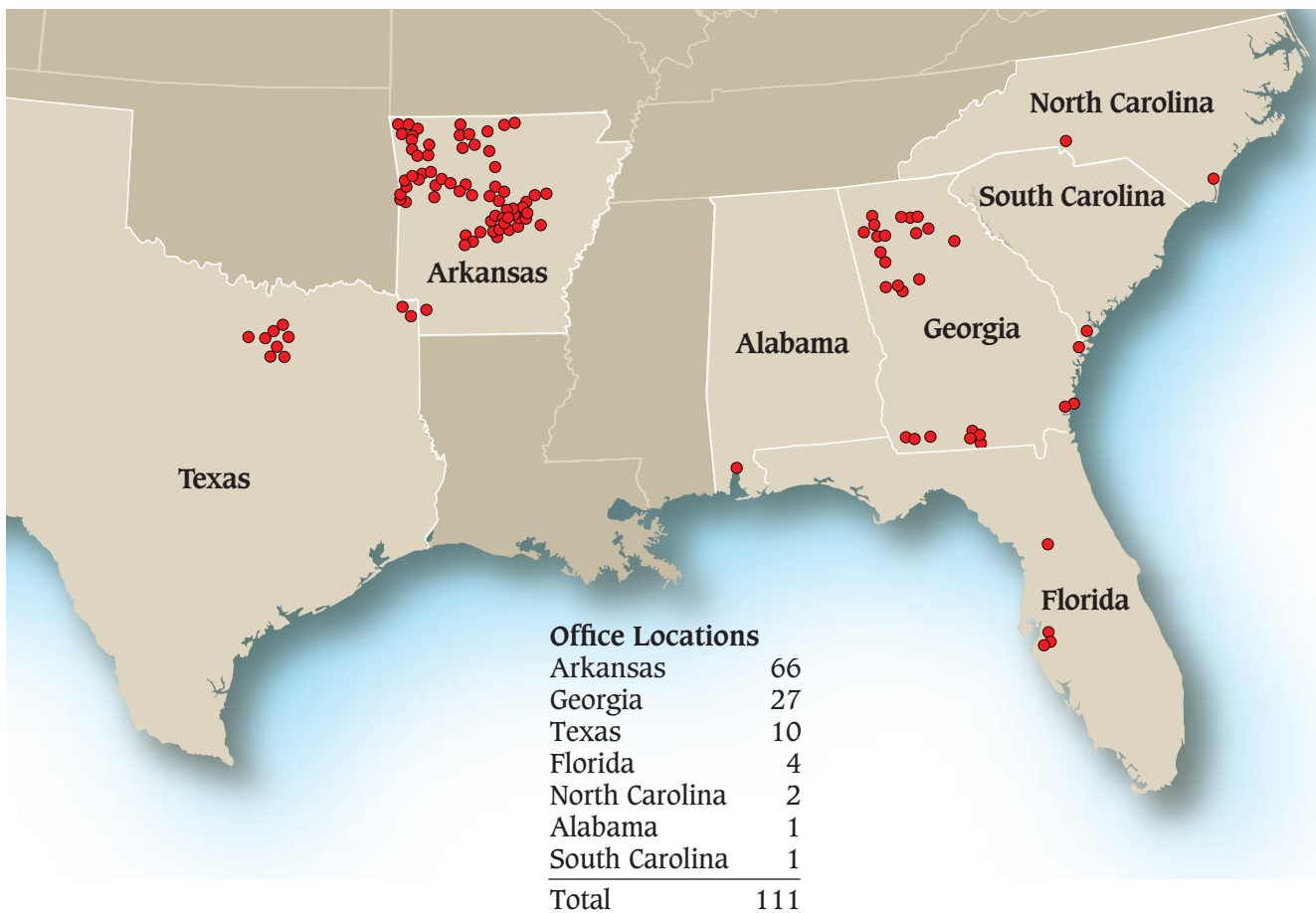
† Excludes loans and/or foreclosed assets covered by FDIC loss share agreements, except for their inclusion in total assets.





## Bank of the Ozarks' Locations

At year-end 2011, our franchise included a total of 111 offices in seven states, providing us substantial capacity and opportunities for growth.







## Our Senior Management Team



**George Gleason** *Chairman of the Board and Chief Executive Officer*

George Gleason has led the Company and its predecessors for 33 years. Mr. Gleason purchased Bank of Ozark, which then had approximately \$28 million of total assets, in 1979. Since then, the Company has grown roughly 140 times its 1979 size.

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**Mark Ross** *Vice Chairman and Chief Operating Officer*

Mark Ross joined the Company in 1980. Mr. Ross is responsible for oversight of a number of operational and administrative functions of the Company including internal audit, compliance, loan review, facilities, technology, human resources, deposit operations, trust services and mortgage banking.

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**Greg McKinney** *Chief Financial Officer and Chief Accounting Officer*

Greg McKinney oversees all accounting, tax, financial reporting, regulatory reporting and fund management functions for the Company. Mr. McKinney has 20 years of accounting and financial reporting experience and joined the Company in 2003. Mr. McKinney is a Certified Public Accountant.

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**Tyler Vance** *Chief Banking Officer*

Tyler Vance joined the Company in 2006. Mr. Vance was named Chief Banking Officer in 2011 and oversees a broad range of duties including retail banking, deposit pricing, treasury management, marketing and training. In addition, he is responsible for oversight of banking operations in Arkansas and North Texas. He has 15 years of banking experience and is a Certified Public Accountant.

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**Ron Kuykendall** *Chief Information Officer*

Ron Kuykendall joined the Company in 1989 and is responsible for the oversight of information systems, deposit operations, e-banking and item processing. Mr. Kuykendall has 28 years of experience in banking.

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**Darrel Russell** *Chief Credit Officer and Chairman of the Loan Committee*

Darrel Russell has 31 years of banking experience and has been with the Company since 1983. Mr. Russell was named Chief Credit Officer in 2011 and is responsible for the Company's overall loan production and credit quality. Mr. Russell is also responsible for oversight of the Company's loan production office in Charlotte, North Carolina.

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**Dan Thomas** *President, Real Estate Specialties Group*

Dan Thomas has 27 years experience in structuring, financing and managing commercial real estate transactions. He joined Bank of the Ozarks in 2003 and established the Real Estate Specialties Group, which handles many of the Company's larger and more complex real estate transactions.

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*Note: George Gleason, Mark Ross, Greg McKinney, Tyler Vance and Ron Kuykendall serve in the same officer capacity for both the Company and its bank subsidiary. All other officers shown in this article serve as officers only of the bank subsidiary in the capacities indicated.*

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**Duane Bickings** *President, Central Georgia Division*

Duane Bickings has 32 years of banking experience and joined the Company in 2010. As President of the Central Georgia Division, Mr. Bickings oversees banking operations in the Company's offices in Valdosta (3), Bainbridge (2), Dawsonville (2), Athens, Cairo, Cumming, Lake Park, Marble Hill, McDonough, Oakwood and Stockbridge, Georgia and Ocala, Florida.

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**Barry Brown** *President, Manatee County, Florida Market*

Barry Brown joined Bank of the Ozarks in 2010 and has 29 years of banking experience. Mr. Brown oversees banking operations in Manatee County, which includes offices in Bradenton (2) and Palmetto, Florida.

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**John Carter** *President, Little Rock, Arkansas Market*

John Carter joined Bank of the Ozarks in 2009 and has 10 years of banking experience. Mr. Carter oversees business operations in the Company's nine Little Rock offices.

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**John Davis** *President, Northwest Georgia Division*

John Davis has 30 years of banking experience and joined the Company in 2005. Mr. Davis oversees banking operations in the Company's offices in Cartersville (2), Adairsville, Calhoun, Dallas, Douglasville, Newnan, Rome, Senoia and Sharpsburg, Georgia.

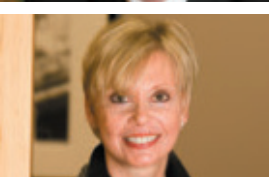
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**Larry Dicks** *President, River Valley Arkansas Division*

Mr. Dicks has 34 years of banking experience, 26 of those with Bank of the Ozarks. As President of the River Valley Arkansas Division, Mr. Dicks leads banking operations in the Company's offices in Russellville (3), Clarksville (2), Ozark (2), Altus and Paris.

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**Susan Grobmyer** *President, Western Arkansas Division*

Susan Grobmyer joined Bank of the Ozarks in 1997 and has 35 years of banking experience. Mrs. Grobmyer oversees banking operations in the Company's Western Arkansas Division, which includes offices in Fort Smith (3), Van Buren (2), Mulberry and Alma.

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**Scott Hastings** *President, Leasing Division*

Scott Hastings joined the Company in 2003 to establish a Leasing Division. Mr. Hastings has 29 years experience in leasing.

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**Gene Holman** *President, Mortgage Division*

Gene Holman has 38 years of mortgage banking and real estate experience. He joined the Company in 2004 as President of the Mortgage Division.

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**Dennis James** *Director of Mergers and Acquisitions*

Dennis James joined the Company in 1995 and has 39 years of experience in finance and management. Mr. James is responsible for leading the Company's merger and acquisition activity.

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**John Jenkins** *President, North Little Rock, Arkansas Market*

John Jenkins joined Bank of the Ozarks in 2009 and has 11 years of banking experience. Mr. Jenkins oversees business operations in the Company's North Little Rock (3), Lonoke, Maumelle and Sherwood offices.





**Alan Jessup** *President, South Central Arkansas Group Market*

Alan Jessup joined Bank of the Ozarks in 2008 and has over 19 years of banking experience. Mr. Jessup oversees business operations in the Company's South Central Arkansas market, which includes offices in Benton (3), Hot Springs (3), Bryant, Hot Springs Village and the Little Rock Otter Creek office.

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**Rex Kyle** *President, Trust and Wealth Management Division*

Rex Kyle has 33 years experience in banking as a trust professional. Mr. Kyle joined the Company in 2004 as President of the Trust and Wealth Management Division, which offers a wide array of asset management and trust services for individuals, businesses and government entities.

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**Ross Mallioux** *President, Benton County and Washington County, Arkansas*

Ross Mallioux joined Bank of the Ozarks in 2011 and has 27 years of banking experience. Mr. Mallioux oversees business operations in Benton County, which includes offices in Rogers (3), Bella Vista (2) and Bentonville (2); and Washington County, which includes offices in Fayetteville (2) and Springdale.

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**Eddie Melton** *President, Franklin County, Arkansas*

Eddie Melton joined Bank of the Ozarks in 1989 and has 22 years of banking experience. Mr. Melton oversees business operations in Franklin County, which includes offices in Ozark (2) and Altus.

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**Gary Miller** *President, Johnson County, Arkansas*

Gary Miller joined Bank of the Ozarks in 2008 and has 39 years of banking experience. Mr. Miller oversees business operations in Johnson County, which includes two offices in Clarksville.

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**Matt Reddin** *President, Central Arkansas Division*

Matt Reddin has 10 years of banking experience and has been with the Company since 2006. As President of the Central Arkansas Division, Mr. Reddin oversees banking operations in the Company's offices in Little Rock (9), Conway (4), Benton (3), Hot Springs (3), North Little Rock (3), Cabot (2), Mountain Home (2), Bryant, Hot Springs Village, Lonoke, Maumelle and Sherwood.

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**Sarah Shaw** *President, Conway, Arkansas Market*

Sarah Shaw joined the Company in 2002 and has 27 years of banking experience. Mrs. Shaw oversees business operations in the Company's four Conway offices.

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**Chris Stringer** *President, North Texas Division*

Chris Stringer has 15 years of experience in banking and joined the Company in 2011. Mr. Stringer oversees banking operations in the North Texas Division, which includes offices in Frisco (2), Allen, Carrollton, Keller, Lewisville and Plano.

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**Audwin Vaughn** *President, North Central Arkansas Group Market*

Audwin Vaughn joined Bank of the Ozarks in 2009 and has 26 years of banking experience. Mr. Vaughn oversees business operations in the Company's Cabot (2) and Mountain Home (2) offices.

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**Harvey Williams** *President, Northwest Arkansas Division*

Harvey Williams has 32 years of banking experience and joined the Company in 2006. He leads our Northwest Arkansas Division which consists of offices in Rogers (3), Fayetteville (2), Bentonville (2), Bella Vista (2), Harrison (2), Bellefonte, Clinton, Jasper, Marshall, Springdale, Western Grove and Yellville.

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**Rick Wisdom** *President, Southwest and Coastal Divisions*

Rick Wisdom has 30 years of banking experience and joined the Company in 2004. Mr. Wisdom oversees banking operations in the Company's offices in Texarkana, Texas (2); Mobile, Alabama; Texarkana, Arkansas; Brunswick, Savannah and St. Simons Island, Georgia; Wilmington, North Carolina and Bluffton, South Carolina.





## Financial Information

### Selected Consolidated Financial Data

|  | Year Ended December 31,                          |             |             |             |             |
|--|--|-------------|-------------|-------------|-------------|
|  | 2011   | 2010        | 2009        | 2008        | 2007        |
|  | (Dollars in thousands, except per share amounts) |             |             |             |             |
| <b>Income statement data:</b>  |  |             |             |             |             |
| Interest income .....  | \$ 199,169                                       | \$ 157,972  | \$ 165,908  | \$ 183,003  | \$ 176,970  |
| Interest expense .....   | 30,435   | 34,337      | 47,585      | 84,302      | 99,352      |
| Net interest income .....  | 168,734  | 123,635     | 118,323     | 98,701      | 77,618      |
| Provision for loan and lease losses .....  | 11,775   | 16,000      | 44,800      | 19,025      | 6,150       |
| Non-interest income .....  | 117,083  | 70,322      | 51,051      | 19,349      | 22,975      |
| Non-interest expense .....   | 122,531  | 87,419      | 68,632      | 54,398      | 48,252      |
| Preferred stock dividends .....  | -  | -           | 6,276       | 227         | -           |
| Net income available to common stockholders .....                                | 101,321  | 64,001      | 36,826      | 34,474      | 31,746      |
| <b>Common share and per common share data:<sup>(1)</sup></b>                     |  |             |             |             |             |
| Earnings - diluted .....   | \$ 2.94  | \$ 1.88     | \$ 1.09     | \$ 1.02     | \$ 0.94     |
| Book value .....   | 12.32  | 9.39        | 7.96        | 7.48        | 5.67        |
| Dividends .....  | 0.370  | 0.300       | 0.260       | 0.250       | 0.215       |
| Weighted-average diluted shares<br>outstanding (thousands) .....                 | 34,482   | 34,090      | 33,800      | 33,748      | 33,668      |
| End of period shares outstanding (thousands) .....                               | 34,464   | 34,107      | 33,810      | 33,728      | 33,636      |
| <b>Balance sheet data at period end:</b>   |  |             |             |             |             |
| Total assets .....   | \$3,839,987                                      | \$3,273,271 | \$2,770,811 | \$3,233,303 | \$2,710,875 |
| Loans and leases not covered by<br>FDIC loss share agreements .....              | 1,885,282  | 1,856,429   | 1,904,104   | 2,021,199   | 1,871,135   |
| Loans covered by FDIC loss share agreements .....                                | 806,924  | 489,468     | -           | -           | -           |
| Allowance for loan and lease losses .....  | 39,169   | 40,230      | 39,619      | 29,512      | 19,557      |
| FDIC loss share receivable .....   | 278,263  | 158,137     | -           | -           | -           |
| Foreclosed assets covered by<br>FDIC loss share agreements .....                 | 72,907   | 31,145      | -           | -           | -           |
| Investment securities .....  | 438,910  | 398,698     | 506,678     | 944,783     | 578,348     |
| Deposits .....   | 2,943,919  | 2,540,753   | 2,028,994   | 2,341,414   | 2,057,061   |
| Repurchase agreements with customers .....                                       | 32,810   | 43,324      | 44,269      | 46,864      | 46,086      |
| Other borrowings .....   | 301,847  | 282,139     | 342,553     | 424,947     | 336,533     |
| Subordinated debentures .....  | 64,950   | 64,950      | 64,950      | 64,950      | 64,950      |
| Preferred stock, net of unamortized discount .....                               | -  | -           | -           | 71,880      | -           |
| Total common stockholders' equity .....  | 424,551  | 320,355     | 269,028     | 252,302     | 190,829     |
| Loan and lease including covered loans<br>to deposit ratio .....                 | 91.45%   | 92.33%      | 93.84%      | 86.32%      | 90.96%      |
| <b>Average balance sheet data:</b>   |  |             |             |             |             |
| Total average assets .....   | \$3,755,291                                      | \$2,998,850 | \$3,002,121 | \$3,017,707 | \$2,601,299 |
| Total average common stockholders' equity .....                                  | 374,664  | 296,035     | 267,768     | 213,271     | 184,819     |
| Average common equity to average assets .....                                    | 9.98%  | 9.87%       | 8.92%       | 7.07%       | 7.10%       |
| <b>Performance ratios:</b>   |  |             |             |             |             |
| Return on average assets .....   | 2.70%  | 2.13%       | 1.23%       | 1.14%       | 1.22%       |
| Return on average common stockholders' equity .....                              | 27.04  | 21.62       | 13.75       | 16.16       | 17.18       |
| Net interest margin - FTE .....  | 5.84   | 5.18        | 4.80        | 3.96        | 3.44        |
| Efficiency ratio .....   | 41.56  | 42.86       | 37.84       | 42.32       | 46.33       |
| Common stock dividend payout ratio .....   | 12.50  | 15.89       | 23.84       | 24.42       | 22.75       |
| <b>Asset quality ratios:</b>   |  |             |             |             |             |
| Net charge-offs to average loans and leases <sup>(2)</sup> .....                 | 0.69%  | 0.81%       | 1.75%       | 0.45%       | 0.24%       |
| Nonperforming loans and leases to total<br>loans and leases <sup>(2)</sup> ..... | 0.72   | 0.75        | 1.24        | 0.76        | 0.35        |
| Nonperforming assets to total assets <sup>(2)</sup> .....                        | 1.18   | 1.72        | 3.06        | 0.81        | 0.36        |
| <b>Allowance for loan and lease losses as a percentage of:</b>                   |  |             |             |             |             |
| Total loans and leases <sup>(2)</sup> .....                                      | 2.08%  | 2.17%       | 2.08%       | 1.46%       | 1.05%       |
| Nonperforming loans and leases .....   | 290%   | 288%        | 168%        | 192%        | 295%        |
| <b>Capital ratios at period end:</b>   |  |             |             |             |             |
| Tier 1 leverage .....  | 12.06%   | 11.88%      | 11.39%      | 11.64%      | 9.80%       |
| Tier 1 risk-based capital .....  | 17.67  | 16.13       | 13.78       | 14.21       | 11.79       |
| Total risk-based capital .....   | 18.93  | 17.39       | 15.03       | 15.36       | 12.67       |

(1) Adjusted to give effect to 2-for-1 stock split effective August 16, 2011.

(2) Excludes loans and/or foreclosed assets covered by FDIC loss share agreements, except for their inclusion in total assets.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### General

Net income available to common stockholders of Bank of the Ozarks, Inc. (the "Company") was \$101.3 million for the year ended December 31, 2011, a 58.3% increase from \$64.0 million in 2010. Net income available to common stockholders in 2009 was \$36.8 million. Diluted earnings per common share were \$2.94 for 2011, a 56.4% increase from \$1.88 in 2010. Diluted earnings per common share were \$1.09 in 2009.

On August 16, 2011, the Company completed a 2-for-1 stock split in the form of a stock dividend, effected by issuing one share of common stock for each share of such stock outstanding on August 5, 2011. All share and per share information in this management's discussion and analysis of financial condition and results of operations has been adjusted to give effect to this stock split.

The table below shows total assets, investment securities, loans and leases not covered by Federal Deposit Insurance Corporation ("FDIC") loss share agreements, loans covered by FDIC loss share agreements ("covered loans"), FDIC loss share receivable, deposits, common stockholders' equity, net income available to common stockholders, diluted earnings per common share and book value per common share as of and for the years ended December 31, 2011, 2010 and 2009 and the percentage of change year over year.

|   | December 31,                                     |             |             | % Change          |                   |
|---|--|-------------|-------------|-------------------|-------------------|
|   | 2011   | 2010        | 2009        | 2011<br>from 2010 | 2010<br>from 2009 |
|   | (Dollars in thousands, except per share amounts) |             |             |                   |                   |
| Total assets .....  | \$3,839,987                                      | \$3,273,271 | \$2,770,811 | 17.3%             | 18.1%             |
| Investment securities .....   | 438,910  | 398,698     | 506,678     | 10.1              | (21.3)            |
| Loans and leases not covered by<br>FDIC loss share agreements ..... | 1,885,282  | 1,856,429   | 1,904,104   | 1.6               | (2.5)             |
| Loans covered by<br>FDIC loss share agreements .....                | 806,924  | 489,468     | -           | 64.9              | -                 |
| FDIC loss share receivable .....                                    | 278,263  | 158,137     | -           | 76.0              | -                 |
| Deposits .....  | 2,943,919  | 2,540,753   | 2,028,994   | 15.9              | 25.2              |
| Common stockholders' equity .....                                   | 424,551  | 320,355     | 269,028     | 32.5              | 19.1              |
| Net income available to<br>common stockholders .....                | 101,321  | 64,001      | 36,826      | 58.3              | 73.8              |
| Diluted earnings per common share ....                              | 2.94   | 1.88        | 1.09        | 56.4              | 72.5              |
| Book value per common share .....                                   | 12.32  | 9.39        | 7.96        | 31.2              | 18.0              |

Two measures used to assess performance by banking institutions are return on average assets ("ROA") and return on average common stockholders' equity ("ROE"). ROA measures net income available to common stockholders in relation to average total assets. It is calculated by dividing annual net income available to common stockholders by average total assets and indicates a company's ability to employ its resources profitably. For the year ended December 31, 2011, the Company's ROA was 2.70% compared with 2.13% in 2010 and 1.23% in 2009. ROE measures net income available to common stockholders in relation to average common stockholders' equity. It is calculated by dividing annual net income available to common stockholders by average common stockholders' equity and indicates how effectively a company can generate net income on the capital invested by its common stockholders. For the year ended December 31, 2011, the Company's ROE was 27.04% compared with 21.62% in 2010 and 13.75% in 2009.

### Analysis of Results of Operations

The Company is a bank holding company whose primary business is commercial banking conducted through its wholly-owned state chartered bank subsidiary – Bank of the Ozarks (the "Bank"). The Company's results of operations depend primarily on net interest income, which is the difference between the interest income from earning assets, such as loans, leases, covered loans and investments, and the interest expense incurred on interest bearing liabilities, such as deposits, borrowings and subordinated debentures. The Company also generates non-interest income, including service charges on deposit accounts, mortgage lending income, trust income, bank owned life insurance ("BOLI") income, accretion of FDIC loss share receivable, net of amortization of FDIC clawback payable, other loss share income, gains and losses on investment securities and from sales of other assets, and gains on FDIC-assisted acquisitions.

The Company's non-interest expense consists primarily of employee compensation and benefits, net occupancy and equipment expense and other operating expenses. The Company's results of operations are significantly affected by its provision for loan and lease losses and its provision for income taxes. The following discussion



provides a summary of the Company's operations for the past three years and should be read in conjunction with the consolidated financial statements and related notes presented elsewhere in this report.

### **Net Interest Income**

Net interest income and net interest margin are analyzed in this discussion on a fully taxable equivalent ("FTE") basis. The adjustment to convert net interest income to a FTE basis consists of dividing tax-exempt income by one minus the statutory federal income tax rate of 35%. The FTE adjustments to net interest income were \$9.0 million in 2011, \$10.0 million in 2010 and \$12.0 million in 2009. No adjustments have been made in this analysis for income exempt from state income taxes or for interest expense deductions disallowed under the provisions of the Internal Revenue Code as a result of investments in certain tax-exempt securities.

#### *2011 compared to 2010*

Net interest income for 2011 increased 33.0% to \$177.8 million compared to \$133.6 million for 2010. Net interest margin was 5.84% for 2011 compared to 5.18% for 2010. The growth in net interest income was a result of the improvement in net interest margin, which increased 66 basis points ("bps") for 2011 compared to 2010, and growth in average earning assets which increased 18.0% for 2011 compared to 2010.

The Company's improvement in net interest margin for 2011 compared to 2010 resulted from a combination of factors including, among others, an increase in both the volume and yield of the Company's covered loan portfolio and reductions in rates paid on all categories of interest bearing liabilities, partially offset by decreases in yield on the Company's loan and lease portfolio not covered by FDIC loss share agreements and the taxable portion of its investment securities portfolio. Even though the yield on the Company's non-covered loan and lease portfolio decreased for 2011 compared to 2010, the Company's spread between yields on such non-covered loans and leases and rates paid on deposits increased by 25 bps for 2011 compared to 2010.

Yields on earning assets increased 33 bps for 2011 compared to 2010. This increase was primarily the result of an increase in the yield on covered loans of 77 bps for 2011 compared to 2010, partially offset by a decrease in yields on non-covered loans and leases of six bps for 2011 compared to 2010 and a decrease in the yield on the Company's taxable investment securities portfolio of 176 bps for 2011 compared to 2010.

Rates on interest bearing liabilities decreased 38 bps for 2011 compared to 2010. This decrease was primarily due to the declines in rates on interest bearing deposits, the largest component of the Company's interest bearing liabilities, which decreased 31 bps for 2011 compared to 2010. This decrease in the rate on interest bearing deposits was principally due to (i) a change in mix of the Company's interest bearing deposits as a result of growth in the volume of savings and interest bearing transaction accounts resulting in an increase in these deposits, which generally pay lower rates than time deposits, to 60.2% of total interest bearing deposits for 2011 compared to 56.3% for 2010 and (ii) effectively managing the repricing of both time deposits and savings and interest bearing transaction deposits which resulted in lower rates paid on deposits as they were renewed or otherwise repriced.

The Company's other borrowing sources include (i) repurchase agreements with customers ("repos"), (ii) other borrowings comprised primarily of Federal Home Loan Bank of Dallas ("FHLB - Dallas") advances, and, to a lesser extent, Federal Reserve Bank ("FRB") borrowings and federal funds purchased, and (iii) subordinated debentures. The rates on repos decreased 32 bps for 2011 compared to 2010 primarily as a result of the Company's efforts to effectively manage the rates on its interest bearing liabilities, including repos. The rates on the Company's other borrowings, which consist primarily of fixed rate callable FHLB - Dallas advances, decreased 16 bps for 2011 compared to 2010. This decrease in rates for other borrowings was due primarily to the repayment of \$60.0 million of fixed rate, callable FHLB - Dallas advances with a weighted-average interest rate of 6.25% that were repaid on their maturity dates in May 2010. The rates paid on the Company's subordinated debentures, which are tied to a spread over the 90-day London Interbank Offered Rate ("LIBOR") and reset periodically, decreased four bps for 2011 compared to 2010.

The increase in average earning assets was due primarily to increases in the Company's average balance of covered loans from \$218 million for 2010 to \$767 million for 2011. The Company made seven FDIC-assisted acquisitions during 2010 and 2011, resulting in significant increases in its covered loan portfolio. This increase was partially offset by a decrease in the Company's average balance of non-covered loans and leases of \$60 million for 2011 compared to 2010. This decrease was due primarily to paydowns and payoffs of existing loans and leases exceeding originations of non-covered loans and leases in the first half of 2011, although originations of non-covered loans and leases during the second half of 2011 exceeded paydowns and payoffs of existing loans and leases. As a result, the Company's non-covered loans and leases at December 31, 2011 increased 1.6% compared to December 31, 2010. The Company's average earning assets were also affected by changes in its average investment securities portfolio, which decreased \$25 million for 2011 compared to 2010 although the Company's aggregate investment securities portfolio increased 10.1%



from December 31, 2010 to December 31, 2011. In recent years, the Company has generally been a net seller of investment securities as a result of ongoing evaluations of interest rate risk and to free up capital for FDIC-assisted acquisitions.

#### *2010 compared to 2009*

Net interest income for 2010 increased 2.5% to \$133.6 million compared to \$130.3 million for 2009. Net interest margin was 5.18% in 2010 compared to 4.80% in 2009. The growth in net interest income was a result of the improvement in the Company's net interest margin, which increased 38 bps from 2009 to 2010, offset in part by a reduction in the Company's average earning assets, which decreased 5.0% from 2009 to 2010.

The Company's improvement in its net interest margin in 2010 resulted from a combination of factors including (i) improvement in the Company's spread between yields on loans and leases not covered by FDIC loss share agreements and rates paid on deposits and (ii) the addition of higher yielding covered loans that were acquired as a result of the Company's four FDIC-assisted acquisitions in 2010.

Yields on average earning assets decreased four bps in 2010 compared to 2009. This decrease was due primarily to a seven bps decrease in loan and lease yields in 2010, and a 21 bps decrease in the average yield on the Company's investment securities portfolio, mostly offset by the addition of higher yielding covered loans in 2010.

The seven bps decrease in loan and lease yields was due primarily to the repricing of the Company's loan and lease portfolio at lower interest rates during 2010. The 21 bps decrease in the Company's average yield on its investment securities in 2010 was the result of an 85 bps decrease in yield on taxable investment securities, an 89 bps decrease in yield on tax-exempt investment securities, and a shift in the composition of the portfolio to include a higher proportion of tax-exempt investment securities with generally higher FTE yields than the Company's taxable investment securities. During 2010 tax-exempt investment securities comprised 81.8% of the average balance of the Company's investment securities portfolio compared to 56.1% in 2009. In 2009 and 2010, the Company reduced its investment securities portfolio as a result of its ongoing evaluations of interest rate risk and to free up capital for FDIC-assisted acquisitions.

During 2010 the Company, through the Bank, made four FDIC-assisted acquisitions. Most loans acquired in these acquisitions are covered loans and are higher yielding than the Company's non-covered loans and leases. The yield on covered loans in 2010 was 7.85%, or 160 bps higher than the Company's 2010 yield of 6.25% on non-covered loans and leases.

The four bps decrease in average earning asset yields in 2010 was more than offset by a 53 bps decrease in the average rate on interest bearing liabilities, resulting in the overall 38 bps increase in net interest margin in 2010 compared to 2009. The decrease in the average rate on interest bearing liabilities was primarily attributable to a 56 bps decrease in the average rate on interest bearing deposits, the largest component of the Company's interest bearing liabilities. This decrease in the average rate on interest bearing deposits was principally due to (i) effectively managing the repricing of time deposits which resulted in lower rates paid on these deposits as they were renewed or repriced and (ii) a favorable shift in the mix of the Company's deposits, resulting in the Company's average balance of time deposits, which generally pay higher rates than other interest bearing deposits, decreasing to 43.7% of average interest bearing deposits in 2010 from 57.1% of average interest bearing deposits in 2009.

The Company's other borrowing sources include (i) repos, (ii) FHLB advances, and (iii) subordinated debentures. The rates paid on repos decreased 37 bps for 2010 compared to 2009 primarily as a result of the Company's efforts to effectively manage the rates on its interest bearing liabilities, including repos. The rates paid on the Company's other borrowings increased eight bps in 2010 compared to 2009. Other borrowings consist primarily of fixed rate, callable FHLB advances. The increase in rates for other borrowings in 2010 compared to 2009 was due primarily to lower utilization of lower rate short-term federal funds purchased and short-term FHLB borrowings, partially offset by the repayment of \$60.0 million of fixed rate, callable FHLB advances with a weighted-average interest rate of 6.25% that were repaid on their maturity dates in May 2010. The rates paid on the Company's subordinated debentures decreased 57 bps in 2010 compared to 2009 as a result of the decrease in 90-day LIBOR on the applicable reset dates during 2010.

The 5.0% reduction in average earning assets in 2010 was due primarily to a decrease of \$265 million in the Company's average investment securities portfolio. During both 2009 and 2010 the Company was a net seller of investment securities, reducing its year-end portfolio by \$438 million from December 31, 2008 to December 31, 2009, and by \$108 million from December 31, 2009 to December 31, 2010. The average balance of investment securities was \$469 million for 2010 compared to \$734 million for 2009. The addition of covered loans during 2010 partially offset the decrease in average earnings assets caused by the reduction of the investment securities portfolio. During 2010, the Company's covered loan portfolio increased from none at December 31, 2009 to \$498 million at December 31, 2010, and the average balance of covered loans was \$218 million for 2010 compared to none for 2009.

The following table sets forth certain information relating to the Company's net interest income for the years ended December 31, 2011, 2010 and 2009. The yields and rates are derived by dividing interest income or interest expense by the average balance of the related assets or liabilities, respectively, for the periods shown except where otherwise noted. Average balances are derived from daily average balances for such assets and liabilities. The average balance of loans and leases not covered by loss share includes loans and leases on which the Company has discontinued accruing interest. The average balances of investment securities are computed based on amortized cost adjusted for unrealized gains and losses on investment securities available for sale ("AFS") and other-than-temporary impairment writedowns. The yields on loans and leases not covered by loss share include late fees and amortization of certain deferred fees and origination costs, which are considered adjustments to yields. The yields on investment securities include amortization of premiums and accretion of discounts. The yields on covered loans consist of accretion of the net present value of expected future cash flows using the effective yield method over the term of the loans and include late fees. Interest expense and rates on other borrowings are presented net of interest capitalized on construction projects.

### Average Consolidated Balance Sheets and Net Interest Analysis

|  | Year Ended December 31, |                  |                     |                    |                  |                     |                    |                  |                     |
|--|-------------------------|------------------|---------------------|--------------------|------------------|---------------------|--------------------|------------------|---------------------|
|  | 2011                    |                  |                     | 2010               |                  |                     | 2009               |                  |                     |
|  | Average Balance         | Income/Expense   | Yield/Rate          | Average Balance    | Income/Expense   | Yield/Rate          | Average Balance    | Income/Expense   | Yield/Rate          |
| (Dollars in thousands)                                 |                         |                  |                     |                    |                  |                     |                    |                  |                     |
| <b>ASSETS</b>  |                         |                  |                     |                    |                  |                     |                    |                  |                     |
| Earning assets:  |                         |                  |                     |                    |                  |                     |                    |                  |                     |
| Interest earning deposits and federal funds sold ..... | \$ 1,609                | \$ 36            | 2.24%               | \$ 1,230           | \$ 18            | 1.50%               | \$ 552             | \$ 10            | 1.88%               |
| Investment securities:                                 |                         |                  |                     |                    |                  |                     |                    |                  |                     |
| Taxable .....  | 98,270                  | 3,013            | 3.07                | 85,554             | 4,130            | 4.83                | 322,215            | 18,314           | 5.68                |
| Tax-exempt - FTE .....                                 | 345,454                 | 25,695           | 7.44                | 383,433            | 28,512           | 7.44                | 411,710            | 34,282           | 8.33                |
| Loans and leases - FTE .....                           | 1,830,779               | 113,308          | 6.19                | 1,890,357          | 118,162          | 6.25                | 1,981,454          | 125,317          | 6.32                |
| Covered loans .....                                    | 767,079                 | 66,135           | 8.62                | 218,274            | 17,141           | 7.85                | -                  | -                | -                   |
| Total earning assets - FTE .....                       | 3,043,191               | 208,187          | 6.84                | 2,578,848          | 167,963          | 6.51                | 2,715,931          | 177,923          | 6.55                |
| Non-interest earning assets .....                      | 712,100                 |                  |                     | 420,002            |                  |                     | 286,190            |                  |                     |
| Total assets .....                                     | <u>\$3,755,291</u>      |                  |                     | <u>\$2,998,850</u> |                  |                     | <u>\$3,002,121</u> |                  |                     |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>            |                         |                  |                     |                    |                  |                     |                    |                  |                     |
| Interest bearing liabilities:                          |                         |                  |                     |                    |                  |                     |                    |                  |                     |
| Deposits:  |                         |                  |                     |                    |                  |                     |                    |                  |                     |
| Savings and interest bearing transaction .....         | \$1,524,082             | \$ 8,297         | 0.54%               | \$1,121,528        | \$ 8,735         | 0.78%               | \$ 832,808         | \$ 7,128         | 0.86%               |
| Time deposits of \$100,000 or more .....               | 438,030                 | 4,032            | 0.92                | 476,748            | 5,829            | 1.22                | 699,281            | 13,504           | 1.93                |
| Other time deposits .....                              | 569,428                 | 5,357            | 0.94                | 392,671            | 5,483            | 1.40                | 409,969            | 9,848            | 2.40                |
| Total interest bearing deposits .....                  | 2,531,540               | 17,686           | 0.70                | 1,990,947          | 20,047           | 1.01                | 1,942,058          | 30,480           | 1.57                |
| Repurchase agreements with customers .....             | 39,638                  | 174              | 0.44                | 49,835             | 380              | 0.76                | 52,549             | 592              | 1.13                |
| Other borrowings .....                                 | 296,195                 | 10,835           | 3.66 <sup>(1)</sup> | 317,796            | 12,146           | 3.82 <sup>(1)</sup> | 384,854            | 14,375           | 3.74 <sup>(1)</sup> |
| Subordinated debentures .....                          | 64,950                  | 1,740            | 2.68                | 64,950             | 1,764            | 2.72                | 64,950             | 2,138            | 3.29                |
| Total interest bearing liabilities .....               | 2,932,323               | 30,435           | 1.04                | 2,423,528          | 34,337           | 1.42                | 2,444,411          | 47,585           | 1.95                |
| Non-interest bearing liabilities:                      |                         |                  |                     |                    |                  |                     |                    |                  |                     |
| Non-interest bearing deposits ...                      | 392,780                 |                  |                     | 256,910            |                  |                     | 207,782            |                  |                     |
| Other non-interest bearing liabilities .....           | 52,102                  |                  |                     | 18,940             |                  |                     | 18,010             |                  |                     |
| Total liabilities .....                                | 3,377,205               |                  |                     | 2,699,378          |                  |                     | 2,670,203          |                  |                     |
| Preferred stock, net of unamortized discount .....     | -                       |                  |                     | -                  |                  |                     | 60,708             |                  |                     |
| Common stockholders' equity .....                      | 374,664                 |                  |                     | 296,035            |                  |                     | 267,768            |                  |                     |
| Noncontrolling interest .....                          | 3,422                   |                  |                     | 3,437              |                  |                     | 3,442              |                  |                     |
| Total liabilities and stockholders' equity .....       | <u>\$3,755,291</u>      |                  |                     | <u>\$2,998,850</u> |                  |                     | <u>\$3,002,121</u> |                  |                     |
| Net interest income - FTE .....                        |                         | <u>\$177,752</u> |                     |                    | <u>\$133,626</u> |                     |                    | <u>\$130,338</u> |                     |
| Net interest margin - FTE .....                        |                         |                  | <u>5.84%</u>        |                    |                  | <u>5.18%</u>        |                    |                  | <u>4.80%</u>        |

(1) The interest expense and rates for other borrowings were impacted by interest capitalized on construction projects in the amount of \$0.1 million, \$0.1 million and \$0.4 million for 2011, 2010 and 2009, respectively. In the absence of this capitalization, these rates would have been 3.68%, 3.87% and 3.84% for 2011, 2010 and 2009, respectively.



The following table reflects how changes in the volume of interest earning assets and interest bearing liabilities and changes in interest rates have affected the Company's interest income - FTE, interest expense and net interest income - FTE for the periods indicated. Information is provided in each category with respect to changes attributable to (1) changes in volume (changes in volume multiplied by prior yield/rate); (2) changes in yield/rate (changes in yield/rate multiplied by prior volume); and (3) changes in both yield/rate and volume (changes in yield/rate multiplied by changes in volume). The changes attributable to the combined impact of volume and yield/rate have all been allocated to the changes due to volume.

### Analysis of Changes in Net Interest Income - FTE

|   | 2011 over 2010         |                 |                 | 2010 over 2009  |                 |                 |
|---|------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|   | Volume                 | Yield/<br>Rate  | Net<br>Change   | Volume          | Yield/<br>Rate  | Net<br>Change   |
|   | (Dollars in thousands) |                 |                 |                 |                 |                 |
| Increase (decrease) in:                       |                        |                 |                 |                 |                 |                 |
| Interest income - FTE:                        |                        |                 |                 |                 |                 |                 |
| Interest earning deposits                     |                        |                 |                 |                 |                 |                 |
| and federal funds sold .....                  | \$ 9                   | \$ 9            | \$ 18           | \$ 10           | \$ (2)          | \$ 8            |
| Investment securities:                        |                        |                 |                 |                 |                 |                 |
| Taxable .....                                 | 390                    | (1,507)         | (1,117)         | (11,445)        | (2,739)         | (14,184)        |
| Tax-exempt - FTE .....                        | (2,825)                | 8               | (2,817)         | (2,106)         | (3,664)         | (5,770)         |
| Loans and leases - FTE .....                  | (3,687)                | (1,167)         | (4,854)         | (5,768)         | (1,387)         | (7,155)         |
| Covered loans .....                           | 47,316                 | 1,678           | 48,994          | 17,141          | -               | 17,141          |
| Total interest income - FTE .....             | <u>41,203</u>          | <u>(979)</u>    | <u>40,224</u>   | <u>(2,168)</u>  | <u>(7,792)</u>  | <u>(9,960)</u>  |
| Interest expense:                             |                        |                 |                 |                 |                 |                 |
| Savings and interest bearing transaction .... | 2,192                  | (2,630)         | (438)           | 2,273           | (666)           | 1,607           |
| Time deposits of \$100,000 or more .....      | (356)                  | (1,441)         | (1,797)         | (2,710)         | (4,965)         | (7,675)         |
| Other time deposits .....                     | 1,663                  | (1,789)         | (126)           | (265)           | (4,100)         | (4,365)         |
| Repurchase agreements with customers .....    | (45)                   | (161)           | (206)           | (18)            | (194)           | (212)           |
| Other borrowings .....                        | (790)                  | (521)           | (1,311)         | (2,537)         | 308             | (2,229)         |
| Subordinated debentures .....                 | -                      | (24)            | (24)            | -               | (374)           | (374)           |
| Total interest expense .....                  | <u>2,664</u>           | <u>(6,566)</u>  | <u>(3,902)</u>  | <u>(3,257)</u>  | <u>(9,991)</u>  | <u>(13,248)</u> |
| Increase in net interest income - FTE .....   | <u>\$38,539</u>        | <u>\$ 5,587</u> | <u>\$44,126</u> | <u>\$ 1,089</u> | <u>\$ 2,199</u> | <u>\$ 3,288</u> |

### Non-Interest Income

The Company's non-interest income consists primarily of service charges on deposit accounts, mortgage lending income, trust income, BOLI income, accretion of FDIC loss share receivable, net of amortization of FDIC clawback payable, other loss share income, gains on investment securities, gains (losses) on sales of other assets and gains on FDIC-assisted acquisitions.

#### *2011 compared to 2010*

Non-interest income for 2011 increased 66.5% to \$117.1 million compared to \$70.3 million in 2010. The increase in non-interest income for 2011 compared to 2010 is due primarily to \$65.7 million of bargain purchase gains recorded on three FDIC-assisted acquisitions during 2011 compared to \$35.0 million of bargain purchase gains recorded on four FDIC-assisted acquisitions in 2010.

Service charges on deposit accounts increased 19.4% to \$18.1 million in 2011 compared to \$15.2 million in 2010. This increase was due to a number of factors including growth in the number of transaction accounts, including the addition of deposit customers from the Company's seven FDIC-assisted acquisitions during the last two years, increased customer utilization of fee-based services and increases in certain fees. The Company's non-CD account deposits increased from 62.9% of total deposits at December 31, 2010 to 68.8% of total deposits at December 31, 2011.

Mortgage lending income decreased 15.2% to \$3.3 million in 2011 compared to \$3.9 million in 2010. This decrease was due primarily to decreased volume. Originations of mortgage loans for sale, including both originations for home purchases and refinancings of existing mortgages, decreased 18.0% to \$154.2 million in 2011 compared to \$188.1 million in 2010. Mortgage originations for home purchases were 44% of 2011 origination volume compared to 38% in 2010. Refinancing of existing mortgages accounted for 56% of the Company's 2011 origination volume compared to 62% in 2010.

Trust income decreased 5.9% to \$3.2 million in 2011 compared to \$3.4 million in 2010. This decrease was primarily due to a decline in corporate trust income earned for services provided in connection with new municipal bond issues, partially offset by increases in employee benefit and personal trust business.

BOLI income increased 7.3% to \$2.3 million in 2011 compared to \$2.2 million in 2010 primarily due to \$10.2 million of additional BOLI purchased during May 2010.

Net gains on investment securities were \$0.9 million in 2011 compared to \$4.5 million in 2010. The Company sold approximately \$94 million of its investment securities in 2011 and approximately \$251 million of its investment securities in 2010.

Net gains on sales of other assets were \$3.7 million in 2011 compared to \$0.8 million in 2010. The increases in net gains on sales of other assets was primarily due to net gains on sales of foreclosed assets covered by FDIC loss share agreements, or covered foreclosed assets. Because the estimated fair value of acquired covered foreclosed assets includes a net present value component, which is not accreted into income over the expected holding period of the covered foreclosed assets, the sale of covered foreclosed assets has typically resulted in gains on such sales.

The Company recognized \$10.1 million of income from the accretion of the FDIC loss share receivable, net of amortization of the FDIC clawback payable, during 2011 compared to \$2.4 million during 2010. The FDIC loss share receivable reflects the indemnification provided by the FDIC in FDIC-assisted acquisitions. The FDIC clawback payable represents the obligation of the Company to reimburse the FDIC should actual losses be less than certain thresholds established in each loss share agreement. The FDIC loss share receivable and the FDIC clawback payable are both carried at net present value. The accretion of the FDIC loss share receivable, net of amortization of the FDIC clawback payable, increased in 2011 compared to 2010 primarily due to the Company having entered into seven FDIC-assisted acquisitions as of December 31, 2011 compared to four FDIC-assisted acquisitions as of December 31, 2010, resulting in the significant increase in the FDIC loss share receivable.

As the Company collects payments in future periods from the FDIC under the loss share agreements, the balance of the FDIC loss share receivable, absent any significant revisions of the amounts expected to be collected under the loss share agreements, will decline, resulting in a corresponding decrease in the accretion of the FDIC loss share receivable. Because any amounts due under the FDIC clawback payable are due at the conclusion of the loss share agreements, absent any significant revision of the amounts expected to be paid to the FDIC under the clawback provisions of the loss share agreements, the amortization of this liability is not expected to change significantly over the next several years. Further analysis of the FDIC loss share receivable and the FDIC clawback payable is presented on pages 27, 28 and 30 of this Management's Discussion and Analysis.

Other loss share income, net, was \$6.4 million in 2011 compared to \$0.6 million in 2010. Other loss share income, net, consists primarily of (i) income recognized on covered loan prepayments and payoffs that are not considered yield adjustments and (ii) the net effect of recast adjustments on assets acquired and liabilities assumed prior to the one-year anniversary of each of the Company's FDIC-assisted acquisitions.

During 2011, the Company made three FDIC-assisted acquisitions which resulted in bargain purchase gains totaling \$65.7 million. Specifically, on January 14, 2011 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former Oglethorpe Bank ("Oglethorpe"). This FDIC-assisted acquisition resulted in the Company recognizing a pre-tax bargain purchase gain of \$3.0 million in the first quarter of 2011. On April 29, 2011 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former First Choice Community Bank ("First Choice"). This FDIC-assisted acquisition resulted in the Company recognizing a pre-tax bargain purchase gain of \$2.9 million in the second quarter of 2011. On April 29, 2011 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former The Park Avenue Bank ("Park Avenue"). This FDIC-assisted acquisition resulted in the Company recognizing a pre-tax bargain purchase gain of \$59.8 million in the second quarter of 2011.

Management has up to 12 months following the date of the acquisition to finalize the fair values of acquired assets and assumed liabilities. Once management has finalized the fair values of acquired assets and assumed liabilities within this 12-month period, management considers such values to be the day 1 fair values ("Day 1 Fair Values"). An analysis of the assets acquired and liabilities assumed and a detailed



discussion of the Day 1 Fair Values adjustments, as well as the key factors and methodologies utilized to determine the estimated Day 1 Fair Values of assets acquired and liabilities assumed and the resulting bargain purchase gain for each of the Company's FDIC-assisted acquisitions is included in footnotes 2 and 3 to the Notes to the Consolidated Financial Statements.

#### *2010 compared to 2009*

Non-interest income for 2010 increased 37.7% to \$70.3 million compared to \$51.1 million in 2009. The increase in non-interest income for 2010 compared to 2009 is due primarily to \$35.0 million of bargain purchase gains recorded on four FDIC-assisted transactions during 2010, partially offset by a \$22.4 million reduction in gains on investments securities.

Service charges on deposit accounts increased 22.0% to \$15.2 million in 2010 compared to \$12.4 million in 2009. This increase was due to a number of factors including growth in the number of transaction accounts, including the addition of deposit customers from the Company's four FDIC-assisted acquisitions during 2010, and increased customer utilization of fee-based services. The Company's non-CD account deposits grew \$446 million during 2010 and increased from 56.8% of total deposits at December 31, 2009 to 62.9% of total deposits at December 31, 2010.

Mortgage lending income increased 16.6% to \$3.9 million in 2010 compared to \$3.3 million in 2009. This increase was due to improved profit margins and, to a lesser extent, increased volume. Originations of mortgage loans for sale, including both originations for home purchases and refinancings of existing mortgages, increased 2.4% to \$188.1 million in 2010 compared to \$185.1 million in 2009. Mortgage originations for home purchases were 38% of 2010 origination volume compared to 39% in 2009. Refinancing of existing mortgages accounted for 62% of the Company's 2010 origination volume compared to 61% in 2009.

Trust income increased 10.7% to \$3.4 million in 2010 compared to \$3.1 million in 2009. This increase was primarily the result of continued growth in personal trust business during 2010.

BOLI income decreased 32.5% to \$2.2 million in 2010 compared to \$3.2 million in 2009. BOLI income was comprised of (i) increases in cash surrender value of \$2.2 million in 2010 compared to \$1.9 million in 2009 and (ii) no income from BOLI death benefits in 2010 compared to \$1.3 million in 2009.

Net gains on investment securities were \$4.5 million in 2010 compared to net gains of \$27.0 million in 2009. The Company sold approximately \$251 million of its investment securities in 2010 and approximately \$501 million of its investment securities in 2009.

Net gains on sales of other assets were \$0.8 million in 2010 compared to net losses of \$0.2 million in 2009.

During 2010, the Company made four FDIC-assisted acquisitions which resulted in bargain purchase gains totaling \$35.0 million. Specifically, on March 26, 2010 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former Unity National Bank ("Unity"). This FDIC-assisted acquisition resulted in the Company recognizing a pre-tax bargain purchase gain of \$10.0 million in the first quarter of 2010. On July 16, 2010 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former Woodlands Bank ("Woodlands"). This FDIC-assisted acquisition resulted in the Company recognizing a pre-tax bargain purchase gain of \$14.3 million in the third quarter of 2010. On September 10, 2010 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former Horizon Bank ("Horizon"). This FDIC-assisted acquisition resulted in the Company recognizing a pre-tax bargain purchase gain of \$1.8 million in the third quarter of 2010. On December 17, 2010 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former Chestatee State Bank ("Chestatee"). This FDIC-assisted acquisition resulted in the Company recognizing a pre-tax bargain purchase gain of \$8.9 million in the fourth quarter of 2010.

Non-interest income from all other sources was \$5.4 million in 2010 compared to \$2.2 million in 2009. The increase in non-interest income from other sources was due primarily to the accretion of the FDIC loss share receivable, net of the amortization of the FDIC clawback payable, of \$2.4 million during 2010.

The following table presents non-interest income for the years ended December 31, 2011, 2010 and 2009.

|  | <b>Non-Interest Income</b>     |                 |                 |
|--|--------------------------------|-----------------|-----------------|
|  | <b>Year Ended December 31,</b> |                 |                 |
|  | <b>2011</b>                    | <b>2010</b>     | <b>2009</b>     |
|  | (Dollars in thousands)         |                 |                 |
| Service charges on deposit accounts .....  | \$ 18,094                      | \$15,156        | \$12,421        |
| Mortgage lending income .....  | 3,277                          | 3,863           | 3,312           |
| Trust income .....   | 3,206                          | 3,406           | 3,078           |
| Bank owned life insurance income .....   | 2,307                          | 2,151           | 3,186           |
| Accretion of FDIC loss share receivable,<br>net of amortization of FDIC clawback payable ..... | 10,141                         | 2,429           | -               |
| Other loss share income, net .....   | 6,432                          | 599             | -               |
| Gains on investment securities .....   | 933                            | 4,544           | 26,982          |
| Gains (losses) on sales of other assets .....  | 3,738                          | 802             | (177)           |
| Gains on FDIC-assisted acquisitions .....  | 65,708                         | 35,019          | -               |
| Other .....  | 3,247                          | 2,353           | 2,249           |
| Total non-interest income .....  | <u>\$117,083</u>               | <u>\$70,322</u> | <u>\$51,051</u> |

### Non-Interest Expense

Non-interest expense consists of salaries and employee benefits, net occupancy and equipment expense and other operating expenses.

#### *2011 compared to 2010*

Non-interest expense for 2011 increased 40.2% to \$122.5 million compared to \$87.4 million in 2010. The Company's efficiency ratio (non-interest expense divided by the sum of FTE net interest income and non-interest income) for 2011 was 41.6% compared to 42.9% in 2010.

Salaries and employee benefits, the Company's largest component of non-interest expense, increased 40.1% to \$56.3 million in 2011 from \$40.2 million in 2010. The Company had 1,084 full-time equivalent employees at December 31, 2011, an increase of 23.0% from 881 full-time equivalent employees at December 31, 2010. This increase in full-time equivalent employees was due primarily to the Company's three FDIC-assisted acquisitions during 2011.

Net occupancy and equipment expense for 2011 increased 38.5% to \$14.7 million compared to \$10.6 million in 2010. At December 31, 2011, the Company had 111 offices, including 66 in Arkansas, 27 in Georgia, ten in Texas, four in Florida, two in North Carolina, and one each in South Carolina and Alabama. At December 31, 2010, the Company had 90 offices, including 66 in Arkansas, ten in Georgia, seven in Texas, three in Florida, two in North Carolina, and one each in South Carolina and Alabama.

Other operating expenses for 2011 increased 40.7% to \$51.6 million compared to \$36.6 million in 2010, primarily as a result of the items described in the following paragraph.

The increase in non-interest operating expense in 2011 was primarily attributable to (i) \$6.3 million of expenses related to FDIC-assisted acquisitions and costs incurred for completing and preparing for various systems conversions related to acquisitions compared to \$3.8 million of such costs in 2010, (ii) \$7.9 million of loan collection and repossession expenses in 2011 compared to \$4.0 million in 2010, (iii) \$3.5 million of expenses for travel and meals in 2011 compared to \$1.7 million in 2010, (iv) increased operating expenses associated with having more offices in 2011 compared to 2010 and (v) a \$1.25 million impairment charge on the Company's only equity investment in a real estate development project during the second quarter of 2011. There was no impairment charge related to this investment in 2010.

#### *2010 compared to 2009*

Non-interest expense for 2010 increased 27.4% to \$87.4 million compared to \$68.6 million in 2009. The Company's efficiency ratio for 2010 was 42.9% compared to 37.8% in 2009. The increase in the efficiency ratio in 2010 resulted from the Company's total revenue (the sum of FTE net interest income and non-interest income) increasing at a slower rate than its non-interest expense.

Salaries and employee benefits, the Company's largest component of non-interest expense, increased 26.1% to \$40.2 million in 2010 from \$31.8 million in 2009. The Company had 881 full-time equivalent



employees at December 31, 2010, an increase of 22.0% from 722 full-time equivalent employees at December 31, 2009. This increase in full-time equivalent employees was due primarily to the Company's four FDIC-assisted acquisitions during 2010.

Net occupancy and equipment expense for 2010 increased 9.0% to \$10.6 million compared to \$9.7 million in 2009. During 2010 the Company added five new northwest Georgia banking offices from its Unity acquisition, four new banking offices (one office each in North Carolina, South Carolina, Georgia and Alabama) from its Woodlands acquisition, three new banking offices in Florida from its Horizon acquisition, and four new north central Georgia banking offices from its Chestatee acquisition. The Company also opened a new *de novo* banking office in Benton, Arkansas during 2010. At December 31, 2010, the Company had 90 offices, including 66 in Arkansas, ten in Georgia, seven in Texas, three in Florida, two in North Carolina, and one each in South Carolina and Alabama. At December 31, 2009, the Company had 73 offices, including 65 in Arkansas, seven in Texas and one in North Carolina.

Other operating expenses for 2010 increased 35.5% to \$36.6 million compared to \$27.0 million in 2009. The increase in non-interest operating expense in 2010 was primarily attributable to (i) \$9.0 million of writedowns of foreclosed assets during 2010 compared to \$4.0 million of such writedowns during 2009, (ii) \$3.8 million of expenses related to FDIC-assisted acquisitions in 2010 and costs incurred for completing and preparing for various systems conversions related to those acquisitions, (iii) costs of ongoing due diligence efforts and (iv) \$1.0 million of general cash bonuses paid in 2010.

The following table presents non-interest expense for the years ended December 31, 2011, 2010 and 2009.

|  | <b>Non-Interest Expense</b>    |                 |                 |
|--|--------------------------------|-----------------|-----------------|
|  | <b>Year Ended December 31,</b> |                 |                 |
|  | <u>2011</u>                    | <u>2010</u>     | <u>2009</u>     |
|  | (Dollars in thousands)         |                 |                 |
| Salaries and employee benefits .....           | \$ 56,262                      | \$40,161        | \$31,847        |
| Net occupancy and equipment expense .....      | 14,705                         | 10,618          | 9,740           |
| Other operating expenses:                      |                                |                 |                 |
| Postage and supplies .....                     | 3,091                          | 1,981           | 1,530           |
| Telephone and data lines .....                 | 3,049                          | 2,110           | 1,806           |
| Advertising and public relations .....         | 3,571                          | 2,076           | 1,083           |
| Professional and outside services .....        | 4,822                          | 3,024           | 1,793           |
| Software expense .....                         | 3,082                          | 2,657           | 1,524           |
| Travel and meals .....                         | 3,488                          | 1,726           | 666             |
| FDIC and state assessments .....               | 719                            | 678             | 673             |
| FDIC insurance .....                           | 2,155                          | 3,238           | 4,291           |
| ATM expense .....                              | 1,022                          | 881             | 745             |
| Loan collection and repossession expense ..... | 7,873                          | 4,001           | 3,999           |
| Writedowns of foreclosed assets .....          | 9,525                          | 8,960           | 4,009           |
| Amortization of intangibles .....              | 1,677                          | 431             | 110             |
| Other .....                                    | 7,490                          | 4,877           | 4,816           |
| Total non-interest expense .....               | <u>\$122,531</u>               | <u>\$87,419</u> | <u>\$68,632</u> |

### Income Taxes

The Company's provision for income taxes was \$50.2 million in 2011 compared to \$26.6 million in 2010 and \$12.9 million in 2009. Its effective income tax rates were 33.14%, 29.40% and 22.99%, respectively, for 2011, 2010 and 2009. The effective tax rate increased 374 bps in 2011 compared to 2010, and increased 641 bps in 2010 compared to 2009. The increase in the Company's effective tax rate for 2011 and 2010 compared to the previous years was due primarily to the increase in taxable income and the decrease, both in volume and as a percentage of total income, of income exempt from federal and/or state income taxes. The effective tax rates for all periods were also affected by various other factors including other non-taxable income and non-deductible expenses.

## Analysis of Financial Condition

### Loan and Lease Portfolio

At December 31, 2011, the Company's loan and lease portfolio, excluding loans covered by FDIC loss share agreements, was \$1.89 billion, an increase of 1.6% from \$1.86 billion at December 31, 2010.

As of December 31, 2011, the Company's loan and lease portfolio, excluding loans covered by FDIC loss share agreements, consisted of 88.1% real estate loans, 6.4% commercial and industrial loans, 2.1% consumer loans, 2.9% direct financing leases and 0.3% agricultural loans (non-real estate). Real estate loans, the Company's largest category of loans, include all loans made to finance the development of real property construction projects, provided such loans are secured by real estate, and all other loans secured by real estate as evidenced by mortgages or other liens.

The amount and type of loans and leases outstanding, excluding loans covered by FDIC loss share agreements, are reflected in the following table.

|                                      | <b>Loan and Lease Portfolio</b> |                    |                    |                    |                    |
|--------------------------------------|---------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                      | <b>December 31,</b>             |                    |                    |                    |                    |
|                                      | <u>2011</u>                     | <u>2010</u>        | <u>2009</u>        | <u>2008</u>        | <u>2007</u>        |
|                                      | (Dollars in thousands)          |                    |                    |                    |                    |
| Real estate:                         |                                 |                    |                    |                    |                    |
| Residential 1-4 family .....         | \$ 260,473                      | \$ 266,014         | \$ 282,733         | \$ 275,281         | \$ 279,375         |
| Non-farm/non-residential .....       | 708,766                         | 678,465            | 606,880            | 551,821            | 445,303            |
| Construction/land development.....   | 478,106                         | 496,737            | 600,342            | 694,527            | 684,775            |
| Agricultural .....                   | 71,158                          | 81,736             | 86,237             | 84,432             | 91,810             |
| Multifamily residential .....        | 142,131                         | 103,875            | 55,860             | 61,668             | 31,414             |
| Total real estate .....              | <u>1,660,634</u>                | <u>1,626,827</u>   | <u>1,632,052</u>   | <u>1,667,729</u>   | <u>1,532,677</u>   |
| Commercial and industrial .....      | 120,679                         | 120,038            | 150,208            | 206,058            | 173,128            |
| Consumer .....                       | 40,162                          | 54,401             | 63,561             | 75,015             | 87,867             |
| Direct financing leases .....        | 54,745                          | 42,754             | 40,353             | 50,250             | 53,446             |
| Agricultural (non-real estate) ..... | 6,322                           | 9,962              | 15,509             | 19,460             | 22,439             |
| Other .....                          | 2,740                           | 2,447              | 2,421              | 2,687              | 1,578              |
| Total loans and leases .....         | <u>\$1,885,282</u>              | <u>\$1,856,429</u> | <u>\$1,904,104</u> | <u>\$2,021,199</u> | <u>\$1,871,135</u> |

Included in the Company's loan and lease portfolio are certain loans acquired in FDIC-assisted acquisitions, primarily consumer loans, that are not covered by loss share. The amount of unpaid principal balance, the valuation discount and the carrying value of these non-covered acquired loans at December 31, 2011 and 2010 are reflected in the following table.

### Non-Covered Loans Acquired in FDIC-Assisted Acquisitions

|                                | <b>December 31,</b>    |                |
|--------------------------------|------------------------|----------------|
|                                | <u>2011</u>            | <u>2010</u>    |
|                                | (Dollars in thousands) |                |
| Unpaid principal balance ..... | \$9,515                | \$7,689        |
| Valuation discount .....       | (4,716)                | (2,373)        |
| Carrying value .....           | <u>\$4,799</u>         | <u>\$5,316</u> |

The amount and percentage of the Company's loan and lease portfolio, excluding loans covered by FDIC loss share agreements, by state of originating office are reflected in the following table.

### Loan and Lease Portfolio by State of Originating Office

| <b>Loans and Leases<br/>Attributable to Offices In</b> | <b>December 31,</b>    |               |                    |               |                    |               |
|--|------------------------|---------------|--------------------|---------------|--------------------|---------------|
|  | <b>2011</b>            |               | <b>2010</b>        |               | <b>2009</b>        |               |
|  | <u>Amount</u>          | <u>%</u>      | <u>Amount</u>      | <u>%</u>      | <u>Amount</u>      | <u>%</u>      |
|  | (Dollars in thousands) |               |                    |               |                    |               |
| Arkansas .....   | \$1,018,885            | 54.0%         | \$1,064,558        | 57.3%         | \$1,148,053        | 60.3%         |
| Texas .....  | 788,570                | 41.8          | 685,317            | 36.9          | 643,575            | 33.8          |
| North Carolina .....                                   | 65,908                 | 3.5           | 101,165            | 5.5           | 112,476            | 5.9           |
| Georgia .....  | 10,492                 | 0.6           | 3,944              | 0.2           | -                  | -             |
| Florida .....  | 808                    | 0.1           | 890                | 0.1           | -                  | -             |
| Alabama .....  | 590                    | -             | 513                | -             | -                  | -             |
| South Carolina .....                                   | 29                     | -             | 42                 | -             | -                  | -             |
| Total .....  | <u>\$1,885,282</u>     | <u>100.0%</u> | <u>\$1,856,429</u> | <u>100.0%</u> | <u>\$1,904,104</u> | <u>100.0%</u> |



The amount and type of the Company's real estate loans, excluding loans covered by FDIC loss share agreements, at December 31, 2011 based on the metropolitan statistical area ("MSA") and other geographic areas in which the principal collateral is located are reflected in the following table. Data for individual states or MSAs is separately presented when aggregate real estate loans in that state or MSA exceed \$10 million.

### Geographic Distribution of Real Estate Loans

|  | Residential<br>1-4<br>Family | Non-Farm/<br>Non-<br>Residential | Construction/<br>Land<br>Development | Agricultural    | Multifamily<br>Residential | Total              |
|--|------------------------------|----------------------------------|--------------------------------------|-----------------|----------------------------|--------------------|
| (Dollars in thousands)   |                              |                                  |                                      |                 |                            |                    |
| Arkansas:  |                              |                                  |                                      |                 |                            |                    |
| Little Rock - North Little Rock -<br>Conway, AR MSA .....              | \$ 93,950                    | \$213,259                        | \$ 79,366                            | \$10,668        | \$ 4,514                   | \$ 401,757         |
| Fort Smith, AR - OK MSA .....  | 32,990                       | 36,545                           | 6,297                                | 4,177           | 2,795                      | 82,804             |
| Fayetteville - Springdale -<br>Rogers, AR - MO MSA .....               | 9,269                        | 12,501                           | 17,612                               | 6,075           | 1,673                      | 47,130             |
| Hot Springs, AR MSA .....  | 8,525                        | 8,818                            | 7,102                                | -               | 1,471                      | 25,916             |
| Western Arkansas <sup>(1)</sup> .....                                  | 25,019                       | 34,850                           | 5,004                                | 8,477           | 1,526                      | 74,876             |
| Northern Arkansas <sup>(2)</sup> .....                                 | 60,385                       | 26,796                           | 10,660                               | 28,060          | 608                        | 126,509            |
| All other Arkansas <sup>(3)</sup> .....                                | 7,261                        | 11,316                           | 3,295                                | 2,446           | 82                         | 24,400             |
| Total Arkansas .....   | <u>237,399</u>               | <u>344,085</u>                   | <u>129,336</u>                       | <u>59,903</u>   | <u>12,669</u>              | <u>783,392</u>     |
| Texas:   |                              |                                  |                                      |                 |                            |                    |
| Dallas - Fort Worth -<br>Arlington, TX MSA .....                       | 6,603                        | 137,707                          | 166,015                              | 55              | 60,341                     | 370,721            |
| Houston - Sugar Land -<br>Baytown, TX MSA .....                        | -                            | 64,562                           | 29,805                               | -               | 13,226                     | 107,593            |
| San Antonio - New Braunfels,<br>TX MSA .....                           | -                            | -                                | 24,161                               | -               | -                          | 24,161             |
| Austin - Round Rock -<br>San Marcos, TX MSA .....                      | -                            | -                                | 1,856                                | -               | 17,973                     | 19,829             |
| Texarkana, TX -<br>Texarkana, AR MSA .....                             | 10,393                       | 9,585                            | 3,952                                | 247             | 1,152                      | 25,329             |
| Beaumont - Port Arthur, TX MSA ....                                    | -                            | -                                | -                                    | -               | 17,449                     | 17,449             |
| All other Texas <sup>(3)</sup> .....                                   | 1,056                        | 13,805                           | 1,832                                | -               | 3,491                      | 20,184             |
| Total Texas .....  | <u>18,052</u>                | <u>225,659</u>                   | <u>227,621</u>                       | <u>302</u>      | <u>113,632</u>             | <u>585,266</u>     |
| North Carolina/South Carolina:   |                              |                                  |                                      |                 |                            |                    |
| Charlotte - Gastonia -<br>Concord, NC - SC MSA .....                   | 703                          | 28,625                           | 11,948                               | -               | 5,125                      | 46,401             |
| All other North Carolina <sup>(3)</sup> .....                          | -                            | 29,504                           | 29,696                               | -               | -                          | 59,200             |
| All other South Carolina <sup>(3)</sup> .....                          | 992                          | 12,443                           | 5,311                                | -               | 6,543                      | 25,289             |
| Total North Carolina/<br>South Carolina .....                          | <u>1,695</u>                 | <u>70,572</u>                    | <u>46,955</u>                        | <u>-</u>        | <u>11,668</u>              | <u>130,890</u>     |
| California .....   | -                            | 2,498                            | 28,637                               | -               | -                          | 31,135             |
| Washington - Arlington -<br>Alexandria, DC - VA - MD -<br>WV MSA ..... | -                            | -                                | 19,240                               | -               | -                          | 19,240             |
| Oklahoma <sup>(4)</sup> .....  | 812                          | 13,032                           | 1,781                                | -               | -                          | 15,625             |
| Mississippi .....  | -                            | 14,385                           | -                                    | -               | -                          | 14,385             |
| Louisiana .....  | -                            | 907                              | 422                                  | 10,265          | -                          | 11,594             |
| All other states <sup>(3)(5)</sup> .....                               | 2,515                        | 37,628                           | 24,114                               | 688             | 4,162                      | 69,107             |
| Total real estate loans .....  | <u>\$260,473</u>             | <u>\$708,766</u>                 | <u>\$478,106</u>                     | <u>\$71,158</u> | <u>\$142,131</u>           | <u>\$1,660,634</u> |

(1) This geographic area includes the following counties in Western Arkansas: Johnson, Logan, Pope and Yell counties.

(2) This geographic area includes the following counties in Northern Arkansas: Baxter, Boone, Marion, Newton, Searcy and Van Buren counties.

(3) These geographic areas include all MSA and non-MSA areas that are not separately reported.

(4) This geographic area includes all real estate loans in Oklahoma except loans in Le Flore and Sequoyah counties which are included in the Fort Smith, AR - OK MSA above.

(5) Includes all states not separately presented above.

The amount and type of non-farm/non-residential loans, excluding loans covered by FDIC loss share agreements, at December 31, 2011 and 2010, and their respective percentage of the total non-farm/non-residential loan portfolio are reflected in the following table.

#### Non-Farm/Non-Residential Loans

|  | December 31,           |               |                  |               |
|--|------------------------|---------------|------------------|---------------|
|  | 2011                   |               | 2010             |               |
|  | <u>Amount</u>          | <u>%</u>      | <u>Amount</u>    | <u>%</u>      |
|  | (Dollars in thousands) |               |                  |               |
| Retail, including shopping centers<br>and strip centers .....    | \$274,777              | 38.8%         | \$225,701        | 33.3%         |
| Churches and schools .....                                       | 40,929                 | 5.8           | 56,670           | 8.3           |
| Office, including medical offices .....                          | 101,724                | 14.3          | 90,924           | 13.4          |
| Office warehouse, warehouse and mini-storage .....               | 60,173                 | 8.5           | 64,137           | 9.5           |
| Gasoline stations and convenience stores .....                   | 9,627                  | 1.4           | 14,452           | 2.1           |
| Hotels and motels .....  | 67,598                 | 9.5           | 45,078           | 6.6           |
| Restaurants and bars .....                                       | 33,452                 | 4.7           | 39,069           | 5.8           |
| Manufacturing and industrial facilities .....                    | 9,362                  | 1.3           | 10,215           | 1.5           |
| Nursing homes and assisted living centers .....                  | 28,733                 | 4.0           | 29,711           | 4.4           |
| Hospitals, surgery centers and other medical .....               | 48,129                 | 6.8           | 63,157           | 9.3           |
| Golf courses, entertainment and<br>recreational facilities ..... | 12,542                 | 1.8           | 13,457           | 2.0           |
| Other non-farm/non-residential .....                             | 21,720                 | 3.1           | 25,894           | 3.8           |
| Total .....  | <u>\$708,766</u>       | <u>100.0%</u> | <u>\$678,465</u> | <u>100.0%</u> |

The amount and type of construction/land development loans, excluding loans covered by FDIC loss share agreements, at December 31, 2011 and 2010, and their respective percentage of the total construction/land development loan portfolio are reflected in the following table.

#### Construction/Land Development Loans

|  | December 31,           |               |                  |               |
|--|------------------------|---------------|------------------|---------------|
|  | 2011                   |               | 2010             |               |
|  | <u>Amount</u>          | <u>%</u>      | <u>Amount</u>    | <u>%</u>      |
|  | (Dollars in thousands) |               |                  |               |
| Unimproved land .....                        | \$ 92,288              | 19.3%         | \$ 99,084        | 20.0%         |
| Land development and lots:                   |                        |               |                  |               |
| 1-4 family residential and multifamily ..... | 144,550                | 30.2          | 168,080          | 33.8          |
| Non-residential .....                        | 90,797                 | 19.0          | 74,745           | 15.1          |
| Construction:                                |                        |               |                  |               |
| 1-4 family residential:                      |                        |               |                  |               |
| Owner occupied .....                         | 10,751                 | 2.2           | 13,505           | 2.7           |
| Non-owner occupied:                          |                        |               |                  |               |
| Pre-sold .....                               | 3,777                  | 0.8           | 4,153            | 0.8           |
| Speculative .....                            | 34,523                 | 7.2           | 43,899           | 8.8           |
| Multifamily .....                            | 15,605                 | 3.3           | 60,536           | 12.2          |
| Industrial, commercial and other .....       | 85,815                 | 18.0          | 32,735           | 6.6           |
| Total .....                                  | <u>\$478,106</u>       | <u>100.0%</u> | <u>\$496,737</u> | <u>100.0%</u> |



The establishment of interest reserves for construction and development loans is established banking practice, and many of the Company's construction and development loans provide for the use of interest reserves. When the Company underwrites construction and development loans, it considers the expected total project costs, including hard costs such as land, site work and construction costs and soft costs such as architectural and engineering fees, closing costs, leasing commissions and construction period interest. Based on the total project costs and other factors, the Company determines the required borrower cash equity contribution and the maximum amount the Company is willing to loan. In the vast majority of cases, the Company requires that all of the borrower's cash equity contribution be contributed prior to any significant loan advances. This ensures that the borrower's cash equity required to complete the project will in fact be available for such purposes. As a result of this practice, the borrower's cash equity typically goes toward the purchase of the land and early stage hard costs and soft costs. This results in the Company funding the loan later as the project progresses, and accordingly, the Company typically funds the majority of the construction period interest through loan advances. However, when the Company initially determines the borrower's cash equity requirement, the Company typically requires the borrower's cash equity to cover a majority, or all, of the soft costs, including an amount equal to construction period interest, and an appropriate portion of the hard costs. During 2011, the Company advanced construction period interest totaling approximately \$3.2 million on construction and development loans. While the Company advanced these sums as part of the funding process, the Company believes that the borrowers in effect had in most cases already provided for these sums as part of their initial equity contribution. Specifically, the maximum committed balance of all construction and development loans which provide for the use of interest reserves at December 31, 2011 was \$510 million, of which \$325 million was outstanding at December 31, 2011 and \$185 million remained to be advanced. The weighted average loan to cost on such loans, assuming such loans are ultimately fully advanced, will be approximately 59%, which means that the weighted average cash equity contributed on such loans, assuming such loans are ultimately fully advanced, will be approximately 41%. The weighted average final loan to value ratio on such loans, based on the most recent appraisals and assuming such loans are ultimately fully advanced, is expected to be approximately 56%.

### Loan and Lease Maturities

The following table reflects loans and leases, excluding loans covered by FDIC loss share agreements, grouped by remaining maturities at December 31, 2011 by type and by fixed or floating interest rates. This table is based on actual maturities and does not reflect amortizations, projected paydowns or the earliest repricing for floating rate loans. Many loans have principal paydowns scheduled in periods prior to the period in which they mature. In addition many variable rate loans are subject to repricing in periods prior to the period in which they mature.

#### Loan and Lease Maturities

|  | 1 Year<br>or Less      | Over 1<br>Through<br>5 Years | Over<br>5 Years  | Total              |
|--|------------------------|------------------------------|------------------|--------------------|
|  | (Dollars in thousands) |                              |                  |                    |
| Real estate .....                                    | \$534,944              | \$1,003,291                  | \$122,399        | \$1,660,634        |
| Commercial and industrial .....                      | 75,081                 | 44,154                       | 1,444            | 120,679            |
| Consumer .....                                       | 11,607                 | 27,276                       | 1,279            | 40,162             |
| Direct financing leases .....                        | 2,940                  | 51,805                       | -                | 54,745             |
| Other .....  | 4,915                  | 4,118                        | 29               | 9,062              |
| Total .....  | <u>\$629,487</u>       | <u>\$1,130,644</u>           | <u>\$125,151</u> | <u>\$1,885,282</u> |
| Fixed rate .....                                     | \$224,745              | \$ 498,470                   | \$ 90,328        | \$ 813,543         |
| Floating rate (not at a floor or ceiling rate) ..... | 6,673                  | 3,176                        | 4,924            | 14,773             |
| Floating rate (at floor rate) .....                  | 398,069                | 628,998                      | 29,899           | 1,056,966          |
| Floating rate (at ceiling rate) .....                | -                      | -                            | -                | -                  |
| Total .....  | <u>\$629,487</u>       | <u>\$1,130,644</u>           | <u>\$125,151</u> | <u>\$1,885,282</u> |

The following table reflects loans and leases, excluding loans covered by FDIC loss share agreements, as of December 31, 2011 grouped by expected amortizations, expected paydowns or the earliest repricing opportunity for floating rate loans. This cash flow or repricing schedule approximates the Company's ability to reprice the outstanding principal of loans and leases either by adjusting rates on existing loans and leases or reinvesting principal cash flow in new loans and leases.

**Loan and Lease Cash Flows or Repricing**

|   | <u>1 Year<br/>or Less</u> | <u>Over 1<br/>Through<br/>2 Years</u> | <u>Over 2<br/>Through<br/>3 Years</u> | <u>Over 3<br/>Through<br/>5 Years</u> | <u>Over<br/>5 Years</u> | <u>Total</u>       |
|---|---------------------------|---------------------------------------|---------------------------------------|---------------------------------------|-------------------------|--------------------|
|   | (Dollars in thousands)    |                                       |                                       |                                       |                         |                    |
| Fixed rate .....  | \$ 283,162                | \$202,242                             | \$142,091                             | \$119,778                             | \$66,270                | \$ 813,543         |
| Floating rate (not at a floor<br>or ceiling rate) ..... | 13,178                    | 322                                   | 1,044                                 | 229                                   | -                       | 14,773             |
| Floating rate (at floor rate) <sup>(1)</sup> .....      | 1,055,523                 | 555                                   | 888                                   | -                                     | -                       | 1,056,966          |
| Floating rate (at ceiling rate) .....                   | -                         | -                                     | -                                     | -                                     | -                       | -                  |
| Total .....   | <u>\$1,351,863</u>        | <u>\$203,119</u>                      | <u>\$144,023</u>                      | <u>\$120,007</u>                      | <u>\$66,270</u>         | <u>\$1,885,282</u> |
| Percentage of total .....                               | 71.7%                     | 10.8%                                 | 7.6%                                  | 6.4%                                  | 3.5%                    | 100.0%             |
| Cumulative percentage of total ...                      | 71.7                      | 82.5                                  | 90.1                                  | 96.5                                  | 100.0                   |                    |

(1) The inclusion of a floor rate in many of the Company's loans and leases has lessened the impact of falling interest rates on the Company's loan and lease yields. Conversely, many loans and leases with floor rates will not immediately reprice in a rising rate environment if the interest rate index and margin on such loans and leases continue to result in a computed interest rate less than the applicable floor rate. The earnings simulation model results included in the interest rate risk section of this Management's Discussion and Analysis include consideration of the impact of all interest rate floors and ceilings in loans and leases.

**Covered Assets, FDIC Loss Share Receivable and FDIC Clawback Payable**

On March 26, 2010, the Company, through the Bank, acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of Unity in a FDIC-assisted acquisition. Loans comprise the majority of the assets acquired and are subject to loss share agreements with the FDIC whereby the Bank is indemnified against a portion of the losses on covered loans and covered foreclosed assets.

On July 16, 2010, the Company, through the Bank, acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of Woodlands in a FDIC-assisted acquisition. Loans comprise the majority of the assets acquired and all but a small amount of consumer loans are subject to loss share agreements with the FDIC whereby the Bank is indemnified against a portion of the losses on covered loans and covered foreclosed assets.

On September 10, 2010, the Company, through the Bank, acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of Horizon in a FDIC-assisted acquisition. Loans comprise the majority of the assets acquired and all but a small amount of consumer loans are subject to loss share agreements with the FDIC whereby the Bank is indemnified against a portion of the losses on covered loans and covered foreclosed assets.

On December 17, 2010, the Company, through the Bank, acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of Chestatee in a FDIC-assisted acquisition. Loans comprise the majority of the assets acquired and all but a small amount of consumer loans are subject to loss share agreements with the FDIC whereby the Bank is indemnified against a portion of the losses on covered loans and covered foreclosed assets.

On January 14, 2011, the Company, through the Bank, acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of Oglethorpe in a FDIC-assisted acquisition. Loans comprise the majority of the assets acquired and all but a small amount of consumer loans are subject to loss share agreements with the FDIC whereby the Bank is indemnified against a portion of the losses on covered loans and covered foreclosed assets.

On April 29, 2011, the Company, through the Bank, acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of First Choice in a FDIC-assisted acquisition. Loans comprise the majority of the assets acquired and all but a small amount of consumer loans are subject to loss share agreements with the FDIC whereby the Bank is indemnified against a portion of the losses on covered loans and covered foreclosed assets.



On April 29, 2011, the Company, through the Bank, acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of Park Avenue in a FDIC-assisted acquisition. Loans comprise the majority of the assets acquired and all but a small amount of consumer loans are subject to loss share agreements with the FDIC whereby the Bank is indemnified against a portion of the losses on covered loans and covered foreclosed assets.

In conjunction with each of these acquisitions, the Bank entered into loss share agreements with the FDIC such that the Bank and the FDIC will share in the losses on assets covered under the loss share agreements. Pursuant to the terms of the loss share agreements for the Unity acquisition, on losses up to \$65 million, the FDIC will reimburse the Bank for 80% of losses. On losses exceeding \$65 million, the FDIC will reimburse the Bank for 95% of losses. Pursuant to the terms of the loss share agreements for the Woodlands, Chestatee, Oglethorpe and First Choice acquisitions, the FDIC will reimburse the Bank for 80% of losses. Pursuant to the terms of the loss share agreements for the Horizon acquisition, the FDIC will reimburse the Bank on single family residential loans and related foreclosed assets for (i) 80% of losses up to \$11.8 million, (ii) 30% of losses between \$11.8 million and \$17.9 million and (iii) 80% of losses in excess of \$17.9 million. For non-single family residential loans and related foreclosed assets, the FDIC will reimburse the Bank for (i) 80% of losses up to \$32.3 million, (ii) 0% of losses between \$32.3 million and \$42.8 million and (iii) 80% of losses in excess of \$42.8 million. Pursuant to the terms of the loss share agreements for the Park Avenue acquisition, the FDIC will reimburse the Bank for (i) 80% of losses up to \$218.2 million, (ii) 0% of losses between \$218.2 million and \$267.5 million and (iii) 80% of losses in excess of \$267.5 million.

The loss share agreements applicable to single family residential mortgage loans and related foreclosed assets provide for FDIC loss sharing and the Bank's reimbursement to the FDIC for recoveries of covered losses for ten years from the date on which each applicable loss share agreement was entered. The loss share agreements applicable to commercial loans and related foreclosed assets provide for FDIC loss sharing for five years from the date on which each applicable loss share agreement was entered and the Bank's reimbursement to the FDIC for recoveries of covered losses for an additional three years thereafter.

To the extent that actual losses incurred by the Bank are less than (i) \$65 million on the Unity assets covered under the loss share agreements, (ii) \$107 million on the Woodlands assets covered under the loss share agreements, (iii) \$60 million on the Horizon assets covered under the loss share agreements, (iv) \$66 million on the Chestatee assets covered under the loss share agreements, (v) \$66 million on the Oglethorpe assets covered under the loss share agreements, (vi) \$87 million on the First Choice assets covered under the loss share agreements and (vii) \$269 million on the Park Avenue assets covered under loss share agreements, the Bank may be required to reimburse the FDIC under the clawback provisions of the loss share agreements.

The covered loans and covered foreclosed assets and the related FDIC loss share receivable and the FDIC clawback payable are reported at the net present value of expected future amounts to be paid or received.

A summary of the covered assets, the FDIC loss share receivable and the FDIC clawback payable is as follows:

**Covered Assets, FDIC Loss Share Receivable and FDIC Clawback Payable**

|                                  | <b>December 31,</b>    |                  |
|----------------------------------|------------------------|------------------|
|                                  | <b>2011</b>            | <b>2010</b>      |
|                                  | (Dollars in thousands) |                  |
| Covered loans .....              | \$ 806,924             | \$489,468        |
| FDIC loss share receivable ..... | 278,263                | 158,137          |
| Covered foreclosed assets .....  | 72,907                 | 31,145           |
| Total .....                      | <u>\$1,158,094</u>     | <u>\$687,750</u> |
| FDIC clawback payable .....      | <u>\$ 24,606</u>       | <u>\$ 6,904</u>  |

***Covered Loans***

Purchased loans acquired in a business combination, including loans covered by FDIC loss share agreements, or covered loans, are accounted for in accordance with the provisions of generally accepted accounting principles ("GAAP") applicable to loans acquired with deteriorated credit quality and pursuant to the American Institute of Certificated Public Accountants' ("AICPA") December 18, 2009 letter in which the AICPA summarized the U.S. Securities and Exchange Commission's ("SEC") view regarding the accounting in subsequent periods for discount accretion associated with non-credit impaired loans acquired in a business combination or asset purchase. Considering, among other factors, the general lack of adequate underwriting, proper documentation, appropriate loan structure and insufficient equity contributions for a large number of

these acquired loans, and the uncertainty of the borrowers' and/or guarantors' ability or willingness to make contractually required (or any) principal and interest payments, management has determined that a significant portion of the purchased loans acquired in FDIC-assisted acquisitions has evidence of credit deterioration since origination. Accordingly, management has elected to apply the provisions of GAAP applicable to loans acquired with deteriorated credit quality, as provided by the AICPA's December 18, 2009 letter, to all purchased loans acquired in its FDIC-assisted acquisitions.

At the time such purchased loans are acquired, management individually evaluates substantially all loans acquired in the transaction. This evaluation allows management to determine the estimated fair value of the purchased loans (not considering any FDIC loss sharing agreements) and includes no carryover of any previously recorded allowance for loan and lease losses. In determining the estimated fair value of purchased loans, management considers a number of factors including, among other things, the remaining life of the acquired loans, estimated prepayments, estimated loss ratios, estimated value of the underlying collateral, estimated holding periods, and net present value of cash flows expected to be received. To the extent that any purchased loan acquired in a FDIC-assisted acquisition is not specifically reviewed, management applies a loss estimate to that loan based on the average expected loss rates for the purchased loans that were individually reviewed in that purchased loan portfolio.

As provided for under GAAP, management has up to 12 months following the date of the acquisition to finalize the fair values of acquired assets and assumed liabilities. Once management has finalized the fair values of acquired assets and assumed liabilities within this 12-month period, management considers such values to be the Day 1 Fair Values.

In determining the Day 1 Fair Values of purchased loans, management calculates a non-accretable difference (the credit component of the purchased loans) and an accretable difference (the yield component of the purchased loans). The non-accretable difference is the difference between the contractually required payments and the cash flows expected to be collected in accordance with management's determination of the Day 1 Fair Values. Subsequent decreases to the expected cash flows will generally result in a provision for loan and lease losses. Subsequent increases in cash flows will result in a reversal of the provision for loan and lease losses to the extent of prior charges and then an adjustment to accretable yield, which would have a positive impact on interest income. Any such increase or decrease in expected cash flows will result in a corresponding decrease or increase, respectively, of the FDIC loss share receivable for the portion of such reduced or additional loss expected to be collected from the FDIC.

The accretable difference on purchased loans is the difference between the expected cash flows and the net present value of expected cash flows. Such difference is accreted into earnings using the effective yield method over the term of the loans. In determining the net present value of the expected cash flows, the Company used discount rates ranging from 6.0% to 9.5% per annum depending on the risk characteristics of each individual loan. At December 31, 2011, the weighted average period during which management expects to receive the estimated cash flows for its covered loan portfolio (not considering any payment under the FDIC loss share agreements) is 2.4 years.

Management separately monitors the purchased loan portfolio and periodically reviews loans contained within this portfolio against the factors and assumptions used in determining the Day 1 Fair Values. A loan is typically reviewed (i) when it is modified or extended, (ii) when material information becomes available to the Company that provides additional insight regarding the loan's performance, the status of the borrower, or the quality or value of the underlying collateral, or (iii) in conjunction with the annual review of projected cash flows which include a substantial portion of each acquired loan portfolio. To the extent that a loan is performing in accordance with management's expectation established in conjunction with the determination of the Day 1 Fair Values, such loan is not included in any of the Company's credit quality ratios, is not considered to be an impaired loan, is not risk rated in a similar manner as are the Company's non-purchased loans and is not considered in the determination of the required allowance for loan and lease losses. To the extent that a loan's performance has deteriorated from management's expectation established in conjunction with the determination of the Day 1 Fair Values, such loan is generally included in certain of the Company's credit quality metrics, may be considered an impaired loan, and is considered in the determination of the required level of allowance for loan and lease losses.



The following table presents a summary, by acquisition, of covered loans acquired as of the dates of acquisition and activity within covered loans during the periods indicated.

|  | Covered Loans          |                  |                  |                  |                  | First            | Park             | Total              |
|--|------------------------|------------------|------------------|------------------|------------------|------------------|------------------|--------------------|
|  | Unity                  | Woodlands        | Horizon          | Chestatee        | Oglethorpe       | Choice           | Avenue           |                    |
| At acquisition date:   | (Dollars in thousands) |                  |                  |                  |                  |                  |                  |                    |
| Contractually required principal and interest .....                        | \$208,410              | \$315,103        | \$179,441        | \$181,523        | \$174,110        | \$260,178        | \$452,658        | \$1,771,423        |
| Nonaccretable difference .....   | (52,526)               | (83,933)         | (52,388)         | (47,538)         | (67,300)         | (86,210)         | (126,321)        | (516,216)          |
| Cash flows expected to be collected .....                                  | 155,884                | 231,170          | 127,053          | 133,985          | 106,810          | 173,968          | 326,337          | 1,255,207          |
| Accretable difference .....  | (21,432)               | (44,692)         | (35,245)         | (22,604)         | (25,376)         | (24,074)         | (63,420)         | (236,843)          |
| Fair value at acquisition date ....  | <u>\$134,452</u>       | <u>\$186,478</u> | <u>\$ 91,808</u> | <u>\$111,381</u> | <u>\$ 81,434</u> | <u>\$149,894</u> | <u>\$262,917</u> | <u>\$1,018,364</u> |
| Carrying value at January 1, 2010 .....                                    | \$ -                   | \$ -             | \$ -             | \$ -             | \$ -             | \$ -             | \$ -             | \$ -               |
| Covered loans acquired .....   | 134,452                | 186,478          | 91,808           | 111,381          | -                | -                | -                | 524,119            |
| Accretion .....  | 7,436                  | 7,144            | 2,222            | 339              | -                | -                | -                | 17,141             |
| Transfers to foreclosed assets covered by FDIC loss share agreements ..... | (2,755)                | (2,599)          | -                | -                | -                | -                | -                | (5,354)            |
| Payments received .....  | (23,786)               | (15,356)         | (6,339)          | (669)            | -                | -                | -                | (46,150)           |
| Other activity, net .....  | (364)                  | 53               | 23               | -                | -                | -                | -                | (288)              |
| Carrying value at December 31, 2010 .....                                  | 114,983                | 175,720          | 87,714           | 111,051          | -                | -                | -                | 489,468            |
| Covered loans acquired .....   | -                      | -                | -                | -                | 81,434           | 149,894          | 262,917          | 494,245            |
| Accretion .....  | 7,662                  | 13,716           | 6,716            | 8,193            | 6,461            | 7,798            | 15,589           | 66,135             |
| Transfers to foreclosed assets covered by FDIC loss share agreements ..... | (5,197)                | (14,938)         | (1,990)          | (2,381)          | (1,218)          | (858)            | (2,432)          | (29,014)           |
| Payments received .....  | (20,296)               | (40,256)         | (11,598)         | (40,814)         | (22,061)         | (22,514)         | (48,249)         | (205,788)          |
| Other activity, net .....  | (792)                  | (2,467)          | (1,044)          | (1,348)          | (225)            | (1,015)          | (1,231)          | (8,122)            |
| Carrying value at December 31, 2011 .....                                  | <u>\$ 96,360</u>       | <u>\$131,775</u> | <u>\$ 79,798</u> | <u>\$ 74,701</u> | <u>\$ 64,391</u> | <u>\$133,305</u> | <u>\$226,594</u> | <u>\$ 806,924</u>  |

The following table presents a summary of the carrying value and type of covered loans at December 31, 2011 and 2010.

|                                      | Covered Loan Portfolio |                  |
|--------------------------------------|------------------------|------------------|
|                                      | December 31,           |                  |
|                                      | 2011                   | 2010             |
|                                      | (Dollars in thousands) |                  |
| Real estate:                         |                        |                  |
| Residential 1-4 family .....         | \$202,621              | \$132,108        |
| Non-farm/non-residential .....       | 369,757                | 214,435          |
| Construction/land development .....  | 160,872                | 102,099          |
| Agricultural .....                   | 24,104                 | 9,643            |
| Multifamily residential .....        | 15,894                 | 10,709           |
| Total real estate .....              | 773,248                | 468,994          |
| Commercial and industrial .....      | 29,749                 | 17,999           |
| Consumer .....                       | 958                    | 1,248            |
| Agricultural (non-real estate) ..... | 2,806                  | 73               |
| Other .....                          | 163                    | 1,154            |
| Total covered loans .....            | <u>\$806,924</u>       | <u>\$489,468</u> |

The following table presents a summary, by acquisition, of changes in the accretable difference on covered loans during the periods indicated.

| <b>Accretable Difference on Covered Loans</b>  |                 |                  |                 |                  |                   |                     |                    |                  |
|--|-----------------|------------------|-----------------|------------------|-------------------|---------------------|--------------------|------------------|
|  | <u>Unity</u>    | <u>Woodlands</u> | <u>Horizon</u>  | <u>Chestatee</u> | <u>Oglethorpe</u> | <u>First Choice</u> | <u>Park Avenue</u> | <u>Total</u>     |
| Accretable difference at January 1, 2010 .....   | \$ -            | \$ -             | \$ -            | \$ -             | \$ -              | \$ -                | \$ -               | \$ -             |
| (Dollars in thousands)   |                 |                  |                 |                  |                   |                     |                    |                  |
| Accretable difference acquired .....   | 21,432          | 44,692           | 35,245          | 22,604           | -                 | -                   | -                  | 123,973          |
| Accretion .....  | (7,436)         | (7,144)          | (2,222)         | (339)            | -                 | -                   | -                  | (17,141)         |
| Adjustments to accretable difference due to:   |                 |                  |                 |                  |                   |                     |                    |                  |
| Covered loans transferred to foreclosed assets covered by FDIC loss share agreements ..... | (299)           | (109)            | -               | -                | -                 | -                   | -                  | (408)            |
| Covered loans paid off .....   | (871)           | (1,010)          | (1,075)         | -                | -                 | -                   | -                  | (2,956)          |
| Cash flow revisions as a result of renewals and/or modifications of covered loans .....    | 2,453           | 647              | 4               | -                | -                 | -                   | -                  | 3,104            |
| Other, net .....   | -               | 106              | 213             | -                | -                 | -                   | -                  | 319              |
| Accretable difference at December 31, 2010 .....   | 15,279          | 37,182           | 32,165          | 22,265           | -                 | -                   | -                  | 106,891          |
| Accretable difference acquired .....   | -               | -                | -               | -                | 25,376            | 24,074              | 63,420             | 112,870          |
| Accretion .....  | (7,662)         | (13,716)         | (6,716)         | (8,193)          | (6,461)           | (7,798)             | (15,589)           | (66,135)         |
| Adjustments to accretable difference due to:   |                 |                  |                 |                  |                   |                     |                    |                  |
| Covered loans transferred to foreclosed assets covered by FDIC loss share agreements ..... | (384)           | (1,611)          | (191)           | (503)            | (315)             | (91)                | (327)              | (3,422)          |
| Covered loans paid off .....   | (273)           | (2,146)          | (934)           | (4,564)          | (2,811)           | (1,435)             | (3,167)            | (15,330)         |
| Cash flow revisions as a result of renewals and/or modifications of covered loans .....    | 3,514           | 4,691            | 10              | 1,481            | 1,446             | 1,269               | 2,097              | 14,508           |
| Other, net .....   | 140             | 155              | 98              | 177              | 103               | 165                 | 671                | 1,509            |
| Accretable difference at December 31, 2011 .....   | <u>\$10,614</u> | <u>\$24,555</u>  | <u>\$24,432</u> | <u>\$10,663</u>  | <u>\$17,338</u>   | <u>\$16,184</u>     | <u>\$47,105</u>    | <u>\$150,891</u> |

### ***FDIC Loss Share Receivable***

In connection with the Company's FDIC-assisted acquisitions, the Company has recorded a FDIC loss share receivable to reflect the indemnification provided by the FDIC. Currently, the expected losses on covered assets for each of the Company's loss share agreements would result in expected recovery of approximately 80% of incurred losses. Since the indemnified items are covered loans and covered foreclosed assets, which are measured at Day 1 Fair Values, the FDIC loss share receivable is also measured and recorded at Day 1 Fair Values, and is calculated by discounting the cash flows expected to be received from the FDIC. A discount rate of 5.0% per annum was used to determine the net present value of the FDIC loss share receivable. These cash flows are

estimated by multiplying estimated losses by the reimbursement rates as set forth in the loss share agreements. The balance of the FDIC loss share receivable is adjusted periodically to reflect changes in expectations of discounted cash flows, expense reimbursements under the loss share agreements and other factors.

The following table presents a summary, by acquisition, of the FDIC loss share receivable as of the dates of acquisition and the activity within the FDIC loss share receivable during the periods indicated.

|   | FDIC Loss Share Receivable |                 |                 |                 |                 |                 |                  |                  |
|---|----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|
|   | Unity                      | Woodlands       | Horizon         | Chestatee       | Oglethorpe      | First Choice    | Park Avenue      | Total            |
| At acquisition date:  | (Dollars in thousands)     |                 |                 |                 |                 |                 |                  |                  |
| Expected principal loss on covered assets:  |                            |                 |                 |                 |                 |                 |                  |                  |
| Covered loans .....   | \$50,354                   | \$73,220        | \$40,537        | \$46,869        | \$62,890        | \$81,583        | \$115,127        | \$470,580        |
| Covered foreclosed assets ....  | 9,979                      | 5,897           | 3,678           | 15,960          | 7,907           | 628             | 49,850           | 93,899           |
| Total expected principal losses .....   | 60,333                     | 79,117          | 44,215          | 62,829          | 70,797          | 82,211          | 164,977          | 564,479          |
| Estimated loss sharing percentage <sup>(1)</sup> .....  | 80%                        | 80%             | 80%             | 80%             | 80%             | 80%             | 80%              | 80%              |
| Estimated recovery from FDIC loss share agreements .....  | 48,266                     | 63,294          | 35,372          | 50,263          | 56,638          | 65,769          | 131,982          | 451,584          |
| Discount for net present value on FDIC loss share receivable .....  | (4,119)                    | (7,428)         | (6,283)         | (4,204)         | (5,535)         | (6,225)         | (16,050)         | (49,844)         |
| Net present value of FDIC loss share receivable at acquisition date .....   | <u>\$44,147</u>            | <u>\$55,866</u> | <u>\$29,089</u> | <u>\$46,059</u> | <u>\$51,103</u> | <u>\$59,544</u> | <u>\$115,932</u> | <u>\$401,740</u> |
| Carrying value at January 1, 2010 .....   | \$ -                       | \$ -            | \$ -            | \$ -            | \$ -            | \$ -            | \$ -             | \$ -             |
| FDIC loss share receivable recorded at acquisition .....  | 44,147                     | 55,866          | 29,089          | 46,059          | -               | -               | -                | 175,161          |
| Accretion income .....  | 1,229                      | 1,007           | 331             | -               | -               | -               | -                | 2,567            |
| Cash received from FDIC .....   | (15,308)                   | (4,802)         | -               | -               | -               | -               | -                | (20,110)         |
| Other activity, net .....   | 1,052                      | (295)           | (238)           | -               | -               | -               | -                | 519              |
| Carrying value at December 31, 2010 .....   | 31,120                     | 51,776          | 29,182          | 46,059          | -               | -               | -                | 158,137          |
| FDIC loss share receivable recorded at acquisition .....  | -                          | -               | -               | -               | 51,103          | 59,544          | 115,932          | 226,579          |
| Accretion income .....  | 741                        | 1,807           | 927             | 1,363           | 1,997           | 1,814           | 2,427            | 11,076           |
| Cash received from FDIC .....   | (5,069)                    | (23,001)        | (9,505)         | (18,466)        | (11,942)        | (12,372)        | (28,646)         | (109,001)        |
| Reductions of FDIC loss share receivable for payments on covered loans in excess of Day 1 Fair Values estimates ... | (875)                      | (3,590)         | (948)           | (2,892)         | (4,565)         | (1,612)         | (7,204)          | (21,686)         |
| Expenses on covered assets reimbursable by FDIC .....   | 1,376                      | 1,606           | 1,183           | 1,330           | 737             | 472             | 1,943            | 8,647            |
| Other activity, net .....   | 282                        | 579             | 918             | 1,988           | 390             | 136             | 218              | 4,511            |
| Carrying value at December 31, 2011 .....   | <u>\$27,575</u>            | <u>\$29,177</u> | <u>\$21,757</u> | <u>\$29,382</u> | <u>\$37,720</u> | <u>\$47,982</u> | <u>\$ 84,670</u> | <u>\$278,263</u> |

(1) Certain of the Company's loss share agreements contain tranches whereby the FDIC's loss sharing percentage is more than or less than 80%. However, management's current expectation of most of the principal losses on covered assets under each of the loss share agreements falls in the tranches whereby the FDIC would reimburse the Company for approximately 80% of such losses.



### Foreclosed Assets Covered by FDIC Loss Share Agreements

Foreclosed assets covered by FDIC loss share agreements, or covered foreclosed assets, are recorded at Day 1 Fair Values. In estimating the fair value of covered foreclosed assets, management considers a number of factors including, among others, appraised value, estimated selling prices, estimated selling costs, estimated holding periods and net present value of cash flows expected to be received. Discount rates ranging from 8.0% to 9.5% per annum were used to determine the net present value of covered foreclosed assets.

The following table presents a summary, by acquisition, of foreclosed assets covered by FDIC loss share agreements, or covered foreclosed assets, as of the dates of acquisition and activity within covered foreclosed assets during the periods indicated.

| Foreclosed Assets Covered by FDIC Loss Share Agreements      |                 |                 |                |                 |                 |                |                 |                  |
|--|-----------------|-----------------|----------------|-----------------|-----------------|----------------|-----------------|------------------|
|  | Unity           | Woodlands       | Horizon        | Chestatee       | Oglethorpe      | First Choice   | Park Avenue     | Total            |
| (Dollars in thousands)                                       |                 |                 |                |                 |                 |                |                 |                  |
| At acquisition date:   |                 |                 |                |                 |                 |                |                 |                  |
| Balance on acquired bank's books .....                       | \$20,304        | \$12,258        | \$8,391        | \$31,647        | \$16,554        | \$2,773        | \$91,442        | \$183,369        |
| Total expected losses .....                                  | (9,979)         | (5,897)         | (3,678)        | (15,960)        | (7,907)         | (628)          | (49,850)        | (93,899)         |
| Discount for net present value of expected cash flows .....  | (1,466)         | (1,332)         | (1,030)        | (2,281)         | (1,562)         | (474)          | (10,412)        | (18,557)         |
| Fair value at acquisition date ....                          | <u>\$ 8,859</u> | <u>\$ 5,029</u> | <u>\$3,683</u> | <u>\$13,406</u> | <u>\$ 7,085</u> | <u>\$1,671</u> | <u>\$31,180</u> | <u>\$ 70,913</u> |
| Carrying value at January 1, 2010 .....                      | \$ -            | \$ -            | \$ -           | \$ -            | \$ -            | \$ -           | \$ -            | \$ -             |
| Covered foreclosed assets acquired .....                     | 8,859           | 5,029           | 3,683          | 13,406          | -               | -              | -               | 30,977           |
| Covered loans transferred to covered foreclosed assets ..... | 2,755           | 2,599           | -              | -               | -               | -              | -               | 5,354            |
| Sales of covered foreclosed assets .....                     | (3,554)         | (1,632)         | -              | -               | -               | -              | -               | (5,186)          |
| Carrying value at December 31, 2010 .....                    | 8,060           | 5,996           | 3,683          | 13,406          | -               | -              | -               | 31,145           |
| Covered foreclosed assets acquired .....                     | -               | -               | -              | -               | 7,085           | 1,671          | 31,180          | 39,936           |
| Covered loans transferred to covered foreclosed assets ..... | 5,197           | 14,938          | 1,990          | 2,381           | 1,218           | 858            | 2,432           | 29,014           |
| Sales of covered foreclosed assets .....                     | (2,985)         | (6,499)         | (1,996)        | (6,110)         | (1,171)         | (305)          | (8,122)         | (27,188)         |
| Carrying value at December 31, 2011 .....                    | <u>\$10,272</u> | <u>\$14,435</u> | <u>\$3,677</u> | <u>\$ 9,677</u> | <u>\$ 7,132</u> | <u>\$2,224</u> | <u>\$25,490</u> | <u>\$ 72,907</u> |

The following table presents a summary of the carrying value and type of foreclosed assets covered by FDIC loss share agreements, or covered foreclosed assets, at December 31, 2011 and 2010.

| Foreclosed Assets Covered by FDIC Loss Share Agreements |                 |                 |
|---|-----------------|-----------------|
|   | December 31,    |                 |
|   | 2011            | 2010            |
| (Dollars in thousands)                                  |                 |                 |
| Real estate:  |                 |                 |
| Residential 1-4 family .....                            | \$15,945        | \$10,624        |
| Non-farm/non-residential .....                          | 11,624          | 3,755           |
| Construction/land development .....                     | 43,323          | 16,366          |
| Multifamily residential .....                           | 2,014           | -               |
| Total real estate .....                                 | 72,906          | 30,745          |
| Repossessions .....                                     | 1               | 400             |
| Total covered foreclosed assets .....                   | <u>\$72,907</u> | <u>\$31,145</u> |

### ***FDIC Clawback Payable***

Pursuant to the clawback provisions of the loss share agreements for the Company's FDIC-assisted acquisitions, the Company may be required to reimburse the FDIC should actual losses be less than certain thresholds established in each loss share agreement. The amount of the clawback provision for each acquisition is measured and recorded at Day 1 Fair Values. It is calculated as the difference between management's estimated losses on covered loans and covered foreclosed assets and the loss threshold contained in each loss share agreement, multiplied by the applicable clawback provisions contained in each loss share agreement. This clawback amount, which is payable to the FDIC upon termination of the applicable loss share agreement, is then discounted back to net present value using a discount rate of 5.0% per annum. To the extent that actual losses on covered loans and covered foreclosed assets are less than estimated losses, the applicable clawback payable to the FDIC upon termination of the loss share agreements will increase. To the extent that actual losses on covered loans and covered foreclosed assets are more than estimated losses, the applicable clawback payable to the FDIC upon termination of the loss share agreements will decrease.

The following table presents a summary, by acquisition, of the FDIC clawback payable as of the dates of acquisition and activity within the FDIC clawback payable during the periods indicated.

#### **FDIC Clawback Payable**

|  | <u>Unity</u>           | <u>Woodlands</u> | <u>Horizon</u> | <u>Chestatee</u> | <u>Oglethorpe</u> | <u>First Choice</u> | <u>Park Avenue</u> | <u>Total</u>    |
|--|------------------------|------------------|----------------|------------------|-------------------|---------------------|--------------------|-----------------|
|  | (Dollars in thousands) |                  |                |                  |                   |                     |                    |                 |
| At acquisition date:   |                        |                  |                |                  |                   |                     |                    |                 |
| Estimated FDIC clawback payable .....                                | \$2,612                | \$4,846          | \$2,380        | \$1,291          | \$1,721           | \$1,515             | \$24,219           | \$38,584        |
| Discount for net present value on FDIC clawback payable .....        | (1,046)                | (1,905)          | (919)          | (499)            | (664)             | (585)               | (9,351)            | (14,969)        |
| Net present value of FDIC clawback payable at acquisition date ..... | <u>\$1,566</u>         | <u>\$2,941</u>   | <u>\$1,461</u> | <u>\$ 792</u>    | <u>\$1,057</u>    | <u>\$ 930</u>       | <u>\$14,868</u>    | <u>\$23,615</u> |
| Carrying value at January 1, 2010 .....                              | \$ -                   | \$ -             | \$ -           | \$ -             | \$ -              | \$ -                | \$ -               | \$ -            |
| FDIC clawback payable recorded at acquisition .....                  | 1,566                  | 2,941            | 1,461          | 792              | -                 | -                   | -                  | 6,760           |
| Amortization expense .....   | 63                     | 63               | 12             | -                | -                 | -                   | -                  | 138             |
| Other activity, net .....  | -                      | -                | 6              | -                | -                 | -                   | -                  | 6               |
| Carrying value at December 31, 2010 .....                            | 1,629                  | 3,004            | 1,479          | 792              | -                 | -                   | -                  | 6,904           |
| FDIC clawback payable recorded at acquisition .....                  | -                      | -                | -              | -                | 1,057             | 930                 | 14,868             | 16,855          |
| Amortization expense .....   | 80                     | 149              | 73             | 55               | 42                | 31                  | 505                | 935             |
| Other activity, net .....  | -                      | -                | -              | (88)             | -                 | -                   | -                  | (88)            |
| Carrying value at December 31, 2011 .....                            | <u>\$1,709</u>         | <u>\$3,153</u>   | <u>\$1,552</u> | <u>\$ 759</u>    | <u>\$1,099</u>    | <u>\$ 961</u>       | <u>\$15,373</u>    | <u>\$24,606</u> |

### **Nonperforming Assets**

Nonperforming assets, excluding assets covered by FDIC loss share agreements, consist of (1) nonaccrual loans and leases, (2) accruing loans and leases 90 days or more past due, (3) certain troubled and restructured loans for which a concession has been granted by the Company to the borrower because of a deterioration in the financial position of the borrower ("TDRs") and (4) real estate or other assets that have been acquired in partial or full satisfaction of loan or lease obligations or upon foreclosure.

The Company generally places a loan or lease on nonaccrual status when such loan or lease is (i) deemed impaired or (ii) 90 days or more past due, or earlier when doubt exists as to the ultimate collection of payments. The Company may continue to accrue interest on certain loans or leases contractually past due 90 days or more if such loans or leases are both well secured and in the process of collection. At the time a loan or lease is placed on nonaccrual status, interest previously accrued but uncollected is generally reversed and charged against interest income. Nonaccrual loans and leases are generally returned to accrual status when payments are less than 90 days past due and the Company reasonably expects to collect all payments. If a loan or lease is determined to be uncollectible, the portion of the principal determined to be uncollectible will be charged against the allowance for loan and lease losses. Income on nonaccrual loans or leases, including impaired loans and leases but excluding certain TDRs which continue to accrue interest, is recognized on a cash basis when and if actually collected.

The following table presents information, excluding loans and foreclosed assets covered by FDIC loss share agreements, concerning nonperforming assets, including nonaccrual loans and leases, TDRs, and foreclosed assets as of the date indicated.

### Nonperforming Assets

|   | December 31,           |          |          |          |         |
|---|------------------------|----------|----------|----------|---------|
|   | 2011                   | 2010     | 2009     | 2008     | 2007    |
|   | (Dollars in thousands) |          |          |          |         |
| Nonaccrual loans and leases .....                         | \$12,494               | \$13,944 | \$23,604 | \$15,382 | \$6,610 |
| Accruing loans and leases 90 days or more past due...     | -                      | -        | -        | -        | 26      |
| TDRs .....  | 1,000                  | -        | -        | -        | -       |
| Total nonperforming loans and leases .....                | 13,494                 | 13,944   | 23,604   | 15,382   | 6,636   |
| Foreclosed assets not covered by                          |                        |          |          |          |         |
| FDIC loss share agreements <sup>(1)</sup> .....           | 31,762                 | 42,216   | 61,148   | 10,758   | 3,112   |
| Total nonperforming assets <sup>(2)</sup> .....           | \$45,256               | \$56,160 | \$84,752 | \$26,140 | \$9,748 |
| Nonperforming loans and leases                            |                        |          |          |          |         |
| to total loans and leases <sup>(2)</sup> .....            | 0.72%                  | 0.75%    | 1.24%    | 0.76%    | 0.35%   |
| Nonperforming assets to total assets <sup>(2)</sup> ..... | 1.18                   | 1.72     | 3.06     | 0.81     | 0.36    |

(1) Repossessed personal properties and real estate acquired through or in lieu of foreclosure are initially recorded at the lesser of current principal investment or estimated market value less estimated cost to sell at the date of repossession or foreclosure. Valuations of these assets are periodically reviewed by management with the carrying value of such assets adjusted through non-interest expense to the then estimated market value net of estimated selling costs, if lower, until disposition.

(2) Excludes assets covered by FDIC loss share agreements, except for their inclusion in total assets.

Because covered loans and covered foreclosed assets are not included in the above calculations of the Company's nonperforming loans and leases ratio and nonperforming assets ratio, the Company's nonperforming loans and leases ratio and nonperforming assets ratio may not be comparable from period to period or with such ratios of other financial institutions, including institutions that have made FDIC-assisted acquisitions.

As of December 31, 2011, the Company had identified purchased loans covered by FDIC loss share agreements acquired in its FDIC-assisted acquisitions totaling \$3.2 million where the expected performance of such loans had deteriorated from management's performance expectations established in conjunction with the determination of the Day 1 Fair Values. As a result the Company recorded partial charge-offs, net of adjustments to the FDIC loss share receivable and the FDIC clawback payable, totaling \$0.3 million for such loans during the fourth quarter of 2011. The Company also recorded \$0.3 million of provision for loan and lease losses during the fourth quarter of 2011 to cover such charge-offs. In addition to such net charge-offs, the Company also transferred certain of these covered loans to covered foreclosed assets during the fourth quarter of 2011. As a result of these actions, the Company had \$1.9 million of impaired covered loans at December 31, 2011 (none at December 31, 2010).

If an adequate current determination of collateral value has not been performed, once a loan or lease is considered impaired, management seeks to establish an appropriate value for the collateral. This assessment may include (i) obtaining an updated appraisal, (ii) obtaining one or more broker price opinions or comprehensive market analyses, (iii) internal evaluations or (iv) other methods deemed appropriate considering the size and complexity of the loan and the underlying collateral. On an ongoing basis, typically at least quarterly, the Company evaluates the underlying collateral on all impaired loans and leases and, if



needed, due to changes in market or property conditions, the underlying collateral is reassessed and the estimated fair value is revised. The determination of collateral value includes any adjustments considered necessary related to estimated holding period and estimated selling costs.

At December 31, 2011, the Company has reduced the carrying value of its non-covered loans and leases deemed impaired (all of which were included in nonaccrual loans and leases) by \$9.9 million to the estimated fair value of such loans and leases of \$10.5 million. The adjustment to reduce the carrying value of impaired loans and leases to estimated fair value consisted of \$8.1 million of partial charge-offs and \$1.8 million of specific loan and lease loss allocations. These amounts do not include the Company's \$1.9 million of impaired covered loans at December 31, 2011.

The following table presents information concerning the geographic location of nonperforming assets, excluding assets covered by FDIC loss share agreements, at December 31, 2011. Nonaccrual loans and leases are reported in the physical location of the principal collateral. Foreclosed assets are reported in the physical location of the asset. Repossessions are reported at the physical location where the borrower resided or had its principal place of business at the time of repossession.

#### Geographic Distribution of Nonperforming Assets

|                      | Nonperforming<br>Loans and<br>Leases | Foreclosed<br>Assets | Total<br>Nonperforming<br>Assets |
|----------------------|--------------------------------------|----------------------|----------------------------------|
|                      | (Dollars in thousands)               |                      |                                  |
| Arkansas .....       | \$ 9,578                             | \$12,955             | \$22,533                         |
| Texas .....          | 313                                  | 16,030               | 16,343                           |
| North Carolina ..... | 2,876                                | 975                  | 3,851                            |
| South Carolina ..... | 393                                  | 1,155                | 1,548                            |
| Georgia .....        | 270                                  | 5                    | 275                              |
| Florida .....        | 63                                   | -                    | 63                               |
| Alabama .....        | -                                    | -                    | -                                |
| All other .....      | 1                                    | 642                  | 643                              |
| Total .....          | \$13,494                             | \$31,762             | \$45,256                         |

#### Allowance and Provision for Loan and Lease Losses

Excluding covered loans, the Company's allowance for loan and lease losses was \$39.2 million, or 2.08% of total loans and leases at December 31, 2011, compared with \$40.2 million, or 2.17% of total loans and leases, at December 31, 2010, and \$39.6 million, or 2.08% of loans and leases, at December 31, 2009. The Company had no allowance for covered loans at December 31, 2011, 2010 or 2009. Excluding covered loans, the Company's allowance for loan and lease losses was equal to 290% of its total nonperforming loans and leases at December 31, 2011 compared to 288% at December 31, 2010 and 168% at December 31, 2009. While the Company believes the current allowance is appropriate, changing economic and other conditions may require future adjustments to the allowance for loan and lease losses.

The amount of provision to the allowance for loan and lease losses is based on the Company's analysis of the adequacy of the allowance for loan and lease losses utilizing the criteria discussed below. The provision for loan and lease losses for 2011 was \$11.8 million, including \$11.5 million for non-covered loans and leases and \$0.3 million for covered loans, compared to \$16.0 million for non-covered loans and leases and no provision for covered loans in 2010. The Company's provision for loan and lease losses in 2009, all of which was for non-covered loans and leases, was \$44.8 million. The Company's decrease in its provision for loan and lease losses for 2011 compared to 2010 and for 2010 compared to 2009 was primarily due to the reduction of net charge-offs in 2011 compared to 2010 and in 2010 compared to 2009. Additionally, the Company's provision for loan and lease losses and its net charge-offs for 2009 were significantly impacted by the weak economic conditions that existed during 2009.

An analysis of the allowance for loan and lease losses for the periods indicated is shown in the following table.

**Analysis of the Allowance for Loan and Lease Losses**

|  | <u>Year Ended December 31,</u> |                 |                 |                 |                 |
|--|--------------------------------|-----------------|-----------------|-----------------|-----------------|
|  | <u>2011</u>                    | <u>2010</u>     | <u>2009</u>     | <u>2008</u>     | <u>2007</u>     |
|  | (Dollars in thousands)         |                 |                 |                 |                 |
| Balance, beginning of period .....   | \$40,230                       | \$39,619        | \$29,512        | \$19,557        | \$17,699        |
| Non-covered loans and leases charged off:  |                                |                 |                 |                 |                 |
| Real estate:   |                                |                 |                 |                 |                 |
| Residential 1-4 family .....   | 2,743                          | 872             | 1,619           | 1,079           | 215             |
| Non-farm/non-residential .....   | 1,033                          | 1,702           | 3,182           | 552             | 182             |
| Construction/land development .....  | 5,651                          | 4,037           | 20,188          | 3,059           | 796             |
| Agricultural .....   | 771                            | 301             | 844             | 645             | 37              |
| Multifamily/residential .....  | -                              | 133             | 4,355           | 250             | -               |
| Total real estate .....  | <u>10,198</u>                  | <u>7,045</u>    | <u>30,188</u>   | <u>5,585</u>    | <u>1,230</u>    |
| Commercial and industrial .....  | 1,465                          | 6,937           | 3,347           | 1,259           | 1,798           |
| Consumer .....   | 825                            | 1,196           | 1,303           | 1,783           | 1,046           |
| Direct financing leases .....  | 413                            | 478             | 648             | 734             | 367             |
| Other .....  | <u>87</u>                      | <u>1,108</u>    | <u>399</u>      | <u>270</u>      | <u>203</u>      |
| Total non-covered loans and leases charged off .....   | <u>12,988</u>                  | <u>16,764</u>   | <u>35,885</u>   | <u>9,631</u>    | <u>4,644</u>    |
| Recoveries of non-covered loans and leases previously charged off:   |                                |                 |                 |                 |                 |
| Real estate:   |                                |                 |                 |                 |                 |
| Residential 1-4 family .....   | 64                             | 99              | 99              | 55              | 25              |
| Non-farm/non-residential .....   | 16                             | 87              | 147             | 76              | 3               |
| Construction/land development .....  | 30                             | 253             | 82              | 29              | -               |
| Agricultural .....   | -                              | 45              | -               | -               | 19              |
| Multifamily residential .....  | -                              | 1               | 1               | -               | -               |
| Total real estate .....  | <u>110</u>                     | <u>485</u>      | <u>329</u>      | <u>160</u>      | <u>47</u>       |
| Commercial and industrial .....  | 142                            | 656             | 566             | 51              | 62              |
| Consumer .....   | 166                            | 212             | 183             | 317             | 209             |
| Direct financing leases .....  | 5                              | 20              | 67              | 21              | 27              |
| Other .....  | <u>4</u>                       | <u>2</u>        | <u>47</u>       | <u>12</u>       | <u>7</u>        |
| Total recoveries .....   | <u>427</u>                     | <u>1,375</u>    | <u>1,192</u>    | <u>561</u>      | <u>352</u>      |
| Net non-covered loans and leases charged off .....   | 12,561                         | 15,389          | 34,693          | 9,070           | 4,292           |
| Covered loans charged off .....  | 275                            | -               | -               | -               | -               |
| Net charge-offs - total loans and leases .....   | 12,836                         | 15,389          | 34,693          | 9,070           | 4,292           |
| Provision for loan and lease losses .....  | 11,775                         | 16,000          | 44,800          | 19,025          | 6,150           |
| Balance, end of period .....   | <u>\$39,169</u>                | <u>\$40,230</u> | <u>\$39,619</u> | <u>\$29,512</u> | <u>\$19,557</u> |
| Net charge-offs of non-covered loans and leases to average non-covered loans and leases <sup>(1)</sup> .....                   | 0.69%                          | 0.81%           | 1.75%           | 0.45%           | 0.22%           |
| Net charge-offs of total loans and leases, including covered and non-covered loans and leases, to total loans and leases ..... | 0.49%                          | 0.73%           | 1.75%           | 0.45%           | 0.22%           |
| Allowance for loan and lease losses to total non-covered loans and leases <sup>(1)</sup> .....                                 | 2.08%                          | 2.17%           | 2.08%           | 1.46%           | 1.05%           |
| Allowance for loan and lease losses to nonperforming loans and leases <sup>(1)</sup> .....                                     | 290%                           | 288%            | 168%            | 192%            | 295%            |

(1) Excludes assets covered by FDIC loss share agreements.

Provisions to and the adequacy of the allowance for loan and lease losses are based on evaluations of the loan and lease portfolio utilizing objective and subjective criteria. The objective criteria primarily include an internal grading system and specific allowances. In addition to these objective criteria, the Company subjectively assesses the adequacy of the allowance for loan and lease losses and the need for additions thereto, with consideration given to the nature and mix of the portfolio, including concentrations of credit;

general economic and business conditions, including national, regional and local business and economic conditions that may affect borrowers' or lessees' ability to pay; expectations regarding the current business cycle; trends that could affect collateral values and other relevant factors. The Company also utilizes a peer group analysis and a historical analysis to validate the overall adequacy of its allowance for loan and lease losses. Changes in any of these criteria or the availability of new information could require adjustment of the ALLL in future periods. While a specific allowance has been calculated for impaired loans and leases and for loans and leases where the Company has otherwise determined a specific reserve is appropriate, no portion of the Company's ALLL is restricted to any individual loan or lease or group of loans or leases, and the entire ALLL is available to absorb losses from any and all loans and leases.

The Company's internal grading system assigns one of nine grades to all loans and leases, with each grade being assigned a specific allowance allocation percentage, except residential 1-4 family loans, consumer loans and purchased loans, including covered loans.

The grade for each graded individual loan or lease is determined by the account officer and other approving officers at the time the loan or lease is made and changed from time to time to reflect an ongoing assessment of loan or lease risk. Grades are reviewed on specific loans and leases from time to time by senior management and as part of the Company's internal loan review process. These risk elements include, among others, the following: (1) for non-farm/non-residential, multifamily residential, and agricultural real estate loans, the debt service coverage ratio (income from the property in excess of operating expenses compared to loan repayment requirements), operating results of the owner in the case of owner-occupied properties, the loan-to-value ratio, the age, condition, value, nature and marketability of the collateral and the specific risks and volatility of income, property value and operating results typical of properties of that type; (2) for construction and land development loans, the perceived feasibility of the project including the ability to sell developed lots or improvements constructed for resale or ability to lease property constructed for lease, the quality and nature of contracts for presale or preleasing, if any, experience and ability of the developer and loan-to-value ratios; (3) for commercial and industrial loans and leases, the operating results of the commercial, industrial or professional enterprise, the borrower's or lessee's business, professional and financial ability and expertise, the specific risks and volatility of income and operating results typical for businesses in the applicable industry and the age, condition, value, nature and marketability of collateral; and (4) for non-real estate agricultural loans and leases, the operating results, experience and ability of the borrower or lessee, historical and expected market conditions and the age, condition, value, nature and marketability of collateral. In addition, for each category the Company considers secondary sources of income and the financial strength of the borrower or lessee and any guarantors.

Residential 1-4 family and consumer loans are assigned an allowance allocation percentage based on past due status.

Allowance allocation percentages for the various risk grades and past due categories for residential 1-4 family and consumer loans are determined by management and are adjusted periodically. In determining these allowance allocation percentages, management considers, among other factors, historical loss percentages and a variety of subjective criteria in determining the allowance allocation percentages.

For purchased loans, including covered loans, management separately monitors this portfolio and periodically reviews loans contained within this portfolio against the factors and assumptions used in determining the Day 1 Fair Values. To the extent that a loan's performance has deteriorated from management's expectation established in conjunction with the determination of the Day 1 Fair Values, such loan is considered in the determination of the required level of allowance for loan and lease losses. To the extent that a revised loss estimate exceeds the loss estimate established in the determination of the Day 1 Fair Values, such deterioration will result in an allowance allocation or a charge-off. At December 31, 2011 and 2010, the Company had no allowance for its covered loans because all losses had been charged off on covered loans whose performance had deteriorated from management's expectations established in conjunction with the determination of the Day 1 Fair Values.

All loans and leases deemed to be impaired are evaluated individually. The Company considers a loan or lease, excluding purchased loans and loans covered by FDIC loss share agreements, to be impaired when based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms thereof. The Company considers a purchased loan, including a covered loan, to be impaired once a decrease in expected cash flows, subsequent to the determination of the Day 1 Fair Values, results in an allowance allocation, a partial or full charge-off or in a provision for loan and lease losses. Most of the Company's nonaccrual loans and leases, excluding loans covered by FDIC loss share



agreements, and all TDRs are considered impaired. The majority of the Company's impaired loans and leases are dependent upon collateral for repayment. For such loans and leases, impairment is measured by comparing collateral value, net of holding and selling costs, to the current investment in the loan or lease. For all other impaired loans and leases, the Company compares estimated discounted cash flows to the current investment in the loan or lease. To the extent that the Company's current investment in a particular loan or lease exceeds its estimated net collateral value or its estimated discounted cash flows, the impaired amount is specifically considered in the determination of the allowance for loan and lease losses or is charged off as a reduction of the allowance for loan and lease losses.

The Company also maintains an allowance for certain loans and leases, excluding purchased loans and loans covered by FDIC loss share agreements, not considered impaired where (i) the customer is continuing to make regular payments, although payments may be past due, (ii) there is a reasonable basis to believe the customer may continue to make regular payments, although there is also an elevated risk that the customer may default, and (iii) the collateral or other repayment sources are likely to be insufficient to recover the current investment in the loan or lease if a default occurs. The Company evaluates such loans and leases to determine if an allowance is needed for these loans and leases. For the purpose of calculating the amount of such allowance, management assumes that (i) no further regular payments occur and (ii) all sums recovered will come from liquidation of collateral and collection efforts from other payment sources. To the extent that the Company's current investment in a particular loan or lease evaluated for the need for such an allowance exceeds its net collateral value or its estimated discounted cash flows, such excess is considered allocated allowance for purposes of the determination of the allowance for loan and lease losses.

The Company also includes further allowance allocation for risk-rated loans, including commercial real estate loans and excluding purchased loans and loans covered by FDIC loss share agreements, that are in markets determined by management to be "stressed". Stressed markets may include any specific geography experiencing (i) high unemployment substantially above the U.S. average, (ii) significant over-development in one or more commercial real estate categories, (iii) recent or announced loss of a major employer or significant workforce reductions, (iv) significant declines in real estate values and (v) various other factors. The additional allowance for such stressed markets compensates for the expectation that a higher risk of loss is anticipated for the "work-out" or liquidation of a real estate loan in a stressed market versus a market that is not experiencing any significant levels of stress. The required allocation percentage applicable to real estate loans in stressed markets may be applied to the total market or it may be determined at the individual loan level based on collateral value, loan-to-value ratios, strength of the borrower and/or guarantor, viability of the underlying project and other factors.

Prior to December 31, 2011, the Company utilized the sum of all allowance amounts derived as described above, combined with a reasonable unallocated allowance, as the primary indicator of the appropriate level of allowance for loan and lease losses. During the fourth quarter of 2011, the Company refined its allowance calculation whereby it "allocated" the portion of the allowance that was previously deemed to be unallocated allowance. This refined allowance calculation includes specific allowance allocations at December 31, 2011 for qualitative factors including, among other factors, (i) concentrations of credit, (ii) general economic and business conditions, (iii) trends that could effect collateral values and (iv) expectations regarding the current business cycle. The Company may also consider other qualitative factors in future periods for additional allowance allocations, including, among other factors, (1) credit quality trends (including trends in nonperforming loans and leases expected to result from existing conditions), (2) seasoning of the loan and lease portfolio, (3) specific industry conditions affecting portfolio segments, (4) the Company's expansion into new markets and (5) the offering of new loan and lease products. Because the Company has refined its allowance calculation during 2011 such that it no longer maintains unallocated allowance at December 31, 2011, the Company's allocation of its allowance at December 31, 2011 may not be comparable with prior periods.

In addition to the allowance for loan and lease losses methodology described above, the Company compares the allowance for loan and lease losses (as a percentage of total loans and leases) maintained by the Bank to the peer group average percentages as shown on the most recently available FDIC's Uniform Bank Performance Report and FRB's Uniform Bank Holding Company Performance Report. This comparison is used to validate the overall adequacy of the allowance for loan and lease losses.

The board of directors reviews the analysis of the adequacy of the allowance for loan and lease losses on a quarterly basis, or more frequently as needed, to determine whether the amount of provisions are adequate or whether additional provisions should be made to the allowance. While the allowance is determined by (i) management's assessment and grading of individual loans and leases in the case of

loans and leases other than residential 1-4 family loans, consumer loans and covered loans, (ii) the past due status of residential 1-4 family loans and consumer loans, (iii) allowances made for specific loans and leases, (iv) “stressed” market allocations, (v) allowance allocations for covered loans and (vi) qualitative factor allocations, the total allowance amount is available to absorb losses across the Company’s entire loan and lease portfolio.

The following table sets forth the sum of the amounts of the allowance for loan and lease losses attributable to individual loans and leases within each category, or loan and lease categories in general and, prior to December 31, 2011, the unallocated allowance. As previously discussed, the Company refined its allowance calculation during 2011 such that it no longer maintains unallocated allowance. The table also reflects the percentage of loans and leases, excluding loans covered by FDIC loss share agreements, in each category to the total portfolio of non-covered loans and leases for each of the periods indicated. These allowance amounts have been computed using the Company’s internal grading system, specific impairment analyses, specific special reserve analyses, “stressed” markets allocations and qualitative factor allocations. The amounts shown are not necessarily indicative of the actual future losses that may occur within particular categories. The Company had no allocation of its allowance to covered loans for any of the periods presented.

#### Allocation of the Allowance for Loan and Lease Losses

|                                   | December 31,           |                                |                 |                                |                 |                                |                 |                                |                 |                                |
|-----------------------------------|------------------------|--------------------------------|-----------------|--------------------------------|-----------------|--------------------------------|-----------------|--------------------------------|-----------------|--------------------------------|
|                                   | 2011                   |                                | 2010            |                                | 2009            |                                | 2008            |                                | 2007            |                                |
|                                   | Allowance              | % of<br>Loans<br>and<br>Leases | Allowance       | % of<br>Loans<br>and<br>Leases | Allowance       | % of<br>Loans<br>and<br>Leases | Allowance       | % of<br>Loans<br>and<br>Leases | Allowance       | % of<br>Loans<br>and<br>Leases |
|                                   | (Dollars in thousands) |                                |                 |                                |                 |                                |                 |                                |                 |                                |
| Real estate:                      |                        |                                |                 |                                |                 |                                |                 |                                |                 |                                |
| Residential 1-4 family .....      | \$ 3,848               | 13.8%                          | \$ 2,999        | 14.3%                          | \$ 3,600        | 14.9%                          | \$ 2,170        | 13.6%                          | \$ 2,217        | 14.9%                          |
| Non-farm/non-residential .....    | 12,203                 | 37.6                           | 8,313           | 36.5                           | 6,574           | 31.9                           | 4,396           | 27.3                           | 3,470           | 23.8                           |
| Construction/land development ... | 9,478                  | 25.4                           | 10,565          | 26.8                           | 11,585          | 31.5                           | 8,560           | 34.4                           | 5,192           | 36.6                           |
| Agricultural .....                | 3,383                  | 3.8                            | 2,569           | 4.4                            | 750             | 4.5                            | 745             | 4.2                            | 791             | 4.9                            |
| Multifamily residential .....     | 2,564                  | 7.5                            | 1,320           | 5.6                            | 710             | 2.9                            | 1,658           | 3.0                            | 198             | 1.7                            |
| Commercial and industrial .....   | 4,591                  | 6.4                            | 4,142           | 6.5                            | 3,587           | 7.9                            | 2,421           | 10.2                           | 1,439           | 9.3                            |
| Consumer .....                    | 1,209                  | 2.1                            | 2,051           | 2.9                            | 2,599           | 3.4                            | 1,894           | 3.7                            | 2,280           | 4.7                            |
| Direct financing leases .....     | 1,632                  | 2.9                            | 1,726           | 2.3                            | 1,560           | 2.1                            | 808             | 2.5                            | 335             | 2.8                            |
| Other .....                       | 261                    | 0.5                            | 201             | 0.7                            | 289             | 0.9                            | 209             | 1.1                            | 207             | 1.3                            |
| Unallocated allowance .....       | -                      |                                | 6,344           |                                | 8,365           |                                | 6,651           |                                | 3,428           |                                |
| Total .....                       | <u>\$39,169</u>        |                                | <u>\$40,230</u> |                                | <u>\$39,619</u> |                                | <u>\$29,512</u> |                                | <u>\$19,557</u> |                                |

The Company maintains an internally classified loan and lease list that, along with the list of nonaccrual loans and leases, the list of impaired loans and leases, the list of loans and leases with specific reserves, the “stressed” market allocations and the qualitative factor allocations, helps management assess the overall quality of the loan and lease portfolio and the adequacy of the allowance. Loans and leases classified as “substandard” have clear and defined weaknesses such as highly leveraged positions, unfavorable financial ratios, uncertain repayment sources or poor financial condition which may jeopardize collectability of the loan or lease. Loans and leases classified as “doubtful” have characteristics similar to substandard loans and leases, but also have an increased risk that a loss may occur or at least a portion of the loan or lease may require a charge-off if liquidated. Although loans and leases classified as substandard do not duplicate loans and leases classified as doubtful, both substandard and doubtful loans and leases may include some that are past due at least 90 days, are on nonaccrual status or have been restructured. Loans and leases classified as “loss” are charged off. At December 31, 2011 substandard loans and leases, excluding loans covered by FDIC loss share agreements, not designated as impaired, nonaccrual or 90 days past due, totaled \$28.1 million, compared to \$35.8 million at December 31, 2010 and \$26.1 million at December 31, 2009. No loans or leases were designated as doubtful or loss at December 31, 2011, 2010 or 2009.

Administration of the Bank’s lending function is the responsibility of the Chief Executive Officer, Chief Credit Officer and certain senior lenders. Such officers perform their lending duties subject to the oversight and policy direction of the board of directors and the loan committee. Loan or lease authority is granted to the Chief Executive Officer and certain other senior officers as determined by the board of directors. Loan or lease authorities of other lending officers are granted by the loan committee on the recommendation of appropriate senior officers.

Loans or leases and aggregate loan and lease relationships exceeding \$3.0 million up to the lending limits established by the Company's board of directors may be approved by the loan committee. At December 31, 2011 the loan committee consisted of five or more directors and four of the Bank's senior officers. The Company's loan committee reviews various reports of loan and lease concentrations, loan and lease originations and commitments over \$100,000, internally classified and watch list loans and leases and various other loan and lease reports. At least quarterly the board of directors reviews summary reports of past due loans and leases and activity in the Company's allowance for loan and lease losses and various other loan and lease reports.

The Company's compliance and loan review officers are responsible for the Bank's compliance and loan review functions. Periodic reviews are scheduled for the purpose of evaluating asset quality and effectiveness of loan and lease administration. The compliance and loan review officers prepare reports which identify deficiencies, establish recommendations for improvement and outline management's proposed action plan for curing the identified deficiencies. These reports are provided to and reviewed by the Company's audit committee. Additionally, the reports issued by the Company's loan review function are provided to and reviewed by the Company's loan committee.

### Investment Securities

At December 31, 2011, 2010 and 2009, the Company classified all of its investment securities portfolio as available for sale. Accordingly, its investment securities are stated at estimated fair value in the consolidated financial statements with the unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity and included in other comprehensive income (loss).

The Company's holdings of "other equity securities" include Federal Home Bank of Dallas ("FHLB-Dallas"), Federal Home Loan Bank of Atlanta ("FHLB-Atlanta") and First National Banker's Bankshares, Inc. ("FNBB") shares which do not have readily determinable fair values and are carried at cost.

The following table presents the amortized cost and the fair value of investment securities as of the dates indicated.

|   | <b>Investment Securities</b> |                            |                  |                            |                  |                            |
|---|------------------------------|----------------------------|------------------|----------------------------|------------------|----------------------------|
|   | <b>December 31,</b>          |                            |                  |                            |                  |                            |
|   | <u>2011</u>                  |                            | <u>2010</u>      |                            | <u>2009</u>      |                            |
|   | <u>Amortized</u>             | <u>Fair</u>                | <u>Amortized</u> | <u>Fair</u>                | <u>Amortized</u> | <u>Fair</u>                |
|   | <u>Cost</u>                  | <u>Value<sup>(1)</sup></u> | <u>Cost</u>      | <u>Value<sup>(1)</sup></u> | <u>Cost</u>      | <u>Value<sup>(1)</sup></u> |
|   | (Dollars in thousands)       |                            |                  |                            |                  |                            |
| Obligations of states and political subdivisions .....              | \$359,667                    | \$373,047                  | \$378,822        | \$378,547                  | \$385,581        | \$393,887                  |
| U.S. Government agency residential mortgage-backed securities ..... | 46,068                       | 48,035                     | 1,269            | 1,269                      | 93,159           | 94,510                     |
| Corporate obligations .....   | -                            | -                          | -                | -                          | 1,596            | 1,865                      |
| Collateralized debt obligation .....                                | -                            | -                          | -                | -                          | 100              | 100                        |
| Other equity securities .....                                       | 17,828                       | 17,828                     | 18,882           | 18,882                     | 16,316           | 16,316                     |
| Total .....   | <u>\$423,563</u>             | <u>\$438,910</u>           | <u>\$398,973</u> | <u>\$398,698</u>           | <u>\$496,752</u> | <u>\$506,678</u>           |

(1) The Company utilizes independent third parties as its principal sources for determining fair value of investment securities which are measured on a recurring basis. For investment securities traded in an active market, the fair values are obtained from independent pricing services and are based on quoted market prices if available. If quoted market prices are not available, fair values are based on market prices for comparable securities, broker quotes or comprehensive interest rate tables, pricing matrices or a combination thereof. For investment securities traded in a market that is not active, fair value is determined using unobservable inputs.



The Company's investment securities portfolio is reported at estimated fair value, which included gross unrealized gains of \$16.3 million and gross unrealized losses of \$1.0 million at December 31, 2011; gross unrealized gains of \$6.4 million and gross unrealized losses of \$6.7 million at December 31, 2010; and gross unrealized gains of \$12.1 million and gross unrealized losses of \$2.2 million at December 31, 2009. Management believes that all of its unrealized losses on individual investment securities at December 31, 2011 are the result of fluctuations in interest rates and do not reflect deterioration in the credit quality of its investments. Accordingly management considers these unrealized losses to be temporary in nature. The Company does not have the intent to sell these investment securities and more likely than not would not be required to sell these investment securities before fair value recovers to amortized cost.

At December 31, 2009, the Company's investment securities portfolio included one security categorized as a CDO. During 2009, the Company determined that it no longer expected to hold this security until maturity or until such time as fair value recovered to or above cost. Accordingly, the Company recorded a \$0.9 million charge during 2009 to reduce the carrying value of this security to \$0.1 million. This CDO was sold during 2010.

The following table presents the unaccrued discount and unamortized premium of the Company's investment securities for the dates indicated.

**Unaccrued Discount and Unamortized Premium**

|  | <u>Amortized<br/>Cost</u> | <u>Unaccrued<br/>Discount</u> | <u>Unamortized<br/>Premium</u> | <u>Par<br/>Value</u> |
|--|---------------------------|-------------------------------|--------------------------------|----------------------|
|  |                           | (Dollars in thousands)        |                                |                      |
| <b>December 31, 2011:</b>  |                           |                               |                                |                      |
| Obligations of states and political subdivisions .....                 | \$359,667                 | \$4,969                       | \$ (134)                       | \$364,502            |
| U.S. Government agency residential<br>mortgage-backed securities ..... | 46,068                    | -                             | (1,556)                        | 44,512               |
| Other equity securities .....  | <u>17,828</u>             | <u>-</u>                      | <u>-</u>                       | <u>17,828</u>        |
| Total .....  | <u>\$423,563</u>          | <u>\$4,969</u>                | <u>\$(1,690)</u>               | <u>\$426,842</u>     |
| <b>December 31, 2010:</b>  |                           |                               |                                |                      |
| Obligations of states and political subdivisions .....                 | \$378,822                 | \$5,307                       | \$ (193)                       | \$383,936            |
| U.S. Government agency residential<br>mortgage-backed securities ..... | 1,269                     | -                             | (22)                           | 1,247                |
| Other equity securities .....  | <u>18,882</u>             | <u>-</u>                      | <u>-</u>                       | <u>18,882</u>        |
| Total .....  | <u>\$398,973</u>          | <u>\$5,307</u>                | <u>\$ (215)</u>                | <u>\$404,065</u>     |

During 2011, the Company recognized premium amortization, net of discount accretion, of \$0.4 million, which is considered an adjustment to the yield of its investment securities. During 2010 and 2009, respectively, the Company recognized discount accretion, net of premium amortization, of \$0.6 million and \$4.5 million.

The Company had net gains of \$0.9 million from the sale of \$94 million of investment securities in 2011 compared to net gains of \$4.5 million from the sale of \$251 million of investment securities in 2010 and net gains of \$27.9 million from the sale of \$501 million of investment securities in 2009. The Company also recorded other-than-temporary impairment charges of \$0.9 million in 2009. During 2011, 2010 and 2009, respectively, investment securities totaling \$31 million, \$60 million and \$247 million matured or were called by the issuer. The Company purchased \$13 million, \$121 million and \$322 million of investment securities during 2011, 2010 and 2009, respectively.

During the fourth quarter of 2008 and the first quarter of 2009, the Company purchased investment securities which offered relatively good value at the time of purchase and consisted of tax-exempt mortgage-backed securities issued by housing authorities of states and political subdivisions ("Municipal Housing Authority Bonds"). These Municipal Housing Authority Bonds are primarily backed by single family or multi-family residential mortgages, the repayment of which is guaranteed by the Government National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, U.S. Department of Veterans' Affairs, Federal Housing Agency or U.S. Department of Agriculture Rural Development.

During 2009, the Company sold most of the Municipal Housing Authority Bonds and, during 2009 and 2010, the Company sold most of its U.S. Government agency residential mortgage-backed securities. This reduction of the Company's investment securities portfolio was a result of management's ongoing evaluations of interest rate risk and to free up capital for FDIC-assisted acquisitions.

The Company invests in securities it believes offer good relative value at the time of purchase, and it will, from time to time reposition its investment securities portfolio. In making its decisions to sell or purchase securities, the Company considers credit ratings, call features, maturity dates, relative yields, current market factors, interest rate risk and other relevant factors.

The following table presents the types and estimated fair values of the Company's investment securities at December 31, 2011 based on credit ratings by one or more nationally-recognized credit rating agencies.

| <b>Credit Ratings of Investment Securities</b>                      |                          |                         |                        |                          |                         |                                |                  |
|---|--------------------------|-------------------------|------------------------|--------------------------|-------------------------|--------------------------------|------------------|
|   | <u>AAA<sup>(1)</sup></u> | <u>AA<sup>(2)</sup></u> | <u>A<sup>(3)</sup></u> | <u>BBB<sup>(4)</sup></u> | <u>BB<sup>(5)</sup></u> | <u>Non-Rated<sup>(6)</sup></u> | <u>Total</u>     |
|   | (Dollars in thousands)   |                         |                        |                          |                         |                                |                  |
| Obligations of states and political subdivisions:                   |                          |                         |                        |                          |                         |                                |                  |
| Arkansas .....  | \$ -                     | \$125,785               | \$ 6,528               | \$ 3,349                 | \$2,098 <sup>(7)</sup>  | \$139,259                      | \$277,019        |
| Texas .....   | 1,322                    | 29,983                  | 13,416                 | 15,136                   | -                       | 12,150                         | 72,007           |
| Pennsylvania .....  | -                        | -                       | -                      | -                        | -                       | 5,819                          | 5,819            |
| Louisiana .....   | -                        | 4,285                   | -                      | -                        | -                       | -                              | 4,285            |
| South Carolina .....  | -                        | -                       | -                      | -                        | -                       | 3,479                          | 3,479            |
| Georgia .....   | -                        | 1,451                   | 185                    | 611                      | -                       | 596                            | 2,843            |
| Connecticut .....   | -                        | -                       | 2,735                  | -                        | -                       | -                              | 2,735            |
| Iowa .....  | -                        | -                       | 2,595                  | -                        | -                       | -                              | 2,595            |
| Massachusetts .....   | -                        | -                       | -                      | -                        | -                       | 2,003                          | 2,003            |
| Alabama .....   | -                        | -                       | -                      | 262                      | -                       | -                              | 262              |
| U.S. Government agency residential mortgage-backed securities ..... | -                        | 48,035                  | -                      | -                        | -                       | -                              | 48,035           |
| Other equity securities .....                                       | -                        | -                       | -                      | -                        | -                       | 17,828                         | 17,828           |
| Total .....   | <u>\$1,322</u>           | <u>\$209,539</u>        | <u>\$25,459</u>        | <u>\$19,358</u>          | <u>\$2,098</u>          | <u>\$181,134</u>               | <u>\$438,910</u> |
| Percentage of total .....   | 0.3%                     | 47.7%                   | 5.8%                   | 4.4%                     | 0.5%                    | 41.3%                          | 100.0%           |
| Cumulative percentage of total .....                                | 0.3%                     | 48.0%                   | 53.8%                  | 58.2%                    | 58.7%                   | 100.0%                         |                  |

(1) Includes securities rated Aaa by Moody's, AAA by Standard & Poor's ("S&P") or a comparable rating by other nationally-recognized credit rating agencies.

(2) Includes securities rated Aa1 to Aa3 by Moody's, AA+ to AA- by S&P or a comparable rating by other nationally-recognized credit rating agencies.

(3) Includes securities rated A1 to A3 by Moody's, A+ to A- by S&P or a comparable rating by other nationally-recognized credit rating agencies.

(4) Includes securities rated Baa1 to Baa3 by Moody's, BBB+ to BBB- by S&P or a comparable rating by other nationally-recognized credit rating agencies.

(5) Includes securities rated Ba1 to Ba3 by Moody's, BB+ to BB- by S&P or a comparable rating by other nationally-recognized credit rating agencies.

(6) Includes all securities that are not rated or securities that are not rated but that have a rated credit enhancement where the Company has ignored such credit enhancement. For these securities, the Company has performed its own evaluation of the security and/or the underlying issuer and believes that such security or its issuer would warrant a credit rating of investment grade (i.e., Baa3 or better by Moody's or BBB- or better by S&P or a comparable rating by another nationally-recognized credit rating agency).

(7) These securities were sold in January 2012 with net proceeds equal to fair value at December 31, 2011, resulting in no gain or loss on sale.

The following table reflects the expected maturity distribution of the Company's investment securities, at fair value, as of December 31, 2011 and weighted-average yields (for tax-exempt obligations on a FTE basis) of such securities. The maturity for all investment securities is shown based on each security's contractual maturity date, except (1) equity securities with no contractual maturity date which are shown in the longest maturity category, (2) U.S. Government agency residential mortgage-backed securities are allocated among various maturities based on an estimated repayment schedule utilizing Bloomberg median prepayment speeds based on interest rate levels at December 31, 2011, and (3) callable investment securities when the Company has received notification of call are included in the maturity category in which the call occurs or is expected to occur. Actual maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. The weighted-average yields - FTE are calculated based on the coupon rate and amortized cost for such securities and do not include any projected discount accretion or premium amortization.

#### Expected Maturity Distribution of Investment Securities

|   | 1 Year<br>or<br>Less | Over 1<br>Through<br>5 Years | Over 5<br>Through<br>10 Years | Over<br>10<br>Years | Total            |
|---|----------------------|------------------------------|-------------------------------|---------------------|------------------|
| (Dollars in thousands)  |                      |                              |                               |                     |                  |
| Obligations of states and political subdivisions ...                | \$ 2,971             | \$12,732                     | \$24,666                      | \$332,678           | \$373,047        |
| U.S. Government agency residential mortgage-backed securities ..... | 9,653                | 25,807                       | 12,575                        | -                   | 48,035           |
| Other equity securities <sup>(1)</sup> .....                        | -                    | -                            | -                             | 17,828              | 17,828           |
| Total .....   | <u>\$12,624</u>      | <u>\$38,539</u>              | <u>\$37,241</u>               | <u>\$350,506</u>    | <u>\$438,910</u> |
| Percentage of total .....   | 2.9%                 | 8.8%                         | 8.4%                          | 79.9%               | 100.0%           |
| Cumulative percentage of total .....                                | 2.9%                 | 11.7%                        | 20.1%                         | 100.0%              |                  |
| Weighted-average yield - FTE <sup>(2)</sup> .....                   | 4.53%                | 4.98%                        | 5.89%                         | 7.25%               | 6.85%            |

(1) Includes approximately \$17.4 million of FHLB-Dallas and FHLB-Atlanta stock which has historically paid quarterly dividends at a variable rate approximating the federal funds rate.

(2) The weighted-average yields - FTE are calculated based on the coupon rate and amortized cost for such securities and do not include any projected discount accretion or premium amortization.

#### Deposits

The Company's lending and investing activities are funded primarily by deposits. The amount and type of deposits outstanding at December 31, 2011, 2010 and 2009 and their respective percentage of the total deposits are reflected in the following table.

|  | Deposits           |               | December 31,       |               |                    |               |
|--|--------------------|---------------|--------------------|---------------|--------------------|---------------|
|  | 2011               |               | 2010               |               | 2009               |               |
| (Dollars in thousands)                   |                    |               |                    |               |                    |               |
| Non-interest bearing .....               | \$ 447,214         | 15.2%         | \$ 298,585         | 11.8%         | \$ 223,741         | 11.0%         |
| Interest bearing: .....                  |                    |               |                    |               |                    |               |
| Transaction (NOW) .....                  | 738,926            | 25.1          | 625,524            | 24.6          | 521,057            | 25.7          |
| Savings and money market .....           | 839,523            | 28.5          | 673,534            | 26.5          | 406,920            | 20.1          |
| Time deposits less than \$100,000 .....  | 508,675            | 17.3          | 459,027            | 18.1          | 337,042            | 16.6          |
| Time deposits of \$100,000 or more ..... | 409,581            | 13.9          | 484,083            | 19.0          | 540,234            | 26.6          |
| Total deposits .....                     | <u>\$2,943,919</u> | <u>100.0%</u> | <u>\$2,540,753</u> | <u>100.0%</u> | <u>\$2,028,994</u> | <u>100.0%</u> |

The Company's total deposits increased to \$2.94 billion at December 31, 2011, compared to \$2.54 billion at December 31, 2010 and \$2.03 billion at December 31, 2009. These increases were primarily due to the Company's three FDIC-assisted acquisitions during 2011 and its four FDIC-assisted acquisitions during 2010.

In recent years, the Company has benefited from favorable change in its deposit mix. The Company's non-CD deposits have grown and comprised 68.8% of total deposits at December 31, 2011, compared to 62.9% at December 31, 2010 and 56.8% at December 31, 2009. Non-CD deposits totaled \$2.03 billion at December 31, 2011, compared to \$1.60 billion at December 31, 2010 and \$1.15 billion at December 31, 2009.

At December 31, 2011, the Company had outstanding brokered deposits of \$41 million compared to \$58 million at December 31, 2010 and \$57 million at December 31, 2009.

The following table reflects the average balance and average rate paid for each deposit category shown for the years ended December 31, 2011, 2010 and 2009.

### Average Deposit Balances and Rates

|  | Year Ended December 31, |                   |                    |                   |                    |                   |
|--|-------------------------|-------------------|--------------------|-------------------|--------------------|-------------------|
|  | 2011                    |                   | 2010               |                   | 2009               |                   |
|  | Average Balance         | Average Rate Paid | Average Balance    | Average Rate Paid | Average Balance    | Average Rate Paid |
|  | (Dollars in thousands)  |                   |                    |                   |                    |                   |
| Non-interest bearing accounts .....    | \$ 392,780              | -                 | \$ 256,910         | -                 | \$ 207,782         | -                 |
| Interest bearing accounts:             |                         |                   |                    |                   |                    |                   |
| Transaction (NOW) .....                | 698,808                 | 0.39%             | 574,432            | 0.49%             | 431,587            | 0.58%             |
| Savings and money market .....         | 825,274                 | 0.67              | 547,096            | 1.09              | 401,221            | 1.15              |
| Time deposits less than \$100,000 .... | 569,428                 | 0.94              | 392,671            | 1.40              | 409,969            | 2.40              |
| Time deposits \$100,000 or more ....   | 438,030                 | 0.92              | 476,748            | 1.22              | 699,281            | 1.93              |
| Total deposits .....                   | <u>\$2,924,320</u>      |                   | <u>\$2,247,857</u> |                   | <u>\$2,149,840</u> |                   |

The following table sets forth, by time remaining to maturity, time deposits in amounts of \$100,000 and over at December 31, 2011.

### Maturity Distribution of Time Deposits of \$100,000 and Over

| <u>December 31, 2011</u>  |                  |
|---------------------------|------------------|
| (Dollars in thousands)    |                  |
| 3 months or less .....    | \$121,362        |
| Over 3 to 6 months .....  | 129,637          |
| Over 6 to 12 months ..... | 118,298          |
| Over 12 months .....      | 40,284           |
| Total .....               | <u>\$409,581</u> |

The amount and percentage of the Company's deposits by state of originating office are reflected in the following table.

### Deposits by State of Originating Office

| Deposits Attributable to Offices In | December 31,           |               |                    |               |                    |               |
|-------------------------------------|------------------------|---------------|--------------------|---------------|--------------------|---------------|
|                                     | 2011                   |               | 2010               |               | 2009               |               |
|                                     | Amount                 | %             | Amount             | %             | Amount             | %             |
|                                     | (Dollars in thousands) |               |                    |               |                    |               |
| Arkansas .....                      | \$1,582,294            | 53.6%         | \$1,752,977        | 69.0%         | \$1,734,870        | 85.5%         |
| Texas .....                         | 419,422                | 14.3          | 455,089            | 17.9          | 294,124            | 14.5          |
| Georgia .....                       | 751,087                | 25.5          | 152,333            | 6.0           | -                  | -             |
| Florida .....                       | 157,230                | 5.4           | 110,556            | 4.3           | -                  | -             |
| South Carolina .....                | 8,968                  | 0.3           | 32,861             | 1.3           | -                  | -             |
| North Carolina .....                | 12,952                 | 0.5           | 19,615             | 0.8           | -                  | -             |
| Alabama .....                       | 11,966                 | 0.4           | 17,322             | 0.7           | -                  | -             |
| Total .....                         | <u>\$2,943,919</u>     | <u>100.0%</u> | <u>\$2,540,753</u> | <u>100.0%</u> | <u>\$2,028,994</u> | <u>100.0%</u> |

### Other Interest Bearing Liabilities

The Company also relies on other interest bearing liabilities to fund its lending and investing activities. Such liabilities consist of repurchase agreements with customers, other borrowings (primarily FHLB advances and, to a lesser extent, FRB borrowings and federal funds purchased) and subordinated debentures.

Total other interest bearing liabilities were \$400 million at December 31, 2011, an increase of \$10 million from \$390 million at December 31, 2010. Repurchase agreements with customers decreased from \$43 million at December 31, 2010 to \$33 million at December 31, 2011. Other borrowings, including FHLB advances, FRB borrowings and federal funds purchased, increased from \$282 million at December 31, 2010 to \$302 million at December 31, 2011.



The following table reflects the average balance and average rate paid for each category of other interest bearing liabilities for the years ended December 31, 2011, 2010 and 2009.

### Average Balances and Rates of Other Interest Bearing Liabilities

|  | Year Ended December 31, |                   |                  |                   |                  |                   |
|--|-------------------------|-------------------|------------------|-------------------|------------------|-------------------|
|  | 2011                    |                   | 2010             |                   | 2009             |                   |
|  | Average Balance         | Average Rate Paid | Average Balance  | Average Rate Paid | Average Balance  | Average Rate Paid |
|  | (Dollars in thousands)  |                   |                  |                   |                  |                   |
| Repurchase agreements                          |                         |                   |                  |                   |                  |                   |
| with customers .....                           | \$ 39,638               | 0.44%             | \$ 49,835        | 0.76%             | \$ 52,549        | 1.13%             |
| Other borrowings <sup>(1)</sup> .....          | 296,195                 | 3.66              | 317,796          | 3.82              | 384,854          | 3.74              |
| Subordinated debentures .....                  | 64,950                  | 2.68              | 64,950           | 2.72              | 64,950           | 3.29              |
| Total other interest bearing liabilities ..... | <u>\$400,783</u>        | 3.18%             | <u>\$432,581</u> | 3.30%             | <u>\$502,353</u> | 3.40%             |

(1) Included in other borrowings at December 31, 2011 are FHLB advances that contain quarterly call features and mature as follows: 2017, \$260.0 million at 3.90% weighted-average rate; and 2018, \$20.0 million at 2.53% weighted-average rate.

## Capital Resources and Liquidity

### Capital Resources

*Subordinated Debentures.* At December 31, 2011, the Company had an aggregate of \$64.9 million of subordinated debentures and related trust preferred securities outstanding consisting of \$20.6 million of subordinated debentures and securities issued in 2006 that bear interest, adjustable quarterly, at LIBOR plus 1.60%; \$15.4 million of subordinated debentures and securities issued in 2004 that bear interest, adjustable quarterly, at LIBOR plus 2.22%; and \$28.9 million of subordinated debentures and securities issued in 2003 that bear interest, adjustable quarterly, at a weighted-average rate of LIBOR plus 2.925%. These subordinated debentures and securities generally mature 30 years after issuance and may be prepaid at par, subject to regulatory approval, on or after approximately five years from the date of issuance, or at an earlier date upon certain changes in tax laws, investment company laws or regulatory capital requirements. These subordinated debentures and the related trust preferred securities provide the Company additional regulatory capital to support its expected future growth and expansion.

*Preferred Stock and Common Stock Warrant.* On December 12, 2008, as part of the United States Department of the Treasury's (the "Treasury") Capital Purchase Program made available to certain financial institutions in the U.S. pursuant to the Emergency Economic Stabilization Act of 2008 ("EESA"), the Company and the Treasury entered into a Letter Agreement including the Securities Purchase Agreement – Standard Terms incorporated therein pursuant to which the Company issued to the Treasury, in exchange for aggregate consideration of \$75.0 million, (i) 75,000 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, par value \$0.01 and liquidation preference \$1,000 per share (the "Series A Preferred Stock"), and (ii) a warrant (the "Warrant") to purchase up to 759,622 split-adjusted shares of the Company's common stock, par value \$0.01 per share, at a split-adjusted exercise price of \$14.81 per share. On November 4, 2009, the Company redeemed all of the Series A Preferred Stock for \$75.0 million plus accrued and unpaid dividends, with the approval of the Company's primary regulator in consultation with the Treasury. On November 24, 2009, the Company repurchased the Warrant from the Treasury for \$2.65 million, which was charged against the Company's additional paid-in capital.

*Tangible Common Equity.* The Company uses its tangible common equity ratio as the principal measure of the strength of its capital. The tangible common equity ratio is calculated by dividing total common equity less intangible assets by total assets less intangible assets. The Company's tangible common equity ratio was 10.77% at December 31, 2011 compared to 9.57% at December 31, 2010 and 9.53% at December 31, 2009.

*Common Stock Dividend Policy.* In 2011 the Company paid dividends of \$0.37 per share. In 2010 and 2009 the Company paid dividends of \$0.30 per share and \$0.26 per share, respectively. In 2011, the per share dividend was \$0.085 in the first quarter, \$0.09 in the second quarter, \$0.095 in the third quarter and \$0.10 in the fourth quarter. In 2010, the per share dividend was \$0.07 in the first quarter, \$0.075 per quarter in the second and third quarters, and \$0.08 in the fourth quarter. In 2009 the per share dividend was \$0.065 in each quarter. On January 3, 2012, the Company's board of directors approved a dividend of \$0.11 per common share that was paid on January 20, 2012. The determination of future dividends on the Company's common stock will depend on conditions existing at that time.

## Capital Compliance

Bank regulatory authorities in the United States impose certain capital standards on all bank holding companies and banks. These capital standards require compliance with certain minimum “risk-based capital ratios” and a minimum “leverage ratio.” The risk-based capital ratios consist of (1) Tier 1 capital (common stockholders’ equity excluding goodwill, certain intangibles and net unrealized gains and losses on available-for-sale investment securities, but including, subject to limitations, trust preferred securities, certain types of preferred stock and other qualifying items) to risk-weighted assets and (2) total capital (Tier 1 capital plus Tier 2 capital which includes the qualifying portion of the allowance for loan and lease losses and the portion of trust preferred securities not counted as Tier 1 capital) to risk-weighted assets. The Tier 1 leverage ratio is measured as Tier 1 capital to adjusted quarterly average assets.

The Company’s consolidated risk-based capital and leverage ratios exceeded these minimum requirements at December 31, 2011 and 2010 and are presented in the following table, followed by the capital ratios of the Bank at December 31, 2011 and 2010.

### Consolidated Capital Ratios

|  | <u>December 31,</u>    |                    |
|--|------------------------|--------------------|
|  | <u>2011</u>            | <u>2010</u>        |
|  | (Dollars in thousands) |                    |
| Tier 1 capital:  |                        |                    |
| Common stockholders’ equity .....                                | \$ 424,551             | \$ 320,355         |
| Allowed amount of trust preferred securities .....               | 63,000                 | 63,000             |
| Net unrealized losses (gains) on investment securities AFS ..... | (9,327)                | 167                |
| Less goodwill and certain intangible assets .....                | (12,207)               | (7,925)            |
| Total Tier 1 capital .....                                       | <u>466,017</u>         | <u>375,597</u>     |
| Tier 2 capital:  |                        |                    |
| Qualifying allowance for loan and lease losses .....             | 33,038                 | 29,241             |
| Total risk-based capital .....                                   | <u>\$ 499,055</u>      | <u>\$ 404,838</u>  |
| Risk-weighted assets .....                                       | <u>\$2,636,875</u>     | <u>\$2,328,251</u> |
| Adjusted quarterly average assets - fourth quarter .....         | <u>\$3,864,468</u>     | <u>\$3,160,452</u> |
| Ratios at end of period:   |                        |                    |
| Tier 1 leverage .....  | 12.06%                 | 11.88%             |
| Tier 1 risk-based capital .....                                  | 17.67                  | 16.13              |
| Total risk-based capital .....                                   | 18.93                  | 17.39              |
| Minimum ratio guidelines:  |                        |                    |
| Tier 1 leverage <sup>(1)</sup> .....                             | 3.00%                  | 3.00%              |
| Tier 1 risk-based capital .....                                  | 4.00                   | 4.00               |
| Total risk-based capital .....                                   | 8.00                   | 8.00               |
| Minimum ratio guidelines to be “well capitalized”:               |                        |                    |
| Tier 1 leverage .....  | 5.00%                  | 5.00%              |
| Tier 1 risk-based capital .....                                  | 6.00                   | 6.00               |
| Total risk-based capital .....                                   | 10.00                  | 10.00              |

(1) Regulatory authorities require institutions to operate at varying levels (ranging from 100-200 bps) above a minimum Tier 1 leverage ratio of 3% depending upon capitalization classification.

### Bank Capital Ratios

|   | <u>December 31,</u>    |             |
|---|------------------------|-------------|
|   | <u>2011</u>            | <u>2010</u> |
|   | (Dollars in thousands) |             |
| Stockholders’ equity - Tier 1 capital ..... | \$445,789              | \$358,852   |
| Tier 1 leverage ratio .....                 | 11.58%                 | 11.40%      |
| Tier 1 risk-based capital ratio .....       | 16.98                  | 15.49       |
| Total risk-based capital ratio .....        | 18.23                  | 16.75       |

## Liquidity

Liquidity represents an institution's ability to provide funds to satisfy demands from depositors, borrowers and other creditors by either converting assets into cash or accessing new or existing sources of incremental funds. Liquidity risk arises from the possibility the Company may be unable to satisfy current or future funding requirements and needs. The ALCO and Investments Committee ("ALCO"), which reports to the board of directors, has primary responsibility for oversight of the Company's liquidity, funds management, asset/liability (interest rate risk) position and investment portfolio functions.

The objective of managing liquidity risk is to ensure the cash flow requirements resulting from depositor, borrower and other creditor demands are met, as well as operating cash needs of the Company, and the cost of funding such requirements and needs is reasonable. The Company maintains a liquidity risk management policy and a contingency funding plan that include policies and procedures for managing liquidity risk. Generally the Company relies on deposits, loan and lease and covered loan repayments, and repayments of its investment securities as its primary sources of funds. The principal deposit sources utilized by the Company include consumer, commercial and public funds customers in the Company's markets. The Company has used these funds, together with wholesale deposit sources such as brokered deposits, along with FHLB advances, FRB borrowings, federal funds purchased and other sources of short-term borrowings, to make loans and leases, acquire investment securities and other assets and to fund continuing operations.

Deposit levels may be affected by a number of factors, including rates paid by competitors, general interest rate levels, returns available to customers on alternative investments, general economic and market conditions and other factors. Loan and lease repayments are a relatively stable source of funds but are subject to the borrowers' and lessees' ability to repay the loans and leases, which can be adversely affected by a number of factors including changes in general economic conditions, adverse trends or events affecting business industry groups or specific businesses, declines in real estate values or markets, business closings or lay-offs, inclement weather, natural disasters and other factors. Furthermore, loans and leases generally are not readily convertible to cash. Accordingly, the Company may be required from time to time to rely on secondary sources of liquidity to meet loan, lease and deposit withdrawal demands or otherwise fund operations. Such secondary sources include FHLB advances, secured and unsecured federal funds lines of credit from correspondent banks and FRB borrowings.

At December 31, 2011 the Company had substantial unused borrowing availability. This availability was primarily comprised of the following four options: (1) \$647 million of available blanket borrowing capacity with the FHLB, (2) \$93 million of investment securities available to pledge for federal funds or other borrowings, (3) \$123 million of available unsecured federal funds borrowing lines and (4) up to \$77 million of available borrowing capacity from borrowing programs of the FRB.

The Company anticipates it will continue to rely primarily on deposits, loan and lease and covered loan repayments, and repayments of its investment securities to provide liquidity. Additionally, where necessary, the sources of borrowed funds described above will be used to augment the Company's primary funding sources.

*Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act").* On July 21, 2010, the Dodd-Frank Act was signed into law. Among other things, the Dodd-Frank Act provides full deposit insurance with no maximum coverage amount for non-interest bearing transaction accounts for two years beginning December 31, 2010. Participation in this deposit insurance coverage of the Dodd-Frank Act is mandatory for all financial institutions and requires no separate fee assessment to the Bank. Additionally, the Dodd-Frank Act permanently increases the maximum deposit insurance coverage for all other deposit categories to \$250,000 retroactive to January 1, 2008.

*Sources and Uses of Funds.* Net cash provided by operating activities totaled \$21 million, \$41 million and \$48 million, respectively, for 2011, 2010 and 2009. Net cash provided by operating activities is comprised primarily of net income, adjusted for certain non-cash items and for changes in various operating assets and liabilities.

Investing activities provided \$792 million in 2011, \$492 million in 2010 and \$476 million in 2009. The Company's investing activities include net loan and lease fundings, which used \$27 million in 2011 and provided \$38 million in 2010 and \$12 million in 2009, purchases of premises and equipment which used \$21 million, \$17 million, and \$9 million, respectively, in 2011, 2010 and 2009, and net activity in its investment securities portfolio, which provided \$112 million in 2011, \$194 million in 2010, and \$454 million in 2009. The Company received \$365 million of cash in connection with its three FDIC-assisted acquisitions in 2011 and \$201 million of cash in connection with its four FDIC-assisted acquisitions in 2010 (none in 2009).

Net decreases in covered loans provided \$214 million in 2011 and \$46 million in 2010 (none in 2009), and payments received from the FDIC under loss share agreements totaled \$109 million in 2011 and \$20 million in 2010 (none in 2009). The Company purchased \$10 million of BOLI in 2010. The Company invested \$2 million in 2011 and \$5 million in 2010 in unconsolidated investments and noncontrolling interest. Proceeds from sales of other assets provided \$42 million in 2011, \$24 million in 2010 and \$17 million in 2009, and proceeds from BOLI death benefits provided \$2 million in 2009 (none in 2011 or 2010).

Financing activities used \$804 million in 2011, \$562 million in 2010 and \$487 million in 2009. The Company's net changes in deposit accounts used \$712 million in 2011, \$441 million in 2010 and \$312 million in 2009, and its net repayments of other borrowings and repurchase agreements with customers used \$84 million in 2011, \$115 million in 2010 and \$85 million in 2009. In addition the Company paid common stock cash dividends of \$13 million, \$10 million and \$9 million, respectively, in 2011, 2010 and 2009, and the Company paid preferred stock cash dividends of \$3.4 million in 2009 (none in 2011 or 2010). Proceeds and current tax benefits from exercise of stock options provided \$4.9 million in 2011, \$3.4 million in 2010 and \$0.4 million in 2009. The Company's financing activities were also impacted by the redemption of the Series A Preferred Stock for \$75 million in 2009, as well as the repurchase of the Warrant for \$2.65 million in 2009.

*Contractual Obligations.* The following table presents, as of December 31, 2011, significant fixed and determinable contractual obligations to third parties by contractual date with no consideration given to earlier call or prepayment features. Other obligations consist primarily of contractual obligations for capital expenditures, software contracts and various other contractual obligations.

#### Contractual Obligations

|   | 1 Year<br>or<br>Less | Over 1<br>Through<br>3 Years | Over 3<br>Through<br>5 Years | Over<br>5<br>Years | Total              |
|---|----------------------|------------------------------|------------------------------|--------------------|--------------------|
| (Dollars in thousands)                                    |                      |                              |                              |                    |                    |
| Time deposits <sup>(1)</sup> .....                        | \$ 823,752           | \$ 87,212                    | \$ 11,930                    | \$ -               | \$ 922,894         |
| Deposits without a stated maturity <sup>(2)</sup> .....   | 2,025,825            | -                            | -                            | -                  | 2,025,825          |
| Repurchase agreements with customers <sup>(1)</sup> ..... | 32,810               | -                            | -                            | -                  | 32,810             |
| Other borrowings <sup>(1)</sup> .....                     | 32,844               | 21,686                       | 21,673                       | 299,113            | 375,316            |
| Subordinated debentures <sup>(1)</sup> .....              | 2,141                | 3,691                        | 3,686                        | 99,570             | 109,088            |
| Lease obligations .....                                   | 1,152                | 1,726                        | 1,137                        | 1,843              | 5,858              |
| Other obligations .....                                   | 16,496               | 2,821                        | 924                          | 32,796             | 53,037             |
| Total contractual obligations .....                       | <u>\$2,935,020</u>   | <u>\$117,136</u>             | <u>\$39,350</u>              | <u>\$433,322</u>   | <u>\$3,524,828</u> |

(1) Includes unpaid interest through the contractual maturity on both fixed and variable rate obligations. The interest included on variable rate obligations is based upon interest rates in effect at December 31, 2011. The contractual amounts to be paid on variable rate obligations are affected by changes in interest rates. Future changes in interest rates could materially affect the contractual amounts to be paid.

(2) Includes interest accrued and unpaid through December 31, 2011.

*Off-Balance Sheet Commitments.* The following table details the amounts and expected maturities of significant off-balance sheet commitments as of December 31, 2011. Commitments to extend credit do not necessarily represent future cash requirements as these commitments may expire without being drawn.

#### Off-Balance Sheet Commitments

|   | 1 Year<br>or<br>Less | Over 1<br>Through<br>3 Years | Over 3<br>Through<br>5 Years | Over<br>5<br>Years | Total            |
|---|----------------------|------------------------------|------------------------------|--------------------|------------------|
| (Dollars in thousands)                            |                      |                              |                              |                    |                  |
| Commitments to extend credit <sup>(1)</sup> ..... | \$ 116,639           | \$ 154,729                   | \$ 48,264                    | \$ 6,359           | \$ 325,991       |
| Standby letters of credit .....                   | 7,621                | 5,800                        | 124                          | -                  | 13,545           |
| Total commitments .....                           | <u>\$124,260</u>     | <u>\$160,529</u>             | <u>\$48,388</u>              | <u>\$6,359</u>     | <u>\$339,536</u> |

(1) Includes commitments to extend credit under mortgage interest rate locks of \$13.3 million that expire in one year or less.

## Interest Rate Risk

Interest rate risk results from timing differences in the repricing of assets and liabilities or from changes in relationships between interest rate indexes. The Company's interest rate risk management is the responsibility of the ALCO.

The Company regularly reviews its exposure to changes in interest rates. Among the factors considered are changes in the mix of interest earning assets and interest bearing liabilities, interest rate spreads and repricing periods. Typically, the ALCO reviews on at least a quarterly basis the Company's relative ratio of rate sensitive assets ("RSA") to rate sensitive liabilities ("RSL") and the related cumulative gap for different time periods. However, the primary tool used by the ALCO to analyze the Company's interest rate risk and interest rate sensitivity is an earnings simulation model.

This earnings simulation modeling process projects a baseline net interest income (assuming no changes in interest rate levels) and estimates changes to that baseline net interest income resulting from changes in interest rate levels. The Company relies primarily on the results of this model in evaluating its interest rate risk. This model incorporates a number of factors including: (1) the expected exercise of call features on various assets and liabilities, (2) the expected rates at which various RSA and RSL will reprice, (3) the expected growth in various interest earning assets and interest bearing liabilities and the expected interest rates on such new assets and liabilities, (4) the expected relative movements in different interest rate indexes which are used as the basis for pricing or repricing various assets and liabilities, (5) existing and expected contractual cap and floor rates on various assets and liabilities, (6) expected changes in administered rates on interest bearing transaction, savings, money market and time deposit accounts and the expected impact of competition on the pricing or repricing of such accounts and (7) other relevant factors. Inclusion of these factors in the model is intended to more accurately project the Company's expected changes in net interest income resulting from interest rate changes. The Company models its change in net interest income assuming interest rates go up 100 bps, up 200 bps, up 300 bps, up 400 bps, down 100 bps and down 200 bps. Based on current conditions, the Company believes that modeling its change in net interest income assuming rates go down 100 bps and down 200 bps is not meaningful. For purposes of this model, the Company has assumed that the change in interest rates phases in over a 12-month period. While the Company believes this model provides a reasonably accurate projection of its interest rate risk, the model includes a number of assumptions and predictions which may or may not be correct and may impact the model results. These assumptions and predictions include inputs to compute baseline net interest income, growth rates, expected changes in administered rates on interest bearing deposit accounts, competition and a variety of other factors that are difficult to accurately predict. Accordingly, there can be no assurance the earnings simulation model will accurately reflect future results.

The following table presents the earnings simulation model's projected impact of a change in interest rates on the projected baseline net interest income for the 12-month period commencing January 1, 2012. This change in interest rates assumes parallel shifts in the yield curve and does not take into account changes in the slope of the yield curve.

### Earnings Simulation Model Results

| <u>Change in<br/>Interest Rates<br/>(in bps)</u> | <u>% Change in<br/>Projected Baseline<br/>Net Interest Income</u> |
|--|---|
| +400   | (1.6)%  |
| +300   | (1.8)   |
| +200   | (1.5)   |
| +100   | (0.8)   |
| -100   | Not meaningful  |
| -200   | Not meaningful  |

In the event of a shift in interest rates, the Company may take certain actions intended to mitigate the negative impact to net interest income or to maximize the positive impact to net interest income. These actions may include, but are not limited to, restructuring of interest earning assets and interest bearing liabilities, seeking alternative funding sources or investment opportunities and modifying the pricing or terms of loans and leases and deposits.

### Impact of Inflation and Changing Prices

The consolidated financial statements and related notes presented elsewhere in this report have been prepared in accordance with accounting principles generally accepted in the United States. This requires the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. Unlike most industrial



companies, the vast majority of the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a greater impact on the Company's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

### Growth and Expansion

On March 26, 2010 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of Unity with five offices in Georgia, including Cartersville (2), Rome, Adairsville and Calhoun.

On July 16, 2010 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and other liabilities of Woodlands, with offices in South Carolina (2), North Carolina (2), Georgia (1) and Alabama (3). On October 26, 2010 the Company closed four Woodlands offices including one each in South Carolina and North Carolina and two in Alabama, and in December 2010 the Company relocated two offices. The Company also renegotiated the leases on the two remaining offices. As a result the Company now operates one office each in Bluffton, South Carolina; Wilmington, North Carolina; Savannah, Georgia; and Mobile, Alabama.

On September 10, 2010 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and other liabilities of Horizon, with four offices in Florida, including Bradenton (2), Palmetto and Brandon. The Company closed the Brandon office on December 23, 2010.

On December 17, 2010 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of Chestatee with four offices in Georgia, including Dawsonville (2), Cumming and Marble Hill.

On January 14, 2011 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of Oglethorpe with two offices in Georgia, including Brunswick and St. Simons Island.

On April 29, 2011 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of First Choice with seven offices in Georgia, including Dallas, Newnan (2), Senoia, Sharpsburg, Douglasville and Carrollton. On July 1, 2011, the Company closed one of the offices in Newnan, Georgia, and on October 26, 2011, the Company closed the office in Carrollton, Georgia.

On April 29, 2011 the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of Park Avenue with eleven offices in Georgia, including Valdosta (3), Bainbridge (2), Cairo, Lake Park, Stockbridge, McDonough, Oakwood, and Athens and one office in Ocala, Florida. On October 21, 2011, the Company closed the office in Stockbridge, Georgia.

The Company plans to continue evaluating and bidding on failed bank opportunities and hopes to make additional FDIC-assisted acquisitions.

In addition, the Company expects to continue its growth and *de novo* branching strategy, although it has slowed the pace of new office openings in recent years and currently has a focus on additional FDIC-assisted acquisitions. In the first and second quarters of 2011, the Company opened three offices in the metro-Dallas area in Carrollton, Texas; Plano, Texas; and Keller, Texas. In January 2012, the Company opened a loan production office in Austin, Texas. Additionally, the Company expects to open its ninth metro-Dallas office in The Colony, Texas in the first quarter of 2012, open its second Mobile, Alabama office in the third quarter of 2012, and relocate its existing Charlotte, North Carolina loan production office to a new full-service office in the fourth quarter of 2012. The Company is also working on a potential relocation of its leased office in Bluffton, South Carolina to a new facility it hopes to acquire.

Opening new offices is subject to availability of qualified personnel and suitable sites, designing, constructing, equipping and staffing such offices, obtaining regulatory and other approvals and many other conditions and contingencies that the Company cannot predict with certainty. The Company may increase or

decrease its expected number of new offices as a result of a variety of factors including the Company's financial results, changes in economic or competitive conditions, strategic opportunities or other factors.

During 2011 the Company spent \$21 million on capital expenditures for premises and equipment, including premises and equipment acquired in FDIC-assisted acquisitions. The Company's capital expenditures for 2012 are expected to be in the range of \$29 million to \$45 million, including progress payments on construction projects expected to be completed in 2012 or 2013, furniture and equipment costs, acquisition of sites for future development and premises and equipment acquired in FDIC-assisted acquisitions. Actual expenditures may vary significantly from those expected, depending on the number and cost of additional branch offices acquired or constructed and sites acquired for future development, progress or delays encountered on ongoing and new construction projects, delays in or inability to obtain required approvals, potential premises and equipment expenditures associated with FDIC-assisted acquisitions, if any, and other factors.

### **Critical Accounting Policies**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates, assumptions and judgments that affect the amounts reported in the consolidated financial statements. The Company's determination of (i) the provisions to and the adequacy of the allowance for loan and lease losses, (ii) the fair value of its investment securities portfolio, (iii) the fair value of foreclosed assets not covered by FDIC loss share agreements and (iv) the fair value of the assets acquired and liabilities assumed pursuant to business combination transactions, including the Company's FDIC-assisted acquisitions, all involve a higher degree of judgment and complexity than its other significant accounting policies. Accordingly, the Company considers the determination of (i) provisions to and the adequacy of the allowance for loan and lease losses, (ii) the fair value of its investment securities portfolio, (iii) the fair value of foreclosed assets not covered by FDIC loss share agreements and (iv) the fair value of the assets acquired and liabilities assumed pursuant to business combination transactions to be critical accounting policies.

*Provisions to and adequacy of the allowance for loan and lease losses.* The ALLL is established through a provision for such losses charged against income. All or portions of loans or leases, excluding purchased loans and loans covered by FDIC loss share agreements, deemed to be uncollectible are charged against the ALLL when management believes that collectibility of all or some portion of outstanding principal is unlikely. Subsequent recoveries, if any, of loans or leases previously charged off are credited to the ALLL.

For purchased loans, including covered loans, management separately monitors this portfolio and periodically reviews loans contained within this portfolio against the factors and assumptions used in determining the Day 1 Fair Values. To the extent that a loan's performance has deteriorated from management's expectation established in conjunction with the determination of the Day 1 Fair Values, such loan is considered in the determination of the required level of allowance for loan and lease losses. To the extent that a revised loss estimate exceeds the loss estimate established in the determination of the Day 1 Fair Values, such deterioration will result in an allowance allocation or a charge-off.

The ALLL is maintained at a level management believes will be adequate to absorb probable incurred losses in the loan and lease portfolio. Provision to and the adequacy of the ALLL are based on evaluations of the loan and lease portfolio utilizing objective and subjective criteria. The objective criteria primarily include an internal grading system and specific allowances. In addition to the objective criteria, the Company subjectively assesses the adequacy of the allowance for loan and lease losses and the need for additions thereto, with consideration given to the nature and mix of the portfolio, including concentrations of credit; general economic and business conditions, including national, regional and local business and economic conditions that may affect the borrowers' or lessees' ability to pay; expectations regarding the current business cycle; trends that could affect collateral values and other relevant factors. Changes in any of these criteria or the availability of new information could require adjustment of the ALLL in future periods. While a specific allowance has been calculated for impaired loans and leases and for loans and leases where the Company has otherwise determined a specific reserve is appropriate, no portion of the Company's ALLL is restricted to any individual loan or lease or group of loans or leases, and the entire ALLL is available to absorb losses from any and all loans and leases. The Company also utilizes a peer group analysis and a historical analysis to validate the overall adequacy of its ALLL.

The Company generally places a loan or lease on nonaccrual status when such loan or lease is (i) deemed impaired or (ii) 90 days or more past due, or earlier when doubt exists as to the ultimate collection of payments. The Company may continue to accrue interest on certain loans or leases contractually past due 90 days or more if such loans or leases are both well secured and in the process of collection. At the time a loan or lease is placed on nonaccrual status, interest previously accrued but uncollected is generally reversed and charged against interest income. Nonaccrual loans and leases are generally returned to accrual status when

payments are less than 90 days past due and the Company reasonably expects to collect all payments. If a loan or lease is determined to be uncollectible, the portion of the principal determined to be uncollectible will be charged against the allowance for loan and lease losses. Loans and leases for which the terms have been modified and for which (i) the borrower or lessee is experiencing financial difficulties and (ii) a concession has been granted to the borrower by the Company are considered TDRs and are included in impaired loans and leases. Income on nonaccrual loans or leases, including impaired loans and leases but excluding certain TDRs which continue to accrue interest, is recognized on a cash basis when and if actually collected.

All loans and leases deemed to be impaired are evaluated individually. The Company considers a loan or lease, excluding purchased loans and loans covered by FDIC loss share agreements, to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms thereof. The Company considers a purchased loan, including a covered loan, to be impaired once a decrease in expected cash flows, subsequent to the determination of the Day 1 Fair Values, results in an allowance allocation, a partial or full charge-off or in a provision for loan and lease losses. Most of the Company's nonaccrual loans or leases, excluding purchased loans and loans covered by FDIC loss share agreements, and all TDRs are considered impaired. The majority of the Company's impaired loans and leases are dependent upon collateral for repayment. For such loans and leases, impairment is measured by comparing collateral value, net of holding and selling costs, to the current investment in the loan or lease. For all other impaired loans and leases, the Company compares estimated discounted cash flows to the current investment in the loan or lease. To the extent that the Company's current investment in a particular loan or lease exceeds its estimated net collateral value or its estimated discounted cash flows, the impaired amount is specifically considered in the determination of the allowance for loan and lease losses, or is charged off as a reduction of the allowance for loan and lease losses.

The Company also maintains an allowance for certain loans and leases, excluding purchased loans and loans covered by FDIC loss share agreements, not considered impaired where (i) the customer is continuing to make regular payments, although payments may be past due, (ii) there is a reasonable basis to believe the customer may continue to make regular payments, although there is also an elevated risk that the customer may default, and (iii) the collateral or other repayment sources are likely to be insufficient to recover the current investment in the loan or lease if a default occurs. The Company evaluates such loans and leases to determine if an allowance is needed for these loans and leases. For the purpose of calculating the amount of such allowance, management assumes that (i) no further regular payments occur and (ii) all sums recovered will come from liquidation of collateral and collection efforts from other payment sources. To the extent that the Company's current investment in a particular loan or lease evaluated for the need for such allowance exceeds its net collateral value or its estimated discounted cash flows, such excess is considered allocated allowance for purposes of the determination of the allowance for loan and lease losses.

The Company also includes further allowance allocation for risk-rated loans, including commercial real estate loans, but excluding purchased loans and loans covered by FDIC loss share agreements, that are in markets determined by management to be "stressed". Stressed markets may include any specific geography experiencing (i) high unemployment substantially above the U.S. average, (ii) significant over-development in one or more commercial real estate categories, (iii) recent or announced loss of a major employer or significant workforce reductions, (iv) significant declines in real estate values and (v) various other factors. The additional allowance for such stressed markets compensates for the expectation that a higher risk of loss is anticipated for the "work-out" or liquidation of a real estate loan in a stressed market versus a market that is not experiencing any significant levels of stress. The required allocation percentage applicable to real estate loans in stressed markets may be applied to the total market or it may be determined at the individual loan level based on collateral value, loan-to-value ratios, strength of the borrower and/or guarantor, viability of the underlying project and other factors.

Prior to December 31, 2011, the Company utilized the sum of all allowance amounts derived as described above, combined with a reasonable unallocated allowance, as the primary indicator of the appropriate level of allowance for loan and lease losses. During the fourth quarter of 2011, the Company refined its allowance calculation whereby it "allocated" the portion of the allowance that was previously deemed to be unallocated allowance. This refined allowance calculation includes specific allowance allocations at December 31, 2011 for qualitative factors including (i) concentrations of credit, (ii) general economic and business conditions, (iii) trends that could affect collateral values and (iv) expectations regarding the current business cycle. The Company may also consider other qualitative factors in future periods for additional allowance allocations, including, among other factors, (1) credit quality trends (including trends in nonperforming loans and leases expected to result from existing conditions), (2) seasoning of the loan and lease portfolio, (3) specific industry conditions affecting portfolio segments, (4) the Company's expansion into new markets and (5) the offering of new loan and lease products.

Changes in the criteria used in this evaluation or the availability of new information could cause the allowance to be increased or decreased in future periods. In addition bank regulatory agencies, as part of their examination process, may require adjustments to the allowance for loan and lease losses based on their judgments and estimates.

*Fair value of the investment securities portfolio.* The Company has classified all of its investment securities as AFS. Accordingly, its investment securities are stated at estimated fair value in the consolidated financial statements with unrealized gains and losses, net of related income taxes, reported as a separate component of stockholders' equity and any related changes are included in accumulated other comprehensive income (loss).

The Company utilizes independent third parties as its principal sources for determining fair value of its investment securities that are measured on a recurring basis. For investment securities traded in an active market, the fair values are based on quoted market prices if available. If quoted market prices are not available, fair values are based on market prices for comparable securities, broker quotes or comprehensive interest rate tables, pricing matrices or a combination thereof. For investment securities traded in a market that is not active, fair value is determined using unobservable inputs.

The fair values of the Company's investment securities traded in both active and inactive markets can be volatile and may be influenced by a number of factors including market interest rates, prepayment speeds, discount rates, credit quality of the issuer, general market conditions including market liquidity conditions and other factors. Factors and conditions are constantly changing and fair values could be subject to material variations that may significantly impact the Company's financial condition, results of operations and liquidity.

*Fair value of foreclosed assets not covered by FDIC loss share agreements.* Repossessed personal properties and real estate acquired through or in lieu of foreclosure are initially recorded at the lesser of current principal investment or fair value less estimated cost to sell at the date of repossession or foreclosure. Valuations of these assets are periodically reviewed by management with the carrying value of such assets adjusted through non-interest expense to the then estimated fair value net of estimated selling costs, if lower, until disposition. Fair values of these assets are generally based on third party appraisals, broker price opinions or other valuations of the property.

*Fair value of assets acquired and liabilities assumed pursuant to business combination transactions.* Assets acquired and liabilities assumed in business combinations are recorded at estimated fair value on their purchase date. Purchased loans acquired in a business combination, including loans covered by FDIC loss share agreements, are accounted for in accordance with the provisions of GAAP applicable to loans acquired with deteriorated credit quality and pursuant to the AICPA's December 18, 2009 letter in which the AICPA summarized the SEC's view regarding the accounting in subsequent periods for discount accretion associated with non-credit impaired loans acquired in a business combination or asset purchase. Considering, among other factors, the general lack of adequate underwriting, proper documentation, appropriate loan structure and insufficient equity contributions for a large number of these acquired loans, and the uncertainty of the borrowers' and/or guarantors' ability or willingness to make contractually required (or any) principal and interest payments, management has determined that a significant portion of the purchased loans acquired in FDIC-assisted acquisitions had evidence of credit deterioration since origination. Accordingly, management has elected to apply the provisions of GAAP applicable to loans acquired with deteriorated credit quality as provided by the AICPA's December 18, 2009 letter, to all purchased loans acquired in its FDIC-assisted acquisitions.

At the time such purchased loans are acquired, management individually evaluates substantially all loans acquired in the transaction. This evaluation allows management to determine the estimated fair value of the purchased loans (not considering any FDIC loss sharing agreements) and includes no carryover of any previously recorded allowance for loan and lease losses. In determining the estimated fair value of purchased loans, management considers a number of factors including, among other things, the remaining life of the acquired loans, estimated prepayments, estimated loss ratios, estimated value of the underlying collateral, estimated holding periods, and net present value of cash flows expected to be received. To the extent that any purchased loan acquired in a FDIC-assisted acquisition is not specifically reviewed, management applies a loss estimate to that loan based on the average expected loss rates for the purchased loans that were individually reviewed in that purchased loan portfolio.

As provided for under GAAP, management has up to 12 months following the date of the acquisition to finalize the fair values of acquired assets and assumed liabilities. Once management has finalized the fair values of acquired assets and assumed liabilities within this 12-month period, management considers such values to be the Day 1 Fair Values.

In determining the Day 1 Fair Values of purchased loans, including covered loans, management calculates a non-accretable difference (the credit component of the purchased loans) and an accretable difference

(the yield component of the purchased loans). The non-accretable difference is the difference between the contractually required payments and the cash flows expected to be collected in accordance with management's determination of the Day 1 Fair Values. Subsequent decreases to the expected cash flows will generally result in a provision for loan and lease losses. Subsequent increases in cash flows will result in a reversal of the provision for loan and lease losses to the extent of prior charges and then an adjustment to accretable yield, which would have a positive impact on interest income. Any such increase or decrease in expected cash flows will result in a corresponding decrease or increase, respectively, of the FDIC loss share receivable for the portion of such reduced or additional loss expected to be collected from the FDIC.

The accretable difference on purchased loans, including covered loans, is the difference between the expected cash flows and the net present value of expected cash flows. Such difference is accreted into earnings using the effective yield method over the term of the loans. In determining the net present value of the expected cash flows, the Company used discount rates ranging from 6.0% to 9.5% per annum depending on the risk characteristics of each individual loan. At December 31, 2011 the weighted average period during which management expects to receive the estimated cash flows for its covered loan portfolio (not considering any payment under the FDIC loss share agreements) is 2.4 years.

Management separately monitors the purchased loan portfolio and periodically reviews loans contained within this portfolio against the factors and assumptions used in determining the Day 1 Fair Values. A loan is typically reviewed (i) when it is modified or extended, (ii) when material information becomes available to the Company that provides additional insight regarding the loan's performance, the status of the borrower, or the quality or value of the underlying collateral, or (iii) in conjunction with the annual review of projected cash flows which include a substantial portion of each acquired loan portfolio. To the extent that a loan is performing in accordance with management's expectation established in conjunction with the determination of the Day 1 Fair Values, such loan is not included in any of the Company's credit quality ratios, is not considered to be an impaired loan, is not risk rated in a similar manner as are the Company's non-purchased loans and is not considered in the determination of the required allowance for loan and lease losses. To the extent that a loan's performance has deteriorated from management's expectation established in conjunction with the determination of the Day 1 Fair Values, such loan is generally included in certain of the Company's credit quality metrics, may be considered an impaired loan, and is considered in the determination of the required level of allowance for loan and lease losses.

Foreclosed assets covered by FDIC loss share agreements, or covered foreclosed assets, are recorded at Day 1 Fair Values. In estimating the fair value of covered foreclosed assets, management considers a number of factors including, among others, appraised value, estimated selling prices, estimated selling costs, estimated holding periods and net present value of cash flows expected to be received. Discount rates ranging from 8.0% to 9.5% per annum were used to determine the net present value of covered foreclosed assets.

In connection with the Company's FDIC-assisted acquisitions, the Company has recorded an FDIC loss share receivable to reflect the indemnification provided by the FDIC. Currently, the expected losses on covered assets for each of the Company's loss share agreements would result in expected recovery of approximately 80% of incurred losses. Since the indemnified items are covered loans and covered foreclosed assets, which are measured at Day 1 Fair Values, the FDIC loss share receivable is also measured and recorded at Day 1 Fair Values, and is calculated by discounting the cash flows expected to be received from the FDIC. A discount rate of 5.0% per annum was used to determine the net present value of the FDIC loss share receivable. These cash flows are estimated by multiplying estimated losses by the reimbursement rates as set forth in the loss share agreements. The balance of the FDIC loss share receivable is adjusted periodically to reflect changes in expectations of discounted cash flows, expense reimbursements under the loss share agreements and other factors.

Pursuant to the clawback provisions of the loss share agreements for the Company's FDIC-assisted acquisitions, the Company may be required to reimburse the FDIC should actual losses be less than certain thresholds established in each loss share agreement. The amount of the clawback provision for each acquisition is measured and recorded at Day 1 Fair Values. It is calculated as the difference between management's estimated losses on covered loans and covered foreclosed assets and the loss threshold contained in each loss share agreement, multiplied by the applicable clawback provisions contained in each loss share agreement. This clawback amount, which is payable to the FDIC upon termination of the applicable loss share agreement, is then discounted back to net present value using a discount rate of 5.0% per annum. To the extent that actual losses on covered loans and covered foreclosed assets are less than estimated losses, the applicable clawback payable to the FDIC upon termination of the loss share agreements will increase. To the extent that actual losses on covered loans and covered foreclosed assets are more than estimated losses, the applicable clawback payable to the FDIC upon termination of the loss share agreements will decrease.



The Day 1 Fair Values of investment securities acquired in business combinations are generally based on quoted market prices, broker quotes, comprehensive interest rate tables or pricing matrices, or a combination thereof. The Day 1 Fair Values of assumed liabilities in business combinations is generally the amount payable by the Company necessary to completely satisfy the assumed obligations.

### **Recently Issued Accounting Standards**

See Note 1 to the Consolidated Financial Statements for a discussion of certain recently issued accounting pronouncements.

### **Forward-Looking Information**

This Management's Discussion and Analysis of Financial Condition and Results of Operations, other filings made by the Company with the Securities and Exchange Commission and other oral and written statements or reports by the Company and its management include certain forward-looking statements including, without limitation, statements about economic, real estate market, competitive, employment, credit market and interest rate conditions; plans, goals, beliefs, expectations, thoughts, estimates and outlook for the future; revenue growth; net income and earnings per common share; net interest margin; net interest income; non-interest income, including service charges on deposit accounts, mortgage lending and trust income, gains (losses) on investment securities and sales of other assets; gains on FDIC-assisted acquisitions; income from accretion of the FDIC loss share receivable, net of amortization of the FDIC clawback payable; other loss share income; non-interest expense; efficiency ratio; anticipated future operating results and financial performance; asset quality and asset quality ratios, including the effects of current economic and real estate market conditions; nonperforming loans and leases; nonperforming assets; net charge-offs; net charge-off ratio; provision and allowance for loan and lease losses; past due loans and leases; current or future litigation; interest rate sensitivity, including the effects of possible interest rate changes; future growth and expansion opportunities including plans for making additional FDIC-assisted acquisitions and plans for opening new offices or closing offices; opportunities and goals for future market share growth; expected capital expenditures; loan, lease and deposit growth; changes in covered assets; changes in the volume, yield and value of the Company's investment securities portfolio; availability of unused borrowings and other similar forecasts and statements of expectation. Words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "look," "seek," "may," "will," "could," "trend," "target," "goal," "hope," and similar expressions, as they relate to the Company or its management, identify forward-looking statements. Forward-looking statements made by the Company and its management are based on estimates, projections, beliefs, plans and assumptions of management at the time of such statements and are not guarantees of future performance. The Company disclaims any obligation to update or revise any forward-looking statement based on the occurrence of future events, the receipt of new information or otherwise.

Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements made by the Company and its management due to certain risks, uncertainties and assumptions. Certain factors that may affect operating results of the Company include, but are not limited to, potential delays or other problems in implementing the Company's growth and expansion strategy including delays in identifying satisfactory sites, hiring or retaining qualified personnel, obtaining regulatory or other approvals, obtaining permits and designing, constructing and opening new offices; the ability to enter into additional FDIC-assisted acquisitions or problems with integrating or managing such acquisitions; opportunities to profitably deploy capital; the ability to attract new or retain existing deposits, loans and leases; the ability to generate future revenue growth or to control future growth in non-interest expense; interest rate fluctuations, including changes in the yield curve between short-term and long-term interest rates; competitive factors and pricing pressures, including their effect on the Company's net interest margin; general economic, unemployment, credit market and real estate market conditions, including their effect on the creditworthiness of borrowers and lessees, collateral values, the value of investment securities and asset recovery values, including the value of the FDIC loss share receivable and related assets covered by FDIC loss share agreements; changes in legal and regulatory requirements; recently enacted and potential legislation and regulatory actions, including legislation and regulatory actions intended to stabilize economic conditions and credit markets, increase regulation of the financial services industry and protect homeowners or consumers; changes in U.S. government monetary and fiscal policy; possible further downgrade of U.S. Treasury securities; adoption of new accounting standards or changes in existing standards; and adverse results in current or future litigation as well as other factors described in this and other Company reports and statements. Should one or more of the foregoing risks materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described in the forward-looking statements.

## Summary of Quarterly Results of Operations, Market Prices of Common Stock and Dividends

Unaudited

### 2011 - Three Months Ended

|  | <u>Mar. 31</u>                                   | <u>June 30</u>  | <u>Sept. 30</u> | <u>Dec. 31</u>  |
|--|--|-----------------|-----------------|-----------------|
|  | (Dollars in thousands, except per share amounts) |                 |                 |                 |
| Interest income .....                                | \$44,023   | \$50,874        | \$51,902        | \$52,370        |
| Interest expense .....                               | (7,940)  | (8,398)         | (7,566)         | (6,531)         |
| Net interest income .....                            | 36,083   | 42,476          | 44,336          | 45,839          |
| Provision for loan and lease losses .....            | (2,250)  | (3,750)         | (1,500)         | (4,275)         |
| Non-interest income .....                            | 12,990   | 75,058          | 16,071          | 12,964          |
| Non-interest expense .....                           | (26,192)   | (35,200)        | (31,800)        | (29,339)        |
| Income taxes .....                                   | (6,004)  | (28,380)        | (8,220)         | (7,604)         |
| Noncontrolling interest .....                        | 3  | 13              | 17              | (15)            |
| Net income available to<br>common stockholders ..... | <u>\$14,630</u>                                  | <u>\$50,217</u> | <u>\$18,904</u> | <u>\$17,570</u> |
| Per common share:                                    |  |                 |                 |                 |
| Earnings - diluted .....                             | \$ 0.43  | \$ 1.46         | \$ 0.55         | \$ 0.51         |
| Cash dividends .....                                 | 0.085  | 0.090           | 0.095           | 0.100           |
| Bid price per common share:                          |  |                 |                 |                 |
| Low .....  | \$ 20.96   | \$ 22.04        | \$ 19.89        | \$ 20.64        |
| High .....   | 22.23  | 26.03           | 26.88           | 30.80           |

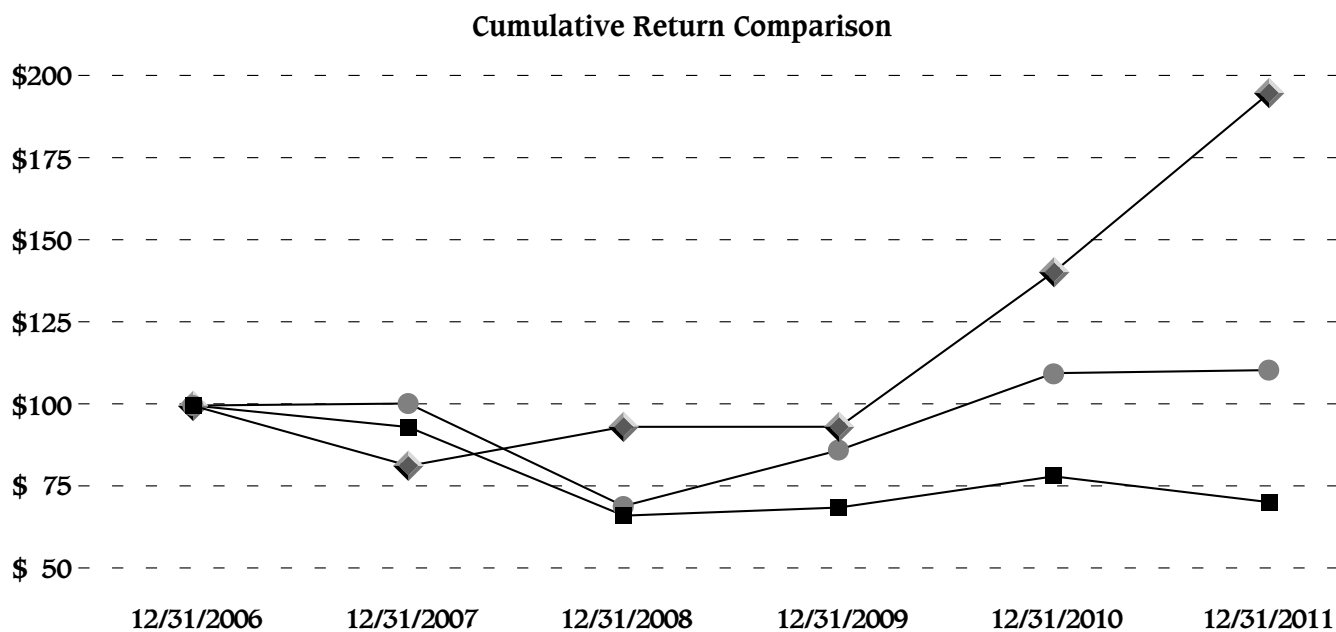
### 2010 - Three Months Ended

|  | <u>Mar. 31</u>                                   | <u>June 30</u>  | <u>Sept. 30</u> | <u>Dec. 31</u>  |
|--|--|-----------------|-----------------|-----------------|
|  | (Dollars in thousands, except per share amounts) |                 |                 |                 |
| Interest income .....                                | \$36,213   | \$38,580        | \$41,092        | \$42,087        |
| Interest expense .....                               | (9,020)  | (8,851)         | (8,324)         | (8,142)         |
| Net interest income .....                            | 27,193   | 29,729          | 32,768          | 33,945          |
| Provision for loan and lease losses .....            | (4,200)  | (3,400)         | (4,300)         | (4,100)         |
| Non-interest income .....                            | 17,365   | 9,127           | 25,183          | 18,646          |
| Non-interest expense .....                           | (17,471)   | (21,110)        | (23,565)        | (25,274)        |
| Income taxes .....                                   | (6,944)  | (3,488)         | (9,878)         | (6,303)         |
| Noncontrolling interest .....                        | 11   | 32              | 17              | 17              |
| Net income available to<br>common stockholders ..... | <u>\$15,954</u>                                  | <u>\$10,890</u> | <u>\$20,225</u> | <u>\$16,931</u> |
| Per common share:                                    |  |                 |                 |                 |
| Earnings - diluted .....                             | \$ 0.47  | \$ 0.32         | \$ 0.59         | \$ 0.49         |
| Cash dividends .....                                 | 0.070  | 0.075           | 0.075           | 0.080           |
| Bid price per common share:                          |  |                 |                 |                 |
| Low .....  | \$ 14.33   | \$ 16.82        | \$ 17.20        | \$ 18.51        |
| High .....   | 17.77  | 19.73           | 19.64           | 22.25           |

See Note 18 to Consolidated Financial Statements for discussion of dividend restrictions.

## Company Performance

The graph below shows a comparison for the period commencing December 31, 2006 through December 31, 2011 of the cumulative total stockholder returns (assuming reinvestment of dividends) for the common stock of the Company, the S&P Smallcap Index and the NASDAQ Financial Index, assuming a \$100 investment on December 31, 2006.



- ◆ OZRK (Bank of the Ozarks, Inc.)
- SML (S&P Smallcap Index)
- NDF (NASDAQ Financial Index)

|                                 | 12/31/2006 | 12/31/2007 | 12/31/2008 | 12/31/2009 | 12/31/2010 | 12/31/2011 |
|---------------------------------|------------|------------|------------|------------|------------|------------|
| OZRK (Bank of the Ozarks, Inc.) | \$100      | \$ 81      | \$ 93      | \$ 93      | \$140      | \$194      |
| SML (S&P Smallcap Index)        | \$100      | \$100      | \$ 69      | \$ 86      | \$109      | \$110      |
| NDF (NASDAQ Financial Index)    | \$100      | \$ 93      | \$ 66      | \$ 68      | \$ 78      | \$ 70      |

## Report of Management on the Company's Internal Control Over Financial Reporting

February 29, 2012

Management of Bank of the Ozarks, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures are made only in accordance with authorizations of management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. 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, have been detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management of Bank of the Ozarks, Inc., including the Chief Executive Officer and the Chief Financial Officer and Chief Accounting Officer, has assessed the Company's internal control over financial reporting as of December 31, 2011, based on criteria for effective internal control over financial reporting described in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. As permitted by SEC guidance, management excluded from its assessment the operations of the three FDIC-assisted acquisitions made during 2011, which are described in Note 2 to the Consolidated Financial Statements. The assets acquired in these acquisitions consist primarily of "covered assets" which comprised approximately 17% of total consolidated assets at December 31, 2011. Based on this assessment, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2011, based on the specified criteria.

The effectiveness of Bank of the Ozarks, Inc.'s internal control over financial reporting has been audited by Crowe Horwath LLP, an independent registered public accounting firm, as stated in their report which is included herein.



George Gleason  
*Chairman and Chief Executive Officer*



Greg McKinney  
*Chief Financial Officer and Chief Accounting Officer*

## Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders  
Bank of the Ozarks, Inc.

We have audited Bank of the Ozarks, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Bank of the Ozarks, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on the Company's Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As permitted, the Company excluded the operations of the three financial institutions acquired during 2011, which are described in Note 2 of the consolidated financial statements, from the scope of management's report on internal control over financial reporting. As such they have also been excluded from the scope of our audit of internal control over financial reporting.

In our opinion, Bank of the Ozarks, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Bank of the Ozarks, Inc. as of December 31, 2011 and 2010 and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2011, and our report dated February 29, 2012, expressed an unqualified opinion thereon.

*Crowe Horwath LLP*

Atlanta, Georgia  
February 29, 2012



## Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders  
Bank of the Ozarks, Inc.

We have audited the accompanying consolidated balance sheets of Bank of the Ozarks, Inc. (the "Company") as of December 31, 2011 and 2010 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bank of the Ozarks, Inc. at December 31, 2011 and 2010 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Bank of the Ozarks, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 29, 2012, expressed an unqualified opinion thereon.

*Crowe Horwath LLP*

Atlanta, Georgia  
February 29, 2012

**Bank of the Ozarks, Inc.**  
**CONSOLIDATED BALANCE SHEETS**

**December 31,**

2011                      2010

(Dollars in thousands, except per share amounts)

**ASSETS**

|  |                    |                    |
|--|--------------------|--------------------|
| Cash and due from banks  | \$ 58,247          | \$ 48,024          |
| Interest earning deposits  | 680                | 1,005              |
| Cash and cash equivalents  | 58,927             | 49,029             |
| Investment securities - available for sale ("AFS")   | 438,910            | 398,698            |
| Loans and leases not covered by Federal Deposit Insurance Corporation ("FDIC") loss share agreements | 1,885,282          | 1,856,429          |
| Loans covered by FDIC loss share agreements  | 806,924            | 489,468            |
| Allowance for loan and lease losses  | (39,169)           | (40,230)           |
| Net loans and leases   | 2,653,037          | 2,305,667          |
| FDIC loss share receivable   | 278,263            | 158,137            |
| Premises and equipment, net  | 186,533            | 170,497            |
| Foreclosed assets not covered by FDIC loss share agreements  | 31,762             | 42,216             |
| Foreclosed assets covered by FDIC loss share agreements  | 72,907             | 31,145             |
| Accrued interest receivable  | 12,868             | 13,899             |
| Bank owned life insurance ("BOLI")   | 62,078             | 59,771             |
| Intangible assets, net   | 12,207             | 7,925              |
| Other, net   | 32,495             | 36,287             |
| Total assets   | <u>\$3,839,987</u> | <u>\$3,273,271</u> |

**LIABILITIES AND STOCKHOLDERS' EQUITY**

|   |                    |                    |
|---|--------------------|--------------------|
| Deposits:   |                    |                    |
| Demand non-interest bearing   | \$ 447,214         | \$ 298,585         |
| Savings and interest bearing transaction  | 1,578,449          | 1,299,058          |
| Time  | 918,256            | 943,110            |
| Total deposits  | 2,943,919          | 2,540,753          |
| Repurchase agreements with customers  | 32,810             | 43,324             |
| Other borrowings  | 301,847            | 282,139            |
| Subordinated debentures   | 64,950             | 64,950             |
| FDIC clawback payable   | 24,606             | 6,904              |
| Accrued interest payable and other liabilities  | 43,882             | 11,431             |
| Total liabilities   | <u>3,412,014</u>   | <u>2,949,501</u>   |
| Commitments and contingencies   |                    |                    |
| Stockholders' equity:   |                    |                    |
| Preferred stock; \$0.01 par value; 1,000,000 shares authorized; no shares outstanding at December 31, 2011 and 2010   | -                  | -                  |
| Common stock; \$0.01 par value; 50,000,000 shares authorized; 34,463,880 and 34,107,280 shares issued and outstanding at December 31, 2011 and 2010, respectively | 345                | 341                |
| Additional paid-in capital  | 51,145             | 45,107             |
| Retained earnings   | 363,734            | 275,074            |
| Accumulated other comprehensive income (loss)   | 9,327              | (167)              |
| Total stockholders' equity before noncontrolling interest   | 424,551            | 320,355            |
| Noncontrolling interest   | 3,422              | 3,415              |
| Total stockholders' equity  | <u>427,973</u>     | <u>323,770</u>     |
| Total liabilities and stockholders' equity  | <u>\$3,839,987</u> | <u>\$3,273,271</u> |

See accompanying notes to the consolidated financial statements.

**Bank of the Ozarks, Inc.**  
**CONSOLIDATED STATEMENTS OF INCOME**

Year Ended December 31,

|  | 2011   | 2010      | 2009      |
|--|--|-----------|-----------|
|  | (Dollars in thousands, except per share amounts) |           |           |
| Interest income:   |  |           |           |
| Loans and leases   | \$113,283  | \$118,150 | \$125,301 |
| Covered loans  | 66,135   | 17,141    | -         |
| Investment securities:   |  |           |           |
| Taxable  | 3,013  | 4,130     | 18,314    |
| Tax-exempt   | 16,702   | 18,533    | 22,283    |
| Deposits with banks and federal funds sold   | 36   | 18        | 10        |
| Total interest income  | 199,169  | 157,972   | 165,908   |
| Interest expense:  |  |           |           |
| Deposits   | 17,686   | 20,047    | 30,480    |
| Repurchase agreements with customers   | 174  | 380       | 592       |
| Other borrowings   | 10,835   | 12,146    | 14,375    |
| Subordinated debentures  | 1,740  | 1,764     | 2,138     |
| Total interest expense   | 30,435   | 34,337    | 47,585    |
| Net interest income  | 168,734  | 123,635   | 118,323   |
| Provision for loan and lease losses  | 11,775   | 16,000    | 44,800    |
| Net interest income after provision<br>for loan and lease losses                         | 156,959  | 107,635   | 73,523    |
| Non-interest income:   |  |           |           |
| Service charges on deposit accounts  | 18,094   | 15,156    | 12,421    |
| Mortgage lending income  | 3,277  | 3,863     | 3,312     |
| Trust income   | 3,206  | 3,406     | 3,078     |
| BOLI income  | 2,307  | 2,151     | 3,186     |
| Accretion of FDIC loss share receivable, net of<br>amortization of FDIC clawback payable | 10,141   | 2,429     | -         |
| Other loss share income, net   | 6,432  | 599       | -         |
| Gains on investment securities   | 933  | 4,544     | 26,982    |
| Gains (losses) on sales of other assets  | 3,738  | 802       | (177)     |
| Gains on FDIC-assisted acquisitions  | 65,708   | 35,019    | -         |
| Other  | 3,247  | 2,353     | 2,249     |
| Total non-interest income  | 117,083  | 70,322    | 51,051    |
| Non-interest expense:  |  |           |           |
| Salaries and employee benefits   | 56,262   | 40,161    | 31,847    |
| Net occupancy and equipment  | 14,705   | 10,618    | 9,740     |
| Other operating expenses   | 51,564   | 36,640    | 27,045    |
| Total non-interest expense   | 122,531  | 87,419    | 68,632    |
| Income before taxes  | 151,511  | 90,538    | 55,942    |
| Provision for income taxes   | 50,208   | 26,614    | 12,859    |
| Net income   | 101,303  | 63,924    | 43,083    |
| Net loss attributable to noncontrolling interest   | 18   | 77        | 19        |
| Preferred stock dividends and amortization of<br>preferred stock discount                | -  | -         | (6,276)   |
| Net income available to common stockholders  | \$101,321  | \$ 64,001 | \$ 36,826 |
| Basic earnings per common share  | \$ 2.96  | \$ 1.89   | \$ 1.09   |
| Diluted earnings per common share  | \$ 2.94  | \$ 1.88   | \$ 1.09   |

See accompanying notes to the consolidated financial statements.

**Bank of the Ozarks, Inc.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

|   | Preferred<br>Stock-<br>Series A | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Non-<br>Controlling<br>Interest | Total          |
|---|---------------------------------|-----------------|----------------------------------|----------------------|--|---------------------------------|----------------|
| (Dollars in thousands, except per share amounts)                                    |                                 |                 |                                  |                      |  |                                 |                |
| Balances - January 1, 2009  | \$71,880                        | \$338           | \$43,145                         | \$193,195            | \$15,624   | \$ 3,421                        | \$327,603      |
| Comprehensive income:   |                                 |                 |                                  |                      |  |                                 |                |
| Net income  | -                               | -               | -                                | 43,083               | -  | -                               | 43,083         |
| Net loss attributable to noncontrolling interest                                    | -                               | -               | -                                | 19                   | -  | (19)                            | -              |
| Other comprehensive income (loss):  |                                 |                 |                                  |                      |  |                                 |                |
| Unrealized gains/losses on investment securities AFS, net of \$4,393 tax effect     | -                               | -               | -                                | -                    | 6,806  | -                               | 6,806          |
| Reclassification of gains/losses included in net income, net of \$10,584 tax effect | -                               | -               | -                                | -                    | (16,398)   | -                               | (16,398)       |
| Total comprehensive income  |                                 |                 |                                  |                      |  |                                 | <u>33,491</u>  |
| Common stock dividends paid \$0.26 per share  | -                               | -               | -                                | (8,778)              | -  | -                               | (8,778)        |
| Preferred stock dividends   | -                               | -               | -                                | (3,156)              | -  | -                               | (3,156)        |
| Amortization of preferred stock discount  | 463                             | -               | -                                | (463)                | -  | -                               | -              |
| Redemption of 75,000 shares of preferred stock                                      | (72,343)                        | -               | -                                | (2,657)              | -  | -                               | (75,000)       |
| Repurchase of a warrant for 759,622 shares of common stock                          | -                               | -               | (2,650)                          | -                    | -  | -                               | (2,650)        |
| Issuance of 43,600 shares of common stock for exercise of stock options             | -                               | -               | 258                              | -                    | -  | -                               | 258            |
| Tax (expense) benefit on exercise and forfeiture of stock options                   | -                               | -               | (50)                             | -                    | -  | -                               | (50)           |
| Stock-based compensation expense  | -                               | -               | 712                              | -                    | -  | -                               | 712            |
| Investment in noncontrolling interest   | -                               | -               | -                                | -                    | -  | 40                              | 40             |
| Issuance of 37,200 shares of unvested common stock under restricted stock plan      | -                               | -               | -                                | -                    | -  | -                               | -              |
| Balances - December 31, 2009  | <u>-</u>                        | <u>338</u>      | <u>41,415</u>                    | <u>221,243</u>       | <u>6,032</u>   | <u>3,442</u>                    | <u>272,470</u> |
| Comprehensive income:   |                                 |                 |                                  |                      |  |                                 |                |
| Net income  | -                               | -               | -                                | 63,924               | -  | -                               | 63,924         |
| Net loss attributable to noncontrolling interest                                    | -                               | -               | -                                | 77                   | -  | (77)                            | -              |
| Other comprehensive income (loss):  |                                 |                 |                                  |                      |  |                                 |                |
| Unrealized gains/losses on investment securities AFS, net of \$2,218 tax effect     | -                               | -               | -                                | -                    | (3,437)  | -                               | (3,437)        |
| Reclassification of gains/losses included in net income, net of \$1,782 tax effect  | -                               | -               | -                                | -                    | (2,762)  | -                               | (2,762)        |
| Total comprehensive income  |                                 |                 |                                  |                      |  |                                 | <u>57,725</u>  |
| Common stock dividends paid, \$0.30 per share                                       | -                               | -               | -                                | (10,170)             | -  | -                               | (10,170)       |
| Issuance of 227,600 shares of common stock for exercise of stock options            | -                               | 2               | 2,823                            | -                    | -  | -                               | 2,825          |
| Tax (expense) benefit on exercise and forfeiture of stock options                   | -                               | -               | 37                               | -                    | -  | -                               | 37             |
| Stock-based compensation expense  | -                               | -               | 833                              | -                    | -  | -                               | 833            |
| Investment in noncontrolling interest   | -                               | -               | -                                | -                    | -  | 50                              | 50             |
| Issuance of 74,600 shares of unvested common stock under restricted stock plan      | -                               | 1               | (1)                              | -                    | -  | -                               | -              |
| Forfeiture of 4,000 shares of unvested common stock under restricted stock plan     | -                               | -               | -                                | -                    | -  | -                               | -              |
| Balances - December 31, 2010  | <u>-</u>                        | <u>341</u>      | <u>45,107</u>                    | <u>275,074</u>       | <u>(167)</u>   | <u>3,415</u>                    | <u>323,770</u> |

**Bank of the Ozarks, Inc.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (continued)**

|  | Preferred<br>Stock-<br>Series A | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Non-<br>Controlling<br>Interest | Total            |
|--|---------------------------------|-----------------|----------------------------------|----------------------|--|---------------------------------|------------------|
| (Dollars in thousands, except per share amounts)                                       |                                 |                 |                                  |                      |  |                                 |                  |
| Balances - December 31, 2010   | \$ -                            | \$341           | \$45,107                         | \$275,074            | \$ (167)   | \$3,415                         | \$323,770        |
| Comprehensive income:  |                                 |                 |                                  |                      |  |                                 |                  |
| Net income   | -                               | -               | -                                | 101,303              | -  | -                               | 101,303          |
| Net loss attributable to<br>noncontrolling interest                                    | -                               | -               | -                                | 18                   | -  | (18)                            | -                |
| Other comprehensive income (loss):   |                                 |                 |                                  |                      |  |                                 |                  |
| Unrealized gains/losses on<br>investment securities AFS,<br>net of \$6,494 tax effect  | -                               | -               | -                                | -                    | 10,061   | -                               | 10,061           |
| Reclassification of gains/losses<br>included in net income,<br>net of \$366 tax effect | -                               | -               | -                                | -                    | (567)  | -                               | (567)            |
| Total comprehensive income   |                                 |                 |                                  |                      |  |                                 | <u>110,797</u>   |
| Common stock dividends paid,<br>\$0.37 per share                                       | -                               | -               | -                                | (12,661)             | -  | -                               | (12,661)         |
| Issuance of 262,500 shares of common<br>stock for exercise of stock options            | -                               | 3               | 4,029                            | -                    | -  | -                               | 4,032            |
| Tax (expense) benefit on exercise<br>and forfeiture of stock options                   | -                               | -               | 482                              | -                    | -  | -                               | 482              |
| Stock-based compensation expense   | -                               | -               | 1,528                            | -                    | -  | -                               | 1,528            |
| Investment in noncontrolling interest  | -                               | -               | -                                | -                    | -  | 25                              | 25               |
| Issuance of 95,700 shares of<br>unvested common stock under<br>restricted stock plan   | -                               | 1               | (1)                              | -                    | -  | -                               | -                |
| Forfeiture of 1,600 shares of<br>unvested common stock under<br>restricted stock plan  | -                               | -               | -                                | -                    | -  | -                               | -                |
| Balances - December 31, 2011   | <u>\$ -</u>                     | <u>\$345</u>    | <u>\$51,145</u>                  | <u>\$363,734</u>     | <u>\$ 9,327</u>  | <u>\$3,422</u>                  | <u>\$427,973</u> |

See accompanying notes to the consolidated financial statements.



**Bank of the Ozarks, Inc.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

|   | Year Ended December 31, |                  |                  |
|---|-------------------------|------------------|------------------|
|   | 2011                    | 2010             | 2009             |
|   | (Dollars in thousands)  |                  |                  |
| Cash flows from operating activities:   |                         |                  |                  |
| Net income  | \$ 101,303              | \$ 63,924        | \$ 43,083        |
| Adjustments to reconcile net income to net cash provided by operating activities:     |                         |                  |                  |
| Depreciation  | 5,358                   | 4,471            | 4,172            |
| Amortization  | 1,677                   | 431              | 110              |
| Net loss attributable to noncontrolling interest                                      | 18                      | 77               | 19               |
| Provision for loan and lease losses   | 11,775                  | 16,000           | 44,800           |
| Provision for losses on foreclosed assets   | 9,525                   | 8,960            | 4,009            |
| Writedown of other assets   | 1,250                   | -                | 1,639            |
| Net amortization (accretion) of investment securities AFS                             | 426                     | (585)            | (4,466)          |
| Net gains on investment securities AFS  | (933)                   | (4,544)          | (26,982)         |
| Originations and purchases of mortgage loans held for sale                            | (154,168)               | (188,120)        | (185,075)        |
| Proceeds from sales of mortgage loans held for sale                                   | 150,562                 | 180,371          | 184,195          |
| Accretion of covered loans  | (66,135)                | (17,141)         | -                |
| Accretion of FDIC loss share receivable, net of amortization of FDIC clawback payable | (10,141)                | (2,429)          | -                |
| (Gains) losses on sales of other assets   | (3,738)                 | (802)            | 177              |
| Gains on FDIC-assisted transactions   | (65,708)                | (35,019)         | -                |
| Deferred income tax expense (benefit)   | 11,866                  | 8,195            | (1,706)          |
| Increase in cash surrender value of BOLI  | (2,307)                 | (2,151)          | (1,932)          |
| Current tax benefit on exercise of stock options                                      | (870)                   | (535)            | (111)            |
| Stock-based compensation expense  | 1,528                   | 833              | 712              |
| BOLI death benefits in excess of cash surrender value                                 | -                       | -                | (1,254)          |
| Changes in assets and liabilities:  |                         |                  |                  |
| Accrued interest receivable   | 1,551                   | 1,430            | 4,117            |
| Other assets, net   | 13,637                  | 6,519            | (12,598)         |
| Accrued interest payable and other liabilities  | 14,844                  | 1,015            | (4,946)          |
| Net cash provided by operating activities   | <u>21,320</u>           | <u>40,900</u>    | <u>47,963</u>    |
| Cash flows from investing activities:   |                         |                  |                  |
| Proceeds from sales of investment securities AFS                                      | 94,676                  | 255,232          | 528,542          |
| Proceeds from maturities/calls/paydowns of investment securities AFS                  | 31,052                  | 59,887           | 246,888          |
| Purchases of investment securities AFS  | (13,453)                | (121,086)        | (321,925)        |
| Net (fundings) paydowns of non-covered loans and leases                               | (27,216)                | 38,195           | 12,293           |
| Net decrease in covered loans   | 213,910                 | 46,438           | -                |
| Payments received from FDIC under loss share agreements                               | 109,001                 | 20,110           | -                |
| Net cash proceeds received in FDIC-assisted acquisitions                              | 365,394                 | 201,473          | -                |
| Purchases of premises and equipment   | (21,138)                | (16,881)         | (9,199)          |
| Proceeds from sales of other assets   | 41,847                  | 23,507           | 17,438           |
| Proceeds from BOLI death benefits   | -                       | -                | 2,149            |
| Purchase of BOLI  | -                       | (10,200)         | -                |
| Net investment in unconsolidated investments and noncontrolling interest              | (1,795)                 | (4,575)          | (15)             |
| Net cash provided by investing activities   | <u>792,278</u>          | <u>492,100</u>   | <u>476,171</u>   |
| Cash flows from financing activities:   |                         |                  |                  |
| Net decrease in deposits  | (711,568)               | (440,624)        | (312,420)        |
| Net repayments of other borrowings  | (73,111)                | (113,948)        | (82,394)         |
| Net decrease in repurchase agreements with customers                                  | (11,262)                | (883)            | (2,595)          |
| Proceeds from exercise of stock options   | 4,032                   | 2,825            | 258              |
| Redemption of preferred stock   | -                       | -                | (75,000)         |
| Repurchase of common stock warrant  | -                       | -                | (2,650)          |
| Current tax benefit on exercise of stock options                                      | 870                     | 535              | 111              |
| Cash dividends paid on common stock   | (12,661)                | (10,170)         | (8,778)          |
| Cash dividends paid on preferred stock  | -                       | -                | (3,354)          |
| Net cash used by financing activities   | <u>(803,700)</u>        | <u>(562,265)</u> | <u>(486,822)</u> |
| Net increase (decrease) in cash and cash equivalents                                  | 9,898                   | (29,265)         | 37,312           |
| Cash and cash equivalents - beginning of year   | 49,029                  | 78,294           | 40,982           |
| Cash and cash equivalents - end of year   | <u>\$ 58,927</u>        | <u>\$ 49,029</u> | <u>\$ 78,294</u> |

See accompanying notes to the consolidated financial statements.

**Bank of the Ozarks, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2011, 2010 and 2009**

## **1. Summary of Significant Accounting Policies**

Organization - Bank of the Ozarks, Inc. (the "Company") is a bank holding company headquartered in Little Rock, Arkansas, which operates under the rules and regulations of the Board of Governors of the Federal Reserve System. The Company owns a wholly-owned state chartered bank subsidiary - Bank of the Ozarks (the "Bank"), four 100%-owned finance subsidiary business trusts - Ozark Capital Statutory Trust II ("Ozark II"), Ozark Capital Statutory Trust III ("Ozark III"), Ozark Capital Statutory Trust IV ("Ozark IV") and Ozark Capital Statutory Trust V ("Ozark V") (collectively, the "Trusts") and, indirectly through the Bank, a subsidiary engaged in the development of real estate, a subsidiary that owns a private aircraft and various other entities that hold foreclosed assets or tax credits or engage in other activities. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities. At December 31, 2011, the Company had 111 offices, including 66 in Arkansas, 27 in Georgia, ten in Texas, four in Florida, two in North Carolina and one each in South Carolina and Alabama.

Basis of presentation, use of estimates and principles of consolidation - The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates, assumptions and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

The consolidated financial statements include the accounts of the Company, the Bank, the real estate subsidiary and the aircraft subsidiary. In addition, subsidiaries in which the Company has majority voting interest (principally defined as owning a voting or economic interest greater than 50%) or where the Company exercises control over the operating and financial policies of the subsidiary through an operating agreement or other means are consolidated. Investments in companies in which the Company has significant influence over voting and financing decisions (principally defined as owning a voting or economic interest of 20% to 50%) and investments in limited partnerships and limited liability companies where the Company does not exercise control over the operating and financial policies are generally accounted for by the equity method of accounting. Investments in limited partnerships and limited liability companies in which the Company's interest is so minor such that it has virtually no influence over operating and financial policies (typically less than 20%) are generally accounted for by the cost method of accounting. Significant intercompany transactions and amounts have been eliminated in consolidation.

The voting interest approach is not applicable for entities that are not controlled through voting interests or in which the equity investors do not bear the residual economic risk. In such instances, management makes a determination, based on its review of applicable GAAP, on when the assets, liabilities and activities of a variable interest entity ("VIE") should be included in the Company's consolidated financial statements. GAAP requires a VIE to be consolidated by a company if that company is considered the primary beneficiary of the VIE's activities. The Company has determined that the 100%-owned finance subsidiary Trusts are VIEs, but that the Company is not the primary beneficiary of the Trusts. Accordingly, the Company does not consolidate the activities of the Trusts into its financial statements, but instead reports its ownership interests in the Trusts as other assets and reports the subordinated debentures issued to the Trusts as a liability in the consolidated balance sheets. The distributions on the subordinated debentures are reported as interest expense in the accompanying consolidated statements of income.

Stock Split - On August 16, 2011, the Company completed a 2-for-1 stock split in the form of a stock dividend, effected by issuing one share of common stock for each share of such stock outstanding on August 5, 2011. All share and per share information in the consolidated financial statements and the notes to the consolidated financial statements has been adjusted to give effect to this stock split.

Cash and cash equivalents - For cash flow purposes, cash and cash equivalents include cash on hand, amounts due from banks and interest bearing deposits with banks.

Investment securities - Management determines the appropriate classification of investment securities at the time of purchase and reevaluates such designation as of each balance sheet date. At December 31, 2011 and 2010, the Company has classified all of its investment securities as available for sale ("AFS").

AFS investment securities are stated at estimated fair value, with the unrealized gains and losses determined on a specific identification basis. Such unrealized gains and losses, net of tax, are reported as a

separate component of stockholders' equity and included in other comprehensive income (loss). The Company utilizes independent third parties as its principal pricing sources for determining fair value of investment securities which are measured on a recurring basis. For investment securities traded in an active market, fair values are obtained from an independent pricing service and based on quoted market prices if available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities, broker quotes or comprehensive interest rate tables, pricing matrices or a combination thereof. For investment securities traded in a market that is not active, fair value is determined using unobservable inputs.

At December 31, 2011 and 2010, the Company owned stock in the Federal Home Loan Bank of Dallas ("FHLB-Dallas"), Federal Home Loan Bank of Atlanta ("FHLB-Atlanta") and First National Banker's Bankshares, Inc. ("FNBB"). The FHLB-Dallas, FHLB-Atlanta and FNBB shares do not have readily determinable fair values and are carried at cost.

Declines in the fair value of investment securities below their amortized cost are reviewed at least quarterly by the Company for other-than-temporary impairment. Factors considered during such review include, among other things, the length of time and extent that fair value has been less than cost and the financial condition and near term prospects of the issuer. The Company also assesses whether it has the intent to sell the investment security or more likely than not would be required to sell the investment security before any anticipated recovery in fair value. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through the income statement. For securities that do not meet the aforementioned criteria, the amount of impairment is split into (i) other-than-temporary impairment related to credit loss, which must be recognized in the income statement, and (ii) other-than-temporary impairment related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Interest and dividends on investment securities, including the amortization of premiums and accretion of discounts through maturity, or in the case of mortgage-backed securities, over the estimated life of the security, are included in interest income. Realized gains or losses on the sale of investment securities are recognized on the specific identification method at the time of sale and are included in non-interest income. Purchases and sales of investment securities are recognized on a trade-date basis.

**Loans and leases** - Loans, excluding loans covered by Federal Deposit Insurance Corporation ("FDIC") loss share agreements, that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balance adjusted for any charge-offs, deferred fees or costs on originated loans, and unamortized premiums or discounts on purchased loans. Interest on loans is recognized on an accrual basis and is calculated using the simple interest method on daily balances of the principal amount outstanding. Loan origination fees and costs are generally deferred and recognized over the life of the loan as an adjustment to yield on the related loan.

Leases are classified as either direct financing leases or operating leases, based on the terms of the agreement. Direct financing leases are reported as the sum of (i) total future lease payments to be received, net of unearned income, and (ii) estimated residual value of the leased property. Operating leases are recorded at the cost of the leased property, net of accumulated depreciation. Income on direct financing leases is included in interest income and is recognized on a basis that achieves a constant periodic rate of return on the outstanding investment. Income on operating leases is recognized as non-interest income on a straight-line basis over the lease term.

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the financial statements when they are funded. Related fees are generally recognized when collected.

Mortgage loans held for sale are included in the Company's loans and leases and totaled \$17.9 million and \$14.3 million, respectively, at December 31, 2011 and 2010. Mortgage loans held for sale are carried at the lower of cost or fair value. Gains and losses from the sales of mortgage loans are the difference between the selling price of the loan and its carrying value, net of discounts and points, and are recognized as mortgage lending income when the loan is sold to investors and servicing rights are released.

As part of its standard mortgage lending practice, the Company issues a written put option, in the form of an interest rate lock commitment ("IRLC"), such that the interest rate on the mortgage loan is established prior to funding. In addition to the IRLC, the Company enters into a forward sale commitment ("FSC") for the

sale of its mortgage loan originations to reduce its market risk on such originations in process. The IRLC on mortgage loans held for sale and the FSC have been determined to be derivatives as defined by GAAP. Accordingly, the fair values of derivative assets and liabilities for the Company's IRLC and FSC are based primarily on the fluctuation of interest rates between the date on which the particular IRLC and FSC were entered into and year-end. At December 31, 2011 and 2010, respectively, the Company's IRLC and FSC derivative assets and corresponding derivative liabilities were not material. The notional amounts of loan commitments under both the IRLC and FSC were \$13.3 million and \$6.4 million at December 31, 2011 and 2010, respectively.

Covered loans - Purchased loans acquired in a business combination, including loans covered by FDIC loss share agreements ("covered loans"), are accounted for in accordance with the provisions of GAAP applicable to loans acquired with deteriorated credit quality and pursuant to the American Institute of Certified Public Accountants' ("AICPA") December 18, 2009 letter in which the AICPA summarized the SEC's view regarding the accounting in subsequent periods for discount accretion associated with non-credit impaired loans acquired in a business combination or asset purchase. Considering, among other factors, the general lack of adequate underwriting, proper documentation, appropriate loan structure and insufficient equity contributions for a large number of these acquired loans, and the uncertainty of the borrowers' and/or guarantors' ability or willingness to make contractually required (or any) principal and interest payments, management has determined that a significant portion of the purchased loans acquired in FDIC-assisted acquisitions had evidence of credit deterioration since origination. Accordingly, management has elected to apply the provisions of GAAP applicable to loans acquired with deteriorated credit quality, as provided by the AICPA's December 18, 2009 letter, to all purchased loans acquired in its FDIC-assisted acquisitions.

At the time such purchased loans are acquired, management individually evaluates substantially all loans acquired in the transaction. This evaluation allows management to determine the estimated fair value of the purchased loans (not considering any FDIC loss sharing agreements) and includes no carryover of any previously recorded allowance for loan and lease losses. In determining the estimated fair value of purchased loans, management considers a number of factors including, among other things, the remaining life of the acquired loans, estimated prepayments, estimated loss ratios, estimated value of the underlying collateral, estimated holding periods, and net present value of cash flows expected to be received. To the extent that any purchased loan acquired in a FDIC-assisted acquisition is not specifically reviewed, management applies a loss estimate to that loan based on the average expected loss rates for the purchased loans that were individually reviewed in that purchased loan portfolio.

As provided for under GAAP, management has up to 12 months following the date of the acquisition to finalize the fair values of acquired assets and assumed liabilities. Once management has finalized the fair values of acquired assets and assumed liabilities within this 12-month period, management considers such values to be the day 1 fair values ("Day 1 Fair Values").

In determining the Day 1 Fair Values of purchased loans, management calculates a non-accretable difference (the credit component of the purchased loans) and an accretable difference (the yield component of the purchased loans). The non-accretable difference is the difference between the contractually required payments and the cash flows expected to be collected in accordance with management's determination of the Day 1 Fair Values. Subsequent decreases to the expected cash flows will generally result in a provision for loan and lease losses. Subsequent increases in cash flows will result in a reversal of the provision for loan and lease losses to the extent of prior charges and then an adjustment to accretable yield, which would have a positive impact on interest income. Any such increase or decrease in expected cash flows will result in a corresponding decrease or increase, respectively, of the FDIC loss share receivable for the portion of such reduced or additional loss expected to be collected from the FDIC.

The accretable difference on purchased loans, including covered loans, is the difference between the expected cash flows and the net present value of expected cash flows. Such difference is accreted into earnings using the effective yield method over the term of the loans. In determining the net present value of the expected cash flows, the Company used discount rates ranging from 6.0% to 9.5% per annum depending on the risk characteristics of each individual loan. At December 31, 2011, the weighted average period during which management expects to receive the estimated cash flows for its covered loan portfolio (not considering any payment under the FDIC loss share agreements) is 2.4 years.

Management separately monitors the purchased loan portfolio and periodically reviews loans contained within this portfolio against the factors and assumptions used in determining the Day 1 Fair Values. A loan is typically reviewed (i) when it is modified or extended, (ii) when material information becomes available

to the Company that provides additional insight regarding the loan's performance, the status of the borrower, or the quality or value of the underlying collateral, or (iii) in conjunction with the annual review of projected cash flows which include a substantial portion of each acquired loan portfolio. To the extent that a loan is performing in accordance with management's expectation established in conjunction with the determination of the Day 1 Fair Values, such loan is not included in any of the Company's credit quality ratios, is not considered to be an impaired loan, is not risk rated in a similar manner as are the Company's non-purchased loans and is not considered in the determination of the required allowance for loan and lease losses. To the extent that a loan's performance has deteriorated from management's expectation established in conjunction with the determination of the Day 1 Fair Values, such loan is generally included in certain of the Company's credit quality metrics, may be considered an impaired loan, and is considered in the determination of the required level of allowance for loan and lease losses.

FDIC loss share receivable – In connection with the Company's FDIC-assisted acquisitions, the Company has recorded a FDIC loss share receivable to reflect the indemnification provided by the FDIC. Currently, the expected losses on covered assets for each of the Company's loss share agreements would result in expected recovery of approximately 80% of incurred losses. Since the indemnified items are covered loans and covered foreclosed assets, which are measured at Day 1 Fair Values, the FDIC loss share receivable is also measured and recorded at Day 1 Fair Values, and is calculated by discounting the cash flows expected to be received from the FDIC. A discount rate of 5.0% per annum was used to determine the net present value of the FDIC loss share receivable. These cash flows are estimated by multiplying estimated losses by the reimbursement rates as set forth in the loss share agreements. The balance of the FDIC loss share receivable is adjusted periodically to reflect changes in expectations of discounted cash flows, expense reimbursements under the loss share agreements and other factors.

FDIC clawback payable – Pursuant to the clawback provisions of the loss share agreements for the Company's FDIC-assisted acquisitions, the Company may be required to reimburse the FDIC should actual losses be less than certain thresholds established in each loss share agreement. The amount of the clawback provision for each acquisition is measured and recorded at Day 1 Fair Values. It is calculated as the difference between management's estimated losses on covered loans and covered foreclosed assets and the loss threshold contained in each loss share agreement, multiplied by the applicable clawback provisions contained in each loss share agreement. This clawback amount, which is payable to the FDIC upon termination of the applicable loss share agreement, is then discounted back to net present value using a discount rate of 5.0% per annum. To the extent that actual losses on covered loans and covered foreclosed assets are less than estimated losses, the applicable clawback payable to the FDIC upon termination of the loss share agreements will increase. To the extent that actual losses on covered loans and covered foreclosed assets are more than estimated losses, the applicable clawback payable to the FDIC upon termination of the loss share agreements will decrease.

Allowance for loan and lease losses ("ALLL") – The ALLL is established through a provision for such losses charged against income. All or portions of loans or leases, excluding purchased loans and loans covered by FDIC loss share agreements, deemed to be uncollectible are charged against the ALLL when management believes that collectibility of all or some portion of outstanding principal is unlikely. Subsequent recoveries, if any, of loans or leases previously charged off are credited to the ALLL.

For purchased loans, including covered loans, management separately monitors this portfolio and periodically reviews loans contained within this portfolio against the factors and assumptions used in determining the Day 1 Fair Values. To the extent that a loan's performance has deteriorated from management's expectation established in conjunction with the determination of the Day 1 Fair Values, such loan is considered in the determination of the required level of allowance for loan and lease losses. To the extent that the revised loss estimate exceeds the loss estimate established in the determination of the Day 1 Fair Values, such deterioration will result in an allowance allocation or a charge-off.

The ALLL is maintained at a level management believes will be adequate to absorb probable incurred losses in the loan and lease portfolio. Provision to and the adequacy of the ALLL are based on evaluations of the loan and lease portfolio utilizing objective and subjective criteria. The objective criteria primarily include an internal grading system and specific allowances. In addition to the objective criteria, the Company subjectively assesses the adequacy of the allowance for loan and lease losses and the need for additions thereto, with consideration given to the nature and mix of the portfolio, including concentrations of credit; general economic and business conditions, including national, regional and local business and economic conditions that may affect the borrowers' or lessees' ability to pay; expectations regarding the current business cycle; trends that could affect collateral values and other relevant factors. Changes in any of these criteria or the availability

of new information could require adjustment of the ALLL in future periods. While a specific allowance has been calculated for impaired loans and leases and for loans and leases where the Company has otherwise determined a specific reserve is appropriate, no portion of the Company's ALLL is restricted to any individual loan or lease or group of loans or leases, and the entire ALLL is available to absorb losses from any and all loans and leases. The Company also utilizes a peer group analysis and a historical analysis to validate the overall adequacy of its ALLL.

The Company generally places a loan or lease on nonaccrual status when such loan or lease is (i) deemed impaired or (ii) 90 days or more past due, or earlier when doubt exists as to the ultimate collection of payments. The Company may continue to accrue interest on certain loans or leases contractually past due 90 days or more if such loans or leases are both well secured and in the process of collection. At the time a loan or lease is placed on nonaccrual status, interest previously accrued but uncollected is generally reversed and charged against interest income. Nonaccrual loans and leases are generally returned to accrual status when payments are less than 90 days past due and the Company reasonably expects to collect all payments. If a loan or lease is determined to be uncollectible, the portion of the principal determined to be uncollectible will be charged against the allowance for loan and lease losses. Loans for which the terms have been modified and for which (i) the borrower is experiencing financial difficulties and (ii) a concession has been granted to the borrower by the Company are considered troubled debt restructurings ("TDRs") and are included in impaired loans and leases. Income on nonaccrual loans or leases, including impaired loans and leases but excluding certain TDRs which continue to accrue interest, is recognized on a cash basis when and if actually collected.

All loans and leases deemed to be impaired are evaluated individually. The Company considers a loan or lease, excluding purchased loans and loans covered by FDIC loss share agreements, to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms thereof. The Company considers a purchased loan, including a covered loan, to be impaired once a decrease in expected cash flows, subsequent to the determination of the Day 1 Fair Values, results in an allowance allocation, a partial or full charge-off or in a provision for loan and lease losses. Most of the Company's nonaccrual loans or leases, excluding purchased loans and loans covered by FDIC loss share agreements, and all TDRs are considered impaired. The majority of the Company's impaired loans and leases are dependent upon collateral for repayment. For such loans and leases, impairment is measured by comparing collateral value, net of holding and selling costs, to the current investment in the loan or lease. For all other impaired loans and leases, the Company compares estimated discounted cash flows to the current investment in the loan or lease. To the extent that the Company's current investment in a particular loan or lease exceeds its estimated net collateral value or its estimated discounted cash flows, the impaired amount is specifically considered in the determination of the allowance for loan and lease losses, or is charged off as a reduction of the allowance for loan and lease losses.

The Company also maintains an allowance for certain loans and leases, excluding purchased loans and loans covered by FDIC loss share agreements, not considered impaired where (i) the customer is continuing to make regular payments, although payments may be past due, (ii) there is a reasonable basis to believe the customer may continue to make regular payments, although there is also an elevated risk that the customer may default, and (iii) the collateral or other repayment sources are likely to be insufficient to recover the current investment in the loan or lease if a default occurs. The Company evaluates such loans and leases to determine if an allowance is needed for these loans and leases. For the purpose of calculating the amount of such allowance, management assumes that (i) no further regular payments occur and (ii) all sums recovered will come from liquidation of collateral and collection efforts from other payment sources. To the extent that the Company's current investment in a particular loan or lease evaluated for the need for such allowance exceeds its net collateral value or its estimated discounted cash flows, such excess is considered allocated allowance for purposes of the determination of the allowance for loan and lease losses.

The Company also includes further allowance allocation for risk-rated loans, including commercial real estate loans, but excluding purchased loans and loans covered by FDIC loss share agreements, that are in markets determined by management to be "stressed". Stressed markets may include any specific geography experiencing (i) high unemployment substantially above the U.S. average, (ii) significant over-development in one or more commercial real estate categories, (iii) recent or announced loss of a major employer or significant workforce reductions, (iv) significant declines in real estate values and (v) various other factors. The additional allowance for such stressed markets compensates for the expectation that a higher risk of loss is anticipated for the "work-out" or liquidation of a real estate loan in a stressed market versus a market



that is not experiencing any significant levels of stress. The required allocation percentage applicable to real estate loans in stressed markets may be applied to the total market or it may be determined at the individual loan level based on collateral value, loan-to-value ratios, strength of the borrower and/or guarantor, viability of the underlying project and other factors.

Prior to December 31, 2011, the Company utilized the sum of all allowance amounts derived as described above, combined with a reasonable unallocated allowance, as the primary indicator of the appropriate level of allowance for loan and lease losses. During the fourth quarter of 2011, the Company refined its allowance calculation whereby it “allocated” the portion of the allowance that was previously deemed to be unallocated allowance. This refined allowance calculation includes specific allowance allocations at December 31, 2011 for qualitative factors including (i) concentrations of credit, (ii) general economic and business conditions, (iii) trends that could affect collateral values and (iv) expectations regarding the current business cycle. The Company may also consider other qualitative factors in future periods for additional allowance allocations, including, among other factors, (1) credit quality trends (including trends in nonperforming loans and leases expected to result from existing conditions), (2) seasoning of the loan and lease portfolio, (3) specific industry conditions affecting portfolio segments, (4) the Company’s expansion into new markets and (5) the offering of new loan and lease products. This refined allowance calculation had no impact on the Company’s provision for loan and lease losses for 2011.

The accrual of interest on loans and leases, excluding purchased loans and loans covered by FDIC loss share agreements, is discontinued when, in management’s opinion, the borrower or lessee may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent interest payments are received.

Premises and equipment – Premises and equipment are reported at cost less accumulated depreciation and amortization. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the related assets. Depreciable lives for the major classes of assets are generally 45 years for buildings and 3 to 25 years for furniture, fixtures, equipment and certain building improvements. Leasehold improvements are amortized over the shorter of the asset’s estimated useful life or the term of the lease. Accelerated depreciation methods are used for income tax purposes. Maintenance and repair charges are expensed as incurred.

Foreclosed assets covered by FDIC loss share agreements – Foreclosed assets covered by FDIC loss share agreements, or covered foreclosed assets, are recorded at Day 1 Fair Values. In estimating the fair value of covered foreclosed assets, management considers a number of factors including, among others, appraised value, estimated selling prices, estimated selling costs, estimated holding periods and net present value of cash flows expected to be received. Discount rates ranging from 8.0% to 9.5% per annum were used to determine the net present value of covered foreclosed assets. Gains and losses from the sale of covered foreclosed assets are recorded in non-interest income. Expenses to maintain the properties, net of amounts reimbursable by the FDIC, are included in non-interest expense.

Foreclosed assets not covered by FDIC loss share agreements – Repossessed personal properties and real estate acquired through or in lieu of foreclosure are initially recorded at the lesser of current principal investment or fair value less estimated cost to sell at the date of repossession or foreclosure. Valuations of these assets are periodically reviewed by management with the carrying value of such assets adjusted through non-interest expense to the then estimated fair value net of estimated selling costs, if lower, until disposition. Fair values of these assets are generally based on third party appraisals, broker price opinions or other valuations of the property. Gains and losses from the sale of such repossessions and real estate acquired through or in lieu of foreclosure are recorded in non-interest income, and expenses to maintain the properties are included in non-interest expense.

Income taxes – The Company utilizes the asset and liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based upon the difference between the values of the assets and liabilities as reflected in the financial statements and their related tax basis using enacted tax rates in effect for the year or years in which the differences are expected to be recovered or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company recognizes a tax position as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount

recognized is the largest amount of tax benefit that has a greater than 50% likelihood of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

The Company files consolidated tax returns. The Bank and the other consolidated entities provide for income taxes on a separate return basis and remit to the Company amounts determined to be currently payable. The Company recognizes interest related to income tax matters as interest income or expense, and penalties related to income tax matters are recognized as non-interest expense. The Company is no longer subject to income tax examinations by U.S. federal tax authorities for years prior to 2008.

Bank owned life insurance (“BOLI”) – BOLI consists of life insurance purchased by the Company on (i) a qualifying group of officers with the Company designated as owner and beneficiary of the policies and (ii) one of the Company’s executive officers with the Company designated as owner and both the Company and the executive officer designated as beneficiaries of the policies. The earnings on BOLI policies are used to offset a portion of employee benefit costs. BOLI is carried at the policies’ realizable cash surrender values with changes in cash surrender values and death benefits received in excess of cash surrender values reported in non-interest income.

Intangible assets – Intangible assets consist of goodwill, bank charter costs and core deposit intangibles. Goodwill represents the excess purchase price over the fair value of net assets acquired in business acquisitions. The Company had goodwill of \$5.2 million at both December 31, 2011 and 2010. The Company performed its annual impairment test of goodwill as of September 30, 2011. This test indicated no impairment of the Company’s goodwill.

Bank charter costs represent costs paid to acquire a Texas bank charter and are being amortized over 20 years. Bank charter costs totaled \$239,000 at both December 31, 2011 and 2010, less accumulated amortization of \$95,000 and \$82,000 at December 31, 2011 and 2010, respectively.

Core deposit intangibles represent premiums paid for deposits acquired via acquisition and are being amortized over 3 to 5 years. Core deposit intangibles totaled \$9.5 million and \$3.6 million at December 31, 2011 and 2010, respectively, less accumulated amortization of \$2.7 million and \$1.1 million at December 31, 2011 and 2010, respectively.

The aggregate amount of amortization expense for the Company’s core deposit and bank charter intangibles is expected to be \$2.0 million per year in 2012 and 2013; \$1.4 million in 2014; \$1.1 million in 2015 and \$0.3 million in 2016.

Earnings per common share – Earnings per common share are computed using the two-class method. Basic earnings per share are computed by dividing net earnings allocated to common stock by the weighted-average number of common shares outstanding during the applicable period. Diluted earnings per common share are computed by dividing reported earnings allocated to common stockholders by the weighted-average number of common shares outstanding after consideration of the dilutive effect, if any, of the Company’s common stock options using the treasury stock method. The Company has determined that its outstanding non-vested stock awards granted under its restricted stock plan are participating securities.

Stock-based compensation – The Company has an employee stock option plan, a non-employee director stock option plan and an employee restricted stock plan, which are described more fully in Note 15. The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. Such cost is to be recognized over the vesting period of the award. For the years ended December 31, 2011, 2010 and 2009, the Company recognized \$1.5 million, \$0.8 million and \$0.7 million, respectively, of non-interest expense for its stock-based compensation plans.

Segment disclosures – The Company operates in only one segment – community banking. Accordingly, there is no requirement to report segment information in the Company’s consolidated financial statements. No revenues are derived from foreign countries and no single external customer comprises more than 10% of the Company’s revenues.

Recent accounting pronouncements – In April 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-02, *“A Creditor’s Determination of Whether a Restructuring is a Troubled Debt Restructuring.”* The provisions of ASU No. 2011-02 amend and clarify GAAP related to the accounting for debt restructurings. Specifically, ASU No. 2011-02 requires that, when evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both (i) the restructuring constitutes a concession and (ii) the debtor is experiencing financial difficulties. In evaluating whether a concession has been granted, a creditor must evaluate whether (i) a

debtor has access to funds at a market rate for debt with similar risk characteristics as the restructured debt in order to determine if the restructuring would be considered to be at a below-market rate, indicating that the creditor has granted a concession, (ii) a temporary or permanent increase in the contractual interest rate as a result of a restructuring may be considered a concession because the new contractual interest rate on the restructured debt is still below the market interest rate for new debt with similar risk characteristics, and (iii) a restructuring that results in a delay in payment is either significant and is a concession or is insignificant and is not a concession. In evaluating whether a debtor is experiencing financial difficulties, a creditor may conclude that a debtor is experiencing financial difficulties, even though the debtor is not currently in payment default. A creditor should evaluate whether it is probable that the debtor would be in payment default on any of its debt in the foreseeable future without a modification of the debt. The provisions of ASU No. 2011-02 were effective July 1, 2011 and were applied retroactively to modifications occurring on or after January 1, 2011. The Company reassessed significant modifications and loan restructurings occurring between January 1, 2011 and June 30, 2011 noting no such modifications and loan restructurings that were considered troubled debt restructurings under the provisions of ASU No. 2011-02. For the year ended December 31, 2011, there were no defaults during the preceding 12 months on any loans that were considered troubled debt restructurings.

In May 2011, the FASB issued ASU 2011-04 *"Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRS."* ASU 2011-04 expands the disclosure requirements for fair value measurements categorized within Level 3 of the fair value hierarchy to include (1) a quantitative disclosure of the unobservable inputs and assumptions used within the measurement, (2) a description of the valuation processes in place and (3) a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between those inputs. In addition, ASU 2011-04 requires that companies disclose the level within the fair value hierarchy for items not measured at fair value in the statement of financial position but whose fair value must be disclosed. ASU 2011-04 is effective for reporting periods beginning after December 15, 2011 and should be applied prospectively. The Company does not expect the adoption of the provisions of ASU 2011-04 will have a material impact on the Company's financial position, results of operations or liquidity, but will increase its disclosures requirements related to its fair value measurements.

In June 2011, the FASB issued ASU 2011-05, *"Presentation of Comprehensive Income,"* which revises the manner in which entities present comprehensive income in their financial statements. The provisions of ASU 2011-05 require reporting the components of comprehensive income in either (i) a continuous statement of comprehensive income or (ii) two separate but consecutive statements. ASU 2011-05 does not change the items that must be reported in other comprehensive income but rather removes the presentation option of including other comprehensive income in the statement of stockholders' equity. The new presentation disclosures required by ASU 2011-05 are effective for interim and annual periods beginning after December 15, 2011. As this ASU amends only the presentation of comprehensive income, the adoption will have no impact on the Company's financial position, results of operations or liquidity. In December 2011, the FASB indefinitely deferred certain provisions of ASU 2011-05 that require companies to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement of income and statement of other comprehensive income.

In September 2011, the FASB issued ASU 2011-08, *"Testing Goodwill for Impairment."* The provisions of ASU 2011-08 provide the option of performing a qualitative assessment before calculating the fair value of a reporting unit in step 1 of the goodwill impairment test. If based on qualitative factors, the fair value of the reporting unit is more likely than not less than the carrying amount, the two step impairment test would be required. This ASU is effective beginning January 1, 2012; however, early adoption is permitted. The Company does not expect the provisions of ASU 2011-08 will have a material impact on its financial position, results of operations or liquidity.

Reclassifications and recasts – Certain reclassifications of 2010 and 2009 amounts have been made to conform with the 2011 financial statements presentation. These reclassifications had no impact on prior years' net income, as previously reported. Additionally, as discussed in Note 2, the Company has made adjustments to the acquired assets and assumed liabilities for certain of its FDIC-assisted acquisitions in the determination of Day 1 Fair Values. As a result, certain amounts previously reported in the Company's December 31, 2010 consolidated balance sheet have been recast.

## 2. Acquisitions

### 2011 Acquisitions

On January 14, 2011, the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former Oglethorpe Bank (“Oglethorpe”) with two offices in Georgia, including Brunswick and St. Simons Island.

On April 29, 2011, the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former First Choice Community Bank (“First Choice”) with seven offices in Georgia, including Dallas, Newnan (2), Senoia, Sharpsburg, Douglasville and Carrollton. On July 1, 2011, the Company closed one of the offices in Newnan, Georgia, and on October 26, 2011, the Company closed the office in Carrollton, Georgia.

On April 29, 2011, the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former The Park Avenue Bank (“Park Avenue”) with 11 offices in Georgia, including Valdosta (3), Bainbridge (2), Cairo, Lake Park, Stockbridge, McDonough, Oakwood and Athens, and one office in Ocala, Florida. On October 21, 2011, the Company closed the office in Stockbridge, Georgia.

Subsequent to the reporting of the assets acquired and the liabilities assumed in the Oglethorpe and Park Avenue acquisitions, the Company made certain adjustments to these values in order to finalize the Day 1 Fair Values on Oglethorpe and adjust the Day 1 Fair Values on Park Avenue. As a result of those adjustments, the Company has “recast” the assets acquired and liabilities assumed in the Oglethorpe and Park Avenue acquisitions to reflect the Day 1 Fair Values. The following tables provide a summary of the Day 1 Fair Values of assets acquired and liabilities assumed, including any such recast adjustments, for the Company’s 2011 FDIC-assisted acquisitions.

A summary of the assets acquired and liabilities assumed in the Oglethorpe acquisition, including recast adjustments, is as follows:

|  | January 14, 2011                |                           |                       | As Recorded<br>by the<br>Company <sup>(1)</sup> |
|--|---------------------------------|---------------------------|-----------------------|---|
|  | As Recorded<br>by<br>Oglethorpe | Fair Value<br>Adjustments | Recast<br>Adjustments |   |
|  | (Dollars in thousands)          |                           |                       |   |
| Assets acquired:                                 |                                 |                           |                       |   |
| Cash and cash equivalents .....                  | \$ 14,710                       | \$ -                      | \$ -                  | \$ 14,710                                       |
| Loans not covered by FDIC                        |                                 |                           |                       |   |
| loss share agreements .....                      | 6,532                           | (3,447) b                 | -                     | 3,085   |
| Loans covered by FDIC loss share agreements .... | 154,018                         | (73,342) b                | 758                   | 81,434  |
| FDIC loss share receivable .....                 | -                               | 52,395 c                  | (1,292)               | 51,103  |
| Foreclosed assets covered by                     |                                 |                           |                       |   |
| FDIC loss share agreements .....                 | 16,554                          | (9,410) d                 | (59)                  | 7,085   |
| Core deposit intangible .....                    | -                               | 401 e                     | -                     | 401   |
| Other assets .....                               | 1,054                           | (621) f                   | 726                   | 1,159   |
| Total assets acquired .....                      | <u>192,868</u>                  | <u>(34,024)</u>           | <u>133</u>            | <u>158,977</u>                                  |
| Liabilities assumed:                             |                                 |                           |                       |   |
| Deposits .....                                   | 195,067                         | -                         | -                     | 195,067   |
| FDIC clawback payable .....                      | -                               | 924 h                     | 133                   | 1,057   |
| Other liabilities .....                          | 333                             | 100 f                     | -                     | 433   |
| Total liabilities assumed .....                  | <u>195,400</u>                  | <u>1,024</u>              | <u>133</u>            | <u>196,557</u>                                  |
| Net assets acquired .....                        | (2,532)                         | \$(35,048)                | \$ -                  | (37,580)  |
| Asset discount bid .....                         | (38,000)                        |                           |                       |   |
| Cash received from FDIC .....                    | <u>\$ 40,532</u>                |                           |                       | 40,532  |
| Pre-tax gain .....                               |                                 |                           |                       | <u>\$ 2,952</u>                                 |

(1) Represents the Day 1 Fair Values of assets acquired and liabilities assumed in the Oglethorpe acquisition.

A summary of the assets acquired and liabilities assumed in the First Choice acquisition is as follows:

April 29, 2011

|   | As Recorded<br>by<br>First Choice | Fair Value<br>Adjustments | As Recorded<br>by the<br>Company <sup>(1)</sup> |
|---|-----------------------------------|---------------------------|---|
|   |                                   | (Dollars in thousands)    |   |
| Assets acquired:                                      |                                   |                           |   |
| Cash and cash equivalents .....                       | \$ 38,018                         | \$ -                      | \$ 38,018                                       |
| Investment securities AFS .....                       | 4,588                             | (20) a                    | 4,568   |
| Loans not covered by FDIC loss share agreements ..... | 1,973                             | (419) b                   | 1,554   |
| Loans covered by FDIC loss share agreements .....     | 246,451                           | (96,557) b                | 149,894   |
| FDIC loss share receivable .....                      | -                                 | 59,544 c                  | 59,544  |
| Foreclosed assets covered by                          |                                   |                           |   |
| FDIC loss share agreements .....                      | 2,773                             | (1,102) d                 | 1,671   |
| Core deposit intangible .....                         | -                                 | 495 e                     | 495   |
| Other assets .....                                    | 931                               | (861) f                   | 70  |
| Total assets acquired .....                           | <u>294,734</u>                    | <u>(38,920)</u>           | <u>255,814</u>                                  |
| Liabilities assumed:                                  |                                   |                           |   |
| Deposits .....  | 293,344                           | - i                       | 293,344   |
| FHLB-Atlanta advances .....                           | 4,000                             | - g                       | 4,000   |
| FDIC clawback payable .....                           | -                                 | 930 h                     | 930   |
| Other liabilities .....                               | 478                               | 100 f                     | 578   |
| Total liabilities assumed .....                       | <u>297,822</u>                    | <u>1,030</u>              | <u>298,852</u>                                  |
| Net assets acquired .....                             | (3,088)                           | <u>\$ (39,950)</u>        | (43,038)  |
| Asset discount bid .....                              | (42,900)                          |                           |   |
| Cash received from FDIC .....                         | <u>\$ 45,988</u>                  |                           | <u>45,988</u>                                   |
| Pre-tax gain .....                                    |                                   |                           | <u>\$ 2,950</u>                                 |

(1) The Day 1 Fair Values of assets acquired and liabilities assumed in the First Choice acquisition were not yet finalized as of December 31, 2011.

A summary of the assets acquired and liabilities assumed in the Park Avenue acquisition, including recast adjustments, is as follows:

|   | April 29, 2011                   |                           |                       |   |
|---|----------------------------------|---------------------------|-----------------------|---|
|   | As Recorded<br>by<br>Park Avenue | Fair Value<br>Adjustments | Recast<br>Adjustments | As Recorded<br>by the<br>Company <sup>(1)</sup> |
|   | (Dollars in thousands)           |                           |                       |   |
| <b>Assets acquired:</b>                         |                                  |                           |                       |   |
| Cash and cash equivalents .....                 | \$ 66,825                        | \$ -                      | \$ -                  | \$ 66,825                                       |
| Investment securities AFS .....                 | 132,737                          | (947) a                   | -                     | 131,790   |
| Loans not covered by FDIC                       |                                  |                           |                       |   |
| loss share agreements .....                     | 23,664                           | (5,968) b                 | -                     | 17,696  |
| Loans covered by FDIC loss share agreements ... | 408,069                          | (145,152) b               | -                     | 262,917   |
| FDIC loss share receivable .....                | -                                | 113,683 c                 | 2,249                 | 115,932   |
| Foreclosed assets covered by                    |                                  |                           |                       |   |
| FDIC loss share agreements .....                | 91,442                           | (59,812) d                | (450)                 | 31,180  |
| Core deposit intangible .....                   | -                                | 5,063 e                   | -                     | 5,063   |
| Other assets .....                              | 5,012                            | (2,035) f                 | (1,799)               | 1,178   |
| Total assets acquired .....                     | <u>727,749</u>                   | <u>(95,168)</u>           | <u>-</u>              | <u>632,581</u>                                  |
| <b>Liabilities assumed:</b>                     |                                  |                           |                       |   |
| Deposits .....                                  | 626,321                          | -                         | i                     | 626,321   |
| FHLB-Atlanta advances .....                     | 84,260                           | 4,559 g                   | -                     | 88,819  |
| FDIC clawback payable .....                     | -                                | 14,868 h                  | -                     | 14,868  |
| Other liabilities .....                         | 1,588                            | 500 f                     | -                     | 2,088   |
| Total liabilities assumed .....                 | <u>712,169</u>                   | <u>19,927</u>             | <u>-</u>              | <u>732,096</u>                                  |
| Net assets acquired .....                       | 15,580                           | <u>\$(115,095)</u>        | <u>\$ -</u>           | (99,515)  |
| Asset discount bid .....                        | (174,900)                        |                           |                       |   |
| Cash received from FDIC .....                   | <u>\$159,320</u>                 |                           |                       | 159,320   |
| Pre-tax gain .....                              |                                  |                           |                       | <u>\$ 59,805</u>                                |

(1) Represents the Day 1 Fair Values, as determined at December 31, 2011, of the assets acquired and liabilities assumed in the Park Avenue acquisition, which Day 1 Fair Values were not yet finalized at December 31, 2011.

Explanation of fair value adjustments

- a- Adjustment reflects the fair value adjustment based on the Company's pricing of investment securities AFS.
- b- Adjustment reflects the fair value adjustments based on the Company's evaluation of the acquired loan portfolio.
- c- Adjustment reflects the estimated fair value of payments the Company expects to receive from the FDIC under the loss share agreements.
- d- Adjustment reflects the fair value adjustments based on the Company's evaluation of the acquired foreclosed assets covered by FDIC loss share agreements.
- e- Adjustment reflects the estimated fair value of the core deposit intangible.
- f- Adjustment reflects the amount needed to adjust the carrying value of other assets and other liabilities to estimated fair value.
- g- Adjustment reflects the amount of the prepayment penalty, if any, assessed on early payoff of FHLB-Atlanta advances.
- h- Adjustment reflects the estimated fair value of payments the Company expects to make to the FDIC under the clawback provisions of the loss share agreements at the conclusion of the term of the loss share agreements.
- i - Because the Company reset deposit rates for these assumed deposits, as provided for under the purchase and assumption agreements, to reflect an appropriate market rate of interest, there was no fair value adjustment for such assumed deposits.

The Company's results of operations include the operating results of the acquired assets and assumed liabilities from the respective dates of acquisition through the end of the reporting period. Due to the significant fair value adjustments and the nature of the loss sharing agreements with the FDIC, the Company believes pro forma information that would include pre-acquisition historical results of the acquired assets and assumed liabilities is not relevant. Accordingly, no pro forma information is included in these consolidated financial statements.



## 2010 Acquisitions

On March 26, 2010, the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former Unity National Bank (“Unity”) with five offices in Georgia, including Cartersville (2), Rome, Adairsville and Calhoun.

On July 16, 2010, the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former Woodlands Bank (“Woodlands”) with eight offices, including two in South Carolina; two in North Carolina; one in Georgia and three in Alabama. On October 26, 2010, the Company closed four of the Woodlands offices, and in December 2010 the Company relocated two offices. The Company also renegotiated the leases on the remaining two offices. As a result, the Company now operates one office each in Bluffton, South Carolina; Wilmington, North Carolina; Savannah, Georgia; and Mobile, Alabama.

On September 10, 2010, the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former Horizon Bank (“Horizon”) with four offices in Florida, including Bradenton (2), Palmetto and Brandon. On December 23, 2010, the Company closed the office in Brandon, Florida.

On December 17, 2010, the Company, through the Bank, entered into a purchase and assumption agreement with loss share agreements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of the former Chestatee State Bank (“Chestatee”) with four offices in Georgia, including Dawsonville (2), Cumming and Marble Hill.

Subsequent to the reporting of the assets acquired and the liabilities assumed in the Unity, Woodlands, Horizon and Chestatee acquisitions, the Company made certain adjustments to these values in order to finalize the Day 1 Fair Values. As a result of those adjustments, the Company has “recast” the assets acquired and liabilities assumed in the Unity, Woodlands, Horizon and Chestatee acquisitions to reflect the Day 1 Fair Values. The following tables provide a summary of the Day 1 Fair Values of assets acquired and liabilities assumed, including any such recast adjustments, for the Company’s 2010 FDIC-assisted acquisitions.

A summary of the assets acquired and liabilities assumed in the Unity acquisition, including recast adjustments, is as follows:

|   | March 26, 2010             |                           |                       | As Recorded<br>by the<br>Company <sup>(1)</sup> |
|---|----------------------------|---------------------------|-----------------------|---|
|   | As Recorded<br>by<br>Unity | Fair Value<br>Adjustments | Recast<br>Adjustments |   |
|   |                            |                           |                       |   |
|   |                            | (Dollars in thousands)    |                       |   |
| Assets acquired:                                |                            |                           |                       |   |
| Cash and cash equivalents .....                 | \$ 45,401                  | \$ -                      | \$ -                  | \$ 45,401                                       |
| Investment securities AFS .....                 | 5,580                      | - a                       | -                     | 5,580   |
| Loans covered by FDIC loss share agreements ... | 185,213                    | (42,038) b                | (8,723)               | 134,452   |
| FDIC loss share receivable .....                | -                          | 35,683 c                  | 8,464                 | 44,147  |
| Foreclosed assets covered by                    |                            |                           |                       |   |
| FDIC loss share agreements .....                | 20,304                     | (10,890) d                | (555)                 | 8,859   |
| Core deposit intangible .....                   | -                          | 1,657 e                   | -                     | 1,657   |
| Other assets .....                              | 1,137                      | (954) f                   | -                     | 183   |
| Total assets acquired .....                     | <u>257,635</u>             | <u>(16,542)</u>           | <u>(814)</u>          | <u>240,279</u>                                  |
| Liabilities assumed:                            |                            |                           |                       |   |
| Deposits .....                                  | 220,806                    | - i                       | -                     | 220,806   |
| FHLB-Atlanta advances .....                     | 23,000                     | 1,078 g                   | -                     | 24,078  |
| FDIC clawback payable .....                     | -                          | 2,265 h                   | (699)                 | 1,566   |
| Other liabilities .....                         | 629                        | (22) f                    | (115)                 | 492   |
| Total liabilities assumed .....                 | <u>244,435</u>             | <u>3,321</u>              | <u>(814)</u>          | <u>246,942</u>                                  |
| Net assets acquired .....                       | 13,200                     | <u>\$ (19,863)</u>        | <u>\$ -</u>           | (6,663)   |
| Asset discount bid .....                        | (29,900)                   |                           |                       |   |
| Cash received from FDIC .....                   | <u>\$ 16,700</u>           |                           |                       | <u>16,700</u>                                   |
| Pre-tax gain .....                              |                            |                           |                       | <u>\$ 10,037</u>                                |

(1) Represents the Day 1 Fair Values of assets acquired and liabilities assumed in the Unity acquisition.

A summary of the assets acquired and liabilities assumed in the Woodlands acquisition, including recast adjustments, is as follows:

|  | July 16, 2010                  |                           |                       |   |
|--|--------------------------------|---------------------------|-----------------------|---|
|  | As Recorded<br>by<br>Woodlands | Fair Value<br>Adjustments | Recast<br>Adjustments | As Recorded<br>by the<br>Company <sup>(1)</sup> |
|  | (Dollars in thousands)         |                           |                       |   |
| <b>Assets acquired:</b>  |                                |                           |                       |   |
| Cash and cash equivalents .....                                  | \$ 13,447                      | \$ -                      | \$ -                  | \$ 13,447                                       |
| Investment securities AFS .....                                  | 85,017                         | (525) a                   | -                     | 84,492  |
| Loans not covered by FDIC<br>loss share agreements .....         | 1,500                          | (387) b                   | -                     | 1,113   |
| Loans covered by FDIC loss share agreements ...                  | 270,335                        | (82,337) b                | (1,520)               | 186,478   |
| FDIC loss share receivable .....                                 | -                              | 54,827 c                  | 1,039                 | 55,866  |
| Foreclosed assets covered by<br>FDIC loss share agreements ..... | 12,258                         | (7,229) d                 | -                     | 5,029   |
| Core deposit intangible .....                                    | -                              | 200 e                     | -                     | 200   |
| Other assets .....   | 2,556                          | (1,411) f                 | 327                   | 1,472   |
| Total assets acquired .....                                      | <u>385,113</u>                 | <u>(36,862)</u>           | <u>(154)</u>          | <u>348,097</u>                                  |
| <b>Liabilities assumed:</b>                                      |                                |                           |                       |   |
| Deposits .....   | 344,723                        | -                         | -                     | 344,723   |
| FHLB-Atlanta advances .....                                      | 10,000                         | 142 g                     | -                     | 10,142  |
| FDIC clawback payable .....                                      | -                              | 3,030 h                   | (89)                  | 2,941   |
| Other liabilities .....  | 258                            | -                         | (65) f                | 193   |
| Total liabilities assumed .....                                  | <u>354,981</u>                 | <u>3,172</u>              | <u>(154)</u>          | <u>357,999</u>                                  |
| Net assets acquired .....  | 30,132                         | <u>\$(40,034)</u>         | <u>\$ -</u>           | (9,902)   |
| Asset discount bid .....   | (54,392)                       |                           |                       |   |
| Cash received from FDIC .....                                    | <u>\$ 24,260</u>               |                           |                       | 24,260  |
| Pre-tax gain .....   |                                |                           |                       | <u>\$ 14,358</u>                                |

(1) Represents the Day 1 Fair Values of assets acquired and liabilities assumed in the Woodlands acquisition.

A summary of the assets acquired and liabilities assumed in the Horizon acquisition, including recast adjustments, is as follows:

|  | September 10, 2010           |                           |                       |   |
|--|------------------------------|---------------------------|-----------------------|---|
|  | As Recorded<br>by<br>Horizon | Fair Value<br>Adjustments | Recast<br>Adjustments | As Recorded<br>by the<br>Company <sup>(1)</sup> |
|  | (Dollars in thousands)       |                           |                       |   |
| <b>Assets acquired:</b>  |                              |                           |                       |   |
| Cash and cash equivalents .....                                  | \$ 11,775                    | \$ -                      | \$ -                  | \$ 11,775                                       |
| Investment securities AFS .....                                  | 5,312                        | (207) a                   | -                     | 5,105   |
| Loans not covered by FDIC<br>loss share agreements .....         | 1,323                        | (431) b                   | -                     | 892   |
| Loans covered by FDIC loss share agreements ...                  | 138,778                      | (45,775) b                | (1,195)               | 91,808  |
| FDIC loss share receivable .....                                 | -                            | 29,089 c                  | -                     | 29,089  |
| Foreclosed assets covered by<br>FDIC loss share agreements ..... | 8,391                        | (4,708) d                 | -                     | 3,683   |
| Core deposit intangible .....                                    | -                            | 396 e                     | -                     | 396   |
| Other assets .....   | 2,868                        | (887) f                   | 1,195                 | 3,176   |
| Total assets acquired .....                                      | <u>168,447</u>               | <u>(22,523)</u>           | <u>-</u>              | <u>145,924</u>                                  |
| <b>Liabilities assumed:</b>                                      |                              |                           |                       |   |
| Deposits .....   | 152,387                      | -                         | -                     | 152,387   |
| FHLB-Atlanta advances .....                                      | 18,000                       | 1,251 g                   | -                     | 19,251  |
| FDIC clawback payable .....                                      | -                            | 1,461 h                   | -                     | 1,461   |
| Other liabilities .....  | 562                          | -                         | -                     | 562   |
| Total liabilities assumed .....                                  | <u>170,949</u>               | <u>2,712</u>              | <u>-</u>              | <u>173,661</u>                                  |
| Net assets acquired .....  | (2,502)                      | <u>\$(25,235)</u>         | <u>\$ -</u>           | (27,737)  |
| Asset discount bid .....   | (27,000)                     |                           |                       |   |
| Cash received from FDIC .....                                    | <u>\$ 29,502</u>             |                           |                       | 29,502  |
| Pre-tax gain .....   |                              |                           |                       | <u>\$ 1,765</u>                                 |

(1) Represents the Day 1 Fair Values of assets acquired and liabilities assumed in the Horizon acquisition.

A summary of the assets acquired and liabilities assumed in the Chestatee acquisition, including recast adjustments, is as follows:

|   | December 17, 2010              |                           |                       | As Recorded<br>by the<br>Company <sup>(1)</sup> |
|---|--------------------------------|---------------------------|-----------------------|---|
|   | As Recorded<br>by<br>Chestatee | Fair Value<br>Adjustments | Recast<br>Adjustments |   |
|   | (Dollars in thousands)         |                           |                       |   |
| Assets acquired:                                |                                |                           |                       |   |
| Cash and cash equivalents .....                 | \$ 21,964                      | \$ -                      | \$ -                  | \$ 21,964                                       |
| Investment securities AFS .....                 | 7,204                          | (47) a                    | -                     | 7,157   |
| Loans not covered by FDIC                       |                                |                           |                       |   |
| loss share agreements .....                     | 5,269                          | (1,693) b                 | -                     | 3,576   |
| Loans covered by FDIC loss share agreements ... | 163,428                        | (46,620) b                | (5,427)               | 111,381   |
| FDIC loss share receivable .....                | -                              | 42,072 c                  | 3,987                 | 46,059  |
| Foreclosed assets covered by                    |                                |                           |                       |   |
| FDIC loss share agreements .....                | 31,647                         | (18,241) d                | -                     | 13,406  |
| Core deposit intangible .....                   | -                              | 550 e                     | -                     | 550   |
| Other assets .....                              | 1,722                          | (621) f                   | 1,141                 | 2,242   |
| Total assets acquired .....                     | <u>231,234</u>                 | <u>(24,600)</u>           | <u>(299)</u>          | <u>206,335</u>                                  |
| Liabilities assumed:                            |                                |                           |                       |   |
| Deposits .....                                  | 234,468                        | -                         | -                     | 234,468   |
| FDIC clawback payable .....                     | -                              | 1,091 h                   | (299)                 | 792   |
| Other liabilities .....                         | 440                            | 200 f                     | -                     | 640   |
| Total liabilities assumed .....                 | <u>234,908</u>                 | <u>1,291</u>              | <u>(299)</u>          | <u>235,900</u>                                  |
| Net assets acquired .....                       | (3,674)                        | <u>\$ (25,891)</u>        | <u>\$ -</u>           | (29,565)  |
| Asset discount bid .....                        | (34,750)                       |                           |                       |   |
| Cash received from FDIC .....                   | <u>\$ 38,424</u>               |                           |                       | <u>38,424</u>                                   |
| Pre-tax gain .....                              |                                |                           |                       | <u>\$ 8,859</u>                                 |

(1) Represents the Day 1 Fair Values of assets acquired and liabilities assumed in the Chestatee acquisition.

Explanation of fair value adjustments

- a- Adjustment reflects the fair value adjustment based on the Company's pricing of investment securities AFS.
- b- Adjustment reflects the fair value adjustments based on the Company's evaluation of the acquired loan portfolio.
- c- Adjustment reflects the estimated fair value of payments the Company expects to receive from the FDIC under the loss share agreements.
- d- Adjustment reflects the fair value adjustments based on the Company's evaluation of the acquired foreclosed assets covered by FDIC loss share agreements.
- e- Adjustment reflects the estimated fair value of the core deposit intangible.
- f- Adjustment reflects the amount needed to adjust the carrying value of other assets and other liabilities to estimated fair value.
- g- Adjustment reflects the amount of the prepayment penalty, if any, assessed on early payoff of FHLB-Atlanta advances.
- h- Adjustment reflects the estimated fair value of payments the Company expects to make to the FDIC under the clawback provisions of the loss share agreements at the conclusion of the term of the loss share agreements.
- i- Because the Company reset deposit rates for these assumed deposits, as provided for under the purchase and assumption agreements, to reflect an appropriate market rate of interest, there was no fair value adjustment for such assumed deposits.

The Company's results of operations include the operating results of the acquired assets and assumed liabilities from the respective dates of acquisition through the end of the reporting period. Due to the significant fair value adjustments and the nature of the loss sharing agreements with the FDIC, the Company believes pro forma information that would include pre-acquisition historical results of the acquired assets and assumed liabilities is not relevant. Accordingly, no pro forma information is included in these consolidated financial statements.

### *Purchase Accounting Adjustments*

The recast adjustments to the acquired assets and assumed liabilities for Unity, Woodlands, Horizon, Chestatee, Oglethorpe and Park Avenue were made subsequent to the acquisition, but prior to their one year anniversaries and, as provided for under GAAP, were considered to be purchase accounting adjustments in deriving the Day 1 Fair Values for the acquired assets and assumed liabilities. These adjustments impacted the net assets acquired and the resulting pre-tax gains on these acquisitions. However, because the net effect on net assets acquired and resulting pre-tax gains was not material, management recorded the impact of such adjustments as an increase or decrease to non-interest income during the quarter in which the adjustments were determined. The net decrease to non-interest income is included as an adjustment to “other assets” and “other liabilities” in the previous tables.

As a result of the recast adjustments recorded on the Unity, Woodlands, Horizon and Chestatee acquisitions and used by management in its determination of Day 1 Fair Values, certain amounts previously reported in the Company’s December 31, 2010 consolidated financial statements have been recast. The following is a summary of those financial statement captions that have been impacted by these recast adjustments.

|  | <u>As Previously<br/>Reported</u> | <u>Recast<br/>Adjustments</u> | <u>As<br/>Recast</u> |
|--|-----------------------------------|-------------------------------|----------------------|
|  |                                   | (Dollars in thousands)        |                      |
| <b>December 31, 2010:</b>                            |                                   |                               |                      |
| Loans covered by FDIC loss share agreements .....    | \$497,545                         | \$(8,077)                     | \$489,468            |
| FDIC loss share receivable .....                     | 153,111                           | 5,026                         | 158,137              |
| Other assets .....                                   | 33,624                            | 2,663                         | 36,287               |
| FDIC clawback payable .....                          | 7,286                             | (382)                         | 6,904                |
| Accrued interest payable and other liabilities ..... | 11,437                            | (6)                           | 11,431               |

### *Loss Share Agreements and Other Acquisition Matters*

In conjunction with these FDIC-assisted acquisitions, the Bank entered into loss share agreements with the FDIC such that the Bank and the FDIC will share in the losses on assets covered under the loss share agreements. Pursuant to the terms of the loss share agreements for the Unity acquisition, on losses up to \$65.0 million, the FDIC will reimburse the Bank for 80% of losses. On losses exceeding \$65.0 million, the FDIC will reimburse the Bank for 95% of losses. Pursuant to the terms of the loss share agreements for the Woodlands acquisition, the Chestatee acquisition, the Oglethorpe acquisition and the First Choice acquisition, the FDIC will reimburse the Bank for 80% of losses. Pursuant to the terms of the loss share agreements for the Horizon acquisition, the FDIC will reimburse the Bank on single family residential loans and related foreclosed assets for (i) 80% of losses up to \$11.8 million, (ii) 30% of losses between \$11.8 million and \$17.9 million and (iii) 80% of losses in excess of \$17.9 million. For non-single family residential loans and related foreclosed assets, the FDIC will reimburse the Bank for (i) 80% of losses up to \$32.3 million, (ii) 0% of losses between \$32.3 million and \$42.8 million and (iii) 80% of losses in excess of \$42.8 million. Pursuant to the terms of the loss share agreements for the Park Avenue acquisition, the FDIC will reimburse the Bank for (i) 80% of losses up to \$218.2 million, (ii) 0% of losses between \$218.2 million and \$267.5 million and (iii) 80% of losses in excess of \$267.5 million.

The loss share agreements applicable to single family residential mortgage loans and related foreclosed assets provide for FDIC loss sharing and the Bank’s reimbursement to the FDIC for recoveries of covered losses for ten years from the date on which each applicable loss share agreement was entered. The loss share agreements applicable to commercial loans and related foreclosed assets provide for FDIC loss sharing for five years from the date on which each applicable loss share agreement was entered and the Bank’s reimbursement to the FDIC for recoveries of covered losses for an additional three years thereafter.

To the extent that actual losses incurred by the Bank are less than (i) \$65 million on the Unity assets covered under the loss share agreements, (ii) \$107 million on the Woodlands assets covered under the loss share agreements, (iii) \$60 million on the Horizon assets covered under the loss share agreements, (iv) \$66 million on the Chestatee assets covered under the loss share agreements, (v) \$66 million on the Oglethorpe assets covered under the loss share agreements, (vi) \$87 million on the First Choice assets covered under the loss share agreements and (vii) \$269 million on the Park Avenue assets covered under the loss share agreements, the Bank may be required to reimburse the FDIC under the clawback provisions of the loss share agreements.

The terms of the purchase and assumption agreements for the Unity, Woodlands, Horizon, Chestatee, Oglethorpe, First Choice and Park Avenue acquisitions provide for the FDIC to indemnify the Bank against certain claims, including claims with respect to assets, liabilities or any affiliate not acquired or otherwise assumed by the Bank and with respect to claims based on any action by Unity's, Woodlands', Horizon's, Chestatee's, Oglethorpe's, First Choice's or Park Avenue's directors, officers or employees.

### 3. Covered Assets, FDIC Loss Share Receivable and FDIC Clawback Payable

A summary of the covered assets, the FDIC loss share receivable and the FDIC clawback payable is as follows:

|                                  | <b>December 31,</b>    |                  |
|----------------------------------|------------------------|------------------|
|                                  | <b>2011</b>            | <b>2010</b>      |
|                                  | (Dollars in thousands) |                  |
| Covered loans .....              | \$ 806,924             | \$489,468        |
| FDIC loss share receivable ..... | 278,263                | 158,137          |
| Covered foreclosed assets .....  | 72,907                 | 31,145           |
| Total .....                      | <u>\$1,158,094</u>     | <u>\$678,750</u> |
| FDIC clawback payable .....      | <u>\$ 24,606</u>       | <u>\$ 6,904</u>  |

#### *Covered Loans*

The following table presents a summary, by acquisition, of covered loans acquired as of the dates of acquisition and activity within covered loans during the periods indicated.

|  | <b>Unity</b>           | <b>Woodlands</b> | <b>Horizon</b>   | <b>Chestatee</b> | <b>Oglethorpe</b> | <b>First Choice</b> | <b>Park Avenue</b> | <b>Total</b>       |
|--|------------------------|------------------|------------------|------------------|-------------------|---------------------|--------------------|--------------------|
| At acquisition date:   | (Dollars in thousands) |                  |                  |                  |                   |                     |                    |                    |
| Contractually required principal and interest .....                        | \$208,410              | \$315,103        | \$179,441        | \$181,523        | \$174,110         | \$260,178           | \$452,658          | \$1,771,423        |
| Nonaccretable difference .....   | (52,526)               | (83,933)         | (52,388)         | (47,538)         | (67,300)          | (86,210)            | (126,321)          | (516,216)          |
| Cash flows expected to be collected .....                                  | 155,884                | 231,170          | 127,053          | 133,985          | 106,810           | 173,968             | 326,337            | 1,255,207          |
| Accretable difference .....  | (21,432)               | (44,692)         | (35,245)         | (22,604)         | (25,376)          | (24,074)            | (63,420)           | (236,843)          |
| Fair value at acquisition date   | <u>\$134,452</u>       | <u>\$186,478</u> | <u>\$ 91,808</u> | <u>\$111,381</u> | <u>\$ 81,434</u>  | <u>\$149,894</u>    | <u>\$262,917</u>   | <u>\$1,018,364</u> |
| Carrying value at January 1, 2010 .....                                    | \$ -                   | \$ -             | \$ -             | \$ -             | \$ -              | \$ -                | \$ -               | \$ -               |
| Covered loans acquired .....   | 134,452                | 186,478          | 91,808           | 111,381          | -                 | -                   | -                  | 524,119            |
| Accretion .....  | 7,436                  | 7,144            | 2,222            | 339              | -                 | -                   | -                  | 17,141             |
| Transfers to foreclosed assets covered by FDIC loss share agreements ..... | (2,755)                | (2,599)          | -                | -                | -                 | -                   | -                  | (5,354)            |
| Payments received .....  | (23,786)               | (15,356)         | (6,339)          | (669)            | -                 | -                   | -                  | (46,150)           |
| Other activity, net .....  | (364)                  | 53               | 23               | -                | -                 | -                   | -                  | (288)              |
| Carrying value at December 31, 2010 .....                                  | 114,983                | 175,720          | 87,714           | 111,051          | -                 | -                   | -                  | 489,468            |
| Covered loans acquired .....   | -                      | -                | -                | -                | 81,434            | 149,894             | 262,917            | 494,245            |
| Accretion .....  | 7,662                  | 13,716           | 6,716            | 8,193            | 6,461             | 7,798               | 15,589             | 66,135             |
| Transfers to foreclosed assets covered by FDIC loss share agreements ..... | (5,197)                | (14,938)         | (1,990)          | (2,381)          | (1,218)           | (858)               | (2,432)            | (29,014)           |
| Payments received .....  | (20,296)               | (40,256)         | (11,598)         | (40,814)         | (22,061)          | (22,514)            | (48,249)           | (205,788)          |
| Other activity, net .....  | (792)                  | (2,467)          | (1,044)          | (1,348)          | (225)             | (1,015)             | (1,231)            | (8,122)            |
| Carrying value at December 31, 2011 .....                                  | <u>\$ 96,360</u>       | <u>\$131,775</u> | <u>\$ 79,798</u> | <u>\$ 74,701</u> | <u>\$ 64,391</u>  | <u>\$133,305</u>    | <u>\$226,594</u>   | <u>\$ 806,924</u>  |

The following table presents a summary of the carrying value and type of covered loans at December 31, 2011 and 2010.

|                                      | <u>December 31,</u>    |                  |
|--------------------------------------|------------------------|------------------|
|                                      | <u>2011</u>            | <u>2010</u>      |
|                                      | (Dollars in thousands) |                  |
| Real estate:                         |                        |                  |
| Residential 1-4 family .....         | \$202,621              | \$132,108        |
| Non-farm/non-residential .....       | 369,757                | 214,435          |
| Construction/land development .....  | 160,872                | 102,099          |
| Agricultural .....                   | 24,104                 | 9,643            |
| Multifamily residential .....        | 15,894                 | 10,709           |
| Total real estate .....              | <u>773,248</u>         | <u>468,994</u>   |
| Commercial and industrial .....      | 29,749                 | 17,999           |
| Consumer .....                       | 958                    | 1,248            |
| Agricultural (non-real estate) ..... | 2,806                  | 73               |
| Other .....                          | 163                    | 1,154            |
| Total covered loans .....            | <u>\$806,924</u>       | <u>\$489,468</u> |

The following table presents a summary, by acquisition, of changes in the accretable difference on covered loans during the periods indicated.

|   | <u>Unity</u>           | <u>Woodlands</u> | <u>Horizon</u>  | <u>Chestatee Oglethorpe</u> | <u>First Choice</u> | <u>Park Avenue</u> | <u>Total</u>     |
|---|------------------------|------------------|-----------------|-----------------------------|---------------------|--------------------|------------------|
|   | (Dollars in thousands) |                  |                 |                             |                     |                    |                  |
| Accretable difference at January 1, 2010 .....  | \$ -                   | \$ -             | \$ -            | \$ -                        | \$ -                | \$ -               | \$ -             |
| Accretable difference acquired .....  | 21,432                 | 44,692           | 35,245          | 22,604                      | -                   | -                  | 123,973          |
| Accretion .....   | (7,436)                | (7,144)          | (2,222)         | (339)                       | -                   | -                  | (17,141)         |
| Adjustments to accretable difference due to:  |                        |                  |                 |                             |                     |                    |                  |
| Covered loans transferred to covered foreclosed assets .....                            | (299)                  | (109)            | -               | -                           | -                   | -                  | (408)            |
| Covered loans paid off .....  | (871)                  | (1,010)          | (1,075)         | -                           | -                   | -                  | (2,956)          |
| Cash flow revisions as a result of renewals and/or modifications of covered loans ..... | 2,453                  | 647              | 4               | -                           | -                   | -                  | 3,104            |
| Other, net .....  | -                      | 106              | 213             | -                           | -                   | -                  | 319              |
| Accretable difference at December 31, 2010 ....   | <u>15,279</u>          | <u>37,182</u>    | <u>32,165</u>   | <u>22,265</u>               | <u>-</u>            | <u>-</u>           | <u>106,891</u>   |
| Accretable difference acquired .....  | -                      | -                | -               | -                           | 25,376              | 24,074             | 63,420           |
| Accretion .....   | (7,662)                | (13,716)         | (6,716)         | (8,193)                     | (6,461)             | (7,798)            | (66,135)         |
| Adjustments to accretable difference due to:  |                        |                  |                 |                             |                     |                    |                  |
| Covered loans transferred to covered foreclosed assets .....                            | (384)                  | (1,611)          | (191)           | (503)                       | (315)               | (91)               | (3,422)          |
| Covered loans paid off .....  | (273)                  | (2,146)          | (934)           | (4,564)                     | (2,811)             | (1,435)            | (15,330)         |
| Cash flow revisions as a result of renewals and/or modifications of covered loans ..... | 3,514                  | 4,691            | 10              | 1,481                       | 1,446               | 1,269              | 14,508           |
| Other, net .....  | 140                    | 155              | 98              | 177                         | 103                 | 165                | 1,509            |
| Accretable difference at December 31, 2011 ....   | <u>\$10,614</u>        | <u>\$24,555</u>  | <u>\$24,432</u> | <u>\$10,663</u>             | <u>\$17,338</u>     | <u>\$16,184</u>    | <u>\$47,105</u>  |
|   | <u>\$150,891</u>       |                  |                 |                             |                     |                    | <u>\$150,891</u> |



### FDIC Loss Share Receivable

The following table presents a summary, by acquisition, of the FDIC loss share receivable as of the dates of acquisition and the activity within the FDIC loss share receivable during the periods indicated.

|  | Unity                  | Woodlands       | Horizon         | Chestatee       | Oglethorpe      | First Choice    | Park Avenue      | Total            |
|--|------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|
| At acquisition date:   | (Dollars in thousands) |                 |                 |                 |                 |                 |                  |                  |
| Expected principal loss on covered assets:   |                        |                 |                 |                 |                 |                 |                  |                  |
| Covered loans .....  | \$50,354               | \$73,220        | \$40,537        | \$46,869        | \$62,890        | \$81,583        | \$115,127        | \$470,580        |
| Covered foreclosed assets .....  | 9,979                  | 5,897           | 3,678           | 15,960          | 7,907           | 628             | 49,850           | 93,899           |
| Total expected principal losses .....  | 60,333                 | 79,117          | 44,215          | 62,829          | 70,797          | 82,211          | 164,977          | 564,479          |
| Estimated loss sharing percentage <sup>(1)</sup> .....   | 80%                    | 80%             | 80%             | 80%             | 80%             | 80%             | 80%              | 80%              |
| Estimated recovery from FDIC .....   | 48,266                 | 63,294          | 35,372          | 50,263          | 56,638          | 65,769          | 131,982          | 451,584          |
| Discount for net present value on FDIC loss share receivable .....   | (4,119)                | (7,428)         | (6,283)         | (4,204)         | (5,535)         | (6,225)         | (16,050)         | (49,844)         |
| Net present value of FDIC loss share receivable at acquisition date .....  | <u>\$44,147</u>        | <u>\$55,866</u> | <u>\$29,089</u> | <u>\$46,059</u> | <u>\$51,103</u> | <u>\$59,544</u> | <u>\$115,932</u> | <u>\$401,740</u> |
| Carrying value at January 1, 2010 .....  | \$ -                   | \$ -            | \$ -            | \$ -            | \$ -            | \$ -            | \$ -             | \$ -             |
| FDIC loss share receivable recorded at acquisition .....   | 44,147                 | 55,866          | 29,089          | 46,059          | -               | -               | -                | 175,161          |
| Accretion income .....   | 1,229                  | 1,007           | 331             | -               | -               | -               | -                | 2,567            |
| Cash received from FDIC .....  | (15,308)               | (4,802)         | -               | -               | -               | -               | -                | (20,110)         |
| Other activity, net .....  | 1,052                  | (295)           | (238)           | -               | -               | -               | -                | 519              |
| Carrying value at December 31, 2010 .....  | 31,120                 | 51,776          | 29,182          | 46,059          | -               | -               | -                | 158,137          |
| FDIC loss share receivable recorded at acquisition .....   | -                      | -               | -               | -               | 51,103          | 59,544          | 115,932          | 226,579          |
| Accretion income .....   | 741                    | 1,807           | 927             | 1,363           | 1,997           | 1,814           | 2,427            | 11,076           |
| Cash received from FDIC .....  | (5,069)                | (23,001)        | (9,505)         | (18,466)        | (11,942)        | (12,372)        | (28,646)         | (109,001)        |
| Reductions of FDIC loss share receivable for payments on covered loans in excess of Day 1 Fair Values estimates... | (875)                  | (3,590)         | (948)           | (2,892)         | (4,565)         | (1,612)         | (7,204)          | (21,686)         |
| Expenses on covered assets reimbursable by FDIC .....  | 1,376                  | 1,606           | 1,183           | 1,330           | 737             | 472             | 1,943            | 8,647            |
| Other activity, net .....  | 282                    | 579             | 918             | 1,988           | 390             | 136             | 218              | 4,511            |
| Carrying value at December 31, 2011 .....  | <u>\$27,575</u>        | <u>\$29,177</u> | <u>\$21,757</u> | <u>\$29,382</u> | <u>\$37,720</u> | <u>\$47,982</u> | <u>\$ 84,670</u> | <u>\$278,263</u> |

(1) Certain of the Company's loss share agreements contain tranches whereby the FDIC's loss sharing percentage is more than or less than 80%. However, management's current expectation of most of the principal losses on covered assets under each of the loss share agreements falls in the tranches whereby the FDIC would reimburse the Company for approximately 80% of such losses.

### Foreclosed Assets Covered by FDIC Loss Share Agreements

The following table presents a summary, by acquisition, of foreclosed assets covered by FDIC loss share agreements, or covered foreclosed assets, as of the dates of acquisition and the activity within covered foreclosed assets during the periods indicated.

|  | Unity           | Woodlands       | Horizon        | Chestatee       | Oglethorpe      | First Choice   | Park Avenue     | Total            |
|--|-----------------|-----------------|----------------|-----------------|-----------------|----------------|-----------------|------------------|
| (Dollars in thousands)                                       |                 |                 |                |                 |                 |                |                 |                  |
| At acquisition date:   |                 |                 |                |                 |                 |                |                 |                  |
| Balance on acquired bank's books .....                       | \$20,304        | \$12,258        | \$8,391        | \$31,647        | \$16,554        | \$2,773        | \$91,442        | \$183,369        |
| Total expected losses .....                                  | (9,979)         | (5,897)         | (3,678)        | (15,960)        | (7,907)         | (628)          | (49,850)        | (93,899)         |
| Discount for net present value of expected cash flows .....  | (1,466)         | (1,332)         | (1,030)        | (2,281)         | (1,562)         | (474)          | (10,412)        | (18,557)         |
| Fair value at acquisition date ...                           | <u>\$ 8,859</u> | <u>\$ 5,029</u> | <u>\$3,683</u> | <u>\$13,406</u> | <u>\$ 7,085</u> | <u>\$1,671</u> | <u>\$31,180</u> | <u>\$ 70,913</u> |
| Carrying value at January 1, 2010 .....                      | \$ -            | \$ -            | \$ -           | \$ -            | \$ -            | \$ -           | \$ -            | \$ -             |
| Covered foreclosed assets acquired .....                     | 8,859           | 5,029           | 3,683          | 13,406          | -               | -              | -               | 30,977           |
| Covered loans transferred to covered foreclosed assets ..... | 2,755           | 2,599           | -              | -               | -               | -              | -               | 5,354            |
| Sales of covered foreclosed assets .....                     | (3,554)         | (1,632)         | -              | -               | -               | -              | -               | (5,186)          |
| Carrying value at December 31, 2010 .....                    | 8,060           | 5,996           | 3,683          | 13,406          | -               | -              | -               | 31,145           |
| Covered foreclosed assets acquired .....                     | -               | -               | -              | -               | 7,085           | 1,671          | 31,180          | 39,936           |
| Covered loans transferred to covered foreclosed assets ..... | 5,197           | 14,938          | 1,990          | 2,381           | 1,218           | 858            | 2,432           | 29,014           |
| Sales of covered foreclosed assets .....                     | (2,985)         | (6,499)         | (1,996)        | (6,110)         | (1,171)         | (305)          | (8,122)         | (27,188)         |
| Carrying value at December 31, 2011 .....                    | <u>\$10,272</u> | <u>\$14,435</u> | <u>\$3,677</u> | <u>\$ 9,677</u> | <u>\$ 7,132</u> | <u>\$2,224</u> | <u>\$25,490</u> | <u>\$ 72,907</u> |

The following table presents a summary of the carrying value and type of foreclosed assets covered by FDIC loss share agreements, or covered foreclosed assets, at December 31, 2011 and 2010.

|                                       | December 31,    |                 |
|---------------------------------------|-----------------|-----------------|
|                                       | 2011            | 2010            |
| (Dollars in thousands)                |                 |                 |
| Real estate:                          |                 |                 |
| Residential 1-4 family .....          | \$15,945        | \$10,624        |
| Non-farm/non-residential .....        | 11,624          | 3,755           |
| Construction/land development .....   | 43,323          | 16,366          |
| Multifamily residential .....         | 2,014           | -               |
| Total real estate .....               | 72,906          | 30,745          |
| Commercial and industrial .....       | 1               | 400             |
| Total covered foreclosed assets ..... | <u>\$72,907</u> | <u>\$31,145</u> |

### FDIC Clawback Payable

The following table presents a summary, by acquisition, of the FDIC clawback payable as of the dates of acquisition and activity within the FDIC clawback payable during the periods indicated.

|  | Unity          | Woodlands      | Horizon        | Chestatee     | Oglethorpe     | First Choice  | Park Avenue     | Total           |
|--|----------------|----------------|----------------|---------------|----------------|---------------|-----------------|-----------------|
| (Dollars in thousands)   |                |                |                |               |                |               |                 |                 |
| At acquisition date:   |                |                |                |               |                |               |                 |                 |
| Estimated FDIC clawback payable .....                                | \$2,612        | \$4,846        | \$2,380        | \$1,291       | \$1,721        | \$1,515       | \$24,219        | \$38,584        |
| Discount for net present value on FDIC clawback payable .....        | (1,046)        | (1,905)        | (919)          | (499)         | (664)          | (585)         | (9,351)         | (14,969)        |
| Net present value of FDIC clawback payable at acquisition date ..... | <u>\$1,566</u> | <u>\$2,941</u> | <u>\$1,461</u> | <u>\$ 792</u> | <u>\$1,057</u> | <u>\$ 930</u> | <u>\$14,868</u> | <u>\$23,615</u> |
| Carrying value at January 1, 2010 .....                              | \$ -           | \$ -           | \$ -           | \$ -          | \$ -           | \$ -          | \$ -            | \$ -            |
| FDIC clawback payable recorded at acquisition .....                  | 1,566          | 2,941          | 1,461          | 792           | -              | -             | -               | 6,760           |
| Amortization expense .....   | 63             | 63             | 12             | -             | -              | -             | -               | 138             |
| Other activity, net .....  | -              | -              | 6              | -             | -              | -             | -               | 6               |
| Carrying value at December 31, 2010 .....                            | 1,629          | 3,004          | 1,479          | 792           | -              | -             | -               | 6,904           |
| FDIC clawback payable recorded at acquisition .....                  | -              | -              | -              | -             | 1,057          | 930           | 14,868          | 16,855          |
| Amortization expense .....   | 80             | 149            | 73             | 55            | 42             | 31            | 505             | 935             |
| Other activity, net .....  | -              | -              | -              | (88)          | -              | -             | -               | (88)            |
| Carrying value at December 31, 2011 .....                            | <u>\$1,709</u> | <u>\$3,153</u> | <u>\$1,552</u> | <u>\$ 759</u> | <u>\$1,099</u> | <u>\$ 961</u> | <u>\$15,373</u> | <u>\$24,606</u> |

### 4. Investment Securities

The following table is a summary of the amortized cost and estimated fair values of investment securities, all of which are classified as AFS. The Company's holdings of "other equity securities" include FHLB-Dallas, FHLB-Atlanta and FNBB shares which do not have readily available fair values and are carried at cost.

|   | Amortized Cost   | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value <sup>(1)</sup> |
|---|------------------|------------------------|-------------------------|-------------------------------------|
| (Dollars in thousands)  |                  |                        |                         |                                     |
| <b>December 31, 2011:</b>   |                  |                        |                         |                                     |
| Obligations of states and political subdivisions .....              | \$359,667        | \$14,359               | \$ (979)                | \$373,047                           |
| U.S. Government agency residential mortgage-backed securities ..... | 46,068           | 1,967                  | -                       | 48,035                              |
| Other equity securities .....                                       | 17,828           | -                      | -                       | 17,828                              |
| Total investment securities AFS .....                               | <u>\$423,563</u> | <u>\$16,326</u>        | <u>\$ (979)</u>         | <u>\$438,910</u>                    |
| <b>December 31, 2010:</b>   |                  |                        |                         |                                     |
| Obligations of states and political subdivisions .....              | \$378,822        | \$ 6,431               | \$ (6,706)              | \$378,547                           |
| U.S. Government agency residential mortgage-backed securities ..... | 1,269            | -                      | -                       | 1,269                               |
| Other equity securities .....                                       | 18,882           | -                      | -                       | 18,882                              |
| Total investment securities AFS .....                               | <u>\$398,973</u> | <u>\$ 6,431</u>        | <u>\$ (6,706)</u>       | <u>\$398,698</u>                    |

(1) The Company utilizes independent third parties as its principal pricing sources for determining fair value of investment securities which are measured on a recurring basis. For investment securities traded in an active market, the fair values are obtained from independent pricing services and based on quoted market prices if available. If quoted market prices are not available, fair values are based on market prices for comparable securities, broker quotes or comprehensive interest rate tables and pricing matrices or a combination thereof. For investment securities traded in a market that is not active, fair value is determined using unobservable inputs.

The following table shows gross unrealized losses and estimated fair value of investment securities AFS, aggregated by investment category and length of time that individual investment securities have been in a continuous unrealized loss position.

|  | <u>Less than 12 Months</u>  |                          | <u>12 Months or More</u>    |                          | <u>Total</u>                |                          |
|--|-----------------------------|--------------------------|-----------------------------|--------------------------|-----------------------------|--------------------------|
|  | <u>Estimated Fair Value</u> | <u>Unrealized Losses</u> | <u>Estimated Fair Value</u> | <u>Unrealized Losses</u> | <u>Estimated Fair Value</u> | <u>Unrealized Losses</u> |
| (Dollars in thousands)                                 |                             |                          |                             |                          |                             |                          |
| <b>December 31, 2011:</b>                              |                             |                          |                             |                          |                             |                          |
| Obligations of states and political subdivisions ..... | \$ 6,035                    | \$ 248                   | \$16,582                    | \$731                    | \$ 22,617                   | \$ 979                   |
| Total temporarily impaired investment securities ..... | <u>\$ 6,035</u>             | <u>\$ 248</u>            | <u>\$16,582</u>             | <u>\$731</u>             | <u>\$ 22,617</u>            | <u>\$ 979</u>            |
| <b>December 31, 2010:</b>                              |                             |                          |                             |                          |                             |                          |
| Obligations of states and political subdivisions ..... | \$174,356                   | \$6,153                  | \$ 5,387                    | \$553                    | \$179,743                   | \$6,706                  |
| Total temporarily impaired investment securities ..... | <u>\$174,356</u>            | <u>\$6,153</u>           | <u>\$ 5,387</u>             | <u>\$553</u>             | <u>\$179,743</u>            | <u>\$6,706</u>           |

In evaluating the Company's unrealized loss positions for other-than-temporary impairment for the investment securities portfolio, management considers the credit quality of the issuer, the nature and cause of the unrealized loss, the severity and duration of the impairments and other factors. At December 31, 2011 and 2010, management determined the unrealized losses were the result of fluctuations in interest rates and did not reflect deteriorations of the credit quality of the investments. Accordingly, management believes that all of its unrealized losses on investment securities are temporary in nature. The Company does not have the intent to sell these investment securities and more likely than not would not be required to sell these investment securities before fair value recovers to amortized cost.

A maturity distribution of investment securities AFS reported at amortized cost and estimated fair value as of December 31, 2011 is as follows:

|   | <u>Amortized Cost</u> | <u>Estimated Fair Value</u> |
|---|-----------------------|-----------------------------|
| (Dollars in thousands)                  |                       |                             |
| Due in one year or less .....           | \$ 12,216             | \$ 12,624                   |
| Due after one year to five years .....  | 37,392                | 38,539                      |
| Due after five years to ten years ..... | 35,935                | 37,241                      |
| Due after ten years .....               | 338,020               | 350,506                     |
| Total .....                             | <u>\$423,563</u>      | <u>\$438,910</u>            |

For purposes of this maturity distribution, all investment securities are shown based on their contractual maturity date, except (i) FHLB-Dallas, FHLB-Atlanta and FNBB stock with no contractual maturity date are shown in the longest maturity category and (ii) U.S. Government agency residential mortgage-backed securities are allocated among various maturities based on an estimated repayment schedule utilizing Bloomberg median prepayment speeds and interest rate levels at December 31, 2011. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Sales activities and other-than-temporary impairment charges of the Company's investment securities AFS are summarized as follows:

|   | <u>Year Ended December 31,</u> |                  |                  |
|---|--------------------------------|------------------|------------------|
|   | <u>2011</u>                    | <u>2010</u>      | <u>2009</u>      |
| (Dollars in thousands)                            |                                |                  |                  |
| Sales proceeds .....                              | <u>\$94,676</u>                | <u>\$255,232</u> | <u>\$528,542</u> |
| Gross realized gains .....                        | \$ 1,044                       | \$ 5,030         | \$ 30,802        |
| Gross realized losses .....                       | (111)                          | (486)            | (2,920)          |
| Other-than-temporary impairment charges .....     | -                              | -                | (900)            |
| Net gains (losses) on investment securities ..... | <u>\$ 933</u>                  | <u>\$ 4,544</u>  | <u>\$ 26,982</u> |

Investment securities with carrying values of \$316.8 million and \$345.3 million at December 31, 2011 and 2010, respectively, were pledged to secure public funds and trust deposits and for other purposes required or permitted by law.

At December 31, 2011, the Company's holdings of investment securities issued by the Government National Mortgage Association, which carry the full faith and credit guaranty of the U.S. Government, totaled \$45.6 million, or 10.7% of total common stockholder's equity. At December 31, 2010, the Company had no holdings of investment securities of any one issuer in an amount greater than 10% of total common stockholders' equity.

## 5. Loans and Leases

The following table is a summary of the loan and lease portfolio, excluding loans covered by FDIC loss share agreements, by principal category.

|                                      | December 31,           |               |                    |               |
|--------------------------------------|------------------------|---------------|--------------------|---------------|
|                                      | 2011                   |               | 2010               |               |
|                                      | (Dollars in thousands) |               |                    |               |
| Real estate:                         |                        |               |                    |               |
| Residential 1-4 family .....         | \$ 260,473             | 13.8%         | \$ 266,014         | 14.3%         |
| Non-farm/non-residential .....       | 708,766                | 37.6          | 678,465            | 36.5          |
| Construction/land development .....  | 478,106                | 25.4          | 496,737            | 26.8          |
| Agricultural .....                   | 71,158                 | 3.8           | 81,736             | 4.4           |
| Multifamily residential .....        | 142,131                | 7.5           | 103,875            | 5.6           |
| Total real estate .....              | <u>1,660,634</u>       | <u>88.1</u>   | <u>1,626,827</u>   | <u>87.6</u>   |
| Commercial and industrial .....      | 120,679                | 6.4           | 120,038            | 6.5           |
| Consumer .....                       | 40,162                 | 2.1           | 54,401             | 2.9           |
| Direct financing leases .....        | 54,745                 | 2.9           | 42,754             | 2.3           |
| Agricultural (non-real estate) ..... | 6,322                  | 0.3           | 9,962              | 0.5           |
| Other .....                          | 2,740                  | 0.2           | 2,447              | 0.2           |
| Total loans and leases .....         | <u>\$1,885,282</u>     | <u>100.0%</u> | <u>\$1,856,429</u> | <u>100.0%</u> |

The above table includes deferred costs, net of deferred fees, that totaled \$0.6 million and \$1.6 million at December 31, 2011 and 2010, respectively.

Loans and leases on which the accrual of interest has been discontinued aggregated \$12.5 million and \$13.9 million at December 31, 2011 and 2010, respectively. Interest income recorded during 2011, 2010 and 2009 for nonaccrual loans and leases at December 31, 2011, 2010 and 2009 was \$0.4 million, \$0.1 million and \$1.3 million, respectively. Under the original terms, these loans and leases would have reported \$1.2 million, \$1.1 million and \$2.5 million of interest income during 2011, 2010 and 2009, respectively.

The Company's direct financing leases include estimated residual values of \$0.1 million at December 31, 2011 and \$0.5 million at December 31, 2010. Direct financing leases are presented net of unearned income totaling \$7.4 million and \$5.9 million at December 31, 2011 and 2010, respectively.

## 6. Allowance for Loan and Lease Losses ("ALLL")

The following table is a summary of activity within the ALLL.

|   | Year Ended December 31, |                 |                 |
|---|-------------------------|-----------------|-----------------|
|   | 2011                    | 2010            | 2009            |
|   | (Dollars in thousands)  |                 |                 |
| Balance - beginning of year .....                                       | \$40,230                | \$39,619        | \$29,512        |
| Non-covered loans and leases charged off .....                          | (12,988)                | (16,764)        | (35,885)        |
| Recoveries of non-covered loans and leases previously charged off ..... | 427                     | 1,375           | 1,192           |
| Net charge-offs - non-covered loans and leases .....                    | <u>(12,561)</u>         | <u>(15,389)</u> | <u>(34,693)</u> |
| Covered loans charged off .....   | (275)                   | -               | -               |
| Net charge-offs - total loans and leases .....                          | <u>(12,836)</u>         | <u>(15,389)</u> | <u>(34,693)</u> |
| Provision for loan and lease losses .....                               | 11,775                  | 16,000          | 44,800          |
| Balance - end of year .....   | <u>\$39,169</u>         | <u>\$40,230</u> | <u>\$39,619</u> |

As of December 31, 2011, the Company identified purchased loans covered by FDIC loss share agreements acquired in its FDIC-assisted acquisitions totaling \$3.2 million where the expected performance of such loans had deteriorated from management's performance expectations established in conjunction with the determination of the Day 1 Fair Values. As a result the Company recorded partial charge-offs, net of adjustments to the FDIC loss share receivable and the FDIC clawback payable, totaling \$0.3 million for such loans during the fourth quarter of 2011. The Company also recorded \$0.3 million of provision for loan and lease losses during the fourth quarter of 2011 to cover such charge-offs. In addition to those net charge-offs, the Company also transferred certain of these covered loans to covered foreclosed assets during the fourth quarter of 2011. As a result of these actions, the Company had \$1.9 million of impaired covered loans at December 31, 2011 (none at December 31, 2010).

The following table is a summary of the Company's ALLL as of and for the years ended December 31, 2011 and 2010.

|                                     | <u>Beginning<br/>Balance</u> | <u>Charge-offs</u> | <u>Recoveries</u> | <u>Provision</u> | <u>Ending<br/>Balance</u> |
|-------------------------------------|------------------------------|--------------------|-------------------|------------------|---------------------------|
|                                     | (Dollars in thousands)       |                    |                   |                  |                           |
| <b>December 31, 2011:</b>           |                              |                    |                   |                  |                           |
| Real estate:                        |                              |                    |                   |                  |                           |
| Residential 1-4 family .....        | \$ 2,999                     | \$ (2,743)         | \$ 64             | \$ 3,528         | \$ 3,848                  |
| Non-farm/non-residential .....      | 8,313                        | (1,033)            | 16                | 4,907            | 12,203                    |
| Construction/land development ..... | 10,565                       | (5,651)            | 30                | 4,534            | 9,478                     |
| Agricultural .....                  | 2,569                        | (771)              | -                 | 1,585            | 3,383                     |
| Multifamily residential .....       | 1,320                        | -                  | -                 | 1,244            | 2,564                     |
| Commercial and industrial .....     | 4,142                        | (1,465)            | 142               | 1,772            | 4,591                     |
| Consumer .....                      | 2,051                        | (825)              | 166               | (183)            | 1,209                     |
| Direct financing leases .....       | 1,726                        | (413)              | 5                 | 314              | 1,632                     |
| Other .....                         | 201                          | (87)               | 4                 | 143              | 261                       |
| Covered loans .....                 | -                            | (275)              | -                 | 275              | -                         |
| Unallocated .....                   | 6,344                        | -                  | -                 | (6,344)          | -                         |
| Total .....                         | <u>\$40,230</u>              | <u>\$(13,263)</u>  | <u>\$ 427</u>     | <u>\$11,775</u>  | <u>\$39,169</u>           |
| <b>December 31, 2010:</b>           |                              |                    |                   |                  |                           |
| Real estate:                        |                              |                    |                   |                  |                           |
| Residential 1-4 family .....        | \$ 3,600                     | \$ (872)           | \$ 99             | \$ 172           | \$ 2,999                  |
| Non-farm/non-residential .....      | 6,574                        | (1,702)            | 87                | 3,354            | 8,313                     |
| Construction/land development ..... | 11,585                       | (4,037)            | 253               | 2,764            | 10,565                    |
| Agricultural .....                  | 750                          | (301)              | 45                | 2,075            | 2,569                     |
| Multifamily residential .....       | 710                          | (133)              | 1                 | 742              | 1,320                     |
| Commercial and industrial .....     | 3,587                        | (6,937)            | 656               | 6,836            | 4,142                     |
| Consumer .....                      | 2,599                        | (1,196)            | 212               | 436              | 2,051                     |
| Direct financing leases .....       | 1,560                        | (478)              | 20                | 624              | 1,726                     |
| Other .....                         | 289                          | (1,108)            | 2                 | 1,018            | 201                       |
| Unallocated .....                   | 8,365                        | -                  | -                 | (2,021)          | 6,344                     |
| Total .....                         | <u>\$39,619</u>              | <u>\$(16,764)</u>  | <u>\$1,375</u>    | <u>\$16,000</u>  | <u>\$40,230</u>           |

Because the Company has refined its allowance calculation during 2011 such that it no longer maintains unallocated allowance at December 31, 2011, the Company's allocation of its allowance at December 31, 2011 may not be comparable with prior periods.



The following table is a summary of the Company's ALLL and recorded investment in loans and leases, excluding loans covered by FDIC loss share agreements, as of December 31, 2011 and 2010.

|   | Allowance for<br>Loan and Leases Losses                                  |  |                 | Loans and Leases not Covered<br>by FDIC Loss Share Agreements   |                                     |                                 |
|---|--|--|-----------------|---|-------------------------------------|---------------------------------|
|   | ALLL for<br>Individually<br>Evaluated<br>Impaired<br>Loans and<br>Leases | ALLL<br>for All<br>Other<br>Loans<br>and<br>Leases | Total<br>ALLL   | Individually<br>Evaluated<br>Impaired<br>Loans<br>and<br>Leases | All Other<br>Loans<br>and<br>Leases | Total<br>Loans<br>and<br>Leases |
| (Dollars in thousands)                      |  |  |                 |   |                                     |                                 |
| <b>December 31, 2011:</b>                   |  |  |                 |   |                                     |                                 |
| Real estate:                                |  |  |                 |   |                                     |                                 |
| Residential 1-4 family <sup>(1)</sup> ..... | \$ 415   | \$ 3,433   | \$ 3,848        | \$ 3,239  | \$ 257,234                          | \$ 260,473                      |
| Non-farm/non-residential .....              | 410  | 11,793   | 12,203          | 3,837   | 704,929                             | 708,766                         |
| Construction/land development ...           | 31   | 9,447  | 9,478           | 3,001   | 475,105                             | 478,106                         |
| Agricultural .....                          | -  | 3,383  | 3,383           | 737   | 70,421                              | 71,158                          |
| Multifamily residential .....               | -  | 2,564  | 2,564           | -   | 142,131                             | 142,131                         |
| Commercial and industrial .....             | 868  | 3,723  | 4,591           | 1,390   | 119,289                             | 120,679                         |
| Consumer .....                              | 57   | 1,152  | 1,209           | 87  | 40,075                              | 40,162                          |
| Direct financing leases .....               | -  | 1,632  | 1,632           | -   | 54,745                              | 54,745                          |
| Other .....                                 | 2  | 259  | 261             | 11  | 9,051                               | 9,062                           |
| Total .....                                 | <u>\$1,783</u>   | <u>\$37,386</u>                                    | <u>\$39,169</u> | <u>\$12,302</u>   | <u>\$1,872,980</u>                  | <u>\$1,885,282</u>              |

**December 31, 2010:**

|                                   |                |                 |                 |                 |                    |                    |
|-----------------------------------|----------------|-----------------|-----------------|-----------------|--------------------|--------------------|
| Real estate:                      |                |                 |                 |                 |                    |                    |
| Residential 1-4 family .....      | \$ 33          | \$ 2,966        | \$ 2,999        | \$ 945          | \$ 265,069         | \$ 266,014         |
| Non-farm/non-residential .....    | 71             | 8,242           | 8,313           | 3,096           | 675,369            | 678,465            |
| Construction/land development ... | 508            | 10,057          | 10,565          | 4,086           | 492,651            | 496,737            |
| Agricultural .....                | 403            | 2,166           | 2,569           | 2,456           | 79,280             | 81,736             |
| Multifamily residential .....     | -              | 1,320           | 1,320           | -               | 103,875            | 103,875            |
| Commercial and industrial .....   | 928            | 3,214           | 4,142           | 947             | 119,091            | 120,038            |
| Consumer .....                    | 33             | 2,018           | 2,051           | 183             | 54,218             | 54,401             |
| Direct financing leases .....     | -              | 1,726           | 1,726           | -               | 42,754             | 42,754             |
| Other .....                       | 44             | 157             | 201             | 114             | 12,295             | 12,409             |
| Unallocated .....                 | -              | 6,344           | 6,344           | -               | -                  | -                  |
| Total .....                       | <u>\$2,020</u> | <u>\$38,210</u> | <u>\$40,230</u> | <u>\$11,827</u> | <u>\$1,844,602</u> | <u>\$1,856,429</u> |

(1) Includes one individually evaluated loan classified as a TDR totaling \$1.0 million with an ALLL of \$0.3 million allocated for such loan.

The following table is a summary of credit quality indicators for the Company's total loans and leases, including covered and non-covered loans and leases, as of December 31, 2011 and 2010.

|                                       | Non-covered Loans and Leases |                  |                  |                        | Covered Loans      |                     |                     | Total Loans and Leases |                     |
|---------------------------------------|------------------------------|------------------|------------------|------------------------|--------------------|---------------------|---------------------|------------------------|---------------------|
|                                       | Satisfactory                 | Moderate         | Watch            | Substandard and Leases | Non-covered Loans  | FV 1 <sup>(1)</sup> | FV 2 <sup>(2)</sup> |                        | Total Covered Loans |
| <b>December 31, 2011:</b>             | (Dollars in thousands)       |                  |                  |                        |                    |                     |                     |                        |                     |
| Real estate:                          |                              |                  |                  |                        |                    |                     |                     |                        |                     |
| Residential 1-4 family <sup>(3)</sup> | \$ 256,267                   | \$ -             | \$ 2,449         | \$ 1,757               | \$ 260,473         | \$ 202,621          | \$ -                | \$ 202,621             | \$ 463,094          |
| Non-farm/non-residential              | 541,830                      | 96,341           | 53,976           | 16,619                 | 708,766            | 368,556             | 1,201               | 369,757                | 1,078,523           |
| Construction/land development         | 263,149                      | 164,500          | 41,741           | 8,716                  | 478,106            | 160,737             | 135                 | 160,872                | 638,978             |
| Agricultural                          | 45,276                       | 11,549           | 7,328            | 7,005                  | 71,158             | 24,104              | -                   | 24,104                 | 95,262              |
| Multifamily residential               | 94,049                       | 43,622           | 3,673            | 787                    | 142,131            | 15,376              | 518                 | 15,894                 | 158,025             |
| Commercial and industrial             | 82,174                       | 30,996           | 3,093            | 4,416                  | 120,679            | 29,749              | -                   | 29,749                 | 150,428             |
| Consumer <sup>(3)</sup>               | 38,851                       | -                | 1,032            | 279                    | 40,162             | 958                 | -                   | 958                    | 41,120              |
| Direct financing leases               | 52,329                       | 2,070            | 26               | 320                    | 54,745             | -                   | -                   | -                      | 54,745              |
| Other <sup>(3)</sup>                  | 6,827                        | 1,724            | 385              | 126                    | 9,062              | 2,969               | -                   | 2,969                  | 12,031              |
| <b>Total</b>                          | <b>\$1,380,752</b>           | <b>\$350,802</b> | <b>\$113,703</b> | <b>\$40,025</b>        | <b>\$1,885,282</b> | <b>\$805,070</b>    | <b>\$1,854</b>      | <b>\$806,924</b>       | <b>\$2,692,206</b>  |
| <b>December 31, 2010:</b>             |                              |                  |                  |                        |                    |                     |                     |                        |                     |
| Real estate:                          |                              |                  |                  |                        |                    |                     |                     |                        |                     |
| Residential 1-4 family <sup>(3)</sup> | \$ 261,479                   | \$ -             | \$ 3,809         | \$ 726                 | \$ 266,014         | \$ 132,108          | \$ -                | \$ 132,108             | \$ 398,122          |
| Non-farm/non-residential              | 504,923                      | 122,883          | 32,476           | 18,183                 | 678,465            | 214,435             | -                   | 214,435                | 892,900             |
| Construction/land development         | 258,933                      | 201,038          | 21,135           | 15,631                 | 496,737            | 102,099             | -                   | 102,099                | 598,836             |
| Agricultural                          | 58,879                       | 10,489           | 3,609            | 8,759                  | 81,736             | 9,643               | -                   | 9,643                  | 91,379              |
| Multifamily residential               | 90,700                       | 8,579            | 3,699            | 897                    | 103,875            | 10,709              | -                   | 10,709                 | 114,584             |
| Commercial and industrial             | 79,926                       | 34,274           | 1,659            | 4,179                  | 120,038            | 17,999              | -                   | 17,999                 | 138,037             |
| Consumer <sup>(3)</sup>               | 53,068                       | -                | 1,187            | 146                    | 54,401             | 1,248               | -                   | 1,248                  | 55,649              |
| Direct financing leases               | 38,666                       | 3,328            | 676              | 84                     | 42,754             | -                   | -                   | -                      | 42,754              |
| Other <sup>(3)</sup>                  | 10,174                       | 1,836            | 157              | 242                    | 12,409             | 1,227               | -                   | 1,227                  | 13,636              |
| <b>Total</b>                          | <b>\$1,356,748</b>           | <b>\$382,427</b> | <b>\$ 68,407</b> | <b>\$48,847</b>        | <b>\$1,856,429</b> | <b>\$489,468</b>    | <b>\$ -</b>         | <b>\$489,468</b>       | <b>\$2,345,897</b>  |

(1) Covered loans rated FV 1 are all covered loans that are performing in accordance with management's expectations established in conjunction with the determination of the Day 1 Fair Values.

(2) Covered loans rated FV 2 are all covered loans whose performance has deteriorated from management's expectations established in conjunction with the determination of the Day 1 Fair Values resulting in an allowance allocation or a charge-off of some portion or all of such covered loan.

(3) The Company does not risk rate its residential 1-4 family loans, its consumer loans, and certain "other" loans. However, for purposes of the above table, the Company considers such loans to be (i) satisfactory - if they are performing and less than 30 days past due, (ii) watch - if they are performing and 30 to 89 days past due or (iii) substandard - if they are non-performing or 90 days or more past due.

The Company's credit quality indicators consist of an internal grading system used to assign grades to all loans and leases except residential 1-4 family loans, consumer loans and purchased loans, including covered loans. The grade for each individual loan or lease is determined by the account officer and other approving officers at the time the loan or lease is made and changed from time to time to reflect an ongoing assessment of loan or lease risk. Grades are reviewed on specific loans and leases from time to time by senior management and as part of the Company's internal loan review process. These risk elements include the following: (1) for non-farm/non-residential, multifamily residential, and agricultural real estate loans, the debt service coverage ratio (income from the property in excess of operating expenses compared to loan repayment requirements), operating results of the owner in the case of owner-occupied properties, the loan-to-value ratio, the age, condition, value, nature and marketability of the collateral and the specific risks and volatility of income, property value and operating results typical of properties of that type; (2) for construction and land development loans, the perceived feasibility of the project including the ability to sell developed lots or improvements constructed for resale or ability to lease property constructed for lease, the quality and nature of contracts for presale or preleasing, if any, experience and ability of the developer and loan-to-value ratios; (3) for commercial and industrial loans and leases, the operating results of the commercial, industrial or professional enterprise, the borrower's or lessee's business, professional and financial ability and expertise, the specific risks and volatility of income and operating results typical for businesses in the applicable industry and the age, condition, value, nature and marketability of collateral; and (4) for other loans and leases, the operating results, experience and ability of the borrower or lessee, historical and expected market conditions and the age, condition, value, nature and marketability of collateral. In addition, for each category the Company considers secondary sources of income and the financial strength of the borrower or lessee and any guarantors. The following categories of credit quality indicators are used by the Company.

Satisfactory – Loans and leases in this category are considered to be a satisfactory credit risk and are generally considered to be collectible in full.

Moderate – Loans and leases in this category are considered to be a marginally satisfactory credit risk and are generally considered to be collectible in full.

Watch – Loans and leases in this category are presently protected from apparent loss, however weaknesses exist which could cause future impairment of repayment of principal or interest.

Substandard – Loans and leases in this category are characterized by deterioration in quality exhibited by a number of weaknesses requiring corrective action and posing risk of some loss.

The Company does not use these same credit quality indicators in its grading of covered loans. Instead, for purchased loans, including covered loans, management separately monitors this portfolio and periodically reviews loans contained within this portfolio against the factors and assumptions used in determining the Day 1 Fair Values. To the extent that a loan is performing in accordance with management's expectation established in conjunction with the determination of the Day 1 Fair Values, such loan is rated FV 1, is not included in any of the Company's credit quality ratios, is not considered to be an impaired loan and is not considered in the determination of the required allowance for loan and lease losses. To the extent that a loan's performance has deteriorated from management's expectation established in conjunction with the determination of the Day 1 Fair Values, such loan is rated FV 2, is included in certain of the Company's credit quality metrics, may be considered an impaired loan, and is considered in the determination of the required level of allowance for loan and lease losses. At December 31, 2011 and 2010, the Company had no allowance for its covered loans because all losses had been charged off on covered loans whose performance had deteriorated from management's expectations established in conjunction with the determination of the Day 1 Fair Values.

The following table is a summary of impaired loans and leases, excluding loans covered by FDIC loss share agreements, as of and for the years ended December 31, 2011 and 2010.

|  | <u>Principal<br/>Balance</u> | <u>Net<br/>Charge-offs<br/>to Date</u> | <u>Principal<br/>Balance,<br/>Net of<br/>Charge-offs</u> | <u>Specific<br/>Allowance</u> | <u>Average<br/>Carrying<br/>Value</u> |
|--|------------------------------|--|--|-------------------------------|---------------------------------------|
|  | (Dollars in thousands)       |  |  |                               |                                       |
| <b>December 31, 2011:</b>  |                              |  |  |                               |                                       |
| Impaired loans and leases for which there is a related ALLL:     |                              |  |  |                               |                                       |
| Real estate:   |                              |  |  |                               |                                       |
| Residential 1-4 family .....                                     | \$ 3,200                     | \$(1,675)                              | \$ 1,525   | \$ 415                        | \$ 504                                |
| Non-farm/non-residential .....                                   | 2,931                        | (146)                                  | 2,785  | 410                           | 1,173                                 |
| Construction/land development .....                              | 238                          | (90)                                   | 148  | 31                            | 882                                   |
| Agricultural .....   | 9                            | (9)                                    | -  | -                             | 575                                   |
| Commercial and industrial .....                                  | 3,071                        | (1,775)                                | 1,296  | 868                           | 844                                   |
| Consumer .....   | 101                          | (28)                                   | 73   | 57                            | 81                                    |
| Other .....  | 46                           | (35)                                   | 11   | 2                             | 30                                    |
| Total impaired loans and leases with a related ALLL .....        | <u>9,596</u>                 | <u>(3,758)</u>                         | <u>5,838</u>   | <u>1,783</u>                  | <u>4,089</u>                          |
| Impaired loans and leases for which there is not a related ALLL: |                              |  |  |                               |                                       |
| Real estate:   |                              |  |  |                               |                                       |
| Residential 1-4 family .....                                     | 2,121                        | (407)                                  | 1,714  | -                             | 1,239                                 |
| Non-farm/non-residential .....                                   | 1,159                        | (107)                                  | 1,052  | -                             | 1,633                                 |
| Construction/land development .....                              | 6,254                        | (3,401)                                | 2,853  | -                             | 5,833                                 |
| Agricultural .....   | 842                          | (105)                                  | 737  | -                             | 1,000                                 |
| Multifamily residential .....                                    | 133                          | (133)                                  | -  | -                             | 15                                    |
| Commercial and industrial .....                                  | 294                          | (200)                                  | 94   | -                             | 194                                   |
| Consumer .....   | 47                           | (33)                                   | 14   | -                             | 15                                    |
| Other .....  | -                            | -                                      | -  | -                             | 5                                     |
| Total impaired loans and leases without a related ALLL .....     | <u>10,850</u>                | <u>(4,386)</u>                         | <u>6,464</u>   | <u>-</u>                      | <u>9,934</u>                          |
| Total impaired loans and leases .....                            | <u>\$20,446</u>              | <u>\$(8,144)</u>                       | <u>\$12,302</u>  | <u>\$ 1,783</u>               | <u>\$14,023</u>                       |
| <b>December 31, 2010:</b>  |                              |  |  |                               |                                       |
| Impaired loans and leases for which there is a related ALLL:     |                              |  |  |                               |                                       |
| Real estate:   |                              |  |  |                               |                                       |
| Residential 1-4 family .....                                     | \$ 305                       | \$ (84)                                | \$ 221   | \$ 33                         | \$ 457                                |
| Non-farm/non-residential .....                                   | 654                          | (210)                                  | 444  | 71                            | 298                                   |
| Construction/land development .....                              | 1,835                        | (92)                                   | 1,743  | 508                           | 854                                   |
| Agricultural .....   | 1,336                        | (131)                                  | 1,205  | 403                           | 912                                   |
| Commercial and industrial .....                                  | 1,490                        | (786)                                  | 704  | 928                           | 317                                   |
| Consumer .....   | 176                          | (30)                                   | 146  | 33                            | 195                                   |
| Other .....  | 364                          | (277)                                  | 87   | 44                            | 101                                   |
| Total impaired loans and leases with a related ALLL .....        | <u>6,160</u>                 | <u>(1,610)</u>                         | <u>4,550</u>   | <u>2,020</u>                  | <u>3,134</u>                          |
| Impaired loans and leases for which there is not a related ALLL: |                              |  |  |                               |                                       |
| Real estate:   |                              |  |  |                               |                                       |
| Residential 1-4 family .....                                     | 851                          | (127)                                  | 724  | -                             | 1,333                                 |
| Non-farm/non-residential .....                                   | 3,481                        | (829)                                  | 2,652  | -                             | 4,490                                 |
| Construction/land development .....                              | 6,139                        | (3,796)                                | 2,343  | -                             | 3,603                                 |
| Agricultural .....   | 1,392                        | (141)                                  | 1,251  | -                             | 1,229                                 |
| Multifamily residential .....                                    | 133                          | (133)                                  | -  | -                             | -                                     |
| Commercial and industrial .....                                  | 764                          | (521)                                  | 243  | -                             | 1,554                                 |
| Consumer .....   | 93                           | (56)                                   | 37   | -                             | 53                                    |
| Other .....  | 45                           | (18)                                   | 27   | -                             | 56                                    |
| Total impaired loans and leases without a related ALLL .....     | <u>12,898</u>                | <u>(5,621)</u>                         | <u>7,277</u>   | <u>-</u>                      | <u>12,318</u>                         |
| Total impaired loans and leases .....                            | <u>\$19,058</u>              | <u>\$(7,231)</u>                       | <u>\$11,827</u>  | <u>\$ 2,020</u>               | <u>\$15,452</u>                       |

Interest income on impaired loans and leases is recognized on a cash basis when and if actually collected. Total interest income recognized on impaired loans and leases for the years ended December 31, 2011, 2010 and 2009 was not material.

The following table is an aging analysis of past due loans and leases, excluding loans covered by FDIC loss share agreements, at December 31, 2011 and 2010.

|                                     | <u>30-89<br/>Days Past<br/>Due<sup>(1)</sup></u> | <u>90<br/>Days or<br/>More<sup>(2)</sup></u> | <u>Total<br/>Past Due</u> | <u>Current<sup>(3)</sup></u> | <u>Total<br/>Loans and<br/>Leases</u> |
|-------------------------------------|--|--|---------------------------|------------------------------|---------------------------------------|
| (Dollars in thousands)              |  |  |                           |                              |                                       |
| <b>December 31, 2011:</b>           |  |  |                           |                              |                                       |
| Real estate:                        |  |  |                           |                              |                                       |
| Residential 1-4 family .....        | \$ 2,449   | \$ 1,757                                     | \$ 4,206                  | \$ 256,267                   | \$ 260,473                            |
| Non-farm/non-residential .....      | 3,448  | 3,448  | 6,896                     | 701,870                      | 708,766                               |
| Construction/land development ..... | 10,453   | 2,827  | 13,280                    | 464,826                      | 478,106                               |
| Agricultural .....                  | 275  | 727  | 1,002                     | 70,156                       | 71,158                                |
| Multifamily residential .....       | 319  | -  | 319                       | 141,812                      | 142,131                               |
| Commercial and industrial .....     | 1,477  | 469  | 1,946                     | 118,733                      | 120,679                               |
| Consumer .....                      | 1,032  | 279  | 1,311                     | 38,851                       | 40,162                                |
| Direct financing leases .....       | 42   | 277  | 319                       | 54,426                       | 54,745                                |
| Other .....                         | 79   | -  | 79                        | 8,983                        | 9,062                                 |
| Total .....                         | <u>\$19,574</u>                                  | <u>\$ 9,784</u>                              | <u>\$29,358</u>           | <u>\$1,855,924</u>           | <u>\$1,885,282</u>                    |
| <b>December 31, 2010:</b>           |  |  |                           |                              |                                       |
| Real estate:                        |  |  |                           |                              |                                       |
| Residential 1-4 family .....        | \$ 3,809   | \$ 726                                       | \$ 4,535                  | \$ 261,479                   | \$ 266,014                            |
| Non-farm/non-residential .....      | 6,261  | 3,337  | 9,598                     | 668,867                      | 678,465                               |
| Construction/land development ..... | 11,104   | 4,249  | 15,353                    | 481,384                      | 496,737                               |
| Agricultural .....                  | 956  | 2,108  | 3,064                     | 78,672                       | 81,736                                |
| Multifamily residential .....       | 881  | -  | 881                       | 102,994                      | 103,875                               |
| Commercial and industrial .....     | 1,639  | 881  | 2,520                     | 117,518                      | 120,038                               |
| Consumer .....                      | 1,187  | 146  | 1,333                     | 53,068                       | 54,401                                |
| Direct financing leases .....       | -  | 84   | 84                        | 42,670                       | 42,754                                |
| Other .....                         | 201  | -  | 201                       | 12,208                       | 12,409                                |
| Total .....                         | <u>\$26,038</u>                                  | <u>\$11,531</u>                              | <u>\$37,569</u>           | <u>\$1,818,860</u>           | <u>\$1,856,429</u>                    |

- (1) Includes \$1.0 million and \$1.2 million of loans and leases, excluding loans covered by FDIC loss share agreements, on nonaccrual status at December 31, 2011 and 2010, respectively.
- (2) All loans and leases greater than 90 days past due, excluding loans covered by FDIC loss share agreements, were on nonaccrual status at December 31, 2011 and 2010.
- (3) Includes \$1.4 million and \$1.3 million of loans and leases, excluding loans covered by FDIC loss share agreements, on nonaccrual status at December 31, 2011 and 2010, respectively.

The following table is an aging analysis of past due loans covered by FDIC loss share agreements at December 31, 2011 and 2010.

|                                     | <u>30-89<br/>Days Past<br/>Due</u> | <u>90<br/>Days or<br/>More</u> | <u>Total<br/>Past Due</u> | <u>Current</u>   | <u>Total<br/>Covered<br/>Loans</u> |
|-------------------------------------|------------------------------------|--------------------------------|---------------------------|------------------|------------------------------------|
|                                     | (Dollars in thousands)             |                                |                           |                  |                                    |
| <b>December 31, 2011:</b>           |                                    |                                |                           |                  |                                    |
| Real estate:                        |                                    |                                |                           |                  |                                    |
| Residential 1-4 family .....        | \$12,013                           | \$ 34,075                      | \$ 46,088                 | \$156,533        | \$202,621                          |
| Non-farm/non-residential .....      | 26,023                             | 71,898                         | 97,921                    | 271,836          | 369,787                            |
| Construction/land development ..... | 15,335                             | 54,165                         | 69,500                    | 91,372           | 160,872                            |
| Agricultural .....                  | 3,111                              | 4,390                          | 7,501                     | 16,603           | 24,104                             |
| Multifamily residential .....       | 288                                | 4,208                          | 4,496                     | 11,398           | 15,894                             |
| Commercial and industrial .....     | 795                                | 4,390                          | 5,185                     | 24,564           | 29,749                             |
| Consumer .....                      | 246                                | 14                             | 260                       | 698              | 958                                |
| Other .....                         | 14                                 | 133                            | 147                       | 2,822            | 2,969                              |
| Total .....                         | <u>\$57,825</u>                    | <u>\$173,273</u>               | <u>\$231,098</u>          | <u>\$575,826</u> | <u>\$806,924</u>                   |

**December 31, 2010:**

|                                     |                 |                  |                  |                  |                  |
|-------------------------------------|-----------------|------------------|------------------|------------------|------------------|
| Real estate:                        |                 |                  |                  |                  |                  |
| Residential 1-4 family .....        | \$ 9,631        | \$ 17,062        | \$ 26,693        | \$105,415        | \$132,108        |
| Non-farm/non-residential .....      | 10,923          | 14,187           | 25,110           | 189,325          | 214,435          |
| Construction/land development ..... | 17,153          | 24,788           | 41,941           | 60,158           | 102,099          |
| Agricultural .....                  | 98              | 602              | 700              | 8,943            | 9,643            |
| Multifamily residential .....       | 892             | 1,808            | 2,700            | 8,009            | 10,709           |
| Commercial and industrial .....     | 734             | 798              | 1,532            | 16,467           | 17,999           |
| Consumer .....                      | 356             | 25               | 381              | 867              | 1,248            |
| Other .....                         | 643             | -                | 643              | 584              | 1,227            |
| Total .....                         | <u>\$40,430</u> | <u>\$ 59,270</u> | <u>\$ 99,700</u> | <u>\$389,768</u> | <u>\$489,468</u> |

At December 31, 2011 and 2010, a significant portion of the Company's covered loans were past due, including many that were 90 days or more past due. However, such delinquencies were included in the Company's performance expectations in determining the Day 1 Fair Values. Accordingly, all covered loans continue to accrete interest income and all covered loans rated "FV 1" continue to perform in accordance with management's expectations established in conjunction with the determination of the Day 1 Fair Values.

**7. Foreclosed Assets**

The following table is a summary of activity within foreclosed assets not covered by FDIC loss share agreements for the periods indicated.

|   | <u>Year Ended December 31,</u> |                 |                 |
|---|--------------------------------|-----------------|-----------------|
|   | <u>2011</u>                    | <u>2010</u>     | <u>2009</u>     |
|   | (Dollars in thousands)         |                 |                 |
| Balance - beginning of year .....   | \$42,216                       | \$61,148        | \$10,758        |
| Loans transferred into foreclosed assets not covered  |                                |                 |                 |
| by FDIC loss share agreements .....   | 10,676                         | 17,095          | 74,122          |
| Sales of foreclosed assets not covered  |                                |                 |                 |
| by FDIC loss share agreements .....   | (11,719)                       | (27,152)        | (19,723)        |
| Writedowns of foreclosed assets not covered   |                                |                 |                 |
| by FDIC loss share agreements .....   | (9,525)                        | (8,960)         | (4,009)         |
| Foreclosed assets acquired in acquisitions -<br>not covered by FDIC loss share agreements ..... | 114                            | 85              | -               |
| Balance - end of year .....   | <u>\$31,762</u>                | <u>\$42,216</u> | <u>\$61,148</u> |

The amount and type of foreclosed assets not covered by FDIC loss share agreements are as follows:

|  | <b>December 31,</b>    |                 |
|--|------------------------|-----------------|
|  | <b>2011</b>            | <b>2010</b>     |
|  | (Dollars in thousands) |                 |
| Real estate:   |                        |                 |
| Residential 1-4 family .....   | \$ 1,078               | \$ 4,018        |
| Non-farm/non-residential .....                                       | 2,857                  | 3,866           |
| Construction/land development .....                                  | 27,675                 | 33,701          |
| Agricultural .....   | -                      | 459             |
| Total real estate .....  | <u>31,610</u>          | <u>42,044</u>   |
| Commercial and industrial .....                                      | 145                    | 87              |
| Consumer .....   | <u>7</u>               | <u>85</u>       |
| Foreclosed assets not covered by<br>FDIC loss share agreements ..... | <u>\$31,762</u>        | <u>\$42,216</u> |

## 8. Premises and Equipment

The following table is a summary of premises and equipment.

|                                    | <b>December 31,</b>    |                  |
|------------------------------------|------------------------|------------------|
|                                    | <b>2011</b>            | <b>2010</b>      |
|                                    | (Dollars in thousands) |                  |
| Land .....                         | \$ 64,226              | \$ 60,148        |
| Construction in progress .....     | 1,849                  | 3,069            |
| Buildings and improvements .....   | 114,081                | 105,741          |
| Leasehold improvements .....       | 5,147                  | 5,080            |
| Equipment .....                    | <u>36,212</u>          | <u>26,114</u>    |
| Gross premises and equipment ..... | 221,515                | 200,152          |
| Accumulated depreciation .....     | <u>(34,982)</u>        | <u>(29,655)</u>  |
| Premises and equipment, net .....  | <u>\$186,533</u>       | <u>\$170,497</u> |

The Company capitalized \$0.1 million, \$0.1 million and \$0.4 million of interest on construction projects during the years ended December 31, 2011, 2010 and 2009, respectively.

Included in occupancy expense is rent of \$2.0 million, \$1.1 million and \$0.5 million incurred under noncancelable operating leases in 2011, 2010 and 2009, respectively, for leases of real estate, buildings and premises. These leases contain certain renewal and purchase options according to the terms of the agreements. Future amounts due under these noncancelable leases at December 31, 2011 are as follows: \$1.2 million in 2012, \$1.0 million in 2013, \$0.8 million in 2014, \$0.7 million in 2015, \$0.5 million in 2016 and \$1.8 million thereafter. Rental income recognized during 2011, 2010 and 2009 for leases of buildings and premises under operating leases was \$1.1 million, \$1.1 million and \$0.5 million, respectively.

## 9. Deposits

The following table is a summary of the scheduled maturities of all time deposits.

|                                | <b>December 31,</b>    |                  |
|--------------------------------|------------------------|------------------|
|                                | <b>2011</b>            | <b>2010</b>      |
|                                | (Dollars in thousands) |                  |
| Up to one year .....           | \$820,742              | \$905,818        |
| Over one to two years .....    | 63,932                 | 29,352           |
| Over two to three years .....  | 21,933                 | 3,819            |
| Over three to four years ..... | 7,025                  | 3,159            |
| Over four to five years .....  | 4,451                  | 880              |
| Thereafter .....               | <u>173</u>             | <u>82</u>        |
| Total time deposits .....      | <u>\$918,256</u>       | <u>\$943,110</u> |

The aggregate amount of time deposits with a minimum denomination of \$100,000 was \$409.6 million and \$483.9 million at December 31, 2011 and 2010, respectively.



## 10. Borrowings

Short-term borrowings with original maturities less than one year include FHLB-Dallas advances, Federal Reserve Bank ("FRB") borrowings, treasury, tax and loan note accounts and federal funds purchased. The following table is a summary of information relating to these short-term borrowings.

|   | <u>December 31,</u>    |             |
|---|------------------------|-------------|
|   | <u>2011</u>            | <u>2010</u> |
|   | (Dollars in thousands) |             |
| Average annual balance .....                | \$14,956               | \$14,465    |
| December 31 balance .....                   | 21,050                 | 1,299       |
| Maximum month-end balance during year ..... | 54,077                 | 36,353      |
| Interest rate:                              |                        |             |
| Weighted-average - year .....               | 0.33%                  | 0.37%       |
| Weighted-average - December 31 .....        | 0.35                   | 0.00        |

At both December 31, 2011 and 2010, the Company had fixed rate FHLB-Dallas advances with original maturities exceeding one year of \$280.8 million. These fixed rate advances bear interest at rates ranging from 1.34% to 5.12% at December 31, 2011, are collateralized by a blanket lien on a substantial portion of the Company's real estate loans and are subject to prepayment penalties if repaid prior to maturity date. At December 31, 2011, the Bank had \$647 million of unused FHLB-Dallas borrowing availability.

At December 31, 2011, aggregate annual maturities and weighted-average interest rates of FHLB-Dallas advances with an original maturity of over one year were as follows:

| <u>Maturity</u> | <u>Amount</u>          | <u>Weighted-Average<br/>Interest Rate</u> |
|-----------------|------------------------|---|
|                 | (Dollars in thousands) |   |
| 2012            | \$ 33                  | 3.40%                                     |
| 2013            | 31                     | 3.22                                      |
| 2014            | 32                     | 3.24                                      |
| 2015            | 33                     | 3.27                                      |
| 2016            | 21                     | 4.54                                      |
| 2017            | 260,022                | 3.90                                      |
| 2018            | 20,023                 | 2.53                                      |
| Thereafter      | 602                    | 4.54                                      |
| Total           | <u>\$280,797</u>       | 3.80                                      |

Included in the above table are \$280.0 million of FHLB-Dallas advances that contain quarterly call features and are callable as follows:

|                          | <u>Amount</u>          | <u>Weighted-Average<br/>Interest Rate</u> | <u>Maturity</u> |
|--------------------------|------------------------|---|-----------------|
|                          | (Dollars in thousands) |   |                 |
| Callable quarterly ..... | \$260,000              | 3.90%                                     | 2017            |
| Callable quarterly ..... | 20,000                 | 2.53                                      | 2018            |
| Total .....              | <u>\$280,000</u>       | 3.80                                      |                 |

## 11. Subordinated Debentures

At December 31, 2011 the Company had the following issues of trust preferred securities outstanding and subordinated debentures owed to the Trusts.

|                 | <b>Subordinated<br/>Debentures<br/>Owed to Trust</b> | <b>Trust Preferred<br/>Securities<br/>of the Trust</b> | <b>Interest Rate<br/>at<br/>December 31, 2011</b> | <b>Final Maturity Date</b> |
|-----------------|--|--|---|----------------------------|
|                 | (Dollars in thousands)                               |  |   |                            |
| Ozark III ..... | \$14,434   | \$14,000   | 3.35%   | September 25, 2033         |
| Ozark II.....   | 14,433   | 14,000   | 3.48  | September 29, 2033         |
| Ozark IV .....  | 15,464   | 15,000   | 2.72  | September 28, 2034         |
| Ozark V .....   | 20,619   | 20,000   | 2.15  | December 15, 2036          |
| Total .....     | <u>\$64,950</u>                                      | <u>\$63,000</u>  |   |                            |

On September 25, 2003, Ozark III sold to investors in a private placement offering \$14 million of adjustable rate trust preferred securities, and on September 29, 2003, Ozark II sold to investors in a private placement offering \$14 million of adjustable rate trust preferred securities (collectively, “2003 Securities”). The 2003 Securities bear interest, adjustable quarterly, at 90-day London Interbank Offered Rate (“LIBOR”) plus 2.95% for Ozark III and 90-day LIBOR plus 2.90% for Ozark II. The aggregate proceeds of \$28 million from the 2003 Securities were used to purchase an equal principal amount of adjustable rate subordinated debentures of the Company that bear interest, adjustable quarterly, at 90-day LIBOR plus 2.95% for Ozark III and 90-day LIBOR plus 2.90% for Ozark II (collectively, “2003 Debentures”).

On September 28, 2004, Ozark IV sold to investors in a private placement offering \$15 million of adjustable rate trust preferred securities (“2004 Securities”). The 2004 Securities bear interest, adjustable quarterly, at 90-day LIBOR plus 2.22%. The \$15 million proceeds from the 2004 Securities were used to purchase an equal principal amount of adjustable rate subordinated debentures of the Company that bear interest, adjustable quarterly, at 90-day LIBOR plus 2.22% (“2004 Debentures”).

On September 29, 2006, Ozark V sold to investors in a private placement offering \$20 million of adjustable rate trust preferred securities (“2006 Securities”). The Securities bear interest, adjustable quarterly, at 90-day LIBOR plus 1.60%. The \$20 million proceeds from the 2006 Securities were used to purchase an equal principal amount of adjustable rate subordinated debentures of the Company that bear interest, adjustable quarterly, at 90-day LIBOR plus 1.60% (“2006 Debentures”).

In addition to the issuance of these adjustable rate securities, Ozark II and Ozark III collectively sold \$0.9 million, Ozark IV sold \$0.4 million and Ozark V sold \$0.6 million of trust common equity to the Company. The proceeds from the sales of the trust common equity were used, respectively, to purchase \$0.9 million of 2003 Debentures, \$0.4 million of 2004 Debentures and \$0.6 million of 2006 Debentures issued by the Company.

At both December 31, 2011 and 2010, the Company had an aggregate of \$64.9 million of subordinated debentures outstanding and had an asset of \$1.9 million representing its investment in the common equity issued by the Trusts. At both December 31, 2011 and 2010, the sole assets of the Trusts are the respective adjustable rate debentures and the liabilities of the respective Trusts are the 2003 Securities, the 2004 Securities and the 2006 Securities. The Trusts had aggregate common equity of \$1.9 million and did not have any restricted net assets at both December 31, 2011 and 2010. The Company has, through various contractual arrangements, fully and unconditionally guaranteed all obligations of the Trusts with respect to the 2003 Securities, the 2004 Securities and the 2006 Securities. Additionally, there are no restrictions on the ability of the Trusts to transfer funds to the Company in the form of cash dividends, loans or advances. The Company has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five consecutive years.

These securities generally mature at or near the 30th anniversary date of each issuance. However, these securities and debentures may be prepaid at par, subject to regulatory approval, prior to maturity at any time on or after September 25 and 29, 2008 for the two issues of 2003 Securities and 2003 Debentures; on or after September 28, 2009 for the 2004 Securities and 2004 Debentures; and on or after December 15, 2011 for the 2006 Securities and 2006 Debentures, or at an earlier date upon certain changes in tax laws, investment company laws or regulatory capital requirements.

## 12. Income Taxes

The following table is a summary of the components of the provision (benefit) for income taxes.

|                                  | <b>Year Ended December 31,</b> |                 |                 |
|----------------------------------|--------------------------------|-----------------|-----------------|
|                                  | <b>2011</b>                    | <b>2010</b>     | <b>2009</b>     |
|                                  | (Dollars in thousands)         |                 |                 |
| Current:                         |                                |                 |                 |
| Federal .....                    | \$33,360                       | \$15,696        | \$12,151        |
| State .....                      | 4,982                          | 2,723           | 2,414           |
| Total current .....              | <u>38,342</u>                  | <u>18,419</u>   | <u>14,565</u>   |
| Deferred:                        |                                |                 |                 |
| Federal .....                    | 10,230                         | 6,895           | (1,308)         |
| State .....                      | 1,636                          | 1,300           | (398)           |
| Total deferred .....             | <u>11,866</u>                  | <u>8,195</u>    | <u>(1,706)</u>  |
| Provision for income taxes ..... | <u>\$50,208</u>                | <u>\$26,614</u> | <u>\$12,859</u> |

The reconciliation between the statutory federal income tax rate and effective income tax rate is as follows:

|  | <b>Year Ended December 31,</b> |              |              |
|--|--------------------------------|--------------|--------------|
|  | <b>2011</b>                    | <b>2010</b>  | <b>2009</b>  |
| Statutory federal income tax rate .....          | 35.0%                          | 35.0%        | 35.0%        |
| Increase (decrease) in taxes resulting from:     |                                |              |              |
| State income taxes, net of federal benefit ..... | 2.8                            | 2.9          | 2.3          |
| Effect of tax-exempt interest income .....       | (3.8)                          | (7.2)        | (12.0)       |
| Effect of BOLI and other tax-exempt income ..... | (0.5)                          | (0.8)        | (2.0)        |
| Other, net .....                                 | (0.4)                          | (0.5)        | (0.3)        |
| Effective income tax rate .....                  | <u>33.1%</u>                   | <u>29.4%</u> | <u>23.0%</u> |

Income tax benefits from the exercise of stock options in the amount of \$0.9 million, \$0.5 million and \$0.1 million in 2011, 2010 and 2009, respectively, were recorded as an increase to additional paid-in capital.

At December 31, 2011, current income taxes payable of \$15.4 million were included in other liabilities. At December 31, 2010, current income taxes refundable of \$0.7 million were included in other assets.

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

|  | <b>December 31,</b>    |                 |
|--|------------------------|-----------------|
|  | <b>2011</b>            | <b>2010</b>     |
|  | (Dollars in thousands) |                 |
| Deferred tax assets:                                     |                        |                 |
| Allowance for loan and lease losses .....                | \$ 15,148              | \$14,734        |
| Stock-based compensation .....                           | 1,435                  | 1,224           |
| Deferred compensation .....                              | 1,429                  | 1,256           |
| Foreclosed assets .....                                  | 5,644                  | 3,171           |
| Investment securities AFS .....                          | -                      | 108             |
| Gross deferred tax assets .....                          | <u>23,656</u>          | <u>20,493</u>   |
| Deferred tax liabilities:                                |                        |                 |
| Accelerated depreciation on premises and equipment ..... | 9,562                  | 7,894           |
| Investment securities AFS .....                          | 6,020                  | -               |
| Deferred gains on FDIC-assisted acquisitions .....       | 22,991                 | 9,546           |
| Other, net .....   | 950                    | 1,408           |
| Gross deferred tax liabilities .....                     | <u>39,523</u>          | <u>18,848</u>   |
| Net deferred tax assets (liabilities) .....              | <u>\$(15,867)</u>      | <u>\$ 1,645</u> |

## 13. Preferred Stock

On December 12, 2008, as part of the United States Department of the Treasury's (the "Treasury") Capital Purchase Program made available to certain financial institutions in the U.S. pursuant to the Emergency Economic Stabilization Act of 2008 ("EESA"), the Company and the Treasury entered into a Letter Agreement including the Securities Purchase Agreement – Standard Terms incorporated therein (the "Purchase Agreement") pursuant to which the Company issued to the Treasury, in exchange for aggregate consideration of \$75.0 million, (i) 75,000 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A,

par value \$0.01 and liquidation preference \$1,000 per share (the “Series A Preferred Stock”), and (ii) a warrant (the “Warrant”) to purchase up to 759,622 split-adjusted shares of the Company’s common stock, par value \$0.01 per share, at a split-adjusted exercise price of \$14.81 per share.

On November 4, 2009, the Company redeemed all of the Series A Preferred Stock for \$75.0 million, plus accrued and unpaid dividends, with the approval of the Company’s primary regulator in consultation with the Treasury. On November 24, 2009, the Company repurchased the Warrant from the Treasury for \$2.65 million, which was charged against the Company’s additional paid-in capital.

Upon receipt of the aggregate consideration from the Treasury on December 12, 2008, the Company allocated the \$75.0 million proceeds on a pro rata basis to the Series A Preferred Stock and the Warrant based on relative fair values resulting in \$3.1 million of the aggregate proceeds assigned to the Warrant and \$71.9 million assigned to the Series A Preferred Stock. The discount assigned to the Series A Preferred Stock was expected to be amortized over a five-year period, which was the expected life of the Series A Preferred Stock at the time it was issued, up to the \$75.0 million liquidation value of such preferred stock, with the cost of such amortization being reported as additional preferred stock dividends. This resulted in a total dividend with a consistent annual effective yield of 5.98% prior to the Company’s redemption of the Series A Preferred Stock. As a result of the redemption, the remaining unamortized discount of \$2.7 million was recognized as an additional preferred stock dividend in the fourth quarter of 2009.

## 14. Employee Benefit Plans

The Company maintains a qualified retirement plan (the “401(k) Plan”) with a salary deferral feature designed to qualify under Section 401 of the Internal Revenue Code (the “Code”). The 401(k) Plan permits employees of the Company to defer a portion of their compensation in accordance with the provisions of Section 401(k) of the Code. Matching contributions may be made in amounts and at times determined by the Company. Certain other statutory limitations with respect to the Company’s contribution under the 401(k) Plan also apply. Amounts contributed by the Company for a participant vest over six years and are held in trust until distributed pursuant to the terms of the 401(k) Plan.

Contributions to the 401(k) Plan are invested in accordance with participant elections among certain investment options. Distributions from participant accounts are not permitted before age 65, except in the event of death, permanent disability, certain financial hardships or termination of employment. The Company made matching cash contributions to the 401(k) Plan during 2011, 2010 and 2009 of \$0.8 million, \$0.6 million and \$0.5 million, respectively.

Prior to January 1, 2005, all full-time employees of the Company were eligible to participate in the 401(k) Plan. Beginning January 1, 2005, certain key employees of the Company have been excluded from further salary deferrals to the 401(k) Plan, but may make salary deferrals through participation in the Bank of the Ozarks, Inc. Deferred Compensation Plan (the “Plan”). The Plan, an unfunded deferred compensation arrangement for the group of employees designated as key employees, including certain of the Company’s executive officers, was adopted by the Company’s board of directors on December 14, 2004 and became effective January 1, 2005. Under the terms of the Plan, eligible participants may elect to defer a portion of their compensation. Such deferred compensation will be distributable in lump sum or specified installments upon separation from service with the Company or upon other specified events as defined in the Plan. The Company has the ability to make a contribution to each participant’s account, limited to one half of the first 6% of compensation deferred by the participant and subject to certain other limitations. Amounts deferred under the Plan are to be invested in certain approved investments (excluding securities of the Company or its affiliates). Company contributions to the Plan in 2011, 2010 and 2009 totaled \$123,000, \$117,000 and \$117,000, respectively. At December 31, 2011 and 2010, the Company had Plan assets, along with an equal amount of liabilities, totaling \$3.5 million and \$3.1 million, respectively, recorded on the accompanying consolidated balance sheet.

Effective May 4, 2010, the Company established a Supplemental Executive Retirement Plan (“SERP”) and certain other benefit arrangements for its Chairman and Chief Executive Officer. Pursuant to the SERP, this officer is entitled to receive 180 equal monthly payments of \$32,197, or \$386,360 annually, commencing at the later of obtaining age 70 or separation from service. If separation from service occurs prior to age 70, such benefit will be at a reduced amount. The costs of such benefits, assuming a retirement date at age 70, will be fully accrued by the Company at such retirement date. During 2011 and 2010, respectively, the Company accrued \$148,000 and \$89,000 (none in 2009) for the future benefits payable under the SERP. The SERP is an unfunded plan and is considered a general contractual obligation of the Company.

## 15. Stock-Based Compensation

The Company has a nonqualified stock option plan for certain key employees and officers of the Company. This plan provides for the granting of nonqualified options to purchase shares of common stock in the Company. No option may be granted under this plan for less than the fair market value of the common stock, defined by the plan as the average of the highest reported asked price and the lowest reported bid price, on the date of the grant. The benefits or amounts that may be received by or allocated to any particular officer or employee of the Company under this plan will be determined in the sole discretion of the Company's board of directors or its personnel and compensation committee. While the vesting period and the termination date for the employee plan options are determined when options are granted, all such employee options outstanding at December 31, 2011 were issued with a vesting period of three years and expire seven years after issuance. At December 31, 2011 there were 826,400 shares available for future grants under this plan.

The Company also has a nonqualified stock option plan for non-employee directors. This plan permits each director who is not otherwise an employee of the Company, or any subsidiary, to receive options to purchase 1,000 shares of the Company's common stock on the day following his or her election as a director of the Company at each annual meeting of stockholders and up to 1,000 shares upon election or appointment for the first time as a director of the Company. No option may be granted under this plan for less than the fair market value of the common stock, defined by the plan as the average of the highest reported asked price and the lowest reported bid price, on the date of the grant. These options are exercisable immediately and expire ten years after issuance.

All shares issued in connection with options exercised under both the employee and non-employee director stock option plans are in the form of newly-issued shares.

The following table summarizes stock option activity for both the employee and non-employee director stock option plans for the year ended December 31, 2011.

|   | Options        | Weighted-Average<br>Exercise<br>Price/Share | Weighted-Average<br>Remaining<br>Contractual Life<br>(in years) | Aggregate<br>Intrinsic Value<br>(in thousands) |
|---|----------------|---|---|--|
| Outstanding - January 1, 2011 .....       | 1,053,600      | \$15.53                                     |   |  |
| Granted .....                             | 235,200        | 23.57                                       |   |  |
| Exercised .....                           | (262,500)      | 15.36                                       |   |  |
| Forfeited .....                           | (35,000)       | 15.37                                       |   |  |
| Outstanding - December 31, 2011 ....      | <u>991,100</u> | <u>\$17.45</u>                              | <u>4.6</u>  | <u>\$12,070<sup>(1)</sup></u>                  |
| Fully vested and exercisable at           |                |   |   |  |
| December 31, 2011 .....                   | 474,200        | <u>\$15.32</u>                              | <u>3.0</u>  | <u>\$ 6,787<sup>(1)</sup></u>                  |
| Expected to vest in future periods....    | <u>428,965</u> |   |   |  |
| Fully vested and expected to vest         |                |   |   |  |
| at December 31, 2011 <sup>(2)</sup> ..... | <u>903,165</u> | <u>\$17.21</u>                              | <u>4.4</u>  | <u>\$11,217<sup>(1)</sup></u>                  |

(1) Based on closing price of \$29.63 per share on December 31, 2011.

(2) At December 31, 2011 the Company estimates that options to purchase 87,935 shares of the Company's common stock will not vest and will be forfeited prior to their vesting date.

Intrinsic value for stock options is defined as the amount by which the current market price of the underlying stock exceeds the exercise price. For those stock options where the exercise price exceeds the current market price of the underlying stock, the intrinsic value is zero. The total intrinsic value of options exercised during 2011, 2010 and 2009 was \$2.2 million, \$1.4 million and \$0.3 million, respectively.

Options to purchase 235,200 shares, 221,800 shares and 155,200 shares, respectively, were granted during 2011, 2010 and 2009 with a weighted-average grant date fair value of \$7.30, \$5.69 and \$3.55, respectively. The fair value for each option grant is estimated on the date of grant using the Black-Scholes option pricing model that uses the following assumptions. The Company uses the U.S. Treasury yield curve in effect at the time of the grant to determine the risk-free interest rate. The expected dividend yield is estimated using the current annual dividend level and recent stock price of the Company's common stock at the date of grant. Expected stock volatility is based on historical volatilities of the Company's common stock. The expected life of the options is calculated based on the "simplified" method as provided for under Staff Accounting Bulletin No. 110.

The weighted-average assumptions used in the Black-Scholes option pricing model for the years indicated were as follows:

|                                 | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|---------------------------------|-------------|-------------|-------------|
| Risk-free interest rate .....   | 1.15%       | 1.22%       | 2.32%       |
| Expected dividend yield .....   | 1.68%       | 1.69%       | 2.13%       |
| Expected stock volatility ..... | 40.1%       | 39.0%       | 37.0%       |
| Expected life (years) .....     | 5.0         | 5.0         | 5.0         |

The total fair value of options to purchase shares of the Company's common stock that vested during 2011, 2010 and 2009 was \$0.7 million, \$0.7 million and \$0.9 million, respectively. Stock-based compensation expense for stock options included in non-interest expense was \$0.8 million, \$0.6 million, and \$0.7 million for 2011, 2010 and 2009, respectively. Total unrecognized compensation cost related to nonvested stock-based compensation was \$1.9 million at December 31, 2011 and is expected to be recognized over a weighted-average period of 2.4 years.

The Company has a restricted stock plan that permits issuance of up to 400,000 shares of restricted stock or restricted stock units. All officers and employees of the Company are eligible to receive awards under the restricted stock plan. The benefits or amounts that may be received by or allocated to any particular officer or employee of the Company under the restricted stock plan will be determined in the sole discretion of the Company's board of directors or its personnel and compensation committee. Shares of common stock issued under the restricted stock plan may be shares of original issuance, shares held in treasury or shares that have been reacquired by the Company. At December 31, 2011 there were 198,100 shares available for future grants under this plan.

The following table summarizes non-vested restricted stock activity for the year ended December 31, 2011.

|  | <u>Shares</u>  |
|--|----------------|
| Outstanding - January 1, 2011 .....          | 107,800        |
| Granted .....                                | 95,700         |
| Forfeited .....                              | (1,600)        |
| Earned and issued .....                      | -              |
| Outstanding - December 31, 2011 .....        | <u>201,900</u> |
| Weighted-average grant date fair value ..... | <u>\$20.02</u> |

Restricted stock awards of 95,700 shares, 74,600 shares, and 37,200 shares, respectively, were granted during 2011, 2010 and 2009 with a weighted-average grant date fair value of \$23.69, \$18.84 and \$12.22, respectively. The fair value of the restricted stock awards is amortized to compensation expense over the vesting period (generally three years) and is based on the market price of the Company's common stock at the date of grant multiplied by the number of shares granted that are expected to vest. Stock-based compensation expense for restricted stock included in non-interest expense was \$0.8 million, \$0.2 million and \$24,000 for 2011, 2010 and 2009, respectively. Unrecognized compensation expense for nonvested restricted stock awards was \$3.0 million at December 31, 2011 and is expected to be recognized over a weighted-average period of 2.5 years.

## 16. Commitments and Contingencies

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Company has the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since these commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit

evaluation of the counterparty. The type of collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and other real or personal property.

The Company had outstanding commitments to extend credit, excluding mortgage IRLCs, of \$312.7 million and \$165.7 million at December 31, 2011 and 2010, respectively. The commitments extend over varying periods of time with the majority to be disbursed or to expire within a one-year period.

Outstanding standby letters of credit are contingent commitments issued by the Company generally to guarantee the performance of a customer in third party borrowing arrangements. The terms of the letters of credit are generally for a period of one year. The maximum amount of future payments the Company could be required to make under these letters of credit at December 31, 2011 and 2010 is \$13.5 million and \$6.0 million, respectively. The Company holds collateral to support letters of credit when deemed necessary. The total of collateralized commitments at December 31, 2011 and 2010 was \$13.2 million and \$5.5 million, respectively.

## 17. Related Party Transactions

The Company has had, in the ordinary course of business, lending transactions with certain of its officers, directors, director nominees and their related and affiliated parties (related parties). The following table is a summary of activity of loans to related parties for the periods indicated.

|  | Year Ended December 31, |                 |                 |
|--|-------------------------|-----------------|-----------------|
|  | 2011                    | 2010            | 2009            |
|  | (Dollars in thousands)  |                 |                 |
| Balance - beginning of year .....              | \$ 3,374                | \$ 8,174        | \$ 4,434        |
| New loans and advances.....                    | 16,978                  | 9,258           | 5,546           |
| Repayments .....                               | (18,202)                | (13,648)        | (1,793)         |
| Change in composition of related parties ..... | -                       | (410)           | (13)            |
| Balance - end of year .....                    | <u>\$ 2,150</u>         | <u>\$ 3,374</u> | <u>\$ 8,174</u> |

Wiring and cabling installation for certain of the Company's facilities were performed by an entity whose ownership includes a member of the Company's board of directors. Total payments to this entity were \$40,000 in 2011, \$68,000 in 2010 and \$119,000 in 2009 for such installation contract work.

## 18. Regulatory Matters

The Company is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial condition and results of operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about component risk weightings and other factors.

Federal and state regulatory agencies generally require the Company and the Bank to maintain minimum Tier 1 and total capital to risk-weighted assets of 4.0% and 8.0%, respectively, and Tier 1 capital to average quarterly assets (Tier 1 leverage ratio) of at least 3.0%. Tier 1 capital generally consists of common equity, retained earnings, certain types of preferred stock, qualifying minority interest and trust preferred securities, subject to limitations, and excludes goodwill and various intangible assets. Total capital includes Tier 1 capital, any amounts of trust preferred securities excluded from Tier 1 capital, and the lesser of the ALLL or 1.25% of risk-weighted assets. At December 31, 2011 and 2010 the Company's and the Bank's Tier 1 and total capital ratios and their Tier 1 leverage ratios exceeded minimum requirements.



The actual and required regulatory capital amounts and ratios of the Company and the Bank at December 31, 2011 and 2010 are as follows:

|   | Actual    |        | Required                      |       |  |        |
|---|-----------|--------|-------------------------------|-------|--|--------|
|   |           |        | For Capital Adequacy Purposes |       | To Be Well Capitalized Under Prompt Corrective Action Provisions |        |
|   | Amount    | Ratio  | Amount                        | Ratio | Amount   | Ratio  |
| (Dollars in thousands)                    |           |        |                               |       |  |        |
| <b>December 31, 2011:</b>                 |           |        |                               |       |  |        |
| Total capital (to risk-weighted assets):  |           |        |                               |       |  |        |
| Company .....                             | \$499,055 | 18.93% | \$210,950                     | 8.00% | \$263,688  | 10.00% |
| Bank .....                                | 478,690   | 18.23  | 210,068                       | 8.00  | 262,585  | 10.00  |
| Tier 1 capital (to risk-weighted assets): |           |        |                               |       |  |        |
| Company .....                             | 466,017   | 17.67  | 105,475                       | 4.00  | 158,213  | 6.00   |
| Bank .....                                | 445,789   | 16.98  | 105,034                       | 4.00  | 157,551  | 6.00   |
| Tier 1 leverage (to average assets):      |           |        |                               |       |  |        |
| Company .....                             | 466,017   | 12.06  | 115,934                       | 3.00  | 193,223  | 5.00   |
| Bank .....                                | 445,789   | 11.58  | 115,508                       | 3.00  | 192,514  | 5.00   |
| <b>December 31, 2010:</b>                 |           |        |                               |       |  |        |
| Total capital (to risk-weighted assets):  |           |        |                               |       |  |        |
| Company .....                             | \$404,838 | 17.39% | \$186,260                     | 8.00% | \$232,825  | 10.00% |
| Bank .....                                | 387,949   | 16.75  | 185,334                       | 8.00  | 231,668  | 10.00  |
| Tier 1 capital (to risk-weighted assets): |           |        |                               |       |  |        |
| Company .....                             | 375,597   | 16.13  | 93,131                        | 4.00  | 139,695  | 6.00   |
| Bank .....                                | 358,852   | 15.49  | 92,667                        | 4.00  | 139,001  | 6.00   |
| Tier 1 leverage (to average assets):      |           |        |                               |       |  |        |
| Company .....                             | 375,597   | 11.88  | 94,814                        | 3.00  | 158,023  | 5.00   |
| Bank .....                                | 358,852   | 11.40  | 94,437                        | 3.00  | 157,395  | 5.00   |

As of December 31, 2011 and 2010, the most recent notification from the regulators categorized the Company and the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Company's or the Bank's category.

The state bank commissioner's approval is required before the Bank can declare and pay any dividend of 75% or more of the net profits of the Bank after all taxes for the current year plus 75% of the retained net profits for the immediately preceding year. At December 31, 2011 and 2010, respectively, \$68.4 million and \$26.3 million were available for payment of dividends by the Bank without the approval of regulatory authorities.

Under FRB regulation, the Bank is also limited as to the amount it may loan to its affiliates, including the Company, and such loans must be collateralized by specific types of collateral. The maximum amount available for loan from the Bank to the Company is limited to 10% of the Bank's capital and surplus or approximately \$47 million and \$36 million, respectively, at December 31, 2011 and 2010.

The Bank is required by bank regulatory agencies to maintain certain minimum balances of cash or deposits primarily with the FRB. At December 31, 2011 and 2010, these required balances aggregated \$11.6 million and \$14.7 million, respectively.

## 19. Fair Value Measurements

The Company measures certain of its assets and liabilities on a fair value basis using various valuation techniques and assumptions, depending on the nature of the asset or liability. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, fair value is used either annually or on a non-recurring basis to evaluate certain assets and liabilities for impairment or for disclosure purposes.

The Company applies the following fair value hierarchy.

Level 1 - Quoted prices for identical instruments in active markets.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable.

Level 3 - Instruments whose inputs are unobservable.

The following table sets forth the Company's assets and liabilities at December 31, 2011 and 2010 that are accounted for at fair value.

|   | <u>Level 1</u>         | <u>Level 2</u>   | <u>Level 3</u>   | <u>Total</u>     |
|---|------------------------|------------------|------------------|------------------|
|   | (Dollars in thousands) |                  |                  |                  |
| <b>December 31, 2011:</b>   |                        |                  |                  |                  |
| Assets:   |                        |                  |                  |                  |
| Investment securities AFS <sup>(1)</sup> :                          |                        |                  |                  |                  |
| Obligations of state and political subdivisions .....               | \$ -                   | \$348,855        | \$ 24,192        | \$373,047        |
| U.S. Government agency residential mortgage-backed securities ..... | -                      | 48,035           | -                | 48,035           |
| Total investment securities AFS .....                               | -                      | 396,890          | 24,192           | 421,082          |
| Impaired non-covered loans and leases .....                         | -                      | -                | 10,519           | 10,519           |
| Impaired covered loans .....  | -                      | -                | 1,854            | 1,854            |
| Foreclosed assets not covered by FDIC loss share agreements .....   | -                      | -                | 31,762           | 31,762           |
| Foreclosed assets covered by FDIC loss share agreements .....       | -                      | -                | 72,907           | 72,907           |
| Derivative assets - IRLC and FSC .....                              | -                      | -                | 62               | 62               |
| Total assets at fair value .....                                    | <u>\$ -</u>            | <u>\$396,890</u> | <u>\$141,296</u> | <u>\$538,186</u> |
| Liabilities:  |                        |                  |                  |                  |
| Derivative liabilities - IRLC and FSC .....                         | \$ -                   | \$ -             | \$ 62            | \$ 62            |
| Total liabilities at fair value .....                               | <u>\$ -</u>            | <u>\$ -</u>      | <u>\$ 62</u>     | <u>\$ 62</u>     |
| <b>December 31, 2010:</b>   |                        |                  |                  |                  |
| Assets:   |                        |                  |                  |                  |
| Investment securities AFS <sup>(1)</sup> :                          |                        |                  |                  |                  |
| Obligations of state and political subdivisions .....               | \$ -                   | \$358,511        | \$ 20,036        | \$378,547        |
| U.S. Government agency residential mortgage-backed securities ..... | -                      | 1,269            | -                | 1,269            |
| Total investment securities AFS .....                               | -                      | 359,780          | 20,036           | 379,816          |
| Impaired non-covered loans and leases .....                         | -                      | -                | 9,807            | 9,807            |
| Foreclosed assets not covered by FDIC loss share agreements .....   | -                      | -                | 42,216           | 42,216           |
| Foreclosed assets covered by FDIC loss share agreements .....       | -                      | -                | 31,145           | 31,145           |
| Derivative assets - IRLC and FSC .....                              | -                      | -                | 55               | 55               |
| Total assets at fair value .....                                    | <u>\$ -</u>            | <u>\$359,780</u> | <u>\$103,259</u> | <u>\$463,039</u> |
| Liabilities:  |                        |                  |                  |                  |
| Derivative liabilities - IRLC and FSC .....                         | \$ -                   | \$ -             | \$ 55            | \$ 55            |
| Total liabilities at fair value .....                               | <u>\$ -</u>            | <u>\$ -</u>      | <u>\$ 55</u>     | <u>\$ 55</u>     |

(1) Does not include \$17.8 million at December 31, 2011 and \$18.9 million at December 31, 2010 of shares of FHLB-Dallas, FHLB-Atlanta and FNBB stock that do not have readily determinable fair values and are carried at cost.

The following methods and assumptions are used to estimate the fair value of the Company's assets and liabilities that are accounted for at fair value.

**Investment securities** - The Company utilizes independent third parties as its principal pricing sources for determining fair value of investment securities which are measured on a recurring basis. For investment securities traded in an active market, fair values are based on quoted market prices if available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities, broker quotes or comprehensive interest rate tables, pricing matrices or a combination thereof. For investment securities traded in a market that is not active, fair value is determined using unobservable inputs.

The Company has determined that certain of its investment securities had a limited to non-existent trading market at December 31, 2011 and 2010. As a result, the Company considers these investments as Level 3 in the fair value hierarchy. Specifically the fair values of certain obligations of state and political subdivisions consisting of certain unrated private placement bonds (the "private placement bonds") in the amount of \$24.2 million and \$20.0 million at December 31, 2011 and 2010, respectively, were

calculated using Level 3 hierarchy inputs and assumptions as the trading market for such securities was determined to be “not active”. This determination was based on the limited number of trades or, in certain cases, the existence of no reported trades for the private placement bonds. The private placement bonds are generally prepayable at par value at the option of the issuer. As a result, management believes the private placement bonds should be valued at the lower of (i) the matrix pricing provided by the Company’s third party pricing services for comparable unrated municipal securities or (ii) par value. At December 31, 2011 and 2010, the third party pricing matrices valued the Company’s total portfolio of private placement bonds at \$24.5 million and \$21.0 million, respectively, which exceeded the lower of the matrix pricing or par value of the private placement bonds by \$0.3 million and \$1.0 million at December 31, 2011 and 2010, respectively. Accordingly, at December 31, 2011 and 2010 the Company reported the private placement bonds at \$24.2 million and \$20.0 million, respectively.

Impaired non-covered loans and leases – For non-covered loans and leases that are deemed impaired, fair values are measured on a non-recurring basis and are based on the underlying collateral value of the impaired loan or lease, net of holding and selling costs, or the estimated discounted cash flows for such loan or lease. The Company has reduced the carrying value of its impaired loans and leases (all of which are included in nonaccrual loans and leases) by \$9.9 million and \$9.3 million, respectively, to the estimated fair value of \$10.5 million and \$9.8 million, respectively, for such loans and leases at December 31, 2011 and 2010. These adjustments to reduce the carrying value of impaired loans and leases to estimated fair value during 2011 and 2010 consisted of \$8.1 million and \$7.3 million, respectively, of partial charge-offs and \$1.8 million and \$2.0 million, respectively, of specific loan and lease loss allocations.

Impaired covered loans – The fair values of impaired covered loans are measured on a non-recurring basis. As of December 31, 2011, the Company had identified purchased loans covered by FDIC loss share agreements acquired in its FDIC-assisted acquisitions totaling \$3.2 million where the expected performance of such loans had deteriorated from management’s performance expectations established in conjunction with the determination of the Day 1 Fair Values. As a result the Company recorded partial charge-offs, net of adjustments to the FDIC loss share receivable and the FDIC clawback payable, totaling \$0.3 million for such loans during the fourth quarter of 2011. The Company also recorded \$0.3 million of provision for loan and lease losses during the fourth quarter of 2011 to cover such charge-offs. In addition to those net charge-offs, the Company also transferred certain of these covered loans to covered foreclosed assets during the fourth quarter of 2011. As a result of these actions, the Company had \$1.9 million of impaired covered loans at December 31, 2011 (none at December 31, 2010).

Foreclosed assets not covered by FDIC loss share agreements – Repossessed personal properties and real estate acquired through or in lieu of foreclosure are measured on a non-recurring basis and are initially recorded at the lesser of current principal investment or fair value less estimated cost to sell at the date of repossession or foreclosure. Valuations of these assets are periodically reviewed by management with the carrying value of such assets adjusted to the then estimated fair value net of estimated selling costs, if lower, until disposition. Fair values of foreclosed and repossessed assets held for sale are generally based on third party appraisals, broker price opinions or other valuations of the property, resulting in a Level 3 classification.

Foreclosed assets covered by FDIC loss share agreements – Foreclosed assets covered by FDIC loss share agreements, or covered foreclosed assets, are recorded at estimated fair value on the date of acquisition. In estimating the fair value of covered foreclosed assets, management considers a number of factors including, among others, appraised value, estimated selling prices, estimated selling costs, estimating holding periods and net present value of cash flows expected to be received. A discount rate ranging from 8.0% to 9.5% per annum was used to determine the net present value of covered foreclosed assets. Valuations of these assets are measured on a non-recurring basis and are periodically reviewed by management with the carrying value of such assets adjusted to the then estimated fair value net of estimated selling costs, if lower, until disposition.

Derivative assets and liabilities – The fair values of IRLC and FSC derivative assets and liabilities are measured on a recurring basis and are based primarily on the fluctuation of interest rates between the date on which the IRLC and FSC were entered and year-end.

The following table presents additional information about assets and liabilities measured at fair value on a recurring basis and for which the Company has utilized Level 3 inputs to determine fair value.

|   | <u>Investment<br/>Securities<br/>AFS</u> | <u>Derivative<br/>Assets-IRLC<br/>and FSC</u> | <u>Derivative<br/>Liabilities-<br/>IRLC and FSC</u> |
|---|--|---|---|
|   | (Dollars in thousands)                   |   |   |
| Balances - January 1, 2010 .....  | \$16,690                                 | \$210   | \$(210)   |
| Total realized gains/(losses) included in earnings .....                        | 20                                       | (155)   | 155   |
| Total unrealized gains/(losses) included in other<br>comprehensive income ..... | (850)                                    | -   | -   |
| Purchases, sales, issuances and settlements, net.....                           | 192                                      | -   | -   |
| Transfers in and/or out of Level 3 .....  | <u>3,984</u>                             | -   | -   |
| Balances - December 31, 2010 .....  | \$20,036                                 | 55  | (55)  |
| Total realized gains/(losses) included in earnings .....                        | (44)                                     | 7   | (7)   |
| Total unrealized gains/(losses) included in other<br>comprehensive income ..... | 223                                      | -   | -   |
| Purchases, sales, issuances and settlements, net.....                           | 3,247                                    | -   | -   |
| Transfers in and/or out of Level 3 .....  | <u>730</u>                               | -   | -   |
| Balances - December 31, 2011 .....  | <u>\$24,192</u>                          | <u>\$ 62</u>                                  | <u>\$ (62)</u>                                      |

During 2011 and 2010, there were no transfers of assets or liabilities measured at fair value between Level 1 and Level 2 fair value hierarchy.

## 20. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of financial instruments.

Cash and due from banks - For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Investment securities - The Company utilizes independent third parties as its principal pricing sources for determining fair value of investment securities that are measured on a recurring basis. For investment securities traded in an active market, fair values are based on quoted market prices if available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities, broker quotes or comprehensive interest rate tables, pricing matrices or a combination thereof. For investment securities traded in a market that is not active, fair value is determined using unobservable inputs. The Company's investments in the common stock of the FHLB-Dallas, FHLB-Atlanta and FNBB of \$17.8 million at December 31, 2011 and \$18.9 million at December 31, 2010 do not have readily determinable fair values and are carried at cost.

Loans and leases - The fair value of loans and leases, including covered and non-covered loans and leases, is estimated by discounting the future cash flows using the current rate at which similar loans or leases would be made to borrowers or lessees with similar credit ratings and for the same remaining maturities.

FDIC loss share receivable - The fair value of the FDIC loss share receivable is based on the net present value of future cash proceeds expected to be received from the FDIC under the provisions of the loss share agreements using a discount rate that is based on current market rates.

Deposit liabilities - The fair value of demand deposits, savings accounts, money market deposits and other transaction accounts is the amount payable on demand at the reporting date. The fair value of fixed maturity time deposits is estimated using the rate currently available for deposits of similar remaining maturities.

Repurchase agreements - For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

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

Subordinated debentures - The fair values of these instruments are based primarily upon discounted cash flows using rates for securities with similar terms and remaining maturities.

Derivative assets and liabilities – The fair values of IRLC and FSC derivative assets and liabilities are based primarily on the fluctuation of interest rates between the date on which the IRLC and FSC were entered and year-end.

Off-balance sheet instruments – The fair values of commercial loan commitments and letters of credit are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and were not material at December 31, 2011 and 2010.

The fair values of certain of these instruments were calculated by discounting expected cash flows, which contain numerous uncertainties and involve significant judgments by management. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

The following table presents the estimated fair values of the Company's financial instruments.

|   | December 31,           |                         |                    |                         |
|---|------------------------|-------------------------|--------------------|-------------------------|
|   | 2011                   |                         | 2010               |                         |
|   | Carrying<br>Amount     | Estimated<br>Fair Value | Carrying<br>Amount | Estimated<br>Fair Value |
| Financial assets:   | (Dollars in thousands) |                         |                    |                         |
| Cash and cash equivalents .....                                 | \$ 58,927              | \$ 58,927               | \$ 49,029          | \$ 49,029               |
| Investment securities AFS .....                                 | 438,910                | 438,910                 | 398,698            | 398,698                 |
| Loans and leases, net of ALLL .....                             | 2,653,037              | 2,636,254               | 2,305,667          | 2,287,912               |
| FDIC loss share receivable .....                                | 278,263                | 278,443                 | 158,137            | 158,379                 |
| Derivative assets - IRLC and FSC .....                          | 62                     | 62                      | 55                 | 55                      |
| Financial liabilities:  |                        |                         |                    |                         |
| Demand, NOW, savings and money market<br>account deposits ..... | \$2,025,663            | \$2,025,663             | \$1,597,643        | \$1,597,643             |
| Time deposits .....   | 918,256                | 925,754                 | 943,110            | 947,447                 |
| Repurchase agreements with customers .....                      | 32,810                 | 32,810                  | 43,324             | 43,324                  |
| Other borrowings .....  | 301,847                | 361,373                 | 282,139            | 349,964                 |
| Subordinated debentures .....                                   | 64,950                 | 30,663                  | 64,950             | 29,377                  |
| Derivative liabilities - IRLC and FSC .....                     | 62                     | 62                      | 55                 | 55                      |

## 21. Supplemental Cash Flow Information

Supplemental cash flow information is as follows:

|  | Year Ended December 31, |          |          |
|--|-------------------------|----------|----------|
|  | 2011                    | 2010     | 2009     |
| Cash paid during the period for:   | (Dollars in thousands)  |          |          |
| Interest .....   | \$32,202                | \$35,476 | \$49,692 |
| Taxes .....  | 18,448                  | 13,879   | 14,504   |
| Supplemental schedule of non-cash investing<br>and financing activities:                         |                         |          |          |
| Loans transferred to foreclosed assets not covered by<br>FDIC loss share agreements .....        | 10,676                  | 17,095   | 74,122   |
| Loans advanced for sales of foreclosed assets not covered by<br>FDIC loss share agreements ..... | 675                     | 9,755    | 3,132    |
| Covered loans transferred to covered foreclosed assets .....                                     | 29,014                  | 5,354    | -        |
| Net change in unrealized gains and losses on<br>investment securities AFS .....                  | 15,622                  | (10,201) | (15,783) |
| Unsettled AFS investment security purchases .....  | -                       | -        | 8,372    |

## 22. Other Operating Expenses

The following table is a summary of other operating expenses.

|  | <b>Year Ended December 31,</b> |                 |                 |
|--|--------------------------------|-----------------|-----------------|
|  | <b>2011</b>                    | <b>2010</b>     | <b>2009</b>     |
|  | (Dollars in thousands)         |                 |                 |
| Postage and supplies .....                     | \$ 3,091                       | \$ 1,981        | \$ 1,530        |
| Telephone and data lines .....                 | 3,049                          | 2,110           | 1,806           |
| Advertising and public relations .....         | 3,571                          | 2,076           | 1,083           |
| Professional and outside services .....        | 4,822                          | 3,024           | 1,793           |
| ATM expense .....                              | 1,022                          | 881             | 745             |
| Software expense .....                         | 3,082                          | 2,657           | 1,524           |
| Travel and meals .....                         | 3,488                          | 1,726           | 666             |
| FDIC Insurance .....                           | 2,155                          | 3,238           | 4,291           |
| FDIC and state assessments .....               | 719                            | 678             | 673             |
| Loan collection and repossession expense ..... | 7,873                          | 4,001           | 3,999           |
| Writedowns of foreclosed assets .....          | 9,525                          | 8,960           | 4,009           |
| Amortization of intangible assets .....        | 1,677                          | 431             | 110             |
| Other .....                                    | 7,490                          | 4,877           | 4,816           |
| Total other operating expenses .....           | <u>\$51,564</u>                | <u>\$36,640</u> | <u>\$27,045</u> |

## 23. Earnings Per Common Share (“EPS”)

The following table sets forth the computation of basic and diluted EPS.

|  | <b>Year Ended December 31,</b>           |                 |                 |
|--|--|-----------------|-----------------|
|  | <b>2011</b>                              | <b>2010</b>     | <b>2009</b>     |
|  | (In thousands, except per share amounts) |                 |                 |
| Numerator:   |  |                 |                 |
| Distributed earnings allocated to common stock ..... | \$ 12,661                                | \$10,170        | \$ 8,778        |
| Undistributed earnings allocated to common stock ... | 88,660                                   | 53,831          | 28,048          |
| Net earnings allocated to common stock .....         | <u>\$101,321</u>                         | <u>\$64,001</u> | <u>\$36,826</u> |
| Denominator:   |  |                 |                 |
| Denominator for basic EPS—                           |  |                 |                 |
| weighted-average common shares .....                 | 34,260                                   | 33,938          | 33,760          |
| Effect of dilutive securities—stock options .....    | 222                                      | 152             | 40              |
| Denominator for diluted EPS—weighted-average         |  |                 |                 |
| common shares and assumed conversions .....          | <u>34,482</u>                            | <u>34,090</u>   | <u>33,800</u>   |
| Basic EPS .....                                      | <u>\$ 2.96</u>                           | <u>\$ 1.89</u>  | <u>\$ 1.09</u>  |
| Diluted EPS .....                                    | <u>\$ 2.94</u>                           | <u>\$ 1.88</u>  | <u>\$ 1.09</u>  |

Options to purchase 213,400 shares, 196,300 shares and 974,700 shares, respectively, of the Company's common stock at a weighted-average exercise price of \$23.69 per share, \$18.84 per share and \$15.01 per share, respectively, were outstanding during 2011, 2010 and 2009, but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares and inclusion would have been antidilutive.

## 24. Litigation Matters

On January 5, 2012, the Company and the Bank were served with a summons and complaint filed on December 19, 2011 in the Circuit Court of Lonoke County, Arkansas, Division III, styled *Robert Walker, Ann B. Hines and Judith Belk vs. Bank of the Ozarks, Inc. and Bank of the Ozarks*, No. CV-2011-777. The complaint alleges that the defendants have harmed the plaintiffs, former customers of the Bank, by improper, unfair and unconscionable assessment and collection of excessive overdraft fees from the plaintiffs. According to the complaint, plaintiffs claim that the Bank employs sophisticated software to automate its overdraft system, and that this system unfairly and inequitably manipulates and alters customers' transaction records in order to maximize overdraft penalties, particularly utilizing a practice of posting of items in "high-to-low" order, despite the actual sequence in which such items are presented for payment. Plaintiffs claim that the Bank's deposit agreements with customers do not adequately disclose the Bank's overdraft assessment policies and are ambiguous, deceptive, unfair and misleading. Plaintiffs' complaint also alleges that these actions and omissions constitute breach of contract, breach of the implied covenant of good faith and fair dealing, unconscionable conduct, conversion, unjust enrichment and violation of the Arkansas Deceptive Trade Practices Act. The plaintiffs seek to have the case certified by the court as a class action for all Bank account holders similarly situated, and seek a declaratory judgment as to the wrongful nature of the Bank's overdraft fee policies, restitution of overdraft fees paid by the plaintiffs and the putative class as a result of the actions cited in the complaint, disgorgement of profits as a result of the alleged wrongful actions and unspecified compensatory and punitive damages, together with pre-judgment interest, costs and plaintiffs' attorneys' fees. The Company believes the plaintiffs' claims are unfounded and intends to defend against these claims.

On April 8, 2011, the Company was served with a petition filed on March 31, 2011 by the Seib Family, GP, LLC, a Texas limited liability company, as General Partner of Seib Family, LP in the District Court of Dallas County, Texas, Cause Number 11-04057, against the Company and two entities which the plaintiff apparently believed had some type of ownership interest in a former borrower of the Bank, alleging, among other things, that the defendants fraudulently induced the plaintiff to purchase a tract of real estate consisting of approximately 60 acres located at 318 Cadiz Street in Dallas, Texas, owned by the former borrower and financed by the Bank. The petition alleges that the defendants knew that a levee protecting the property from the Trinity River flood plain did not meet federal standards, that the defendants omitted to disclose that information to plaintiff prior to the sale of the property, and that due to the problems or potential problems with the levee, the value of the property was significantly impaired, as supported by a report by the U.S. Corps of Engineers concerning the condition of the levee, released at approximately the same time as the plaintiff purchased the property from the former borrower and affiliates with the aid and assistance of the Company. The petition alleges that the plaintiff did not become aware of the U.S. Corps of Engineers' report until a month or two after it purchased the property.

The original petition alleged that the defendants' conduct violated the Texas Securities Act and the Texas Deceptive Trade Practices Act, and seeks compensatory damages, trebled under the Texas Deceptive Trade Practices Act, plus exemplary damages, attorneys' fees, costs, interest, and other relief the court deems just. Since the original petition was filed, the plaintiff has (i) dropped all claims against the Company, but substituted the Bank as a defendant and (ii) dropped all claims with respect to the Texas Deceptive Trade Practices Act. Under its amended petition, the Plaintiff is seeking \$15,962,677 in actual damages and \$31,925,354 in exemplary damages. Discovery is currently ongoing with respect to this petition. The Company believes the allegations of the petition are wholly without merit and intends to defend against these claims.

The Company is party to various other legal proceedings, as both plaintiff and defendant, arising in the ordinary course of business, including claims of lender liability, predatory lending, broken promises and other similar lending-related claims, as well as legal proceedings arising from acquired operations in its FDIC-assisted acquisitions and third party claims alleging that the Company and the Bank, along with certain other financial institutions, have infringed certain "business method" patents claimed to be violated by the institutions' use of web site authentication software and check imaging and processing software not authorized by the patent holder claimants. While the ultimate resolution of these various claims and proceedings cannot be determined at this time, management of the Company believes that such claims and proceedings, individually or in the aggregate, will not have a material adverse effect on the future results of operations, financial condition or liquidity of the Company.



## 25. Parent Company Financial Information

The following condensed balance sheets, income statements and statements of cash flows reflect the financial position, results of operations and cash flows for the parent company.

### Condensed Balance Sheets

|  | <b>December 31,</b>     |                         |
|--|-------------------------|-------------------------|
|  | <b>2011</b>             | <b>2010</b>             |
|  | (Dollars in thousands)  |                         |
| <b>Assets:</b>   |                         |                         |
| Cash .....   | \$ 11,307               | \$ 6,570                |
| Investment in consolidated bank subsidiary .....         | 466,232                 | 365,518                 |
| Investment in unconsolidated Trusts .....                | 1,950                   | 1,950                   |
| Loans .....  | 8,768                   | 8,236                   |
| Excess cost over fair value of net assets acquired ..... | 1,092                   | 1,092                   |
| Income taxes receivable .....                            | -                       | 893                     |
| Other, net .....   | 1,612                   | 1,382                   |
| <b>Total assets</b> .....                                | <b><u>\$490,961</u></b> | <b><u>\$385,641</u></b> |
| <b>Liabilities and Stockholders' Equity:</b>             |                         |                         |
| Accounts payable .....                                   | \$ 115                  | \$ 163                  |
| Accrued interest payable .....                           | 297                     | 173                     |
| Income taxes payable .....                               | 1,048                   | -                       |
| Subordinated debentures .....                            | 64,950                  | 64,950                  |
| <b>Total liabilities</b> .....                           | <b><u>66,410</u></b>    | <b><u>65,286</u></b>    |
| Stockholders' equity:                                    |                         |                         |
| Common stock .....                                       | 345                     | 341                     |
| Additional paid-in capital .....                         | 51,145                  | 45,107                  |
| Retained earnings .....                                  | 363,734                 | 275,074                 |
| Accumulated other comprehensive income (loss) .....      | 9,327                   | (167)                   |
| <b>Total stockholders' equity</b> .....                  | <b><u>424,551</u></b>   | <b><u>320,355</u></b>   |
| <b>Total liabilities and stockholders' equity</b> .....  | <b><u>\$490,961</u></b> | <b><u>\$385,641</u></b> |

### Condensed Statements of Income

|   | <b>Year Ended December 31,</b> |                        |                        |
|---|--------------------------------|------------------------|------------------------|
|   | <b>2011</b>                    | <b>2010</b>            | <b>2009</b>            |
|   | (Dollars in thousands)         |                        |                        |
| <b>Income:</b>  |                                |                        |                        |
| Dividends from Bank .....   | \$ 12,300                      | \$13,200               | \$92,200               |
| Dividends from Trusts .....   | 52                             | 53                     | 64                     |
| Interest .....  | 1,145                          | 1,152                  | 984                    |
| Other .....   | -                              | -                      | 138                    |
| <b>Total income</b> .....   | <b><u>13,497</u></b>           | <b><u>14,405</u></b>   | <b><u>93,386</u></b>   |
| <b>Expenses:</b>  |                                |                        |                        |
| Interest .....  | 1,740                          | 1,764                  | 2,138                  |
| Other operating expenses .....  | 3,447                          | 2,853                  | 2,258                  |
| <b>Total expenses</b> .....   | <b><u>5,187</u></b>            | <b><u>4,617</u></b>    | <b><u>4,396</u></b>    |
| Net income before income tax benefit and equity in undistributed earnings of Bank ..... | 8,310                          | 9,788                  | 88,990                 |
| Income tax benefit .....  | 1,792                          | 1,527                  | 1,482                  |
| Equity in undistributed earnings of Bank .....  | 91,219                         | 52,686                 | (47,370)               |
| <b>Net income</b> .....   | <b><u>101,321</u></b>          | <b><u>64,001</u></b>   | <b><u>43,102</u></b>   |
| Preferred stock dividends and amortization of preferred stock discount .....            | -                              | -                      | (6,276)                |
| <b>Net income available to common stockholders</b> .....                                | <b><u>\$101,321</u></b>        | <b><u>\$64,001</u></b> | <b><u>\$36,826</u></b> |

## Condensed Statements of Cash Flows

Year Ended December 31,

|   | 2011                   | 2010     | 2009     |
|---|------------------------|----------|----------|
|   | (Dollars in thousands) |          |          |
| Cash flows from operating activities:   |                        |          |          |
| Net income .....  | \$101,321              | \$64,001 | \$43,102 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                        |          |          |
| Equity in undistributed earnings of Bank .....                                    | (91,219)               | (52,686) | 47,370   |
| Loss (gain) on sale of investment securities AFS .....                            | -                      | 130      | (162)    |
| Deferred income tax expense (benefit) .....                                       | (177)                  | 169      | (63)     |
| Stock-based compensation expense .....  | 1,528                  | 834      | 712      |
| Tax benefits on exercise of stock options .....                                   | (870)                  | (535)    | (111)    |
| Changes in other assets and other liabilities .....                               | 2,445                  | (831)    | (802)    |
| Net cash provided by operating activities .....                                   | 13,028                 | 11,082   | 90,046   |
| Cash flows from investing activities:   |                        |          |          |
| Net (fundings) paydowns of portfolio loans .....                                  | (532)                  | 531      | (3,880)  |
| Proceeds from sales of investment securities AFS .....                            | -                      | 330      | 1,437    |
| Equity contributed to Bank .....  | -                      | (7,000)  | -        |
| Net cash used by investing activities .....                                       | (532)                  | (6,139)  | (2,443)  |
| Cash flows from financing activities:   |                        |          |          |
| Proceeds from exercise of stock options .....                                     | 4,032                  | 2,825    | 258      |
| Tax benefits on exercise of stock options .....                                   | 870                    | 535      | 111      |
| Redemption of preferred stock .....   | -                      | -        | (75,000) |
| Repurchase of common stock warrant .....  | -                      | -        | (2,650)  |
| Cash dividends paid on preferred stock .....                                      | -                      | -        | (3,354)  |
| Cash dividends paid on common stock .....   | (12,661)               | (10,170) | (8,778)  |
| Net cash used by financing activities .....                                       | (7,759)                | (6,810)  | (89,413) |
| Net increase (decrease) in cash .....   | 4,737                  | (1,867)  | (1,810)  |
| Cash - beginning of year .....  | 6,570                  | 8,437    | 10,247   |
| Cash - end of year .....  | \$ 11,307              | \$ 6,570 | \$ 8,437 |



## **BANK of the OZARKS<sup>®</sup>, Inc.**

### ***Board of Directors***

*Standing, left to right:*

***George Gleason***

*Chairman and Chief Executive Officer - Bank of the Ozarks, Inc., Little Rock, Arkansas*

***Robert Proost***

*Retired Vice President and Chief Financial Officer - A.G. Edwards, Inc., St. Louis, Missouri*

***Richard Cisne***

*Founding Partner - Hudson, Cisne & Co., LLP, Little Rock, Arkansas*

***R.L. Qualls***

*Retired President and Chief Executive Officer - Baldor Electric Company, Fort Smith, Arkansas*

***Jean Arehart***

*Retired Banker, Newport, Arkansas*

***Henry Mariani***

*Chairman - NLC Products, Inc., Little Rock, Arkansas*

*Seated, left to right:*

***Linda Gleason***

*Retired Banker, Little Rock, Arkansas*

***Robert East***

*Chairman and Chief Executive Officer - East-Harding, Inc., Little Rock, Arkansas*

***Kennith Smith***

*Retired Lumber Company President, Ozark, Arkansas*

***Walter Kimbrough***

*President - Philander Smith College, Little Rock, Arkansas*

***Mark Ross***

*Vice Chairman and Chief Operating Officer - Bank of the Ozarks, Inc., Little Rock, Arkansas*

**Our Board of Directors' outstanding leadership and vision has moved the Company forward and created a solid foundation for strong future growth and profitability.**





## BANK of the OZARKS, Inc.

Little Rock, Arkansas  
(501) 978-2265, Fax (501) 978-2224  
NASDAQ: OZRK • [www.bankozarks.com](http://www.bankozarks.com)

*For additional information or a copy of the Company's Form  
10-K filed with the Securities and Exchange Commission contact:*

Investor Relations, Bank of the Ozarks, Inc.  
P.O. Box 8811, Little Rock, AR 72231-8811

*Independent Auditors:*

Crowe Horwath LLP, Certified Public Accountants  
950 East Paces Ferry Road, Suite 3315  
Atlanta, Georgia 30326-1388

*Transfer Agent:*

Bank of the Ozarks Trust and Wealth Management Division  
P.O. Box 8811, Little Rock, AR 72231-8811

