ITLA CAPITAL CORP
Form 4
August 10, 2005

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

(Print or Type Responses)

1. Name and Address of Reporting Person [*]
LODWICK LYLE C
(Last) (First) (Middle)
888 PROSPECT STREET, SUITE 110
(Street)
LA JOLLA, CA 92037
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
ITLA CAPITAL CORP [ITLA]

3. Date of Earliest Transaction (Month/Day/Year)
08/08/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Exec Mng Dir-COO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Commmon Stock	08/08/2005		A		1,000 (1)	A	$ 0	1,000	I	By SERP

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Stock Option (Right to Buy)	$ 54.25	08/08/2005		A		35,000		08/08/2005	08/08/2015	Common Stock	35,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
LODWICK LYLE C 888 PROSPECT STREET SUITE 110 LA JOLLA, CA 92037			Exec Mng Dir-COO	

Signatures

/s/ Lyle C. Lodwick	08/10/2005
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Represents allocation of shares to the Issuer's Supplemental Executive Retirement Plan for the benefit of the Reporting Person. The shares vested immediately.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. YLE="font-family:Times New Roman"
SIZE="2"> 75,693 155,600 141,255 116,414 92,310 86,052

Provision for loan losses

850 1,333 850 1,333 2,750 3,500 72,850 11,150 27,016

Net interest income after provision for loan losses

Explanation of Responses:

43,991 37,826 88,340 74,360 152,850 137,755 43,564 81,160 59,036

Non-interest income

9,805 11,053 18,830 21,156 47,969 41,309 65,049 30,659 22,615

Gain on sale of equity investment

6,102

Non-interest expense

25,855 24,424 51,718 48,810 102,368 94,722 85,001 72,883 75,717

Income before income taxes								
27,941	24,455	55,452	46,706	98,451	84,342	23,612	38,936	12,036
Income tax expense								
10,282	8,965	20,245	16,718	35,429	29,601	6,021	12,130	1,920

Net income

17,659 15,490 35,207 29,988 63,022 54,741 17,591 26,806 10,116

Preferred stock dividends and accretion of discount on preferred stock

1,828 2,680 2,576

Net income available to common stockholders

$17,659	$15,490	$35,207	$29,988	$63,022	$52,913	$14,911	$24,230	$10,116

Common share and per common share data (a):

Basic earnings per common share

$0.32 $0.28 $0.63 $0.53 $1.12 $0.93 $0.26 $0.51 $0.23

Diluted earnings per common share

0.31 0.27 0.62 0.53 1.11 0.92 0.26 0.51 0.23

Diluted earnings per common share excluding intangible amortization (1)

0.32 0.28 0.64 0.54 1.14 0.95 0.29 0.53 0.25

Book value per common share

9.49 8.82 9.49 8.82 9.17 8.39 7.51 7.36 6.48

Tangible book value per common share (2) (5)

7.78 7.26 7.78 7.26 7.43 7.18 6.26 6.33 5.18

Dividends common

0.0750 0.0500 0.1400 0.1000 0.2900 0.1340 0.1083 0.1091 0.1009

Average common shares outstanding

56,234 56,190 56,228 56,325 56,274 56,832 56,722 47,254 43,596

Average diluted shares outstanding

56,577 56,566 56,555 56,691 56,630 57,224 57,200 47,768 44,688

Table of Contents

Selected Consolidated Financial Data Continued

	As of or for the Three Months Ended June 30,		As of or for the Six Months Ended June 30,		As of or for the Years Ended December 31,				
	2013	2012	2013	2012	2012	2011	2010	2009	2008
	(Unaudited)								
	(Dollars and shares in thousands, except per share data(a))								
Performance ratios:									
Return on average assets	1.71%	1.53%	1.70%	1.53%	1.58%	1.50%	0.55%	1.03%	0.39%
Return on average assets excluding intangible amortization (6)	1.80	1.61	1.79	1.60	1.66	1.57	0.61	1.10	0.44
Return on average common equity	13.27	12.80	13.47	12.51	12.75	11.77	3.41	7.45	3.51
Return on average tangible common equity excluding intangible amortization (2) (7)	16.65	16.05	16.97	15.54	15.87	14.39	4.40	9.49	4.88
Net interest margin (9)	5.18	4.65	5.16	4.65	4.70	4.69	4.27	4.09	3.82
Efficiency ratio (3)	44.98	46.22	45.50	47.92	47.88	49.13	44.41	55.98	62.68
Asset quality:									
Non-performing non-covered assets to total non-covered assets	1.26%	1.19%	1.26%	1.19%	1.30%	1.53%	2.08%	2.12%	1.42%
Non-performing non-covered loans to total non-covered loans	1.25	1.28	1.25	1.28	1.17	1.56	2.62	2.05	1.53
Allowance for loan losses for non-covered loans to non-performing non-covered loans	138.16	190.72	138.16	190.72	165.62	189.64	107.77	107.57	135.08
Allowance for loans losses for non-covered loans to total non-covered loans	1.73	2.45	1.73	2.45	1.94	2.96	2.83	2.20	2.06
Net charge-offs on loans not covered by loss share to average non-covered loans	0.44	0.23	0.47	0.23	0.40	0.26	3.19	0.43	1.01
Balance sheet data:									
Total assets	$ 4,091,337	$ 4,056,405	$ 4,091,337	$ 4,056,405	$ 4,242,130	$ 3,604,117	$ 3,762,646	$ 2,684,865	$ 2,580,093
Investment securities available-for-sale	736,406	712,820	736,406	712,820	726,223	671,221	469,864	322,115	355,244
Loans receivable not covered by loss share	2,339,242	2,035,487	2,339,242	2,035,487	2,331,199	1,760,086	1,892,374	1,950,285	1,956,232
Loans receivable covered by FDIC loss share	329,802	432,422	329,802	432,422	384,884	481,739	575,776		
Allowance for loan losses	41,450	56,511	41,450	56,511	50,632	52,129	53,348	42,968	40,385
Intangible assets	96,138	87,576	96,138	87,576	97,742	68,283	71,110	57,737	56,585
Non-interest-bearing deposits	733,374	597,374	733,374	597,374	666,414	464,581	392,622	302,228	249,349
Total deposits	3,325,235	3,293,529	3,325,235	3,293,529	3,483,452	2,858,031	2,961,798	1,835,423	1,847,908
Subordinated debentures (trust preferred securities)	3,093	44,331	3,093	44,331	28,867	44,331	44,331	47,484	47,575
Stockholders equity	533,510	495,435	533,510	495,435	515,473	474,066	476,925	464,973	283,044

Table of Contents

Selected Consolidated Financial Data Continued

	As of or for the Three Months Ended June 30,		As of or for the Six Months Ended June 30,		As of or for the Years Ended December 31,				
	2013	2012	2013	2012	2012	2011	2010	2009	2008
	(Unaudited)								
	(Dollars and shares in thousands, except per share data(a))								
Capital ratios:									
Common equity to assets	13.04%	12.21%	13.04%	12.21%	12.15%	13.15%	11.4%	15.48%	10.97%
Tangible common equity to tangible assets (2) (8)	10.95	10.28	10.95	10.28	10.08	11.48	9.65	13.63	8.97
Tier 1 leverage ratio (4)	10.78	11.08	10.78	11.08	10.95	12.48	12.15	17.42	10.87
Tier 1 risk-based capital ratio	14.04	15.78	14.04	15.78	13.94	17.04	16.69	20.76	12.70
Total risk-based capital ratio	15.29	17.04	15.29	17.04	15.20	18.30	17.95	22.02	13.95
Dividend payout common	23.88	18.14	22.36	18.81	26.15	13.90	35.01	19.11	43.53

(a) All per share amounts have been restated to reflect the effect of the 2-for-1 stock split during June 2013.

(1) Diluted earnings per share excluding intangible amortization reflect diluted earnings per share plus per share intangible amortization expense, net of the corresponding tax effect. See the incorporated by reference Form 10-Q for June 30, 2013 and Form 10-K for December 31, 2012 in the Management s Discussion and Analysis of Financial Condition and Results of Operations Table 17 and Table 23, respectively, for the non-GAAP tabular reconciliation.

(2) Tangible calculations eliminate the effect of goodwill and acquisition-related intangible assets and the corresponding amortization expense on a tax-effected basis.

(3) The efficiency ratio is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income.

(4) Leverage ratio is Tier 1 capital to quarterly average total assets less intangible assets and gross unrealized gains/losses on available-for-sale investment securities.

(5) See the incorporated by reference Form 10-Q for June 30, 2013 and Form 10-K for December 31, 2012 in the Management s Discussion and Analysis of Financial Condition and Results of Operations Table 18 and Table 24, respectively, for the non-GAAP tabular reconciliation.

(6) See the incorporated by reference Form 10-Q for June 30, 2013 and Form 10-K for December 31, 2012 in the Management s Discussion and Analysis of Financial Condition and Results of Operations Table 19 and Table 25, respectively, for the non-GAAP tabular reconciliation.

(7) See the incorporated by reference Form 10-Q for June 30, 2013 and Form 10-K for December 31, 2012 in the Management s Discussion and Analysis of Financial Condition and Results of Operations Table 20 and Table 26, respectively, for the non-GAAP tabular reconciliation.

(8) See the incorporated by reference Form 10-Q for June 30, 2013 and Form 10-K for December 31, 2012 in the Management s Discussion and Analysis of Financial Condition and Results of Operations Table 21 and Table 27, respectively, for the non-GAAP tabular reconciliation.

(9) Fully taxable equivalent (assuming an income tax rate of 39.225%).

Table of Contents

SELECTED CONSOLIDATED FINANCIAL DATA OF LBI

Set forth below are highlights from LBI s consolidated financial data as of and for the three and six months ended June 30, 2013 and 2012 and for the years ended December 31, 2008 through December 31, 2012. The results of operations for the three and six months ended June 30, 2013 and June 30, 2012, are not necessarily indicative of the results of operations for the full year or any other interim period. LBI management prepared the unaudited information on the same basis as it prepared LBI s audited consolidated financial statements. In the opinion of LBI management, this information reflects all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of this data for those dates. You should read this information in conjunction with LBI s audited consolidated financial statements for the year ended December 31, 2012 and LBI s unaudited consolidated financial statements for the three and six months ended June 30, 2013, which are included herein in this document and from which this information has been derived. See Where You Can Find More Information on page i.

Selected Consolidated Financial Data

	As of or for the Three Months Ended June 30,		As of or for the Six Months Ended June 30,		As of or for the Years Ended December 31,				
	2013	2012	2013	2012	2012	2011	2010	2009	2008
	(Unaudited)								
	(Dollars and shares in thousands, except as to per share data)								
Total interest income	$ 26,657	$ 28,248	$ 52,421	$ 56,831	$ 112,397	$ 111,908	$ 116,667	$ 123,277	$ 141,238
Total interest expense	3,734	5,289	7,640	11,184	20,654	25,569	32,340	52,167	75,596
Net interest income	22,923	22,959	44,781	45,647	91,743	86,339	84,327	71,110	65,642
Provision for loan losses	3,000	3,750	6,000	7,500	15,000	18,000	22,000	25,500	19,000
Net interest income after provision for loan losses	19,923	19,209	38,781	38,147	76,743	68,339	62,327	45,610	46,642
Non-interest income	6,389	6,515	13,276	11,050	22,868	21,420	19,752	33,685	27,335
Non-interest expense	17,601	16,975	34,674	33,651	67,705	65,847	63,763	65,264	62,293
Income before income taxes	8,711	8,749	17,383	15,546	31,906	23,912	18,316	14,031	11,684
Provision for income taxes	3,063	3,060	6,102	5,322	11,015	7,893	5,597	4,109	3,676
Net income	5,648	5,689	11,281	10,224	20,891	16,019	12,719	9,922	8,008
Preferred stock dividends	656	656	1,251	1,312	2,625	5,129	3,661	3,191	0
Net income available for common shareholders	$ 4,992	$ 5,033	$ 10,030	$ 8,912	$ 18,266	$ 10,890	$ 9,058	$ 6,731	$ 8,008
Per Share Data:									
Net income, basic	$ 4.25	$ 4.29	$ 8.55	$ 7.60	$ 15.58	$ 9.32	$ 7.78	$ 5.78	$ 6.88
Net income, diluted	4.24	4.27	8.54	7.58	15.52	9.19	7.58	5.62	6.70
Dividends declared				2.00	6.25	2.00			
Book value	224.18	217.01	224.18	217.01	220.23	212.66	204.78	195.87	191.75
Tangible book value	147.36	139.33	147.36	139.33	142.89	134.32	125.22	115.59	110.76
Financial Condition Data (as of end of the period):									
Assets	$ 2,856,520	$ 2,794,050	$ 2,856,520	$ 2,794,050	$ 2,831,155	$ 2,811,230	$ 2,542,245	$ 2,550,440	$ 2,617,677
Loans, net	1,863,431	1,812,971	1,863,431	1,812,971	1,809,573	1,748,616	1,577,377	1,668,238	1,803,366
Cash and cash equivalents	49,162	41,964	49,162	41,964	56,653	135,695	74,146	58,773	80,315
Investment securities	685,733	682,081	685,733	682,081	701,255	674,208	630,437	559,065	485,722
Deposits	2,192,357	2,140,133	2,192,357	2,140,133	2,177,674	2,158,634	1,912,839	1,872,528	1,955,633
Short-term borrowings	77,623	94,060	77,623	94,060	85,703	71,393	73,969	61,965	65,009
Long-term debt	258,803	243,779	258,803	243,779	243,327	269,326	252,261	320,937	364,524
Shareholders equity	315,898	307,185	315,898	307,185	310,766	301,204	296,768	286,078	223,491

30

Table of Contents

	As of or for the Three Months Ended June 30,		As of or for the Six Months Ended June 30,		As of or for the Years Ended December 31,				
	2013	2012	2013	2012	2012	2011	2010	2009	2008
	(Unaudited)								
	(Dollars and shares in thousands, except as to per share data)								
Selected Ratios:									
Interest rate spread FTE*	3.50%	3.59%	3.46%	3.54%	3.55%	3.52%	3.58%	3.06%	3.00%
Net yield on interest-earning assets FTE*	3.57	3.69	3.53	3.65	3.65	3.64	3.73	3.10	2.97
Return on average assets	0.79	0.82	0.80	0.74	0.75	0.60	0.50	0.38	0.32
Return on average equity	8.57	9.08	8.66	8.21	6.79	5.34	4.32	3.47	3.61
Average equity to average assets	11.04	10.92	11.04	10.86	10.98	11.30	11.56	11.01	8.83
Dividend payout ratio				26.24	40.12	21.46			
Ratio of nonperforming assets to total assets	1.86	2.05	1.86	2.05	1.53	2.46	2.13	2.17	1.15
Ratio of allowance for loan losses to nonperforming assets	67.89	61.91	67.89	61.91	77.34	49.56	48.64	54.56	92.14
Ratio of allowance for loan losses to total loans	1.90	1.92	1.90	1.92	1.82	1.92	1.64	1.78	1.51

* FTE means Fully Tax Equivalent (tax-exempt interest earnings are adjusted as if interest earnings are taxable assuming an income tax rate of 39.225%)

Table of Contents

UNAUDITED PRO FORMA COMBINED CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma combined consolidated financial information and explanatory notes present how the combined financial statements of HBI and LBI may have appeared had the businesses actually been combined. The unaudited pro forma combined consolidated financial information shows the impact of the merger of HBI and LBI on the companies respective historical financial positions and results of operations under the acquisition method of accounting with HBI treated as the acquirer. Under this method of accounting, the assets and liabilities of LBI will be recorded by HBI at their estimated fair values as of the date the merger is completed. The unaudited pro forma combined consolidated balance sheet gives effect to the merger as if the transaction had occurred on June 30, 2013. The unaudited pro forma combined consolidated statements of income for the six months ended June 30, 2013 and for the year ended December 31, 2012 give effect to the merger as if these transactions had been completed on January 1, 2012. The unaudited pro forma combined selected financial data is derived from such balance sheets and statements of income.

LBI has outstanding $52,500,000 of Series C cumulative perpetual preferred stock (52,500 shares) issued to the United States Treasury pursuant to the Small Business Lending Fund (SBLF). The dividend rate paid on the preferred stock is presently 5%. HBI intends to redeem the SBLF preferred shares at or soon after the completion of the merger. As a result, the unaudited pro forma combined consolidated balance sheet gives effect to this payoff as if it had been completed on June 30, 2013. The unaudited pro forma combined consolidated statements of income for the six months ended June 30, 2013 and for the year ended December 31, 2012 give effect to this payoff as if it had been completed on January 1, 2012.

HBI s operating results for the period ended December 31, 2012, include the operating results of the acquired assets and assumed liabilities subsequent to the acquisition dates for HBI s 2012 acquisition of Vision Bank, Heritage Bank of Florida and Premier Bank. HBI did not include the historical results for these acquisitions for the period prior to the acquisition dates. HBI did not include the historical results in the proforma because it did not obtain any non-performing assets and certain performing loans for Vision Bank, it did not obtain any non-performing assets for Heritage Bank which was acquired as an FDIC-assisted transaction and Premier was acquired under bankruptcy proceedings. Also, significant fair value adjustments were recorded on each of these acquisitions. As a result, HBI believes the historical information for these acquired assets and assumed liabilities are not relevant and would be misleading to the proforma data presented for 2012.

According to the terms of the Merger Agreement which was announced on June 25, 2013, the LBI shareholders will receive $250 million of HBI common stock plus $30 million in cash.

The unaudited pro forma combined consolidated financial information has been derived from and should be read in conjunction with the historical consolidated financial statements and the related notes of both HBI and LBI which are included in or incorporated by reference in this proxy statement/prospectus as of and for the periods indicated. See Where You Can Find More Information on page i.

The unaudited pro forma condensed consolidated financial information is presented for illustrative purposes only and does not indicate the financial results of the combined company had the companies actually been combined at the beginning of the period presented and had the impact of possible revenue enhancements and expense efficiencies, among other factors, been considered and, accordingly, does not attempt to predict or suggest future results. It also does not necessarily reflect what the historical results of the combined company would have been had the companies been combined during this period. In addition, as explained in more detail in the accompanying notes to the unaudited pro forma combined consolidated financial information, the preliminary determination of fair values of LBI s assets acquired and liabilities assumed reflected in the unaudited pro forma combined consolidated financial information are subject to adjustment and may vary from the actual fair values assigned that will be recorded upon completion of the merger. Subsequent to the completion of the merger, HBI will finalize its determination of the fair values of the acquired assets and assumed liabilities which could significantly change both the amount and the composition of these estimated purchase accounting adjustments.

Table of Contents

Unaudited Pro Forma Combined Consolidated Balance Sheet

As of June 30, 2013

(In thousands)	Home BancShares, Inc.	Liberty Bancshares, Inc.	Pro Forma Adjustments	Pro Forma Combined
ASSETS				
Cash and due from banks	$ 75,148	$ 34,993	$ (30,000)(a)	$ 80,141
Interest-bearing deposits with other banks	97,576	14,169	(52,500)(b)	59,245
Cash and cash equivalents	172,724	49,162	(82,500)	139,386
Federal funds sold	2,475			2,475
Investment securities held to maturity		290,988	(290,988)(c)	
Investment securities available for sale	736,406	394,745	290,988(c)	1,416,911
			(5,228)(c)	
Loans receivable not covered by loss share	2,339,242	1,899,540	(107,376)(d)	4,131,406
Loans receivable covered by FDIC loss share	329,802			329,802
Allowance for loan losses	(41,450)	(36,109)	36,109(e)	(41,450)
Loans receivable, net	2,627,594	1,863,431	(71,267)	4,419,758
Bank premises and equipment, net	119,737	83,888		203,625
Foreclosed assets held for sale not covered by loss share	15,985	26,545	(9,596)(f)	32,934
Foreclosed assets held for sale covered by FDIC loss share	27,073			27,073
FDIC indemnification asset	116,071			116,071
Cash value of life insurance	59,401	3,639		63,040
Accrued interest receivable	14,424	9,817		24,241
Deferred tax asset, net	46,655	17,979	37,949(g)	102,583
Goodwill	85,681	88,499	75,400(h)	249,580
Core deposit and other intangibles	10,457	1,760	11,249(i)	23,466
Other assets	56,654	26,067		82,721
Total assets	$ 4,091,337	$ 2,856,520	$ (43,993)	$ 6,903,864
LIABILITIES AND STOCKHOLDERS EQUITY				
Liabilities				
Deposits:				
Demand and non-interest-bearing	$ 733,374	$ 228,454	$ (j)	$ 961,828
Savings and interest-bearing transaction accounts	1,735,280	1,021,657	(j)	2,756,937
Time deposits	856,581	942,246	(1,383)(j)	1,797,444
Total deposits	3,325,235	2,192,357	(1,383)	5,516,209
Federal funds purchased				
Securities sold under agreements to repurchase	73,461	77,623		151,084
FHLB borrowed funds	130,251	201,070	5,788(k)	337,109
Accrued interest payable and other liabilities	25,787	11,839	17,500(l)	55,126
Subordinated debentures	3,093	57,733		60,826
Total liabilities	3,557,827	2,540,622	21,905	6,120,354
Stockholders equity				
Preferred stock		52,500	(52,500)(b)	
Common stock	562	12	10(a)	572

			(12)(m)	
Capital surplus	416,795	167,089	249,990(a)	666,785
			(167,089)(m)	
Retained earnings	114,172	108,212	(108,212)(m)	114,172
Accumulated other comprehensive income	1,981	(3,561)	3,561(m)	1,981
Less: Treasury stock		(8,354)	8,354(m)	
Total stockholders equity	533,510	315,898	(65,898)	783,510
Total liabilities and stockholders equity	$ 4,091,337	$ 2,856,520	$ (43,993)	$ 6,903,864

(See accompanying notes to Unaudited Pro Forma Combined Consolidated Financial Statements)

Table of Contents

Unaudited Pro Forma Combined Consolidated Income Statement

For the Six Months Ended June 30, 2013

(In thousands)	Home BancShares, Inc.	Liberty Bancshares, Inc.	Pro Forma Adjustments	Pro Forma Combined
Interest income				
Loans	$ 88,195	$ 46,441	$ 7,943(n)	$ 142,579
Investment securities				
Taxable	4,893	4,228		9,121
Tax-exempt	2,948	1,476		4,424
Deposits other banks	184	17	(66)(o)	135
Federal funds sold	13	11		24
Other		248	(248)(p)	
Total interest income	96,233	52,421	7,629	156,283
Interest expense				
Interest on deposits	4,614	4,709	277(q)	9,600
Federal funds purchased		1		1
FHLB borrowed funds	2,016	1,893	(965)(r)	2,944
Securities sold under agreements to repurchase	166	271		437
Subordinated debentures	247	766		1,013
Total interest expense	7,043	7,640	(688)	13,995
Net interest income	89,190	44,781	8,317	142,288
Provision for loan losses	850	6,000		6,850
Net interest income after provision for loan losses	88,340	38,781	8,317	135,438
Non-interest income				
Service charges on deposit accounts	7,797	4,590		12,387
Other service charges and fees	6,916	2,666		9,582
Mortgage lending income	2,991	1,927		4,918
Insurance commissions	1,123	1,491		2,614
Income from title services	245			245
Increase in cash value of life insurance	398	47		445
Dividends from FHLB, FRB, bankers bank & other	576		248(p)	824
Gain on acquisitions				
Gain on sale of SBA loans	56			56
Gain (loss) on sale of premises & equip, net	409			409
Gain (loss) on OREO, net	527	(828)		(301)
Gain (loss) on securities, net	111			111
FDIC indemnification accretion/amortization, net	(4,275)			(4,275)
Other income	1,956	3,383		5,339
Total non-interest income	18,830	13,276	248	32,354
Non-interest expense				
Salaries and employee benefits	25,909	18,810		44,719
Occupancy and equipment	7,488	5,453		12,941

Data processing expense	2,741	694		3,435
Other operating expenses	15,580	9,717	562(s)	25,859
Total non-interest expense	51,718	34,674	562	86,954
Income before income taxes	55,452	17,383	8,003	80,838
Income tax expense	20,245	6,102	3,139(t)	29,486
Net income	$ 35,207	$ 11,281	$ 4,864	$ 51,352
Preferred stock dividends		(1,251)	1,251(o)	
Net income available to common shareholders	$ 35,207	$ 10,030	$ 6,115	$ 51,352
Basic earnings per common share	$ 0.63	$ 8.55		$ 0.79
Diluted earnings per common share	$ 0.62	$ 8.54		$ 0.78

(See accompanying notes to Unaudited Pro Forma Combined Consolidated Financial Statements)

34

Table of Contents

Unaudited Pro Forma Consolidated Income Statement

For the Year Ended December 31, 2012

(In thousands)	Home BancShares, Inc.	Liberty Bancshares, Inc.	Pro Forma Adjustments	Pro Forma Combined
Interest income				
Loans	$ 159,359	$ 98,389	$ 15,886(n)	$ 273,634
Investment securities				
Taxable	11,226	10,599		21,825
Tax-exempt	6,154	2,797		8,951
Deposits other banks	379	79	(131)(o)	327
Federal funds sold	17	26		43
Other		507	(507)(p)	
Total interest income	177,135	112,397	15,248	304,780
Interest expense				
Interest on deposits	14,989	13,597	553(q)	29,139
Federal funds purchased	1	8		9
FHLB borrowed funds	4,364	4,226	(1,929)(r)	6,661
Securities sold under agreements to repurchase	407	803		1,210
Subordinated debentures	1,774	2,020		3,794
Total interest expense	21,535	20,654	(1,376)	40,813
Net interest income	155,600	91,743	16,624	263,967
Provision for loan losses	2,750	15,000		17,750
Net interest income after provision for loan losses	152,850	76,743	16,624	246,217
Non-interest income				
Service charges on deposit accounts	15,069	9,822		24,891
Other service charges and fees	12,428	4,875		17,303
Mortgage lending income	5,192	4,271		9,463
Insurance commissions	1,869	2,786		4,655
Income from title services	462			462
Increase in cash value of life insurance	873	104		977
Dividends from FHLB, FRB, bankers bank & other	1,167		507(p)	1,674
Gain on acquisitions	5,205			5,205
Gain on sale of SBA loans	404			404
Gain (loss) on sale of premises & equip, net	324	1,051		1,375
Gain (loss) on OREO, net	(49)	(6,277)		(6,326)
Gain (loss) on securities, net	9	158		167
FDIC indemnification accretion/amortization, net	1,721			1,721
Other income	3,295	6,078		9,373
Total non-interest income	47,969	22,868	507	71,344
Non-interest expense				
Salaries and employee benefits	47,289	35,829		83,118
Occupancy and equipment	14,500	11,330		25,830

Data processing expense	4,930	1,259		6,189
Other operating expenses	35,649	19,287	1,125(s)	56,061
Total non-interest expense	102,368	67,705	1,125	171,198
Income before income taxes	98,451	31,906	16,006	146,363
Income tax expense	35,429	11,015	6,278(t)	52,722
Net income	63,022	20,891	9,728	93,641
Preferred stock dividends		(2,625)	2,625(o)	
Net income available to common shareholders	$ 63,022	$ 18,266	$ 12,353	$ 93,641
Basic earnings per common share	$ 1.12	$ 15.58		$ 1.43
Diluted earnings per common share	$ 1.11	$ 15.52		$ 1.42

Note: Per share amounts have been restated to reflect the Company s 2 for 1 stock split in June 2013.

(See accompanying notes to Unaudited Pro Forma Combined Consolidated Financial Statements)

Table of Contents

Notes to Unaudited Pro Forma Combined Consolidated Financial Statements

As of and for the Six Months Ended June 30, 2013

and for the Year Ended December 31, 2012

(a) This represents the estimated merger consideration of $280.0 million, consisting of $250.0 million in common stock of HBI and $30.0 million in cash. The following unaudited pro forma information assumes an average closing price of the HBI s common stock of $27.25 per share. Accordingly, applying this assumption, each LBI common stock will be converted into the right to receive HBI common stock plus cash in lieu of fractional shares, resulting in an aggregate of approximately 9,174,312 shares ($250.0 million/$27.25).

(b) This assumes HBI pays off the LBI SBLF preferred stock at merger date.

(c) This represents the recording of the mark-to-market adjustment on LBI s held-to-maturity investment portfolio and the reclassification of LBI s held-to-maturity portfolio to HBI s available-for-sale portfolio.

(d) This adjustment represents HBI s estimate of the necessary write down of LBI s loan portfolio to estimated fair value.

(e) This adjustment represents the elimination of LBI s allowance for loan losses as part of the purchase accounting adjustments.

(f) This adjustment represents HBI s estimate of the necessary write down of LBI s foreclosed assets to estimated fair value.

(g) This adjustment is for the current and deferred income tax assets and liabilities recorded to reflect the differences in the carrying values of the acquired assets and assumed liabilities for financial reporting purposes and the cost basis for federal income tax purposes, at HBI s statutory federal and state income tax rate of 39.225%.

(h) The consideration paid for LBI exceeded the fair value of the assets received; therefore HBI projects it will record $75.4 million of goodwill as follows (in thousands):

Total purchase price	$ 280,000
Less: LBI common equity at book value	(263,398)
Elimination of allowance for loan losses	(36,109)
Deferred taxes	(37,949)
Transaction costs including change in controls agreements	17,500
Allocated to:	
Investment securities	5,228
Loans receivable	107,376
Foreclosed assets	9,596
Core deposit intangible	(11,249)
Time deposits	(1,383)
FHLB borrowed funds	5,788
Goodwill	$ 75,400

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

(j) The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition equal the amount payable on demand at the acquisition date. The fair value adjustment applied for time deposits is because the estimated weighted average interest rate of LBI s certificates of deposits were estimated to be slightly below the current market rates.

(k) The fair value of FHLB borrowed funds is estimated based on borrowing rates currently available to HBI for borrowings with similar terms and maturities.

(l) This represents the accrual of certain costs including change in control agreements which are expected to be incurred in connection with the merger.

Table of Contents

(m) This adjustment represents the elimination of the historical equity of LBI as part of the purchase price adjustment.

(n) Upon the completion of the merger, HBI will evaluate the acquired loan portfolio to finalize the necessary credit and interest rate fair value adjustments. Subsequently, the interest rate portion of the fair value adjustment will be accreted into earnings as an adjustment to the yield of such acquired loans. This adjustment represents HBI s best estimate of the expected accretion that would have been recorded in 2012 and in the first six months of 2013 assuming the merger closed on January 1, 2012.

(o) This adjustment represents the estimated amount of interest income, using the Federal Funds rate 0.25%, that would have been foregone to fund the payoff of the LBI SBLF preferred stock and the corresponding reduction of preferred dividends in 2012 and the first six months of 2013 assuming the closing of the transaction and SBLF payoff occurred on January 1, 2012.

(p) This represents the reclassifying of LBI s dividend income from interest income to non-interest income.

(q) Upon the completion of the merger, HBI will evaluate the acquired time deposits to finalize the necessary fair value adjustment to reflect current interest rates for comparable deposits. Currently, HBI believes the interest rates of LBI s certificates of deposits were slightly below the current market rates. This fair value adjustment will be amortized into interest expense as an adjustment of the cost of such time deposits. This adjustment represents HBI s best estimate of the expected amortization that would have been recorded in 2012 and in the first six months of 2013 assuming the merger closed on January 1, 2012.

(r) This adjustment represents the estimated amount of accretion on Federal Home Loan Bank advances that would have been recorded as a reduction of interest expense in 2012 and the first six months of 2013 assuming the transaction closed on January 1, 2012.

(s) This represents the expected amortization during 2012 and the first six months of 2013 of the core deposit intangible asset expected to be acquired in the merger, assuming the transaction closed on January 1, 2012. The estimated useful life of this intangible asset is estimated to be ten years.

(t) This represents income tax expense on the pro forma adjustments at HBI s statutory federal and state income tax rate of 39.225%.

Table of Contents

COMPARATIVE PER-SHARE DATA OF HBI AND LBI (UNAUDITED)

The following table sets forth for HBI common stock and LBI common stock certain historical, pro forma and pro forma equivalent per-share financial information. The pro forma and pro forma equivalent per-share information gives effect to the merger as if the transaction had been effective on the dates presented, in the case of book value data, and as if the transaction had been effective on January 1, 2012 in the case of the earnings and dividend data. The pro forma information in the table assumes that the merger is accounted for under the acquisition method of accounting. The information in the following table is based on the historical financial statements of each of LBI and HBI, and should be read together with the historical financial information that HBI has presented in prior filings with the SEC. With respect to HBI, see Where You Can Find More Information beginning on page i.

The pro forma financial information is not necessarily indicative of results that would have occurred had the merger been completed on the dates indicated or that may be obtained in the future.

	As of and for the Six Months Ended June 30, 2013	As of and for the Year Ended December 31, 2012
Earnings Per Common Share:		
Historical (1):		
HBI		
Basic	$ 0.63	$ 1.12
Diluted	0.62	1.11
LBI		
Basic	$ 8.55	$ 15.58
Diluted	8.54	15.52
Pro forma combined (2)		
Basic	$ 0.79	$ 1.38
Diluted	0.78	1.37
Dividends Declared Per Common Share:		
Historical (1):		
HBI	$ 0.140	$ 0.290
LBI		6.250
Book Value Per Common Share (at period end)		
Historical (1):		
HBI	$ 9.49	$ 9.17
LBI	224.18	220.23
Pro forma combined (2)	11.98	11.33

(1) All per-share amounts have been restated to reflect the 2-for-1 stock split during June 2013.

(2) Pro forma combined amounts are calculated by adding together the historical amounts reported by HBI and LBI, as adjusted for the estimated purchase accounting adjustments to be recorded in connection with the merger and an estimated 9,174,312 shares of HBI common stock to be issued in connection with the merger based on the terms of the Merger Agreement.

MARKET PRICE AND DIVIDEND INFORMATION

HBI s common stock is currently listed on The NASDAQ Global Select Market under the symbol HOMB. LBI s common stock is not listed on an exchange or quoted on any automated services, and there is no established trading market for shares of LBI common stock. The following table sets forth, for all the periods indicated, cash dividends declared, and the high and low closing bid prices for HBI s common stock, as adjusted to reflect the two-for-one forward split of HBI s common stock on June 12, 2013.

	Price per Common Share		Quarterly Dividends per Common Share
	High	Low	
2013			
1st Quarter	$ 18.79	$ 16.71	$ 0.065
2012			
1st Quarter	$ 13.50	$ 12.36	$ 0.050
2nd Quarter	15.29	13.01	0.050
3rd Quarter	17.55	14.78	0.060
4th Quarter	17.71	16.04	0.130
2011			
1st Quarter	$ 11.49	$ 10.06	$ 0.027
2nd Quarter	12.22	10.95	0.027
3rd Quarter	12.50	10.14	0.040
4th Quarter	13.28	10.22	0.040

On December 14, 2012, LBI made a dividend payment in the amount of $2.25 per outstanding share of common stock. LBI previously made dividend payments of $2.00 per outstanding share of common stock each on August 1, 2012, February 1, 2012, and August 1, 2011. LBI did not make any dividend payments before August 1, 2011.

HBI s policy is to declare regular quarterly dividends based upon its earnings, financial position, capital improvements and such other factors deemed relevant by its board of directors. The dividend policy is subject to change, however, and the payment of dividends is necessarily dependent upon the availability of earnings and future financial condition. In January 2009, HBI issued 50,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, totaling $50.0 million to the United States Department of Treasury under the Capital Purchase Program of the Emergency Economic Stabilization Act of 2008. The agreement between HBI and the Treasury limited the payment of dividends on HBI common stock to a quarterly cash dividend of not more than $0.02725 per share without approval by the Treasury. This limitation was removed when HBI repurchased all 50,000 shares of its Series A Preferred Stock in July 2011.

As of September 26, 2013, there were 56,277,947 shares of HBI common stock issued and outstanding, which were held by approximately 749 shareholders of record. As of the record date for the LBI special meeting, there were 1,174,966 shares of LBI common stock outstanding, which were held by approximately 486 shareholders of record. Such numbers of shareholders do not reflect the number of individuals or institutional investors holding stock in nominee name through banks, brokerage firms and others.

On June 24, 2013, the business day immediately preceding the public announcement of the merger, the closing price of HBI s common stock as reported on The NASDAQ Global Select Market was $21.16 per share. On September 26, 2013, the last practicable trading day before the distribution of this joint proxy statement/prospectus, the closing price of HBI s common stock as reported on The NASDAQ Global Select Market was $29.97 per share.

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained in this joint proxy statement/prospectus are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. Forward-looking statements relate to future events or future financial performance and include statements about the competitiveness of the banking industry, potential regulatory obligations, and HBI s and LBI s other business strategies and other statements that are not historical facts. Forward-looking statements are not guarantees of performance or results. When words like may, plan, contemplate, anticipate, believe, intend, continue, expect, project, predict, estimate, and similar expressions are used, you should consider them as identifying forward-looking statements. These forward-looking statements involve risks and uncertainties and are based on beliefs and assumptions, and on the information available at the time that these disclosures were prepared. These forward-looking statements involve risks and uncertainties and may not be realized due to a variety of factors, including, but not limited to, the following:

1. the merger may not close when expected or at all because required regulatory, shareholder or other approvals and other conditions to closing are not received on a timely basis or at all;

2. HBI s stock price could change, before closing of the merger, due to, among other things, broader stock market movements and the performance of financial companies and peer group companies;

3. benefits from the merger may not be fully realized or may take longer to realize than expected, including as a result of changes in general economic and market conditions, interest and exchange rates, monetary policy, laws and regulations and their enforcement, and the degree of competition in the geographic and business areas in which LBI operates;

4. LBI s business may not be integrated into HBI s successfully, or such integration may take longer to accomplish than expected;

5. the anticipated growth opportunities and cost savings from the merger may not be fully realized or may take longer to realize than expected;

6. operating costs, customer losses and business disruption following the merger, including adverse developments in relationships with employees, may be greater than expected; and

7. management time and effort may be diverted to the resolution of merger-related issues.

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

Table of Contents

THE MERGER

The following is a discussion of the merger and the material terms of the Merger Agreement between HBI and LBI. You are urged to read carefully the Merger Agreement in its entirety, a copy of which is attached as **Appendix A** to this joint proxy statement/prospectus and incorporated by reference herein. This summary may not contain all of the information about the Merger Agreement that is important to you. Factual information about HBI and LBI can be found elsewhere in this joint proxy statement/prospectus. Additional factual information about HBI can be found in the public filings HBI makes with the SEC, as described in the section entitled Where You Can Find More Information.

Terms of the Merger

***Transaction Structure*.** HBI s and LBI s boards of directors have each unanimously approved and adopted the Merger Agreement. The Merger Agreement provides for the acquisition of LBI by HBI through the merger of a direct wholly-owned subsidiary of HBI to be incorporated prior to the closing of the merger, with and into LBI, with LBI continuing as the surviving corporation. As soon as reasonably practicable following the merger and as part of a single integrated transaction, Liberty Bank of Arkansas will be merged with and into Centennial Bank, which is HBI s wholly owned community bank subsidiary, with Centennial Bank being the surviving corporation in that second-step merger.

Merger Consideration. In the merger, LBI shareholders will have the right, with respect to each of their shares of LBI common stock, to receive, subject to proration and adjustment as described below, a combination of cash and shares of HBI common stock. The total consideration payable to LBI shareholders consists of $30,000,000 in cash plus the number of shares of HBI common stock equal to $250,000,000 divided by the volume-weighted average closing price, rounded to the nearest hundredth of a cent, of HBI common stock on The NASDAQ Global Select Market reporting system (based on regular way trading) for the 20 trading days immediately prior to the effective time of the merger (the HBI Average Closing Price). Based on 1,174,966 outstanding shares of LBI common stock, which was the number outstanding on the day the Merger Agreement was signed, LBI shareholders will receive in exchange for each share of LBI common stock consideration valued at approximately $238.30, consisting of a combination of (i) cash in the amount of approximately $25.53 and (ii) shares of HBI common stock (the Per-Share Stock Consideration) valued at approximately $212.77.

The number of shares of HBI common stock comprising the Per-Share Stock Consideration will vary based on the HBI Average Closing Price. The following table illustrates, for a range of potentially applicable HBI Average Closing Prices, the number of shares of HBI common stock that would be exchanged for each share of LBI common stock, assuming that 1,174,966 shares of LBI common stock are outstanding immediately before the merger:

	Per-Share Stock Consideration*
If the applicable HBI Average Closing Price is:	**Each share of LBI common stock will exchange for shares of HBI common stock equal to:**
$17.115**	12.4319
$18.00	11.8207
$19.00	11.1985
$20.00	10.6386
$21.00	10.1320
$22.00	9.6715
$22.82**	9.3239
$23.00	9.2510
$24.00	8.8655
$25.00	8.5109
$26.00	8.1835
$27.00	7.8804
$28.00	7.5990
$28.525**	7.4591

* The computations in this table assume that 1,174,966 shares of LBI common stock will be outstanding immediately before the merger. The Per-Share Stock Consideration will be based on the actual HBI Average

41

Closing Price, which will be computed at the time of the merger; the HBI Average Closing Prices shown on this table are for illustration only. Cash will be paid in lieu of issuing fractional shares of HBI common stock.

** On June 25, 2013, the date the Merger Agreement was signed, the closing price of a share of HBI common stock was $22.82. The Merger Agreement provides that if the HBI Average Closing Price is more than 25% below (*i.e.*, less than $17.115) the closing price on June 25, 2013, either HBI or LBI may terminate the Merger Agreement. The Merger Agreement, as amended, further provides that if the HBI Average Closing Price is more than 25% above (*i.e.*, greater than $28.525) the closing price on June 25, 2013, HBI will issue 8,764,242 ($250,000,000 divided by $28.525) shares instead of calculating the number of shares that otherwise would have been issuable.

Adjustments to Merger Consideration and Termination Right

The Merger Agreement, as amended by that certain Amendment dated July 31, 2013, provides that if the HBI Average Closing Price is equal to or greater than $28.525 (subject to adjustment in the event of a stock dividend, reclassification, recapitalization, split-up, combination, exchange of shares or similar transaction), the number of shares of HBI common stock to be issued to LBI shareholders in connection with the merger will be 8,764,242 shares. In addition, if the HBI Average Closing Price is less than $17.115 (subject to adjustment in the event of a stock dividend, reclassification, recapitalization, split-up, combination, exchange of shares or similar transaction), then either party has the option to terminate the Merger Agreement.

Letters of Transmittal

Immediately upon the completion of the merger, the exchange agent will send a letter of transmittal and instructions for surrendering certificates or book-entry shares in exchange for the merger consideration and/or any cash in lieu of fractional shares of HBI common stock (as described below) to each holder of record of certificates or book-entry shares which, immediately prior to the completion of the merger, represented shares of LBI common stock, whose shares were converted into the right to receive the merger consideration.

If a certificate for LBI common stock has been lost, stolen or destroyed, the exchange agent will issue the consideration properly payable under the Merger Agreement upon receipt of an affidavit as to that loss, theft or destruction and, if requested by the exchange agent, the posting of a bond to indemnify the exchange agent against any claim that may be made against it with respect to such certificate.

Cash in Lieu of Fractional Shares

No fractional shares of HBI common stock will be issued upon the surrender of certificates or book-entry shares of LBI common stock for exchange, and no dividend or distribution with respect to HBI common stock will be payable on or with respect to any fractional share, and such fractional share interests will not entitle the owner thereof to vote or to any other rights of a shareholder of HBI. In lieu of the issuance of any such fractional share, HBI will pay to each former shareholder of LBI who otherwise would be entitled to receive such fractional share an amount in cash (rounded to the nearest cent) determined by multiplying (i) the HBI Average Closing Price by (ii) the fraction of a share (after taking into account all shares of LBI common stock held by such holder at the effective time of the merger and rounded to the nearest thousandth when expressed in decimal form) of HBI common stock which such holder would otherwise be entitled to receive.

Dividends and Distributions

Until certificates or book-entry shares representing shares of LBI common stock are surrendered for exchange, any dividends or other distributions with a record date after the effective time of the merger with respect to HBI common stock into which such shares of LBI common stock may have been converted will not be paid. Following surrender of any such certificates or book-entry shares, the record holder thereof will be entitled to receive, without

Table of Contents

interest, any dividends or other distributions with a record date after the effective time of the merger payable with respect to the whole shares of HBI common stock represented by such certificates or book-entry shares and paid prior to the surrender date, and at the appropriate payment date, the amount of dividends or other distributions payable with respect to shares of HBI common stock represented by such certificates or book-entry shares with a record date after the effective time of the merger but before the surrender date and with a payment date after the issuance of HBI common stock issuable with respect to such certificates or book-entry shares.

After the effective time of the merger, there will be no transfers on the stock transfer books of LBI of any shares of LBI common stock, other than to settle transfers that occurred prior to the effective time of the merger. If certificates representing such shares are presented for transfer after the completion of the merger, they will be cancelled and exchanged for the merger consideration into which the shares represented by that certificate have been converted.

Dissenting Shares

Under applicable Arkansas law, the LBI shareholders are entitled to dissent from and obtain payment of the fair value of the shareholders shares in connection with the merger under Ark. Code Ann. §4-27-1301 *et seq.* The HBI shareholders are not entitled to any dissenter s rights. This joint proxy statement/prospectus is serving as the meeting notice to LBI shareholders and the following shall constitute notice of dissenter s rights pursuant to Ark. Code Ann. §4-27-1320:

TO THE SHAREHOLDERS OF LBI:

YOU ARE HEREBY NOTIFIED THAT YOU MAY BE ENTITLED TO ASSERT DISSENTER S RIGHTS PURSUANT TO ARK CODE ANN. §4-27-1301 *ET SEQ*., A COPY OF WHICH IS ATTACHED IN ITS ENTIRETY AS APPENDIX D TO THIS JOINT PROXY STATEMENT/PROSPECTUS.

Any LBI shareholder desiring to assert dissenter s rights (1) must deliver to LBI before the vote is taken written notice of the shareholder s intent to demand payment for the shares of LBI common stock if the merger is approved, and (2) must not vote in favor of the merger which may be accomplished by abstaining or voting against the merger. If the merger is approved by the LBI shareholders, LBI will deliver a written dissenter s notice to all shareholders who properly dissented describing how, when and to whom the LBI shareholder should send the payment demand. LBI will then pay to each dissenter who properly asserted dissenter s rights and perfected such right by submitting a payment demand the amount LBI estimates to be the fair value of the shares plus accrued interest.

This is not a complete statement of all applicable requirements and is qualified in its entirety by reference to Ark. Code Ann. §4-27-1301 *et seq.*, which is reproduced in its entirety as **Appendix D** to this joint proxy statement/prospectus.

Regulatory Approvals

Each of HBI and LBI has agreed to use its reasonable best efforts to obtain all regulatory approvals required to complete the merger and the other transactions contemplated by the Merger Agreement. These approvals include approval from the Federal Reserve Board and the Arkansas State Bank Department, among others. HBI and LBI have filed, or are in the process of filing, applications and notifications to obtain these regulatory approvals.

Federal Reserve Board. The transactions contemplated by the Merger Agreement are subject to approval by the Federal Reserve Board pursuant to the Bank Holding Company Act of 1956, as amended.

FDIC. The issuance of shares in connection with the merger will be subject to the FDIC s consent and agreement that it will not cause a default under HBI s loss sharing agreements with the FDIC.

Table of Contents

United States Department of the Treasury. Prior to the merger of Centennial Bank and Liberty Bank, the United States Department of the Treasury as the owner of the LBI Series C preferred stock must consent.

Arkansas State Bank Department. The transactions contemplated by the Merger Agreement are subject to approval by the Arkansas State Bank Department.

Additional Regulatory Approvals and Notices. The transactions contemplated by the Merger Agreement are also subject to approval by and notifications to various other regulatory agencies.

There can be no assurances that such approvals will be received on a timely basis, or as to the ability of HBI and LBI to obtain the approvals on satisfactory terms or the absence of litigation challenging such approvals. There can likewise be no assurances that U.S. or state regulatory authorities will not attempt to challenge the merger on antitrust grounds or for other reasons, or, if such a challenge is made, as to the result of such challenge. The parties obligations to complete the transactions contemplated by the Merger Agreement are subject to a number of conditions, including the receipt of all requisite regulatory approvals.

Accounting Treatment

HBI will account for the merger using the acquisition method of accounting. Under this accounting method, HBI would record the acquired identifiable assets and liabilities assumed at their fair market value at the time the merger is complete. Any excess of the cost of LBI over the sum of the fair values of tangible and identifiable intangible assets less liabilities assumed would be recorded as goodwill. Based on an assumed purchase price of $280,000,000 and utilizing information as of June 30, 2013, estimated additional goodwill and other intangibles for HBI would total approximately $166.1 million. HBI s reported income would include the operations of LBI after the merger. Financial statements of HBI after completion of the merger would reflect the impact of the acquisition of LBI. Financial statements of HBI issued before completion of the merger would not be restated retroactively to reflect LBI historical financial position or results of operation.

Public Trading Market

HBI common stock is listed on The NASDAQ Global Select Market under the symbol HOMB. The HBI common stock issuable in the merger will be listed on The NASDAQ Global Select Market.

Resale of HBI Common Stock

All shares of HBI common stock received by LBI shareholders in the merger will be freely tradable for purposes of the Securities Act of 1933, as amended (the Securities Act), and the Exchange Act, except for shares of HBI common stock received by any such holder who becomes an affiliate of HBI after completion of the merger. This joint proxy statement/prospectus does not cover resales of shares of HBI common stock received by any person upon completion of the merger, and no person is authorized to make any use of this joint proxy statement/prospectus in connection with any resale.

Background of the Merger

HBI and LBI have had a business relationship for many years. The chairmen of both organizations served together on the banking board of First Commercial Corporation until it was sold in 1998. Also, when Liberty Bank was established, HBI provided many of the backroom operations until Liberty Bank was able to establish its own operations. HBI and LBI were also co-owners, along with a third partner, in Russellville BancShares for a period of time. There have been merger and acquisition discussions on several occasions since Liberty Bank was formed.

DD&F Consulting (DD&F), a bank consulting firm located in Little Rock, Arkansas, has provided regulatory and financial advice to HBI on a number of acquisitions, including several FDIC-assisted transactions, since 2010. On April 25, 2013, HBI signed a consulting engagement letter with DD&F regarding the evaluation

Table of Contents

of a strategic combination or a potential merger of LBI and HBI. DD&F also entered into an identical agreement with LBI on May 2, 2013. The purpose of both of the consulting agreements with DD&F was for DD&F to assist both LBI and HBI in evaluating the relative values of both organizations, to help structure a transaction whereby both organizations would be combined or merged and to help negotiate acceptable consideration for both parties. Upon consummation of the merger, HBI and LBI will be liable to DD&F for hourly charges for its services rendered, plus a success transaction fee in the amount of $400,000 a piece for a total of $800,000.

On May 7, 2013, HBI signed a confidentiality agreement with LBI in order to review financial and other information about LBI. LBI then, in response to a due diligence request provided to LBI by HBI, provided financial and other data through a data room that could be accessed by HBI and its advisors. HBI began a comprehensive review of information relating to LBI.

On May 17, 2013, John Allison, the Chairman of HBI, met with senior management of LBI in Jonesboro, Arkansas to discuss terms for a possible merger. Subsequently, HBI presented to LBI a letter of intent. On May 21, 2013, HBI and LBI signed a non-binding letter of intent which described the general terms and conditions of the proposed merger.

On May 28, 2013, the HBI board of directors met to discuss the impact of the potential acquisition of LBI. Following the execution of the letter of intent, both parties engaged in mutual due diligence, and HBI with the assistance of legal counsel began negotiating the terms of a definitive agreement between HBI and LBI. HBI engaged Raymond James & Associates, Inc. (Raymond James), an investment banking consulting firm experienced in merger and acquisition transactions, to advise HBI as to the fairness of the consideration to be paid in connection with the acquisition.

A number of drafts of the Merger Agreements were exchanged. John Allison and Wallace Fowler, Chairman of LBI, talked directly on several occasions to negotiate specific terms of the Merger Agreement.

On June 21, 2013, the board of directors of HBI reviewed the proposed Merger Agreement and related documents in detail, discussed its legal obligations in connection with evaluating the Merger Agreement, received and discussed a presentation from Raymond James on LBI and HBI s offer. Following these discussions and deliberation, the board of directors of HBI determined that the merger, the Merger Agreement and the transaction contemplated by the Merger Agreement are advisable and in the best interests of HBI and its shareholders, and the directors voted unanimously to approve the merger with LBI and to approve the Merger Agreement.

On June 24, 2013, the board of directors of LBI met to consider the proposed Merger Agreement. At the meeting Sheshunoff made a presentation regarding the fairness of the consideration. Garland Binns, attorney for LBI, attended the board meeting to answer questions concerning their legal duties and obligations. After due deliberations, the board of directors concluded that the mergers were in the best interest of shareholders and voted unanimously to approve the Merger Agreement.

Recommendation of LBI s Board of Directors and Reasons for the Merger

LBI s board of directors reviewed and discussed the proposed merger with management and its financial and legal advisors in determining that the proposed merger is in the best interest of LBI and its shareholders. In reaching its conclusion to approve the Merger Agreement, the LBI s board of directors considered a number of factors, including the following:

- The fact that LBI s shareholders will receive stock of HBI and thereby participate in any growth opportunities of the combined company.
- Its understanding of the business, operations, financial condition, earnings and future prospects of LBI.
- Its understanding of the business, operations, financial condition, earnings and future prospects of HBI.

The review by the LBI s board of directors with its legal and financial advisors of the structure of the merger and the financial and other terms of the Merger Agreement, including the consideration offered by HBI.

The reports of LBI s management and the financial presentation by Sheshunoff & Co. Investment Banking (Sheshunoff) to LBI s board of directors concerning the operations, financial condition and prospects of HBI and the expected financial impact of the merger, including other financial metrics.

The likelihood that the regulatory approvals needed to complete the transaction would be obtained.

The historical and current market prices of shares of HBI common stock.

The opinion delivered to the LBI s board of directors by Sheshunoff, that, as of the date of the opinion and based upon and subject to the financial and other assumptions in its opinion, the merger consideration to be received by shareholders of LBI was fair, from a financial point of view.

The benefits of increased liquidity that LBI s shareholders would have as shareholders of HBI.

The discussion of the information and factors considered by the LBI s board of directors is not exhaustive, but includes all the material factors considered by the LBI s board of directors. In view of the wide variety of factors considered by the LBI s board of directors in connection with its evaluation of the merger and the complexity of these matters, the board of directors did not consider it practical to, nor did it attempt to, quantify, rank or otherwise assign relative weights to the specific factors that it considered in reaching its decision. LBI s board of directors evaluated the factors described above, including asking questions of management and its legal and financial advisors, and reached consensus that the merger was in the best interests of LBI and its shareholders. In considering the factors described above, individual members of the LBI s board of directors may have given different weights to different factors. LBI s board of directors considered these factors as a whole, and overall considered them to be favorable to, and to support its determination.

LBI s board of directors determined that the merger, the Merger Agreement and the transactions contemplated thereby are advisable and in the best interests of LBI and its shareholders. Accordingly, the board of directors unanimously approved the Merger Agreement and unanimously recommends that LBI s shareholders vote **FOR** approval of the Merger Agreement.

Opinion of LBI s Financial Advisor

LBI retained Sheshunoff & Co. Investment Banking (Sheshunoff) to provide it an opinion as to the fairness from a financial viewpoint of the merger consideration to be received by the shareholders of LBI. As part of its investment banking business, Sheshunoff is regularly engaged in the valuation of securities in connection with mergers and acquisitions and valuation for estate, corporation and other purposes. LBI retained Sheshunoff based upon its experience as a financial advisor in mergers and acquisitions of financial institutions and its knowledge of financial institutions.

On June 24, 2013, Sheshunoff rendered its fairness opinion to the board of directors of LBI that, as of such date, the merger consideration was fair, from a financial point of view, to the shareholders of LBI. The full text of the fairness opinion which sets forth, among other things, assumptions made, procedures followed, matters considered, and limitations on the review undertaken, is attached as **Appendix C** to this joint proxy statement/prospectus. You are urged to read Sheshunoff s fairness opinion carefully and in its entirety. The fairness opinion is addressed to the board of directors of LBI and does not constitute a recommendation to any shareholder of LBI as to how he or she should vote at the special meeting of shareholders of LBI.

In connection with the fairness opinion, Sheshunoff:

Reviewed the latest draft of the Merger Agreement;

Discussed the terms of the Merger Agreement with the management of LBI and LBI s legal counsel;

46

Table of Contents

Conducted conversations with management of LBI regarding recent and projected financial performance of LBI;

Evaluated the financial condition of LBI based upon a review of regulatory reports for the five-year period ended December 31, 2012 and interim period through March 31, 2013, and internally-prepared financial reports for the interim period through May 31, 2013;

Compared LBI s recent operating results with those of certain other banks in the United States that have recently been acquired;

Compared pricing multiples for LBI in the merger to recent acquisitions of banks in the United States with similar characteristics to LBI;

Analyzed the present value of the after-tax cash flows based on projections on a stand-alone basis through the year 2017;

Reviewed the potential pro forma impact of the merger on the combined company s results and certain financial performance measures of LBI and HBI;

Discussed certain matters regarding HBI s regulatory standing, financial performance and business prospects with HBI s executives and representatives;

Reviewed certain internal information regarding HBI that Sheshunoff deemed relevant;

Analyzed the deposit market share and demographics of LBI and HBI, including potential deposit concentration issues;

Compared HBI s recent operating results and pricing multiples with those of certain other publicly traded banks in the United States that Sheshunoff deemed relevant;

Compared the historical stock price data and trading volume of HBI to certain relevant indices; and

Performed such other analyses deemed appropriate.

For the purposes of this opinion, Sheshunoff assumed and relied upon, without independent verification, the accuracy and completeness of the information provided to it by LBI for the purposes of this opinion. Sheshunoff assumed that any projections provided or approved by LBI were reasonably prepared on a basis reflecting the best currently available estimates and judgments of LBI s management. Sheshunoff assumed such forecasts and projections will be realized in the amounts and at times contemplated thereby.

Sheshunoff did not make an independent evaluation of the assets or liabilities (including any contingent, derivative or off-balance-sheet assets or liabilities) of LBI or HBI nor was Sheshunoff furnished with any such appraisal. Sheshunoff assumed that any off-balance-sheet activities of LBI or HBI will not materially and adversely impact the future financial position or results of operation of HBI after the merger. Sheshunoff is not an expert in the evaluation of loan portfolios for the purposes of assessing the adequacy of the allowance for loan and lease losses and assumed that such allowances for LBI and HBI are, respectively, adequate to cover such losses.

Sheshunoff assumed that the latest draft of the Merger Agreement, as provided to Sheshunoff, will be signed without any amendment or waiver of, or delay in the fulfillment of, any terms or conditions set forth in the terms provided to Sheshunoff or any subsequent development that would have a material adverse effect on LBI or HBI and thereby on the results of its analyses. Sheshunoff assumed that any and all regulatory

approvals, if required, will be received in a timely fashion and without any conditions or requirements that could adversely affect the operations or financial condition of HBI after the completion of the merger.

The fairness opinion is necessarily based on economic, market, regulatory, and other conditions as in effect on, and the information made available to Sheshunoff as of June 24, 2013.

Table of Contents

In rendering the fairness opinion, Sheshunoff performed a variety of financial analyses. The preparation of an opinion involves various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Consequently, the fairness opinion is not readily susceptible to partial analysis or summary description. Moreover, the evaluation of fairness, from a financial point of view, of the merger consideration is to some extent subjective, based on the experience and judgment of Sheshunoff, and not merely the result of mathematical analysis of financial data. Sheshunoff did not attribute particular weight to any analysis or factor considered by it. Accordingly, notwithstanding the separate factors summarized below, Sheshunoff believes that its analyses must be considered as a whole and that selecting portions of its analyses and of the factors considered by it, without considering all analyses and factors, could create an incomplete view of the evaluation process underlying its opinion. The ranges of valuations resulting from any particular analysis described below should not be taken to be Sheshunoff s view of the actual value of LBI, HBI or the combined entity.

In performing its analyses, Sheshunoff made numerous assumptions with respect to industry performance, business and economic conditions and other matters, many of which are beyond the control of LBI or HBI. The analyses performed by Sheshunoff are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by such analyses. In addition, Sheshunoff s analyses should not be viewed as determinative of the opinion of the board of directors or the management of LBI with respect to the value of LBI or HBI or to the fairness of the merger consideration.

The following is a summary of the analyses performed by Sheshunoff in connection with its opinion. The discussion utilizes financial information concerning LBI and HBI as of March 31, 2013.

Pursuant to the Merger Agreement each outstanding share of LBI common stock will be converted into the right to receive shares of HBI common stock at a fixed price of $250,000,000 or approximately $212.77 per LBI share and cash of $30,000,000 or approximately $25.53 per LBI share. The stock consideration will not vary in amount, but the number of shares to be received by LBI shareholders will be based on the price performance of HBI common stock over the 20 trading days immediately prior to the Effective Time.

LBI Discounted Cash Flow Analysis. Using discounted cash flow analysis, Sheshunoff estimated the present value of the future after-tax cash flow streams that LBI could produce on a stand-alone basis through December 31, 2017, under various circumstances, assuming that it performed in accordance with the projections provided by LBI s management.

Sheshunoff estimated the terminal value for LBI at the end of December 31, 2017, by capitalizing the final period projected earnings using a discount rate that is the quotient of (1) the assumed annual long-term growth rate of the earnings of LBI of 4.0% plus 1% and (2) the difference between a range of required rates of return and the assumed annual long-term growth rate of earnings in (1) above. Sheshunoff discounted the annual cash flow streams (defined as all earnings in excess of that which is required to maintain a tangible common equity to tangible asset ratio of 8.0%) and the terminal values using discount rates ranging from 13.0% to 15.0%. The discount range was chosen to reflect different assumptions regarding the required rates of return of LBI and the inherent risk surrounding the underlying projections. This discounted cash flow analysis indicated a range of values per share of $167.07 to $213.61 as shown in the table below compared to the estimated merger consideration of $238.30 per share.

	Discount Rate		
	15.0%	**14.0%**	**13.0%**
Present value (in thousands)	$ 196,297	$ 220,803	$ 250,990
Present value (per share)	$ 167.07	$ 187.92	$ 213.61

Analysis of Selected Transactions: Sheshunoff performed an analysis of premiums paid in selected recently announced acquisitions of banking organizations with comparable characteristics to the merger. Three sets of transactions were selected to ensure a thorough analysis.

Table of Contents

The first set of comparable transactions consisted of a group of selected transactions for banks in the United States, for which pricing data were available, with assets between $1 billion and $10 billion that were announced since January 1, 2012, positive return on average assets, and non-performing assets to assets between 1% and 4%. These comparable transactions consisted of 11 mergers and acquisitions of banks with assets between $1.3 billion and $9.7 billion that were announced between January 25, 2012 and February 19, 2013. The analysis yielded multiples of the purchase prices in these transactions as shown below:

	Price/ Book (x)	Price/ Tg Book (x)	Price/ 8% Tg Book (x)	Price/ LTM Earnings (x)	Price/ Assets (%)	Price/ Deposits (%)	Premium/ Deposits (%)
Maximum	1.99	2.40	2.80	28.8	25.9	32.8	18.2
Minimum	0.71	1.16	1.03	2.6	7.3	9.0	0.3
Median	1.27	1.45	1.45	17.4	14.3	16.5	4.5
LBI*	1.06	1.62	1.48	14.4	9.8	12.9	4.9

* Assumes merger consideration of $280 million or $238.30 per share.

The median pricing multiples to tangible book, 8% tangible book, and the premium to deposits in the comparable transactions were lower than those in the merger. The median price multiples to book value, last twelve-month earnings (LTM earnings), assets, and deposits for the comparable transactions were higher than the merger.

The second set of comparable transactions consisted of a group of selected transactions for banks in the United States located outside major metropolitan areas, for which pricing data were available, with assets between $1 billion and $10 billion that were announced since January 1, 2012, positive return on average assets, and non-performing assets to assets between 1% and 4%. These comparable transactions consisted of 5 mergers and acquisitions of banks with assets between $1.3 billion and $9.7 billion that were announced between January 25, 2012 and February 19, 2013. The analysis yielded multiples of the purchase prices in these transactions as shown below:

	Price/ Book (x)	Price/ Tg Book (x)	Price/ 8% Tg Book (x)	Price/ LTM Earnings (x)	Price/ Assets (%)	Price/ Deposits (%)	Premium/ Deposits (%)
Maximum	1.59	1.59	1.68	28.8	14.7	17.7	6.1
Minimum	0.71	1.16	1.03	2.6	7.3	9.0	0.3
Median	1.17	1.30	1.27	13.1	13.8	11.5	2.6
LBI*	1.06	1.62	1.48	14.4	9.8	12.9	4.9

* Assumes merger consideration of $280 million or $238.30 per share.

The median pricing multiples to tangible book, 8% tangible book, LTM earnings, deposits, and premium to deposits in the comparable transactions were lower than those in the merger. The median pricing multiples to book value and assets for the comparable transactions were higher than the merger.

Table of Contents

The third set of comparable transactions consisted of a group of selected transactions for banks in the United States headquartered in the Southwest or Southeast regions of the United States as defined by SNL Financial, for which pricing data were available, with assets between $1 billion and $10 billion that were announced since January 1, 2012, positive return on average assets, and non-performing assets to assets between 1% and 4%. These comparable transactions consisted of 6 mergers and acquisitions of banks with assets between $1.3 billion and $5.8 billion that were announced between March 5, 2012 and February 19, 2013. The analysis yielded multiples of the purchase prices in these transactions as shown below:

	Price/ Book (x)	Price/ Tg Book (x)	Price/ 8% Tg Book (x)	Price/ LTM Earnings (x)	Price/ Assets (%)	Price/ Deposits (%)	Premium/ Deposits (%)
Maximum	1.83	2.40	2.10	23.3	17.5	22.8	11.1
Minimum	1.14	1.22	1.03	8.6	11.1	10.8	0.3
Median	1.43	1.45	1.50	13.1	14.3	15.9	4.8
LBI*	1.06	1.62	1.48	14.4	9.8	12.9	4.9

* Assumes merger consideration of $280 million or $238.30 per share.

The median pricing multiples to tangible book and LTM earnings in the comparable transactions were lower than those in the merger. The median price multiples to assets, deposits, and book for the comparable transactions were higher than the merger while the 8% tangible book multiple and the premium to deposits were similar to the merger.

Contribution Analysis: Sheshunoff reviewed the relative contributions of LBI and HBI to the combined company based on regulatory data as of March 31, 2013 for LBI and HBI. Sheshunoff compared the pro forma ownership interests of LBI and HBI of 17.5% and 82.5%, respectively, to: (1) total assets of 40.3% and 59.7%, respectively; (2) total loans of 41.3% and 58.7%, respectively; (3) total deposits of 38.5% and 61.5%, respectively; (4) net-interest income of 36.1% and 63.9%, respectively; (5) non-interest income of 37.8% and 62.2%, respectively; (6) non-interest expenses of 40.9% and 59.1%, respectively; (7) March 31, 2013 LTM earnings of 25.0% and 75.0%, respectively; and (8) total tangible equity of 28.6% and 71.4%, respectively. The contribution analysis shows that the ownership of LBI shareholders in the combined company is less than the contribution of the components listed. The contributions are shown in the table following:

	Assets	%	Loans	%	Deposits	%
Liberty Bancshares, Inc.	$ 2,853,120	40.3%	$ 1,875,494	41.3%	$ 2,173,524	38.5%
Home BancShares, Inc.	$ 4,225,507	59.7%	$ 2,667,815	58.7%	$ 3,465,436	61.5%
Combined Company	$ 7,078,627	100.0%	$ 4,543,310	100.0%	$ 5,638,960	100.0%

	Net Interest Income	%	Non-Interest Income	%	Non-Interest Expenses	%
Liberty Bancshares, Inc.	$ 94,732	36.1%	$ 25,080	37.8%	$ 68,103	40.9%
Home BancShares, Inc.	$ 167,850	63.9%	$ 41,193	62.2%	$ 98,208	59.1%
Combined Company	$ 262,582	100.0%	$ 66,273	100.0%	$ 166,311	100.0%

	Earnings	%	Shares *	%	Tg. Equity	%
Liberty Bancshares, Inc.	$ 21,989	25.0%	11,925,975	17.5%	$ 172,929	28.6%
Home BancShares, Inc.	$ 66,072	75.0%	56,228,594	82.5%	$ 431,455	71.4%
Combined Company	$ 88,061	100.0%	68,154,569	100.0%	$ 604,384	100.0%

Pro Forma Financial Impact: Sheshunoff analyzed the pro forma impact of the merger on estimated earnings per share and tangible book value per share for the twelve month periods ending December 31, 2014 and December 31, 2015 based on the projections provided by LBI s management for LBI on a stand-alone basis

50

Table of Contents

assuming pre-tax cost savings of $14.5 million phased in by the end of calendar year 2015. The analysis indicated pro forma consolidated earnings per share dilution (on a cash basis) of $6.15 per share or 28.1% in year one and $8.67 per share or 33.5% in year two compared to estimated earnings per share for LBI on a stand-alone basis. The analysis further indicated pro forma consolidated tangible book value per share (including the cash consideration per share) dilution of $65.49 per share or 34.5% in year one and $66.26 per share or 32.4% in year two compared to LBI s book value on a stand-alone basis. The contribution analysis shows that the ownership of LBI shareholders in the combined company is less than the contribution of the components listed due in part to the cash consideration to be received by the LBI shareholders.

Comparable Company Analysis: Sheshunoff compared the operating and market results of HBI to the results of other publicly traded banking companies. The comparable publicly traded companies in the United States were selected primarily on the basis of total asset size. HBI was compared to banks with total assets between $2 billion and $6 billion that had core returns on average assets (excludes securities gains and losses, extraordinary items, amortization of intangibles, and minority interest) greater than 1.00% for the last twelve months ending March 31, 2013. The data for the following table were based on GAAP financial information provided by SNL Financial and are as of March 31, 2013. Some of the ratios presented are proprietary to SNL Financial and may not strictly conform to the common industry determination.

	HBI (%)	Peer Group Median (%)
Net Interest Margin	4.82	3.80
Efficiency Ratio	45.6	57.4
Return on Average Assets	1.62	1.24
Return on Average Equity	13.09	12.13
Tangible Equity to Tangible Asset Ratio	10.45	10.32
Total Risk-Based Capital Ratio	15.04	16.58
Ratio of Non-performing Assets to Total Assets	2.58	1.57
Ratio of Non-performing Loans to Total Loans	2.74	2.04
Ratio of Loan Loss Reserves to Loans	1.72	1.49

HBI s performance, as measured by its net interest margin, efficiency ratio, return on average assets and return on average equity, was better than that of its peers. HBI s asset quality, as measured by its ratio of non-performing assets to total assets and its ratio of non-performing loans to total loans, was somewhat weaker than the peer group medians. Its ratio of loan loss reserves to loans was stronger than the median peer group. HBI s capital level was generally similar to its peers with the tangible equity to asset ratio similar to the peers and total risk-based capital ratio slightly below that of its peers.

Sheshunoff compared HBI s trading results to its peers. The results are contained in the following table. The data for the following table were based on publicly available GAAP financial information and market data provided by SNL Financial and are as of March 31, 2013.

	HBI	Peer Group Median
Market Price as a Multiple of Stated Book Value (times)	2.00x	1.33x
Market Price as a Multiple of Stated Tangible Book Value (times)	2.46x	1.45x
Price as a Multiple of LTM Earnings (times)	16.1x	12.2x
Market Price as a Percent of Assets	25.1%	14.6%
Dividend Yield	1.38%	2.06%
Dividend Payout	26.1%	32.6%

HBI s price-to-book multiples as measured by its market price as a multiple of stated book value and its market price to stated tangible book value were higher than the comparable peer group medians. HBI s market

price to assets ratios was higher than that of its peers. HBI s price-to-earnings multiple as shown in the price as a multiple of last 12 months earnings through March 31, 2013 was higher than its peers. HBI s dividend yield and dividend payout ratio were lower than its peers.

Sheshunoff compared selected stock market results of HBI to the KBW Bank index for all publicly traded banks in the United States over a one-year and a three-year timeframe. HBI s common stock price generally outperformed the index for the period from July 2012 until December 2012. For the period from December 2012 through late-March 2013, HBI s stock price generally performed at the same level as the KBW Bank index. From late-March 2013, HBI s stock price has outperformed the KBW Bank index.

On a three-year basis, HBI s stock price performance was generally in-line with the KBW Bank index from July 2010 through September 2010 then underperformed the market from September 2010 to June 2011. Since June 2011, HBI s stock has significantly outperformed the KBW Bank index.

No company or transaction used in the comparable company and comparable transaction analysis is identical to LBI, HBI, or HBI as the surviving corporation in the merger. Accordingly, an analysis of the results of the foregoing necessarily involves complex considerations and judgments concerning differences in financial and operational characteristics of LBI and HBI and other factors that could affect the public trading value of the companies to which they are being compared. Mathematical analysis (such as determining the average or median) is not in and of itself a meaningful method of using comparable transaction data or comparable company data.

Pursuant to its engagement letter with LBI, Sheshunoff will receive a fee of $230,000 for its advisory services and fairness opinion, none of which is contingent on the closing of the merger. In addition, LBI agreed to reimburse Sheshunoff for its reasonable out-of-pocket expenses. LBI also agreed to indemnify and hold harmless Sheshunoff and its officers and employees against certain liabilities in connection with its services under the engagement letter, except for liabilities resulting from the negligence, violation of law or regulation, or bad faith of Sheshunoff or any matter for which Sheshunoff may have strict liability. During the two years preceding the date of Sheshunoff s opinion, Sheshunoff has not been engaged by, performed any services for, or received any compensation from LBI or HBI except as related to the advisory services in connection with the merger and delivery of the opinion.

The fairness opinion is directed only to the question of whether the merger consideration is fair from a financial perspective and does not constitute a recommendation to any LBI shareholder to vote in favor of the merger. No limitations were imposed on Sheshunoff regarding the scope of its investigation or otherwise by LBI.

Based on the results of the various analyses described above, Sheshunoff concluded that the merger consideration to be paid by HBI pursuant to the merger is fair to LBI shareholders, from a financial point of view.

Recommendation of the HBI Board of Directors and Reasons for the Merger

HBI s board of directors reviewed and discussed the proposed merger with management and its financial and legal advisors in determining that the proposed merger was in the best interest of HBI and its shareholders. In reaching its conclusion to approve the Merger Agreement, the HBI s board of directors considered a number of factors, including the following:

The combined market footprint for HBI in Arkansas that the acquisition would provide.

The potential earnings accretion for HBI in the future given the opportunities for improvement in operational efficiencies.

The familiarity with the LBI organization and management.

The common business philosophies and customer profiles.

The quality of the LBI organization from a financial and regulatory perspective.

The potential market acceptance and approval of a transaction of this size and quality.

Table of Contents

The fairness of the consideration as supported by the Raymond James fairness opinion.
The discussion of the information and factors considered by the HBI s board of directors is not exhaustive, but includes all the material factors considered by HBI s board of directors. HBI s board of directors evaluated the factors described above, including asking questions of management and its legal and financial advisors, and reached consensus that the merger was in the best interests of HBI and its shareholders.

HBI s board of directors determined that the merger, the Merger Agreement and the transactions contemplated are advisable and in the best interests of HBI and its shareholders. Accordingly, the board of directors unanimously approved the Merger Agreement and unanimously recommended that HBI s shareholders vote **FOR** approval of the issuance of shares of HBI common stock in the merger.

Opinion of HBI s Financial Advisor

The HBI board of directors requested that Raymond James & Associates, Inc. (Raymond James) evaluate the fairness, from a financial point of view, to HBI of the consideration to be paid by HBI in connection with the proposed merger of LBI with and into a newly formed, wholly owned acquisition subsidiary of HBI pursuant and subject to the Merger Agreement.

At a June 21, 2013 meeting of HBI s board of directors, Raymond James provided the Board a preliminary overview of its analyses performed as of the date of the meeting. Raymond James advised the Board that its analyses were as of such date and based upon and subject to various qualifications and assumptions described in the meeting. At this meeting the Board did not request and Raymond James did not provide an opinion. Raymond James delivered its opinion to the board on June 25, 2013.

The full text of the Raymond James opinion, dated June 25, 2013, which sets forth assumptions made, matters considered, and limits on the scope of review undertaken, is attached as **Appendix B** to this joint proxy statement/prospectus. The summary of the opinion set forth in this joint proxy statement/prospectus is qualified in its entirety by reference to the full text of such opinion.

Holders of HBI s common stock are urged to read the Raymond James opinion in its entirety. Raymond James provided its opinion for the information and assistance solely of HBI s board of directors (solely in its capacity as such) in connection with, and for purposes of, its consideration of the merger and the opinion only addresses whether, as of the date of such written opinion, the merger consideration to be paid by HBI in the merger pursuant to the Merger Agreement was fair, from a financial point of view, to HBI and does not address any other term or aspect of the Merger Agreement or the merger contemplated thereby. The opinion does not address the relative merits of the merger as compared to other business strategies or transactions that might be available with respect to HBI or HBI s underlying business decision to effect the merger or any related transaction. The opinion does not constitute a recommendation to HBI s board of directors or any stockholder of HBI as to how the board, such stockholder or any other person should vote or otherwise act with respect to the merger or any other matter.

In connection with rendering its opinion, Raymond James, among other things, reviewed:

- the financial terms and conditions of the Merger as set forth in the Merger Agreement, including an analysis of the merger consideration to be paid;
- LBI s audited and unaudited financial statements for the years ended December 31, 2010, December 31, 2011, and December 31, 2012 and for the quarter ended March 31, 2013;
- LBI s reports and schedules filed with its regulators for the years ended December 31, 2010, December 31, 2011, and December 31, 2012 and for the quarter ended March 31, 2013;
- other financial and operating information provided by LBI;

Table of Contents

and discussed with members of the senior management of HBI and LBI certain information regarding the historical and current financial and operating performance of LBI as provided by HBI and certain internal financial forecasts regarding the future financial results and condition of LBI (the Projections) prepared and provided to us by HBI s senior management, which were approved for our use in connection with the preparation of this opinion by HBI;

comparative financial and operating data on the banking industry, LBI, and certain institutions which we deemed to be comparable to LBI;

certain publicly available information regarding actual and proposed business combinations involving companies deemed comparable to LBI, including valuations for such companies; and

such other analyses and information relating to LBI and the merger as Raymond James deemed relevant for the purpose of the opinion.

In connection with its review, Raymond James assumed and relied upon the accuracy and completeness of all information supplied or otherwise made available to Raymond James by HBI, LBI or any other party, as well as publicly available information, and did not undertake any duty or responsibility to verify independently any of such information. In addition. Raymond James did not receive or review any individual credit files nor did it make an independent evaluation or appraisal of the assets and liabilities (including any contingent, derivative or off-balance-sheet assets and liabilities) of LBI or any of its respective subsidiaries and Raymond James was not furnished with any such evaluations or appraisals. Raymond James is not an expert in the evaluation of loan and lease portfolios for purposes of assessing the adequacy of the allowances for loan losses, accordingly, it has assumed that such allowances for losses are in the aggregate adequate to cover such losses. With respect to the Projections, Raymond James was advised by HBI and has assumed that the Projections have been reasonably prepared and reflect the best currently available estimates, judgments and assumptions of the management of HBI as to the future financial performance of the LBI. Raymond James was authorized by HBI to rely upon such forecasts and other information and data, including without limitation the Projections, and Raymond James expresses no view as to any such forecasts or other information or data, or the bases or assumptions on which they were prepared. Raymond James assumed that each party to the Merger Agreement would advise it promptly if any information previously provided to Raymond James became inaccurate or was required to be updated during the period of its review. Based upon the terms specified in the Merger Agreement, Raymond James assumed that the merger will qualify as a reorganization under the provisions of Section 368(a) of the Internal Revenue Code. Raymond James did not express any opinion as to the value of HBI s common stock or LBI s common stock following the announcement of the proposed merger, the value of HBI s common stock following the consummation of the merger, or the prices at which shares of HBI s common stock or LBI s common stock may be purchased or sold at any time, which in each case, may vary depending on numerous factors, including factors outside of the control of HBI and LBI.

In rendering its opinion, Raymond James relied upon and assumed, without independent verification, that the final form of the Merger Agreement would be substantially similar to the draft Merger Agreement reviewed by Raymond James. Raymond James further assumed that the merger would be consummated on the terms described in the Merger Agreement. Furthermore, Raymond James assumed, in all respects material to its analysis, that the representations and warranties of each party contained in the Merger Agreement were true and correct, that each party will perform all of the covenants and agreements required to be performed by it under the Merger Agreement and that all conditions to the consummation of the merger will be satisfied without being waived. Raymond James also assumed that all material governmental, regulatory or other consents and approvals will be obtained and that, in the course of obtaining any necessary governmental, regulatory or other consents and approvals, or any amendments, modifications or waivers to any documents to which HBI is a party, as contemplated by the Merger Agreement, no restrictions will be imposed or amendments, modifications or waivers made that would have any material adverse effect on HBI.

In conducting its investigation and analyses and in arriving at its opinion, Raymond James took into account such accepted financial and investment banking procedures and considerations as it deemed relevant, including

Table of Contents

the review of: (i) historical and projected assets, loans, deposits, revenues, net income and capitalization of LBI and certain other publicly held companies, with publicly traded equity securities, that it believed relevant; (ii) the current and projected financial position and results of operations of LBI; (iii) financial and operating information concerning selected business combinations which it deemed comparable in whole or in part; and (iv) the general condition of the securities markets.

Raymond James expressed no opinion as to the underlying business decision to effect the merger, the structure or tax consequences of the merger, or the availability or advisability of any alternatives to the merger. The opinion is limited to the fairness, from a financial point of view, of the merger consideration to be paid by HBI. Raymond James expressed no opinion with respect to any other reasons (legal, business, or otherwise) that may support the decision of HBI s board of directors to approve or consummate the merger. Furthermore, no opinion, counsel or interpretation was intended by Raymond James in matters that require legal, accounting or tax advice. Raymond James assumed that such opinions, counsel or interpretations had been or would be obtained from appropriate professional sources. Furthermore, Raymond James relied, with the consent of HBI s board of directors, on the fact that HBI was assisted by legal, accounting and tax advisors, and assumed that the assessments by HBI and its advisors, as to all legal, accounting and tax matters with respect to HBI and the merger were correct. In formulating its opinion, Raymond James considered only the merger consideration to be paid by HBI, and Raymond James had not considered, and its opinion does not address, any other payments that may be made to employees or other stockholders of HBI in connection with the merger. Raymond James had not been requested to opine as to, and the opinion does not express an opinion as to or otherwise address, among other things the fairness of the merger or the merger consideration to the holders of any class of securities, creditors or other constituencies of HBI, or to any other party. Raymond James did not and does not assume any fiduciary duty to HBI s board of directors, stockholders or any other party.

The following summarizes the material financial analyses presented by Raymond James to HBI s board of directors at its meeting on June 21, 2013, as updated and delivered with the opinion to reflect changes in the prices of relevant securities quoted in the U.S. public securities markets as of the close of the U.S. securities markets on June 24, 2013, which material was considered by Raymond James in rendering the opinion described below on June 25, 2013. No company or transaction used in the analyses described below is directly comparable to HBI, LBI or the contemplated merger.

Selected Public Companies Analysis. Raymond James analyzed the relative valuation multiples of eight publicly-traded banks on major exchanges headquartered in Arkansas, Missouri, Oklahoma, and Tennessee with total assets between $1 billion and $5 billion, including:

Home BancShares, Inc

Great Southern Bancorp, Inc.

Bank of the Ozarks, Inc.

Simmons First National Corp.

Enterprise Financial Services

Southwest Bancorp, Inc.

Cass Information Systems

Hawthorn Bancshares, Inc.

Raymond James calculated various financial multiples for each company, including (i) market value compared to book value, tangible book value, and earnings per share for the most recent actual twelve months results, referred to as LTM, and (ii) market value per share compared to

earnings per share, using Wall Street estimates for the selected companies for the fiscal years 2013 and 2014. The estimates published by Wall Street research analysts were not prepared in connection with the merger or at Raymond James request and may or

may not prove to be accurate. Raymond James reviewed the mean, median, minimum and maximum relative valuation multiples of the selected public companies and compared them to corresponding valuation multiples for the LBI implied by the merger consideration. The results of the selected public companies analysis are summarized below:

	Price /				
	Book Value (%)	Tangible Book Value (%)	LTM EPS (x)	2013E EPS (x)	2014E EPS (x)
Mean	167.0	183.1	16.8	15.9	15.2
Median	114.6	129.9	18.1	16.1	15.3
Minimum	80.8	80.9	7.4	9.4	11.7
Maximum	299.6	327.8	24.2	22.5	17.4
Merger consideration	106.3	161.9	12.7	12.7	11.6

Furthermore, Raymond James applied the mean, median, minimum and maximum relative valuation multiples for each of the metrics to LBI s actual and projected financial results and determined the implied common equity value of LBI common stock and then compared those implied common equity values to the merger consideration of $280 million. The results of this are summarized below:

	Implied Common Equity Value Based on ($ million)				
	Book Value	Tangible Book Value	LTM EPS	2013E EPS	2014E EPS
Mean	$ 439.8	$ 316.7	$ 325.5	$ 351.9	$ 366.3
Median	$ 301.8	$ 224.6	$ 351.3	$ 355.3	$ 370.5
Minimum	$ 212.9	$ 139.8	$ 144.6	$ 206.8	$ 282.6
Maximum	$ 789.1	$ 566.9	$ 469.8	$ 497.4	$ 420.5
Merger consideration	$ 280.0	$ 280.0	$ 280.0	$ 280.0	$ 280.0

Selected Transaction Analysis. Raymond James analyzed publicly available information relating to selected acquisitions of U.S. banks and thrifts with announced deal values between $100 million and $500 million and prepared a summary of the relative valuation multiples paid in these transactions. The selected transactions used in the analysis included:

Union First Market Bankshares Corporation/ StellarOne Corporation

First Merchants Corporation/ CFS Bancorp, Inc.

Provident New York Bancorp/ Sterling Bancorp

SCBT Financial Corporation/ First Financial Holdings, Inc.

F.N.B. Corporation/ PVF Capital Corp.

United Bankshares, Inc./ Virginia Commerce Bancorp, Inc.

Renasant Corporation/ First M&F Corporation

PacWest Bancorp/ First California Financial Group, Inc.

NBT Bancorp Inc./ Alliance Financial Corporation

Prosperity Bancshares, Inc./ Coppermark Bancshares, Inc.

Oriental Financial Group Inc./ BBVA s Puerto Rico operations

Investors Bancorp, Inc. (MHC)/ Marathon Banking Corporation

Berkshire Hills Bancorp, Inc./ Beacon Federal Bancorp, Inc.

Trustmark Corporation/ BancTrust Financial Group, Inc.

Capital Bank Financial Corporation/ Southern Community Financial Corporation

Cadence Bancorp, LLC/ Encore Bancshares, Inc.

Carlile Bancshares, Inc./ Northstar Financial Corporation

Tompkins Financial Corporation/ VIST Financial Corp.

Old National Bancorp/ Indiana Community Bancorp

Susquehanna Bancshares, Inc./ Tower Bancorp, Inc.

F.N.B. Corporation/ Parkvale Financial Corporation

Valley National Bancorp/ State Bancorp, Inc.

Brookline Bancorp, Inc./ Bancorp Rhode Island, Inc.

IBERIABANK Corporation/ Cameron Bancshares, Inc.

Susquehanna Bancshares, Inc./ Abington Bancorp, Inc.

Industrial and Commercial Bank of China Limited/ Bank of East Asia (USA), National Association

People s United Financial, Inc./ Danvers Bancorp, Inc.

Raymond James examined valuation multiples of transaction common equity value compared to LBI s book value, tangible book value, LTM earnings, and core deposit premium, in each case, where such information was publicly available. Raymond James reviewed the mean, median, minimum and maximum relative valuation multiples of the selected transactions and compared them to corresponding valuation multiples for LBI implied by the merger consideration. Furthermore, Raymond James applied the mean, median, minimum and maximum relative valuation multiples to LBI s book value, tangible book value, LTM earnings, and core deposits to determine the implied common equity value and then compared those implied common equity values to the merger consideration of $280 million. The results of the selected transactions analysis are summarized below:

	Book Value (%)	Price / Tangible Book Value (%)	LTM EPS (x)	Core Deposit Premium (%)
Mean	135.3	153.5	21.0	7.1
Median	134.3	151.0	21.0	6.0
Minimum	71.2	91.5	12.0	-0.3
Maximum	188.2	240.1	33.4	21.1
Merger consideration	106.3	161.9	12.7	7.7

	Implied Common Equity Value Based on ($ million)			
	Book Value	Tangible Book Value	LTM EPS	Core Deposit Premium
Mean	$ 356.4	$ 265.4	$ 407.4	$ 271.7
Median	$ 353.7	$ 261.1	$ 408.4	$ 256.9
Minimum	$ 187.4	$ 158.2	$ 232.3	$ 169.4
Maximum	$ 495.8	$ 415.1	$ 649.6	$ 467.3
Merger consideration	$ 280.0	$ 280.0	$ 280.0	$ 280.0

Table of Contents

Discounted Cash Flow Analysis. Raymond James analyzed the discounted present value of LBI s projected free cash flows for the years ending December 31, 2013 through December 31, 2017 on a standalone basis. Raymond James used project cash flows, defined as net income to common shareholders, less core deposit intangible amortization.

The discounted cash flow analysis was based on projections of the financial performance of LBI that represented the best available estimates and judgment of management. Consistent with the periods included in the financial projections, Raymond James used calendar year 2017 as the final year for the analysis and applied multiples, ranging from 11.0x to 15.0x, to calendar 2017 cash net income to common shareholders in order to derive a range of terminal values for LBI in 2017.

The projected cash flows and terminal values were discounted using rates ranging from 10.9% to 14.9%, which reflected the cost of equity associated with executing LBI s business plan. Raymond James reviewed the range of aggregate common equity values derived in the discounted cash flow analysis and compared them to the merger consideration. The results of the discounted cash flow analysis are summarized below:

	Implied Common Equity Value ($ million)	
Minimum	$	255.0
Maximum	$	365.2
Merger consideration	$	280.0

Additional Considerations. The preparation of a fairness opinion is a complex process and ais not necessarily susceptible to a partial analysis or summary description. Raymond James believes that its analyses must be considered as a whole and that selecting portions of its analyses, without considering the analyses taken as a whole, would create an incomplete view of the process underlying the analyses set forth in its opinion. In addition, Raymond James considered the results of all such analyses and did not assign relative weights to any of the analyses, but rather made qualitative judgments as to significance and relevance of each analysis and factor, so the ranges of valuations resulting from any particular analysis described above should not be taken to be Raymond James view of the actual value of LBI.

In performing its analyses, Raymond James made numerous assumptions with respect to industry performance, general business, economic and regulatory conditions and other matters, many of which are beyond the control of HBI. The analyses performed by Raymond James are not necessarily indicative of actual values, trading values or actual future results which might be achieved, all of which may be significantly more or less favorable than suggested by such analyses. Such analyses were provided to HBI s board of directors and were prepared solely as part of Raymond James analysis of the fairness, from a financial point of view, to HBI of the consideration to be paid in connection with the proposed merger. The analyses do not purport to be appraisals or to reflect the prices at which companies may actually be sold, and such estimates are inherently subject to uncertainty. The opinion of Raymond James was one of many factors taken into consideration by HBI s board of directors in making its determination to approve the merger. Consequently, the analyses described above should not be viewed as determinative of HBI board of directors or HBI management s opinion with respect to the value of the LBI. HBI placed no limits on the scope of the analysis performed, or opinion expressed, by Raymond James.

Raymond James opinion was necessarily based upon market, economic, financial and other circumstances and conditions existing and disclosed to it on June 25, 2013, and any material change in such circumstances and conditions may affect Raymond James opinion, but Raymond James does not have any obligation to update, revise or reaffirm that opinion.

HBI retained Raymond James based on its qualifications and experience in providing financial advice, on its reputation as a nationally recognized investment banking firm and its experience in the banking sector. During the two years preceding the date of Raymond James opinion, Raymond James has not been engaged by,

Table of Contents

performed any services for or received any compensation from HBI except as related to the delivery of the opinion. For services rendered in connection with the delivery of its opinion, HBI paid Raymond James an investment banking fee of $225,000. HBI also agreed to reimburse Raymond James for its expenses incurred in connection with its services, including the fees and expenses of its counsel, and will indemnify Raymond James against certain liabilities arising out of its engagement.

Raymond James is actively involved in the investment banking business and regularly undertakes the valuation of investment securities in connection with public offerings, private placements, business combinations and similar transactions. In the ordinary course of business, Raymond James may trade in the securities of HBI for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities. Raymond James may provide investment banking, financial advisory and other financial services to HBI and/or LBI or other participants in the merger in the future, for which Raymond James may receive compensation.

Management and Board of Directors of HBI After the Merger

Upon completion of the merger, the board of directors of HBI will consist of the directors serving on the board of directors of HBI prior to the effective time of the merger. Upon completion of the merger, HBI board of directors intends to appoint two directors from the board of directors of LBI, Wallace W. Fowler and Mark P. Fowler, to the HBI board of directors, each of whom is expected to be independent under the listing standards of The NASDAQ Global Select Market. The biographies of Messrs. Fowler below contain information regarding each person s business experience, director positions held at any time during the last five years, and the experiences, qualifications, attributes or skills that caused the HBI board of directors to determine that each of Messrs. Fowler should serve as a director of HBI.

Wallace W. Fowler, age 78, is the founder of Liberty Bancshares, Inc. and has served as its Chairman and Chief Executive Officer and as Chairman and Chief Executive Officer of Liberty Bank of Arkansas since inception in 2001. Mr. Fowler has more than 30 years of banking experience, including service as Chairman and Chief Executive Officer of Southwest Bancshares, Inc. and its subsidiary banks, First Bank of Arkansas, from 1992 to 1997 when it sold to First Commercial Corporation. Mr. Fowler also served as Chairman and Chief Executive Officer of Mercantile Bancshares, Inc. and North Arkansas Bancshares, Inc. from 1985 to 1990 when it sold to Union Planters Corporation. Mr. Fowler is Chairman, Chief Executive Officer, and owner of Fowler Foods, Inc., a privately held company involved in management of Kentucky Fried Chicken and Taco Bell restaurants in five states. He has been a KFC franchisee since 1965, and at one time was the fourth largest franchisee in the United States owning 93 stores. Mr. Fowler is the father of Mark P. Fowler.

Mark P. Fowler, age 49, is currently and has served as President of Liberty Bancshares, Inc. and Vice Chairman of Liberty Bank of Arkansas since 2001. Mr. Fowler has more than 25 years of banking experience, including service as President and Director of First Bank of Arkansas from 1992 to 1997 and Assistant Vice President of Mercantile Bank of Jonesboro from 1987 to 1990. Mr. Fowler is currently a board member of the Federal Reserve Bank St. Louis Memphis Branch. Mr. Fowler is a Kentucky Fried Chicken franchisee with ownership interest in 31 restaurants. Mr. Fowler is the son of Wallace W. Fowler.

The remaining current directors and senior officers of HBI are expected to continue in their current positions, other than as has been or may be publicly announced by HBI in the normal course. Information about the current HBI directors and executive officers can be found in the documents listed under Where You Can Find More Information included elsewhere in this joint proxy statement/prospectus.

Interests of LBI Directors and Executive Officers in the Merger and Golden Parachute Compensation

Certain of LBI s directors and executive officers have interests in the merger as individuals in addition to, or different from, their interests as shareholders of LBI, including, but not limited to, (1) potential payments under their employee change in control severance agreements and (2) continuation of indemnification after the merger.

Table of Contents

LBI has a company practice, which began in 2001, of entering into employee severance agreements with certain officers of the company. The merger with HBI will constitute a change in control of LBI under the provisions of these employee severance agreements and the following compensation could be payable in connection with the merger:

Name	Cash ($)	Equity ($)	Perquisites/ Benefits ($)	Total ($)
Wallace W. Fowler, Chief Executive Officer				
Lloyd McCracken, Chief Financial Officer	$ 1,800,000(2)	$ 77,400(3)	$ 2,871(4)	$ 1,880,271
Mark Fowler	$ 1,800,000(5)	$ 77,400(6)	$ 2,871(7)	$ 1,880,271
John Freeman	$ 1,800,000(8)	$ 77,400(9)	$ 2,871(10)	$ 1,880,271
Roy Reaves	$ 821,000(11)	(12)	$ 2,871(13)	$ 823,871

(1) Wallace W. Fowler has no employee severance agreement and owns no options.

(2) LBI entered into an employee severance agreement with Lloyd McCracken dated October 9, 2007 that provides that in the event of a change of control and if at any time thereafter the employee s employment is terminated or the employee is constructively discharged (as described in more detail below), the employee is entitled to receive severance pay equal to thirty-six (36) months of the employee s base salary as of the date of the change of control to be paid in one lump sum.

(3) Lloyd McCracken owns stock options representing the right to purchase shares of LBI common stock and will receive an aggregate of $77,400 (the difference between the exercise price and the per-share consideration) upon termination of those stock options in connection with the closing of the merger.

(4) The employee severance agreement with Lloyd McCracken provides that LBI will permit the employee to remain on the company s medical insurance plan. If the company insurance is not available, the company is to pay the employee portion of health insurance for the shorter of the severance period or COBRA period. The cost of this health insurance over a period of eighteen (18) months will be $2,871.

(5) LBI entered into an employee severance agreement with Mark Fowler dated October 9, 2007 that provides that in the event of a change of control and if at any time thereafter the employee s employment is terminated or the employee is constructively discharged (as described in more detail below), the employee is entitled to receive severance pay equal to thirty-six (36) months of the employee s base salary as of the date of the change of control to be paid in one lump sum.

(6) Mark Fowler owns stock options representing the right to purchase shares of LBI common stock and will receive an aggregate of $77,400 (the difference between the exercise price and the per-share consideration) upon termination of those stock options in connection with the closing of the merger.

(7) The Employee severance agreement with Mark Fowler provides that LBI will permit the employee to remain on the company s medical insurance plan. If the company insurance is not available, the company is to pay the employee portion of health insurance for the shorter of the severance period or COBRA period. The cost of this health insurance over a period of eighteen (18) months will be $2,871.

(8) LBI entered into an employee severance agreement with John Freeman dated October 9, 2007 that provides that in the event of a change of control and if at any time thereafter the employee s employment is terminated or the employee is constructively discharged (as described in more detail below), the employee is entitled to receive severance pay equal to thirty-six (36) months of the employee s base salary as of the date of the change of control to be paid in one lump sum.

(9) John Freeman owns stock options representing the right to purchase shares of LBI common stock and will receive an aggregate of $77,400 (the difference between the exercise price and the per-share consideration) upon termination of those stock options in connection with the closing of the merger.

(10) The employee severance agreement with John Freeman provides that LBI will permit the employee to remain on the company s medical insurance plan. If the company insurance is not available, the company is to pay the employee portion of health insurance for the shorter of the severance period or COBRA period. The cost of this health insurance over a period of eighteen (18) months will be $2,871.

Table of Contents

(11) LBI entered into an employee severance agreement with Roy Reaves dated August 27, 2001 that provides that in the event of a change of control and if at any time thereafter the employee s employment is terminated or the employee is constructively discharged (as described in more detail below), the employee is entitled to receive severance pay equal to twenty-four (24) months of the employee s base salary as of the date of the change of control to be paid in one lump sum.

(12) Roy Reaves owns no stock options.

(13) The employee severance agreement with Roy Reaves provides that LBI will permit the employee to remain on the company s medical insurance plan. If the company insurance is not available, the company is to pay the employee portion of health insurance for the shorter of the severance period or COBRA period. The cost of this health insurance over a period of eighteen (18) months will be $2,871.

The employee severance agreements described in Notes 2, 5, 8 and 11 to the table above (the Employee Severance Agreements) provide that after a change in control, if at any time thereafter the employee shall (i) be involuntarily terminated from employment, or (ii) be constructively discharged and such involuntary termination or constructive discharge occurs within two (2) years following the change of control, the employee shall be paid the severance pay described in cash and perquisites/benefits columns of the foregoing table. The employee is deemed to have been constructively discharged in the event any of the following occurs and employee voluntarily terminates employment within sixty (60) days after such event:

Employee s base salary is reduced to an amount less than employee s base salary as of the date of the change of control;

Employee is assigned duties inconsistent with employee s position which results in a diminution of employee s authority, duties and responsibilities or employee s office arrangements are not in keeping with such position, excluding an isolated and inadvertent action not taken in bad faith which is remedied promptly on receipt of notice given by employee;

Employee is not provided with benefits (including but not limited to medical insurance, life insurance, disability benefits, retirement plan, and vacation) which in the aggregate are substantially equivalent with those available to employee as of the date of the change of control;

Employee is reassigned to a location more than thirty (30) miles from his workplace at the time of the change of control;

Indication is made by the company or its successors after the change of control that it will not honor the Employee Severance Agreement;

The employee voluntarily terminates his employment prior to the end of the thirty-day period following the first anniversary of a change of control.

The Employee Severance Agreements limit the maximum amount that may be paid thereunder, if the present value of the severance payments (including any premiums paid) is equal to or greater than three times the individual s annualized includible compensation averaged over the five most recent calendar years ending prior to the change of control (or such shorter time period during which individual has been employed).

The Employee Severance Agreements include a covenant not to compete applicable if the employee voluntarily terminates his employment during the thirty-day period following the first anniversary of a change of control and such employee receives severance pay. In such case, the employee has agreed that for a period of months equal to the severance pay amount received by the monthly base salary of the employee as of the date of the change of control, such person will not, as an employee, owner, shareholder, officer or director, engage in the banking business, directly or indirectly, within a sixty-mile radius of his current principal office. Notwithstanding this restriction, the employee may own less than two percent of the capital stock of a corporation which is engaged in the banking business that has a class of securities registered pursuant to the Exchange Act. The Employee Severance Agreements also include a nondisclosure agreement requiring the employee to keep and maintain company information confidential during the term of the agreement and following the termination thereof.

61

Table of Contents

The Employee Severance Agreements automatically renewed on December 31, 2012 and will renew every subsequent December 31, unless either party terminates in writing at least thirty (30) days prior to renewal.

Pursuant to the merger, HBI has agreed to indemnify and hold harmless the present and former directors and officers of LBI and its subsidiaries against any costs or expenses (including reasonable attorneys fees), judgments, fines, losses, claims, damages or liabilities incurred in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of or pertaining to matters existing or occurring at or prior to the effective time of the merger to the extent permitted under applicable law. In addition, HBI has agreed that for a period of six (6) years following the effective time of the merger, that it will provide director s and officer s liability insurance coverage to such persons.

Series C Preferred Stock and Stock Options

Series C Preferred Stock. LBI has outstanding 52,500 shares of preferred stock issued to United States Treasury pursuant to the Small Business Lending Fund (SBLF). The dividend rate paid on the preferred stock is presently 5%. The dividend rate adjusts based upon an increase or decrease in SBLF qualifying loans. HBI intends to redeem the SBLF preferred shares at or soon after the completion of the merger.

LBI Stock Options. LBI has outstanding options to purchase 18,350 shares of LBI common stock, which options were issued pursuant to its non-qualified stock option plan. All of the options have vested. Pursuant to the terms of the options, LBI intends to terminate all of the outstanding options at or prior to the effective time and pay the option holder the difference between the option price and the merger consideration. The total amount to be paid for termination of the options is approximately $475,000.

THE MERGER AGREEMENT

Effects of the Merger

As a result of the merger, Acquisition Sub, a wholly-owned subsidiary of HBI to be incorporated prior to the closing of the merger, will merge with and into LBI. Following the merger, LBI will continue as the surviving corporation. The articles of incorporation and bylaws of the surviving corporation will be the articles of incorporation and bylaws of Acquisition Sub as in effect immediately prior to the effective time of the merger, and the directors and officers of Acquisition Sub immediately prior to the effective time of the merger will be the directors and officers of the surviving corporation and shall hold office until their respective successors are duly appointed and qualified, or their earlier death, resignation or removal.

As soon as reasonably practicable following the merger, HBI shall cause Liberty Bank to be merged with and into Centennial Bank in the second-step merger, with Centennial Bank surviving this second merger and continuing its existence under the laws of the State of Arkansas. The separate corporate existence of Liberty Bank shall cease as of the effective time of this second-step merger.

As a result of the merger, there will no longer be any shares of LBI common stock. LBI shareholders will no longer have any direct interest in the surviving company. LBI shareholders receiving shares of HBI common stock as merger consideration will only participate in the combined company s future earnings and potential growth through their ownership of HBI common stock. All of the other incidents of direct stock ownership in LBI, such as the right to vote on certain corporate decisions, to elect directors and to receive dividends and distributions from LBI, will be extinguished upon completion of the merger.

Effective Time of the Merger

The closing of the merger will occur at approximately 10:00 a.m., Central Time, on October 24, 2013, unless the parties mutually agree to extend the closing. The merger will be completed legally at the date and time specified in the articles of merger to be filed by HBI with the Secretary of State of the State of Arkansas. As of the date of this joint proxy statement/prospectus, the parties expect that the merger will be effective during the third or fourth calendar quarter of 2013. However, there can be no assurance as to when or if the merger will occur.

As described below, if the merger is not completed by March 1, 2014, the Merger Agreement may be terminated by either HBI or LBI, unless the failure of the closing to occur by such date is due to the failure of the party seeking to terminate the Merger Agreement to perform or observe the covenants and agreements of such party set forth in the Merger Agreement.

Covenants and Agreements

Conduct of Businesses Prior to the Completion of the Merger. LBI has agreed that, prior to the effective time of the merger, it will conduct its business, and cause its subsidiaries to conduct their respective businesses, in the ordinary course consistent with past practice in all material respects and use commercially reasonable efforts to maintain and preserve intact its business organization and advantageous business relationships. LBI and HBI have agreed to take no action (and to cause their subsidiaries to take no action) that is intended to or would reasonably be expected to adversely affect or materially delay the ability to obtain any necessary approvals of any regulatory agency or other governmental entity required for the completion of the merger or to perform the covenants and agreements in the Merger Agreement or to consummate the merger and the other transactions contemplated by the Merger Agreement.

Table of Contents

In addition to the general covenants above, LBI has agreed that prior to the effective time of the merger, subject to specified exceptions, it will not, and will not permit its subsidiaries to, without the prior approval of HBI (which approval shall not be unreasonably withheld):

enter into any new line of business or materially change its lending, investment, underwriting, risk and asset liability management, and other banking and operating policies, except as required by any applicable legal requirement or policies imposed by any governmental authority;

make any capital expenditures in excess of $50,000 individually other than as required pursuant to contracts already entered into;

terminate, enter into, amend, modify or renew any employee benefit plan (as defined by ERISA), any material contract (as defined by Regulation S-K), or any other contracts not in the ordinary course of business;

issue, sell or otherwise permit to become outstanding, or dispose of or encumber or pledge, or authorize or propose the creation of, any additional shares of LBI s stock or any additional options or other rights, grants or awards with respect to LBI s stock;

make, declare, pay or set aside for payment any dividend on or in respect of, or declare or make any distribution on any shares of its capital stock other than its usual and customary dividend of $2.25 per share during the third quarter of 2013 (to be paid on August 1, 2013) and its usual and customary dividend of $2.25 per share during the fourth quarter of 2013 (to be paid on February 1, 2014, if the closing has not occurred by December 31, 2013.)

sell, transfer, mortgage, encumber or otherwise dispose of or discontinue any of its assets, deposits, businesses or properties, except for sales, transfers, mortgages, encumbrances or other dispositions or discontinuances in the ordinary course of business consistent with past practice and in a transaction that individually or taken together with all other such transactions is not material to LBI;

incur any indebtedness for borrowed money or issue any debt securities or assume, guarantee or endorse, or otherwise become responsible for the obligations of, any other Person, provided that LBI may continue to borrow money from the Federal Home Loan Bank System, the Federal Reserve or any other governmental authority in a manner consistent with past practice;

make, renew or amend any extension of credit, individually or in the aggregate with other extensions of credit to the same relationship, in excess of $500,000; provided that LBI may, renew or amend any extension of credit in the ordinary course of business and consistent with past practice less than $1,000,000 if, with respect to a pre-existing relationship with a borrower, (A) there has been no material adverse change in the relationship with such borrower, or (B) there has been such a material adverse change but LBI is attempting to mitigate loss with respect to the borrower in the ordinary course of business and consistent with past practice;

enter into, renew or amend any interest rate swaps, caps, floors and option agreements and other interest rate risk management arrangements, whether entered into for the account of it or for the account of a customer of it, except in the ordinary course of business and consistent with past practice;

acquire (other than by way of foreclosures, acquisitions of control in a fiduciary or similar capacity, acquisitions of loans or participation interests, or in satisfaction of debts previously contracted in good faith, in each case in the ordinary course of business and consistent with past practice) all or any portion of the assets, business, deposits or properties of any other person;

merge or consolidate with or into any legal entity, dissolve, liquidate, or otherwise terminate its existence;

file any application to establish, or to relocate or terminate the operations of, any banking office;

amend the LBI articles of incorporation or bylaws or similar organizational documents for its subsidiaries or otherwise add, amend or modify in any respect the duties or obligations of indemnification by LBI with respect to any of their respective directors, officers, employees, agents or other entities;

implement or adopt any change in its accounting principles, practices or methods, other than as may be required by GAAP or applicable accounting requirements of a governmental authority;

make, change or revoke any tax election, file any amended tax return (unless to correct an error with the prior written consent of HBI, such consent not to be unreasonably withheld or delayed), enter into any closing agreement, settle any tax audit, claim or assessment, surrender or reduce any right to claim a refund of taxes, agree to extend any statute of limitations relating to taxes, fail to duly and timely file with appropriate taxing authorities all tax returns required to be filed by or with respect to LBI or its subsidiary or fail to remit any taxes due, whether or not shown on any tax return;

without the prior written consent of HBI, such consent not to be unreasonably withheld or delayed, settle any action, suit, claim or proceeding against LBI, except for any action, suit, claim or proceeding arising out of or in connection with the Merger Agreement or for any other action, suit, claim or proceeding that is settled in a manner consistent with past practice in an amount or for consideration not in excess of $100,000 that would not (A) impose any material restriction on the business after the Closing, HBI or their respective affiliates or (B) create precedent for claims that are reasonably likely to be material to LBI or, after the Closing, HBI or their respective affiliates;

other than in the ordinary course of business and consistent with past practice, terminate, enter into, amend, modify (including by way of interpretation) or renew any employment, consulting, severance, change in control or similar contract, agreement or arrangement with any director, officer, employee or consultant, or grant any salary or wage increase or increase any employee benefit, including incentive or bonus payments (or, with respect to any of the preceding, communicate any intention to take such action), except to make changes that are required by any applicable legal requirements;

terminate, enter into, establish, adopt, amend, modify (including by way of interpretation), make new grants or awards under or renew any employee benefit plan (as defined by ERISA), except (A) as required by applicable legal requirements, or (B) to satisfy contractual obligations existing as of the date hereof;

(A) grant, extend, amend, waive, or modify any material rights in or to, sell, assign, lease, transfer, license, let lapse, abandon, cancel, or otherwise dispose of, or extend or exercise any option to sell, assign, lease, transfer, license, or otherwise dispose of, any Proprietary Rights, or (B) fail to exercise a right of renewal or extension under any material agreement under which LBI is licensed or otherwise permitted by a third party to use;

participate in any program sponsored or administered by any governmental authority, which program is not part of the usual and customary banking business of LBI or Liberty Bank;

engage in (or modify in a manner adverse to LBI) any transactions with any entity known to be a shareholder of LBI or any director or officer of LBI or Liberty Bank (or any affiliate of any such person), other than deposit relationships in the ordinary course of business consistent with past practice and extensions of credit which are on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons unaffiliated with LBI and did not involve more than the normal risk of collectability or present other unfavorable features;

knowingly take, or knowingly omit to take, any action that would result in a violation of the Merger Agreement covenants, or would result in any of the representations and warranties of LBI made in the Merger Agreement becoming untrue, or would prevent LBI from performing its obligations under the Merger Agreement or consummating the closing;

Table of Contents

- enter into any contract in violations of the covenants, representations or warranties of the Merger Agreement; and

- enter into, or extend, any leases or rental agreements.

Regulatory Matters. HBI and LBI have agreed to promptly prepare and file with the SEC a registration statement on Form S-4, of which this joint proxy statement/prospectus is a part. HBI and LBI have agreed to use reasonable best efforts to have the Form S-4 declared effective under the Securities Act as promptly as practicable after such filing, and to mail or deliver the joint proxy statement/prospectus to their shareholders. HBI has also agreed to use its reasonable best efforts to obtain all necessary state securities law or blue sky permits and approvals required to consummate the merger, and LBI has agreed to furnish all information concerning LBI and the holders of LBI common stock as may be reasonably requested in connection with any such action.

HBI and LBI have agreed to cooperate with each other and use their respective reasonable best efforts to promptly prepare and file all necessary documentation, to effect all applications, notices, petitions and filings, to obtain as promptly as practicable all permits, consents, approvals and authorizations of all third parties and governmental entities that are necessary or advisable to consummate the merger as soon as possible, and no later than March 1, 2014, to the extent reasonably practicable, and to comply with the terms and conditions of all such permits, consents, approvals and authorizations. LBI and HBI have the right to review in advance and, to the extent practicable, each will consult the other on, in each case subject to applicable laws, all the non-confidential information relating to LBI or HBI (excluding any confidential financial information relating to individuals), as the case may be, and any of their respective subsidiaries, that appear in any filing made with, or written materials submitted to, any third party or any governmental entity in connection with the transactions contemplated by the Merger Agreement. In addition, LBI and HBI will consult with each other with respect to the obtaining of all permits, consents, approvals and authorizations of all third parties and governmental entities necessary or advisable to consummate the merger and each party will keep the other apprised of the status of matters relating to the completion of the merger. Each party will consult with the other in advance of any meeting or conference with any governmental entity in connection with the merger and, to the extent permitted by such governmental entity, give the other party and/or its counsel the opportunity to attend and participate in such meetings and conferences.

Additionally, each of HBI and LBI has agreed to furnish to the other, upon request, all information concerning itself, its subsidiaries, directors, officers and shareholders and such other matters as may be reasonably necessary or advisable in connection with this joint proxy statement/prospectus, the Form S-4 or any other statement, filing, notice or application made by or on behalf of HBI, LBI or any of their respective subsidiaries to any governmental entity in connection with the merger.

HBI and LBI have agreed to use their reasonable best efforts to (i) avoid the entry of, or to have vacated, lifted, reversed or overturned any decree, judgment, injunction or other order, whether temporary, preliminary or permanent, that would restrain, prevent or delay the closing of the merger, and (ii) avoid or eliminate each and every impediment under any applicable law and resolve any questions or issues raised by any governmental entity so as to enable the closing of the merger to occur as soon as possible, and in any event no later than March 1, 2014, including, without limitation, making expenditures and incurring costs, raising capital, divesting or otherwise disposing of businesses or assets of HBI, LBI, and their respective subsidiaries, effecting the dissolution, internal merger or consolidation of subsidiaries of HBI or LBI effective upon the completion of the merger, or enhancing internal controls (including by increasing staffing levels and external hires).

Each of HBI and LBI will promptly advise the other upon receiving any communication from any governmental entity the consent or approval of which is required for consummation of the merger that causes such party to believe that there is a reasonable likelihood that any requisite regulatory approval will not be obtained or that the receipt of any such approval may be materially delayed.

Shareholder Approval. LBI s board of directors has resolved to recommend to the LBI shareholders that they approve the Merger Agreement and to submit to LBI shareholders the Merger Agreement and any other matters required to be approved by LBI shareholders in order to carry out the intentions of the Merger Agreement, subject to certain exceptions if, following the receipt of a Superior Proposal (as defined below), the board of directors of LBI concludes in good faith (and based on the advice of counsel) that the failure to withdraw its recommendation or terminate the Merger Agreement would more likely than not result in a violation of the board s fiduciary duties under applicable law.

HBI s board of directors has resolved to recommend to the HBI shareholders that they approve the issuance of HBI common stock to be delivered to shareholders of LBI in connection with the merger and to submit to the HBI shareholders a proposal to issue such shares of HBI common stock and any other matters required to be approved by the HBI shareholders in order to carry out the intentions of the Merger Agreement.

NASDAQ Listing. HBI will cause the shares of HBI common stock to be issued in the merger to have been authorized for listing on The NASDAQ Global Select Market, subject to official notice of issuance, prior to the effective time of the merger.

Employee Matters. The Merger Agreement provides that HBI shall provide each employee who is actively employed by LBI on the closing date while employed by HBI following the closing date with employee benefits which, in the aggregate, are no less favorable than employee benefits provided by HBI to similarly situated employees of HBI.

Indemnification and Directors and Officers Insurance. From and after the effective time of the merger, HBI and the surviving corporation in the merger will indemnify and hold harmless each present and former director and officer of LBI and its subsidiaries against any costs or expenses (including reasonable attorneys fees), judgments, fines, losses, claims, damages or liabilities incurred in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of or pertaining to matters existing or occurring at or prior to the effective time of the merger, to the fullest extent permitted under applicable law. HBI and the surviving corporation have also agreed to advance such indemnified expenses as incurred to the fullest extent permitted under applicable law, which will be repaid if it is ultimately determined that such person is not entitled to indemnification.

In addition, for a period of six years following the effective time of the merger, HBI will provide director s and officer s liability insurance that serves to reimburse the present and former officers and directors of LBI or any of its Subsidiaries (determined as of the effective time) (providing only for the Side A coverage for Indemnified Parties where the existing policies also include Side B coverage for LBI) with respect to claims against such directors and officers arising from facts or events occurring before the Effective Time (including the transactions contemplated by the Merger Agreement), which insurance will contain at least the same coverage and amounts, and contain terms and conditions no less advantageous to the Indemnified Party as that coverage currently provided by LBI; provided that in no event shall LBI be required to expend, on an annual basis, an amount in excess of 150% of the aggregate annual premiums or renewals paid as of the date hereof by LBI for any such insurance (the Premium Cap); provided, further, that if any such annual expense at any time would exceed the Premium Cap, then LBI will cause to be maintained policies of insurance which provide the maximum coverage available at an annual premium equal to the Premium Cap. Prior to the effective time and in lieu of the foregoing, LBI will use commercially reasonable best efforts to purchase a tail policy for directors and officers liability insurance on the terms described in the prior sentence and fully pay for such policy prior to the effective time.

No Solicitation. The Merger Agreement precludes LBI and its subsidiaries and their respective officers, directors, agents, advisors and affiliates from initiating, soliciting, or encouraging inquiries or proposals with respect to, or participating in any negotiations concerning, or providing any nonpublic information relating to, any Acquisition Proposal (as defined below). However, if at any time after the date of the Merger Agreement and prior to obtaining the approval of the Merger Agreement by LBI shareholders, LBI receives an unsolicited bona

fide Acquisition Proposal and the board of directors of LBI concludes in good faith that such Acquisition Proposal constitutes, a Superior Proposal (as defined below), then LBI and its board of directors may, and may permits its subsidiaries and LBI s and its subsidiaries representatives to, furnish or cause to be furnished nonpublic information and participate in such negotiations or discussions to the extent that the board of directors of LBI concludes in good faith (and based on the advice of counsel) that failure to take such actions would be reasonably likely to violate its fiduciary duties under applicable law. Prior to providing any such nonpublic information or engaging in any such negotiations, LBI must have entered into a confidentiality agreement with such third party on terms no less favorable to LBI than the confidentiality agreement between LBI and HBI, and such confidentiality agreement must expressly permit LBI to comply with its obligations pursuant to the Merger Agreement. LBI must promptly (and in any event within 24 hours) advise HBI following receipt of any Acquisition Proposal or any request for nonpublic information or inquiry that would reasonably be expected to lead to any Acquisition Proposal and the substance thereof (including the identity of the person making such Acquisition Proposal), and keep HBI promptly apprised of any related developments, discussions and negotiations (including the terms and conditions of any such request, inquiry or Acquisition Proposal, or all amendments or proposed amendments thereto) on a current basis.

As used in the Merger Agreement, Acquisition Proposal means any proposal or offer other than the Merger Agreement with respect to any transaction or any public announcement by any entity of a proposal, plan or intention with respect to any (a) any merger, consolidation, share exchange, business combination or other similar transaction; (b) any sale, lease, exchange, mortgage, pledge, transfer or other disposition of assets that constitute a substantial portion of the assets of LBI in a single transaction or series of transactions; or (c) any tender offer or exchange offer for 20% or more of the outstanding shares of its capital stock or the filing of a registration statement under the Securities Act, in connection therewith.

In addition, in the event that LBI receives an Acquisition Proposal that LBI s board of directors concludes in good faith constitutes a Superior Proposal (as defined below), the board of directors of LBI may withdraw or materially and adversely modify its recommendation that LBI shareholders vote to approve the Merger Agreement, or recommend to its shareholders a Acquisition Proposal other than the merger, or terminate the Merger Agreement, if it concludes in good faith (and based on the advice of counsel) that failure to take such actions would be more likely than not to result in a violation of its fiduciary duties under applicable law, as long as LBI gives HBI prior written notice at least four business days before taking such action and during such four business day period LBI negotiates in good faith with HBI to enable HBI to make an improved offer that is at least as favorable to the shareholders of LBI as such alternative Acquisition Proposal.

As used in the Merger Agreement, Superior Proposal means any proposal or offer other than the Merger Agreement with respect to any transaction or any public announcement by any entity of a proposal, plan or intention with respect to any (a) any merger, consolidation, share exchange, business combination or other similar transaction; (b) any sale, lease, exchange, mortgage, pledge, transfer or other disposition of assets that constitute a substantial portion of the assets of LBI in a single transaction or series of transactions; or (c) any tender offer or exchange offer for 50% or more of the outstanding shares of its capital stock or the filing of a registration statement under the Securities Act, in connection therewith.

Representations and Warranties

The Merger Agreement contains representations and warranties made by LBI to HBI relating to a number of matters, including the following:

- corporate organization, qualification to do business, and subsidiaries;
- capitalization;
- requisite corporate authority to enter into the Merger Agreement and to complete the contemplated transactions;

Table of Contents

- absence of conflicts with, or violations of, organizational documents or other obligations as a result of the merger;
- required regulatory consents, approvals and filings necessary in connection with the merger;
- reports to regulatory authorities and the accuracy of the information contained therein;
- financial statements, and the absence of undisclosed liabilities;
- broker s fees payable in connection with the merger;
- the absence of certain changes or events;
- compliance with applicable law, including the existence of cease-and-desist orders, consent agreements or memoranda of understanding or similar communications with governmental entities;
- employee benefit matters;
- accuracy of LBI information provided in this joint proxy statement/prospectus;
- legal proceedings;
- certain material contracts;
- environmental matters;
- tax matters;
- intellectual property;
- properties;
- insurance;
- accounting and internal controls;

- loan matters;
- Community Reinvestment Act compliance;
- investment securities;
- related party transactions; and
- labor matters.

The Merger Agreement also contains representations and warranties made by HBI to LBI relating to a number of matters, including the following:

- corporate organization, qualification to do business, and subsidiaries;
- capitalization;
- requisite corporate authority to enter into the Merger Agreement and to complete the contemplated transactions;
- absence of conflicts with, or violations of, organizational documents or other obligations as a result of the merger;
- required regulatory consents, approvals and filings necessary in connection with the merger;
- reports to regulatory authorities and the accuracy of the information contained therein;
- financial statements, and the absence of undisclosed liabilities;
- broker s fees payable in connection with the merger;
- legal proceedings; and
- tax matters.

Table of Contents

Certain of these representations and warranties are qualified as to materiality or material adverse effect. For purposes of the Merger Agreement, a material adverse effect means, with respect to any party, a material adverse effect on (a) the financial condition, results of operations or business of such party and its Subsidiaries taken as a whole; provided, however, that, with respect to this clause (a), a Material Adverse Effect shall not be deemed to include effects arising out of, relating to or resulting from (A) changes after the date hereof in applicable GAAP or regulatory accounting requirements, (B) changes after the date hereof in laws, rules or regulations of general applicability to companies in the industries in which such party and its Subsidiaries operate, (C) changes after the date hereof in global, national or regional political conditions or general economic or market conditions (including changes in prevailing interest rates, credit availability and liquidity, currency exchange rates, and price levels or trading volumes in the United States or foreign securities markets) affecting other companies in the industries in which such party and its subsidiaries operate, (D) changes after the date hereof in the credit markets, any downgrades in the credit markets, or adverse credit events resulting in deterioration in the credit markets generally and including changes to any previously correctly applied asset marks resulting therefrom, (E) a decline in the trading price of a party s common stock or a failure, in and of itself, to meet earnings projections, but not, in either case, including any underlying causes thereof, (F) the public disclosure of the Merger Agreement or the contemplated transactions or the consummation of the contemplated transactions, (G) any outbreak or escalation of hostilities, declared or undeclared acts of war or terrorism or (H) actions or omissions taken with the prior written consent of the other party or expressly required by this Agreement except, with respect to clauses (A), (B), (C), (D) and (G), to the extent that the effects of such change are materially disproportionately adverse to the financial condition, results of operations or business of such party and its subsidiaries, taken as a whole, as compared to other companies in the industry in which such party and its subsidiaries operate; or (b) the ability of such party to timely consummate the contemplated transactions.

The representations and warranties in the Merger Agreement do not survive the effective time of the merger and, as described below under Effect of Termination, if the Merger Agreement is validly terminated, there will be no liability under the representations and warranties of the parties, unless a party knowingly breached the Merger Agreement.

This summary and the copy of the Merger Agreement attached to this joint proxy statement/prospectus as **Appendix A** are included solely to provide investors with information regarding the terms of the Merger Agreement. They are not intended to provide factual information about the parties or any of their respective subsidiaries or affiliates. The Merger Agreement contains representations and warranties by HBI and LBI, which were made only for purposes of that agreement and as of specific dates. The representations, warranties and covenants in the Merger Agreement were made solely for the benefit of the parties to the Merger Agreement, may be subject to limitations agreed upon by the contracting parties, including being qualified by confidential disclosures made for the purposes of allocating contractual risk between the parties to the Merger Agreement instead of establishing these matters as facts, and may be subject to standards of materiality applicable to the contracting parties that differ from those generally applicable to investors. In reviewing the representations, warranties and covenants contained in the Merger Agreement or any descriptions thereof in this summary, it is important to bear in mind that such representations, warranties and covenants or any descriptions thereof were not intended by the parties to the Merger Agreement to be characterizations of the actual state of facts or condition of HBI, LBI or any of their respective subsidiaries or affiliates. Moreover, information concerning the subject matter of the representations, warranties and covenants may change after the date of the Merger Agreement, which subsequent information may or may not be fully reflected in HBI s public disclosures. For the foregoing reasons, the representations, warranties and covenants or any descriptions of those provisions should not be read alone and should instead be read in conjunction with the other information contained in the reports, statements and filings that HBI publicly files with the SEC. For more information regarding these documents, see the section entitled Where You Can Find More Information included elsewhere in this joint proxy statement/prospectus.

Table of Contents

Conditions to the Merger

Conditions to Each Party s Obligations. The respective obligations of each of HBI and LBI to complete the merger are subject to the satisfaction of the following conditions:

receipt of the LBI shareholder approval of the Merger Agreement and of the HBI shareholder approval of the issuance of HBI common stock in connection with the merger;

authorization for the listing on The NASDAQ Global Select Market of the HBI common stock to be issued in the merger, subject to official notice of issuance;

the effectiveness of the registration statement on Form S-4, of which this joint proxy statement/prospectus is a part, and the absence of a stop order suspending the effectiveness of the Form S-4 or any proceeding initiated or threatened by the SEC for that purpose;

the absence of any order, injunction or decree issued by any court or agency of competent jurisdiction or other law preventing or making illegal the consummation of the merger or the other transactions contemplated by the Merger Agreement; and

the receipt of all requisite regulatory approvals of governmental entities, including the necessary regulatory approvals from the Federal Reserve, the FDIC, the U.S. Treasury and the Arkansas State Bank Department, and the expiration of all statutory waiting periods in respect thereof.

Conditions to Obligations of HBI. The obligation of HBI and Acquisition Sub to complete the merger is also subject to the satisfaction, or waiver by HBI, of the following conditions:

the accuracy of the representations and warranties of LBI as of the closing date of the merger, other than, in most cases, those failures to be true and correct that (disregarding any materiality, material adverse effect and similar qualifying terms), individually or in the aggregate, would not reasonably be expected to result in a material adverse effect on LBI, and the receipt by HBI of an officer s certificate to such effect;

performance in all material respects by LBI of the obligations required to be performed by it at or prior to the closing date of the merger, and the receipt by HBI of an officer s certificate to such effect;

receipt by HBI of an opinion of Mitchell, Williams, Selig, Gates & Woodyard, P.L.L.C., as to certain tax matters; and

receipt by HBI of a fairness opinion to the effect that the merger consideration to be paid by HBI is fair to HBI from a financial point of view.

Conditions to Obligations of LBI. The obligation of LBI to complete the merger is also subject to the satisfaction, or waiver by LBI, of the following conditions:

the accuracy of the representations and warranties of HBI as of the closing date of the merger, other than, in most cases, those failures to be true and correct that (disregarding any materiality, material adverse effect and similar qualifying terms), individually or

in the aggregate, would not reasonably be expected to result in a material adverse effect on HBI, and the receipt by LBI of an officer s certificate to such effect;

performance in all material respects by HBI of the obligations required to be performed by it at or prior to the closing date of the merger, and the receipt by LBI of an officer s certificate to such effect;

receipt by LBI of an opinion as to certain tax matters; and

receipt by LBI of a fairness opinion to the effect that the merger consideration to be received by LBI shareholders is fair to such shareholders from a financial point of view.

Table of Contents

Termination; Termination Fee

The Merger Agreement may be terminated at any time prior to the effective time of the merger, whether before or after approval of the Merger Agreement by LBI shareholders and of the stock issuance by HBI.

by mutual written consent of HBI and LBI;

by either HBI or LBI, if a requisite regulatory approval is denied and such denial has become final and non-appealable, or if a governmental entity has issued a final, non-appealable order, injunction or decree permanently enjoining or otherwise prohibiting or making illegal the consummation of the transactions contemplated by the Merger Agreement;

by either HBI or LBI, if the merger has not closed by March 1, 2014 (which date can be extended to July 1, 2014, by either party if the requisite regulatory approvals have not yet been obtained), unless the failure of the closing to occur by such date is due to the failure of the party seeking to terminate the Merger Agreement to perform or observe the covenants and agreements of such party set forth in the Merger Agreement;

by either HBI or LBI, if there is a breach by the other party of any of its covenants, agreements, representations or warranties that would, individually or in the aggregate with other breaches by such party, result in the failure of a closing condition of the other party, and such breach is not cured within 30 days following written notice to the party committing the breach, or the breach, by its nature, cannot be cured within such time (provided that the terminating party is not then in material breach of any representation, warranty, covenant, or other agreement contained in the Merger Agreement);

by either HBI or LBI, if the LBI shareholders have not approved the Merger Agreement and the transactions contemplated thereby at the duly convened LBI special meeting or any adjournment or postponement thereof, provided that the failure to obtain such shareholder approval was not caused by the terminating party s material breach of any of its obligations under the Merger Agreement;

by either HBI or LBI, if the HBI shareholders have not approved the issuance of HBI common stock in connection with the merger at the duly convened HBI special meeting or any adjournment or postponement thereof, provided that the failure to obtain such shareholder approval was not caused by the terminating party s material breach of any of its obligations under the Merger Agreement;

by LBI, prior to obtaining the LBI shareholder approval, in order to enter into a definitive agreement providing for a Superior Proposal (provided that LBI pays HBI a termination fee in advance of or concurrently with such termination, as described below);

by either HBI or LBI, by written notice to the other party in the event that the 20-day average closing price of HBI increases or decreases by more than twenty-five percent (25%) from the date of execution of the Merger Agreement until the closing date; provided, however, that if LBI elects to terminate pursuant to this provision and provides such written notice to HBI, then within two (2) business days following HBI s receipt of such notice, HBI may elect by written notice to LBI to adjust the Merger Consideration by increasing the cash to be paid; or

by HBI, if holders of five percent (5%) or more of the outstanding shares of LBI common stock provide notice of dissent and do not vote in favor of the merger.

LBI must pay HBI a termination fee of $11,200,000 in the event that the Merger Agreement is terminated by LBI due to receipt by LBI of a Superior Proposal.

Effect of Termination

If the Merger Agreement is validly terminated, the Merger Agreement will become void and have no effect, and none of LBI, HBI, any of their respective subsidiaries or any of the officers or directors of any of them will have any liability under the Merger Agreement, or in connection with the transactions contemplated by the

Table of Contents

Merger Agreement, except that (i) the provisions of the Merger Agreement relating to confidentiality obligations of the parties, the termination fees, publicity and certain other technical provisions will continue in effect notwithstanding termination of the Merger Agreement and (ii) neither LBI nor HBI will be relieved or released from any liability or damages arising out of its knowing breach of the Merger Agreement.

Amendments, Extensions and Waivers

The Merger Agreement may be amended by the parties, by action taken or authorized by their respective boards of directors, at any time before or after approval of the matters presented in connection with the merger by the shareholders of LBI or HBI, in writing signed on behalf of each of the parties, provided that after any approval of the transactions contemplated by the Merger Agreement by the LBI or HBI shareholders, there may not be, without further approval of such shareholders, any amendment of the Merger Agreement that requires further approval under applicable law.

At any time prior to the effective time of the merger, the parties, by action taken or authorized by their respective boards of directors, may, to the extent legally allowed, (a) extend the time for the performance of any of the obligations or other acts of the other party, (b) waive any inaccuracies in the representations and warranties contained in the Merger Agreement or (c) waive compliance with any of the agreements or conditions contained in the Merger Agreement. Any agreement on the part of a party to any extension or waiver must be in writing signed on behalf of such party. Any such extension or waiver or failure to insist on strict compliance with an obligation, covenant, agreement or condition will not operate as a waiver of any subsequent or other failure.

Stock Market Listing

Application will be made by HBI to have the shares of HBI common stock to be issued in the merger approved for listing on The NASDAQ Global Select Market, which is the principal trading market for existing shares of HBI common stock. It is a condition to both parties obligation to complete the merger that such approval is obtained, subject to official notice of issuance.

Fees and Expenses

Except for (i) the registration fee for the filing of the Form S-4, of which this joint proxy statement/prospectus is a part, and other fees paid to the SEC in connection with the merger, which will be paid by HBI, and (ii) any termination fees, as described elsewhere in this joint proxy statement/prospectus, all fees and expenses incurred in connection with the merger, the Merger Agreement, and the transactions contemplated by the Merger Agreement (including costs and expenses of printing and mailing this joint proxy statement/prospectus) will be paid by the party incurring such fees or expenses, whether or not the merger is completed.

Table of Contents

MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER

This section describes the anticipated material United States federal income tax consequences of the merger to U.S. holders of LBI common stock who exchange shares of LBI common stock for shares of HBI common stock and cash pursuant to the merger.

The following discussion is based on the Internal Revenue Code of 1986, as amended, referred to herein as the Code, its legislative history, existing and proposed regulations thereunder and published rulings and decisions, all as currently in effect as of the date hereof, and all of which are subject to change, possibly with retroactive effect. Any such change could affect the continuing validity of this discussion.

For purposes of this discussion, a U.S. holder means a holder of LBI common stock who is, for United States federal income tax purposes:

- a citizen or resident of the United States;
- a corporation, or an entity treated as a corporation, created or organized in or under the laws of the United States or any state or political subdivision thereof;
- a trust that (1) is subject to (A) the primary supervision of a court within the United States and (B) the authority of one or more United States persons to control all substantial decisions of the trust or (2) has a valid election in effect under applicable Treasury Regulations to be treated as a United States person; or
- an estate that is subject to United States federal income tax on its income regardless of its source.

If a partnership (including for this purpose any entity treated as a partnership for United States federal income tax purposes) holds LBI common stock, the tax treatment of a partner generally will depend on the status of the partner and the activities of the partnership. If you are a partner of a partnership holding LBI common stock, you should consult your tax advisor regarding the tax consequences of the merger.

This discussion addresses only those LBI shareholders that hold their LBI common stock as a capital asset within the meaning of Section 1221 of the Code, and does not address all the United States federal income tax consequences that may be relevant to particular LBI shareholders in light of their individual circumstances or to LBI shareholders that are subject to special rules, such as:

- financial institutions;
- pass-through entities or investors in pass-through entities;
- insurance companies;
- tax-exempt organizations;
- dealers in securities;
- traders in securities that elect to use a mark to market method of accounting;

persons who exercise dissenters rights;

persons that hold LBI common stock as part of a straddle, hedge, constructive sale or conversion transaction;

certain expatriates or persons that have a functional currency other than the U.S. dollar;

persons who are not U.S. holders; and

shareholders who acquired their shares of LBI common stock through the exercise of an employee stock option or otherwise as compensation or through a tax-qualified retirement plan.

Table of Contents

In addition, the discussion does not address any alternative minimum tax or any state, local or foreign tax consequences of the merger, nor does it address any tax consequences arising under the unearned income Medicare contribution tax pursuant to the Health Care and Education Reconciliation Act of 2010.

HBI and LBI have structured the mergers, taken together, to qualify as a reorganization within the meaning of Section 368(a) of the Code. The obligation of HBI to complete the merger is conditioned upon the receipt of an opinion from Mitchell, Williams, Selig, Gates & Woodyard, P.L.L.C., counsel to HBI, to the effect that the mergers, taken together, will for federal income tax purposes qualify as a reorganization within the meaning of Section 368(a) of the Code. The obligation of LBI to complete the merger is conditioned upon the receipt of an opinion from Mitchell, Williams, Selig, Gates & Woodyard, P.L.L.C., special tax counsel to LBI, to the effect that the mergers, taken together, will for federal income tax purposes qualify as a reorganization within the meaning of Section 368(a) of the Code. In addition, in connection with the filing of the registration statement of which this document is a part, Mitchell, Williams, Selig, Gates & Woodyard, P.L.L.C. has delivered an opinion to HBI and LBI to the same effect as the opinions described above. This tax opinion is an exhibit to this registration statement and the disclosure in this section is based upon the tax opinion. These opinions will be based on assumptions, representations, warranties and covenants, including those contained in the Merger Agreement and in tax representation letters provided by HBI and LBI. The accuracy of such assumptions, representations and warranties, and compliance with such covenants, could affect the conclusions set forth in such opinions. None of these opinions are binding on the Internal Revenue Service or the courts. HBI and LBI have not requested and do not intend to request any ruling from the Internal Revenue Service as to the United States federal income tax consequences of the merger. Accordingly, each LBI shareholder should consult its tax advisor with respect to the particular tax consequences of the merger to such holder. The remainder of this discussion assumes that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code.

Tax Consequences of the Merger Generally. On the basis of the opinions delivered in connection herewith:

- no gain or loss will be recognized by HBI or LBI as a result of the merger;

- gain (but not loss) will be recognized by those holders who receive shares of HBI common stock and cash in exchange for shares of LBI common stock pursuant to the merger, in an amount equal to the lesser of (1) the amount by which the sum of the fair market value of the HBI common stock and cash received by a U.S. holder of LBI common stock exceeds such holder s cost basis in its LBI common stock, and (2) the amount of cash received by such holder of LBI common stock (except with respect to any cash received instead of fractional share interests in HBI common stock, as discussed in the section entitled *Cash Received Instead of a Fractional Share of HBI Common Stock*);

- the aggregate basis of the HBI common stock received by a U.S. holder of LBI common stock in the merger will be the same as the aggregate basis of the LBI common stock for which it is exchanged, decreased by the amount of cash received in the merger (except with respect to any cash received instead of fractional share interests in HBI common stock), decreased by any basis attributable to fractional share interests in HBI common stock for which cash is received, and increased by the amount of gain recognized on the exchange (regardless of whether such gain is classified as capital gain, or as ordinary dividend income, as discussed below, but excluding any gain or loss recognized with respect to fractional share interests in HBI common stock for which cash is received); and

- the holding period of HBI common stock received in exchange for shares of LBI common stock (including fractional shares of HBI common stock deemed received and redeemed as described below) will include the holding period of the LBI common stock for which it is exchanged.

If holders of LBI common stock acquired different blocks of LBI common stock at different times or at different prices, any gain or loss will be determined separately with respect to each block of LBI common stock and such holders basis and holding period in their shares of HBI common stock may be determined with reference to each block of LBI common stock. Any such holders should consult their tax advisors regarding the

manner in which cash and HBI common stock received in the exchange should be allocated among different blocks of LBI common stock and with respect to identifying the bases or holding periods of the particular shares of HBI common stock received in the merger.

Taxation of Gains. Gain that holders of LBI common stock recognize in connection with the merger generally will constitute capital gain and will constitute long-term capital gain if such holders have held (or are treated as having held) their LBI common stock for more than one year as of the date of the merger. Long-term capital gain of non-corporate holders of LBI common stock is generally taxed at preferential rates. In some cases, if a holder actually or constructively owns HBI stock other than HBI stock received pursuant to the merger, the recognized gain could be treated as having the effect of a distribution of a dividend under the tests set forth in Section 302 of the Code, in which case such gain would be treated as dividend income. Because the possibility of dividend treatment depends primarily upon each holder s particular circumstances, including the application of the constructive ownership rules, holders of LBI common stock should consult their tax advisors regarding the application of the foregoing rules to their particular circumstances.

Cash Received Instead of a Fractional Share of HBI Common Stock. A holder of LBI common stock who receives cash instead of a fractional share of HBI common stock will generally be treated as having received the fractional share pursuant to the merger and then as having exchanged that fractional share of HBI common stock for cash in a redemption by HBI. As a result, such holder of LBI common stock will generally recognize gain or loss equal to the difference between the amount of cash received and the basis in his or her fractional share interest as set forth above. Except as described above, this gain or loss will generally be capital gain or loss, and will be long-term capital gain or loss if, as of the effective date of the merger, the holding period for such shares is greater than one year. The deductibility of capital losses is subject to limitations.

Backup Withholding and Information Reporting. Payments of cash to a holder of LBI common stock may, under certain circumstances, be subject to information reporting and backup withholding, unless the holder provides proof of an applicable exemption satisfactory to HBI and the exchange agent or, in the case of backup withholding, furnishes its correct taxpayer identification number and generally otherwise complies with all applicable requirements of the backup withholding rules. Any amounts withheld from payments to a holder under the backup withholding rules are not additional tax and will be allowed as a refund or credit against the holder s United States federal income tax liability, provided the required information is furnished to the Internal Revenue Service.

The discussion set forth above does not address all United States federal income tax consequences that may be relevant to holders of LBI common stock and may not be applicable to such holders that are subject to special rules. It is not a complete analysis or discussion of all potential tax effects that may be important to you. Thus, you are strongly encouraged to consult your tax advisor as to the specific tax consequences resulting from the merger, including tax return reporting requirements, the applicability and effect of federal, state, local, and other tax laws and the effect of any proposed changes in the tax laws.

Table of Contents

DESCRIPTION OF HBI S CAPITAL STOCK

The following is a description of the HBI common stock and certain provisions of HBI s Restated Articles of Incorporation, Bylaws and applicable law. The following is only a summary and is qualified by applicable law and by the provisions of HBI s Articles of Incorporation and Bylaws, copies of which have been filed with the SEC and are also available upon request from us.

General

Under HBI s Restated Articles of Incorporation, as amended, we have authority to issue up to 100,000,000 shares of common stock, par value $0.01 per share, and up to 5,500,000 shares of preferred stock, par value $0.01 per share. Each share of HBI common stock has the same relative rights as, and is identical in all respects to, each other share of HBI common stock.

As of June 30, 2013, 56,243,192 shares of HBI common stock were issued and outstanding, and 2,634,624 shares of common stock were reserved for issuance pursuant to HBI s stock option plan. HBI common stock is listed on The NASDAQ Global Select Market under the symbol HOMB. The outstanding shares of HBI s common stock are validly issued, fully paid and non-assessable.

As of June 30, 2013, no shares of HBI preferred stock are issued and outstanding.

Common Stock

Voting Rights. Holders of HBI common stock are entitled to one vote per share on all matters submitted to a vote of shareholders. Holders of HBI common stock do not have cumulative voting rights.

Dividend Rights. Holders of HBI common stock are entitled to receive ratably dividends when, as, and if declared by HBI s board of directors out of funds legally available for the payment of dividends. Holders of any preferred stock HBI may issue in the future may have a priority over holders of common stock with respect to dividends. The payment of dividends is subject to government regulation, in that regulatory authorities may prohibit banks and bank holding companies from paying dividends in a manner that would constitute an unsafe or unsound banking practice. In addition, a bank may not pay cash dividends if doing so would reduce the amount of its capital below that necessary to meet minimum regulatory capital requirements. State laws also limit a bank s ability to pay dividends. Accordingly, the dividend restrictions imposed on HBI s subsidiaries by statute or regulation effectively may limit the amount of dividends HBI can pay.

Liquidation and Dissolution. In the event of the liquidation, dissolution and winding up of HBI, the holders of HBI common stock are entitled to receive ratably all of the assets of HBI available for distribution after satisfaction of all liabilities of HBI, subject to the rights of the holders of any of HBI s preferred shares that may be issued from time to time.

Other Rights. Holders of HBI common stock have no preferential or preemptive rights with respect to any securities of HBI, and there are no conversion rights or redemption or sinking fund provisions applicable to HBI common stock.

Restrictions on Ownership. The Bank Holding Company Act requires any bank holding company, as defined in the Bank Holding Company Act, to obtain the approval of the Federal Reserve Board prior to the acquisition of 5% or more of HBI common stock. Any person, other than a bank holding company, is required to obtain prior approval of the Federal Reserve Board to acquire 10% or more of HBI common stock under the Change in Bank Control Act. Any holder of 25% or more of HBI common stock, or a holder of 5% or more if such holder otherwise exercises a controlling influence over HBI, is subject to regulation as a bank holding company under the Bank Holding Company Act.

Table of Contents

Modification of Rights. Rights of the holders of HBI common stock may not be modified by less than a majority vote of the common stock outstanding. Additionally, under the Arkansas Business Corporation Act of 1987, a majority vote is required for the approval of a merger or consolidation with another corporation, and for the sale of all or substantially all of HBI s assets and liquidation or dissolution of HBI.

Transfer Agent. The transfer agent and registrar for HBI common stock is Computershare Trust Company, N.A., P.O. Box 43078, Providence, Rhode Island 02940-3078.

For additional information concerning HBI s common stock, see Comparison of Rights of Holders of HBI and LBI Common Stock below.

Preferred Stock

The 5,500,000 authorized shares of HBI preferred stock, par value $0.01 per share, are typically referred to as blank check preferred stock. This term means that these shares of preferred stock may be issued with such preferences, limitations, relative rights, and terms as determined by HBI s board of directors. As such, the board of directors can, without shareholder approval, issue preferred stock with voting, dividend, liquidation and conversion rights that could dilute the voting strength of the holders of the common stock and may assist management in impeding an unfriendly takeover or attempted change in control.

Table of Contents

COMPARISON OF RIGHTS OF HOLDERS OF HBI AND LBI COMMON STOCK

General

LBI is incorporated under the laws of the State of Arkansas and the rights of LBI shareholders are governed by the laws of the State of Arkansas, LBI s Articles of Incorporation, as amended, and LBI s Bylaws. As a result of the merger, LBI shareholders who receive shares of HBI common stock will become HBI shareholders. HBI is incorporated under the laws of the State of Arkansas and the rights of HBI shareholders are governed by the laws of the State of Arkansas, HBI s Restated Articles of Incorporation, as amended, and HBI s Bylaws. Thus, following the merger, the rights of LBI shareholders who become HBI shareholders in the merger will no longer be governed by LBI s Articles of Incorporation and LBI s Bylaws and instead will be governed by HBI s Restated Articles of Incorporation, as amended, and Bylaws.

Comparison of Shareholders Rights

Set forth below is a summary comparison of material differences between the rights of HBI shareholders under the HBI Restated Articles of Incorporation, as amended, and Bylaws (right column), and the rights of LBI shareholders under LBI s Articles of Incorporation, as amended, and Bylaws (left column). The summary set forth below is not intended to provide a comprehensive discussion of each company s governing documents. This summary is qualified in its entirety by reference to the full text of HBI s Restated Articles of Incorporation and amendments thereto, HBI s Bylaws, LBI s Articles of Incorporation and amendments thereto and LBI s Bylaws.

LBI	HBI
Authorized Capital Stock	
LBI s Articles of Incorporation, as amended, authorize LBI to issue up to 10,000,000 shares of common stock, par value of $0.01 per share, and 5,000,000 shares of preferred stock, par value of $0.01 per share. As of the LBI record date, there were 1,174,966 shares of LBI common stock outstanding and 52,500 shares of preferred stock outstanding.	HBI s Restated Articles of Incorporation authorize HBI to issue up to 100,000,000 shares of common stock, $0.01 par value per share, and 5,500,000 shares of preferred stock, $0.01 par value per share. As of the HBI record date, there were 56,243,192 shares of HBI common stock outstanding and no shares of preferred stock outstanding.
Holders of LBI common stock are entitled to one vote per share of all purposes. The holders of LBI preferred stock do not have voting rights. Shareholders of LBI do not have any preemptive rights. The outstanding shares of LBI are fully paid and nonassessable.	Holders of HBI common stock are entitled to one vote per share of all purposes. Shareholders of HBI do not have any preemptive rights. The outstanding shares of HBI are fully paid and nonassessable.
Number of Directors	
LBI s Bylaws provide that the number of directors will not be fewer than three (3) or more than twenty-five (25), with the exact number to be determined each year by the shareholders at their annual meeting. LBI s board of directors currently has nineteen (19) directors. All directors are elected annually. There is no cumulative voting on directors.	HBI s Restated Articles of Incorporation provide that the number of directors will not be fewer than two (2) or more than fifteen (15), with the exact number to be fixed and determined, from time to time, by resolution of the board of directors or by resolution of the shareholders at any annual or special meeting. HBI s board of directors is currently fixed at twelve (12) directors (including one vacancy). There is no cumulative voting on directors.

Table of Contents

LBI	HBI
Removal of Directors	
LBI s Bylaws provide that a director may be removed at any time, with or without cause, by the shareholders at a special meeting called expressly for that purpose.	HBI s Restated Bylaws provide that a director may be removed at any time, with or without cause, by the shareholders at a special meeting called expressly for that purpose.
Vacancies on the Board of Directors	
LBI s Bylaws provide that if a vacancy occurs on the board of directors by reason of death or resignation, or if the shareholders fail to fill all the vacancies on the board of directors at the annual meeting of shareholders or any meeting for the purpose of electing directors, or if by an affirmative vote of a majority of the board of directors a vacancy is declared to exist, the vacancies shall be filled by the affirmative vote of a majority of the remaining members of the board of directors.	HBI s Restated Bylaws provide that if a vacancy occurs on the board of directors by reason of death or resignation, or if the shareholders fail to fill all the vacancies on the board of directors at the annual meeting of shareholders or any meeting for the purpose of electing directors, or if by an affirmative vote of a majority of the board of directors a vacancy is declared to exist, the vacancies shall be filled by the affirmative vote of a majority of the remaining members of the board of directors. Any vacancy caused by removal of a director shall be filled by the shareholders at a shareholders meeting at which the vacancy is created or at a subsequent meeting.
Shareholder Proposals and Nominations	
LBI has not adopted a policy or procedure to allow shareholders to make director nominations or to bring other business before an annual meeting of shareholders.	HBI has adopted a policy stating that its Nominating and Corporate Governance Committee will consider a candidate properly and timely recommended for directorship by a stockholder or group of stockholders of HBI if:
Neither the Articles of Incorporation nor the Bylaws of LBI require its shareholders to provide any advance notice of business to be brought at annual or special meeting.	The recommendation is submitted by one or more stockholders that have individually or as a group owned beneficially at least two percent of HBI s issued and outstanding common stock for at least one year, determined as of the date the recommendation is submitted; and
	The recommendation is submitted to the Secretary of HBI, in writing via certified U.S. mail, not less than 120 days prior to the first anniversary of the date of the proxy statement relating to HBI s previous annual meeting.
	The recommendation includes specified information about the recommending shareholder(s) and the candidate, such required information is provided in more detail in HBI s Policy Regarding Director Recommendations by Stockholders and Nominating and Corporate Governance Committee Directorship Guidelines and Selection Policy published on HBI s

Table of Contents

LBI	HBI
	website at *www.homebancshares.com* under the caption Investor Relations / Corporate Profile / Governance Documents.
	The recommending shareholder(s) and the candidate submit, with the recommendation, a signed statement agreeing and acknowledging that, among other things, the recommending shareholder will maintain an ownership of at least two percent of HBI s stock throughout the candidate s term as director.
	Upon receipt of the recommendation, the committee will consider the qualifications of the candidate. The committee does not intend to review and/or consider candidates in a manner different than other recommendations, although the committee may prefer director candidates who are personally known to the existing directors, have the requisite experience and whose reputations are highly regarded.
	In order for a proposal by a shareholder to be presented at an annual meeting of HBI s shareholders, the proposal must be included in the related proxy statement and proxy form. Proposals by shareholders intended to be presented at the Annual Meeting of Shareholders in 2014 must be received by HBI no later than November 8, 2013, for possible inclusion in the proxy statement relating to that meeting.
	For a shareholder proposal to be included in the proxy statement and proxy form for an annual meeting of HBI s shareholders, the proposal must: (1) concern a matter that may be properly considered and acted upon at the annual meeting in accordance with applicable laws, including HBI s Bylaws and Rule 14a-8 of the Exchange Act; and (2) be received by HBI at its home office, 719 Harkrider Street, Suite 100, Conway, Arkansas 72032, Attention: Holly A. McKenna, Secretary, not less than 120 calendar days before the anniversary of the date of the previous year s proxy statement, or November 8, 2013, in the case of the Annual Meeting of Shareholders in 2014. If no annual meeting was held the previous year and in any year in which the date of the annual meeting is moved by more than 30 days from the date of the previous year s annual meeting, the proposal will be considered timely if received within a reasonable time before HBI begins to print and mail its proxy materials.

Table of Contents

LBI	HBI
Voting Rights in an Extraordinary Transaction	
Neither LBI s Articles of Incorporation, as amended, nor LBI s Bylaws impose heightened shareholder approval requirements for any action. Arkansas law therefore governs the number of votes required to take any action.	Neither HBI s Restated Articles of Incorporation, as amended, nor HBI s Restated Bylaws impose heightened shareholder approval requirements for any action. Arkansas law therefore governs the number of votes required to take any action.
Anti-Takeover Provisions and Other Shareholder Protections	
Neither LBI s Articles of Incorporation, as amended, nor LBI s Bylaws include anti-takeover provisions or other shareholder protections in the context of a takeover or merger. LBI has entered into contracts with certain officers and employees entitling such persons to payments upon a merger or other takeover event, if such person s employment is terminated as described in more detail in such contracts.	Neither HBI s Restated Articles of Incorporation, as amended, nor HBI s Restated Bylaws include anti-takeover provisions or other shareholder protections in the context of a takeover or merger.
Indemnification of Directors and Officers	
LBI s Articles of Incorporation, as amended, grants LBI the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he is or was a director, officer, employee or agent of LBI (or is or was serving at the request of LBI as a director, officer, employee or agent of another entity) against expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of LBI, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. It further grants LBI the power to indemnify those persons in actions by or in the right of the corporation if he acted in good faith and in a manner he reasonably believe to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter if such person has been adjudged to be liable to LBI unless so otherwise determined by a court. To the extent such person is successful on the merits, LBI will indemnify such person against expenses.	In HBI s Restated Articles of Incorporation, as amended, and Restated Bylaws, every person who was or is a party to, or is involved in, any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director or officer of HBI (or is or was serving at the request of HBI as a director or officer of another entity) shall be indemnified and held harmless to the fullest extent legally permissible under and pursuant to any procedure specified in the Arkansas Business Corporation Act of 1987 (ABCA), against all expenses, liabilities and losses reasonably incurred or suffered by him in connection therewith. The rights of indemnification provided in the Restated Articles of Incorporation are not exclusive of any rights which may be available under any agreement, vote of stockholders, provision of law or otherwise. In addition, the Articles of Incorporation authorize HBI to maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of HBI, whether or not HBI would have the power to provide indemnification to such person.

Table of Contents

LBI

The rights of indemnification provided in the Articles of Incorporation are not exclusive of any other rights which may be available under the Bylaws, any insurance or other agreement, by vote of shareholders or directors (regardless of whether directors authorizing such indemnification are beneficiaries thereof,) or otherwise. In addition, the Articles of Incorporation authorize LBI to maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of LBI, whether or not LBI would have the power to provide indemnification to such person.

HBI

Shareholder Action by Written Consent

Shareholder action on a proposal to increase the capital stock or bond indebtedness of LBI may be taken without a meeting if one or more written consents, setting forth the action so taken, shall be signed by all of the shareholders of LBI. Any other action required or permitted to be taken at a meeting of shareholders may be taken without a meeting if one or more written consents, setting for the action so taken, shall be signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon where present and voted.

Any shareholder action required or permitted to be taken at a meeting of shareholders may be taken without a meeting if one or more written consents, setting forth the action so taken, shall be signed by all of the shareholders of HBI.

Special Meetings

Special meetings of the shareholders may be called at any time by the chairman of the board, the president, or the board of directors.

Special meetings of the shareholders may be called at any time by the president, resolution of the board of directors, or by not less than ten percent (10%) of the holders of shares entitled to vote on any action to be presented at such meeting.

Shareholders Rights to Examine Books and Records

Arkansas law provides a shareholder and his, her, or its agent or attorney with a right to inspect (beginning two (2) business days after notice of a meeting is given) and copy the corporation s shareholder list. Arkansas law also permits any shareholder, on at least five (5) business days advance written demand to the corporation, to inspect (1) the articles of incorporation and bylaws of the corporation and all amendments thereto that are in effect, (2) board resolutions of the corporation relating to the creation of fixing the rights, preferences and limitations of any class of shares that are still outstanding, (3) minutes of shareholder meetings, records of actions taken by shareholders without a meeting and all written communications to

Arkansas law provides a shareholder and his, her, or its agent or attorney with a right to inspect (beginning two (2) business days after notice of a meeting is given) and copy the corporation s shareholder list. Arkansas law also permits any shareholder, on at least five (5) business days advance written demand to the corporation, to inspect (1) the articles of incorporation and bylaws of the corporation and all amendments thereto that are in effect, (2) board resolutions of the corporation relating to the creation of fixing the rights, preferences and limitations of any class of shares that are still outstanding, (3) minutes of shareholder meetings, records of actions taken by shareholders without a meeting and all

LBI	HBI
shareholders, including financial statements furnished to shareholders, for the past three (3) years, (4) the name and business addresses of the current directors and officers, and (5) the most recent annual franchise tax report delivered to the Arkansas Secretary of State. In addition, a shareholder satisfying specified conditions is entitled to inspect (1) excerpts of minutes of any meeting of the board of directors and records of any actions of any committee of the board of directors and of actions taken by the board of directors without a meeting, (b) accounting records, (c) the record of shareholders, and (d) the shareholder list as described above, in each case if the demand is made in good faith and for a proper purpose, describes the purpose of the inspection and the desired records with reasonable particularity, and the desired records are directly connected to the purpose of such inspection.	written communications to shareholders, including financial statements furnished to shareholders, for the past three (3) years, (4) the name and business addresses of the current directors and officers, and (5) the most recent annual franchise tax report delivered to the Arkansas Secretary of State. In addition, a shareholder satisfying specified conditions is entitled to inspect (1) excerpts of minutes of any meeting of the board of directors and records of any actions of any committee of the board of directors and of actions taken by the board of directors without a meeting, (b) accounting records, (c) the record of shareholders, and (d) the shareholder list as described above, in each case if the demand is made in good faith and for a proper purpose, describes the purpose of the inspection and the desired records with reasonable particularity, and the desired records are directly connected to the purpose of such inspection.
Amendments to Articles of Incorporation and Bylaws	
Under Arkansas law, amendments to the articles of incorporation generally is approved if a majority of the votes representing the quorum approves it. Pursuant to LBI s Articles of Incorporation, as amended, and Bylaws, a quorum at any meeting of the shareholders of LBI consists of a majority of the votes entitled to be cast on the matter, represented in person or by proxy at such meeting.	Under Arkansas law, amendments to the articles of incorporation generally is approved if a majority of the votes representing the quorum approves it. Pursuant to HBI s Restated Bylaws, a quorum at any meeting of the shareholders of HBI consists of a majority of the votes entitled to be cast on the matter, represented in person or by proxy at such meeting.
An amendment to the Bylaws that increases the quorum or voting requirements for the shareholders must be approved by a majority of the quorum at any meeting of shareholders. Any other amendment to the Bylaws may be adopted, amended or repealed at any meeting of the Board of Directors.	An amendment to the Restated Bylaws may be adopted, amended or repealed at any meeting of the board of directors.
	Notwithstanding the foregoing, under Arkansas law, a majority of a class of stock must approve any amendment that adversely affects their particular class as further described in Ark. Code Ann. §4-27-1004.
Dividends	
Under Arkansas law, a corporation may not make any distribution to its shareholders if, after giving effect to the distribution (1) the corporation would not be able to pay its debts as they become due in the usual course of business or (2) the corporation s total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the corporation were to be dissolved at the time of distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution. The ability of LBI to pay dividends to	Under Arkansas law, a corporation may not make any distribution to its shareholders if, after giving effect to the distribution (1) the corporation would not be able to pay its debts as they become due in the usual course of business or (2) the corporation s total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the corporation were to be dissolved at the time of distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution. The

Table of Contents

LBI	HBI
its shareholders is directly influenced by the ability of Liberty Bank to pay dividends to LBI, as its sole shareholder.	ability of the HBI to pay dividends to its shareholders is directly influenced by the ability of Centennial Bank to pay dividends to HBI, as its sole shareholder.
Approval of the Arkansas State Bank Commissioner is required before Liberty Bank can declare and pay any dividend of 75% or more of its net profits after all taxes for the current year plus 75% of the retained net profits for the immediately preceding year.	Approval of the Arkansas State Bank Commissioner is required before Centennial Bank can declare and pay any dividend of 75% or more of its net profits after all taxes for the current year plus 75% of the retained net profits for the immediately preceding year.
In addition, the Federal Reserve further limits the ability to pay dividends if the total of all dividends declared in any calendar year by the bank exceeds the bank s net profits to date for that year combined with its retained net profits for the preceding two years.	In addition, the Federal Reserve further limits the ability to pay dividends if the total of all dividends declared in any calendar year by the bank exceeds the bank s net profits to date for that year combined with its retained net profits for the preceding two years.
Dissenters Rights	
Neither LBI s Articles of Incorporation, as amended, nor LBI s Bylaws address dissenters rights. Arkansas law therefore governs when a shareholder is entitled to dissent, the process for dissenting and the amount of the payment.	Neither HBI s Restated Articles of Incorporation, as amended, nor HBI s Bylaws address dissenters rights. Arkansas law therefore governs when a shareholder is entitled to dissent, the process for dissenting and the amount of the payment.
Pursuant to Ark. Code Ann. §4-27-1302(a)(2), the LBI shareholders have dissenters rights because LBI shares are being acquired.	The HBI shareholders do not have dissenters rights for this transaction under Arkansas law.

HBI SPECIAL MEETING OF SHAREHOLDERS

Date, Time and Place

The HBI special meeting of shareholders will be held at HBI s principal executive offices located at 719 Harkrider Street, Suite 100, Conway, Arkansas, at 10:00 a.m., Central Time, on October 23, 2013.

Purpose

At the special meeting, HBI shareholders will:

- consider and vote upon a proposal to approve the issuance of HBI common stock in the merger (the Share Issuance Proposal); and

- consider and vote upon a proposal to approve one or more adjournments of the HBI special meeting, if necessary or appropriate, including adjournments to solicit additional proxies in favor of the Share Issuance Proposal (the HBI Adjournment Proposal).

Share Issuance Proposal

The Merger Agreement provides that HBI will issue, as a portion of the aggregate merger consideration, approximately 10,955,302 shares of its common stock (based on a $22.82 average closing price). Under the NASDAQ Listing Rules a company listed on NASDAQ is required to obtain shareholder approval prior to the issuance of common stock or securities convertible into or exercisable for common stock, in connection with the acquisition of stock or assets of another company if the common stock has or will have upon issuance voting power equal to or in excess of 20% of the voting power outstanding before the issuance of stock or securities convertible into or exercisable for common stock, or the number of shares of common stock to be issued is or will be equal to or in excess of 20% of the number of shares of common stock outstanding before the issuance of the stock or securities. If we complete the merger, the number of shares of HBI common stock issued may exceed 20% of the shares of HBI common stock outstanding before such issuance. Accordingly, HBI is seeking the approval of HBI shareholders for the issuance of shares of HBI common stock in connection with the merger.

HBI Adjournment Proposal

If, at the HBI special meeting, the number of shares of HBI common stock present or represented by proxy and voting in favor of the Share Issuance Proposal is insufficient to approve such proposal, HBI intends to move to adjourn the HBI special meeting in order to solicit additional proxies for such proposal.

In this proposal, HBI is asking its shareholders to authorize the holder of any proxy solicited by the HBI board of directors to vote in favor of granting discretionary authority to proxy holders to adjourn the HBI special meeting to another time and/or place for the purpose of soliciting additional proxies. If HBI shareholders approve the HBI Adjournment Proposal, HBI could adjourn the HBI special meeting and any adjourned session of the HBI special meeting and use the additional time to solicit additional proxies.

HBI does not intend to call a vote on this proposal if the Share Issuance Proposal has been approved at the HBI special meeting.

The HBI board of directors recommends that holders of HBI common stock vote FOR the approval of the Share Issuance Proposal and FOR approval of the HBI Adjournment Proposal.

Record Date and Quorum

The HBI board of directors has fixed September 26, 2013, as the record date for determining the holders of shares of HBI common stock entitled to notice of and to vote at the special meeting. At the close of business on September 26, 2013, there were 56,277,947 shares of common stock issued and outstanding. Holders of record of HBI common stock on the record date are entitled to one vote per share.

86

Table of Contents

The representation (in person or by proxy) of holders of at least a majority of the shares entitled to vote at the HBI special meeting constitutes a quorum for action at the HBI special meeting. All shares of HBI common stock present in person or represented by proxy, including abstentions and broker non-votes, will be treated as present for purposes of determining the presence or absence of a quorum for all matters voted on at the HBI special meeting.

Required Vote; Effects of Abstentions or Failure to Vote

Share Issuance Proposal

Approval of the Share Issuance Proposal requires the affirmative vote of at least a majority of the shares of HBI voting on the proposal, provided that a quorum is present at the HBI special meeting. Therefore, assuming that a quorum is present, your failure to vote, an abstention or a broker non-vote will have no effect on the approval of the Share Issuance Proposal.

Adjournment Proposal

Approval of the HBI Adjournment Proposal requires the affirmative vote of at least a majority of the shares of HBI voting on the proposal, provided that a quorum is present at the HBI special meeting. Therefore, assuming that a quorum is present, your failure to vote, an abstention or a broker non-vote will have no effect on the approval of the HBI Adjournment Proposal.

How to Vote

Vote by Telephone. You can vote by calling the toll-free telephone number on your proxy card. Easy-to-follow voice prompts allow you to vote your shares and confirm that your instructions have been properly recorded.

Vote by Internet. You also can choose to vote on the Internet by visiting the website for Internet voting printed on your proxy card. Easy-to-follow prompts allow you to vote your shares and confirm that your instructions have been properly recorded. If you vote on the Internet, you can also request electronic delivery of future proxy materials.

Vote by Mail. If you choose to vote by mail, simply mark your proxy, date and sign it, and return it to Computershare in the postage-paid envelope provided. If the envelope is missing, please mail your completed proxy card to Home BancShares, Inc., c/o Computershare, P. O. Box 43101, Providence, Rhode Island, 02940-5067.

Vote in Person. The method by which you vote will not limit your right to vote at the shareholder meeting if you decide to attend in person. If your shares are held in the name of a bank, broker or other holder of record, you must obtain a legal proxy, executed in your favor, from the holder of record to be able to vote at the special meeting.

All shares that have been properly voted and not revoked will be voted at the special meeting. If you sign and return your proxy card but do not give voting instructions, the shares represented by that proxy will be voted as recommended by the HBI board of directors.

Revocability of Proxies and Changes to a HBI Shareholder s Vote

An HBI shareholder has the power to change its vote at any time before its shares of HBI common stock are voted at the LBI special meeting by:

- sending a notice of revocation to HBI s corporate secretary at 719 Harkrider Street, Suite, 100, Conway, Arkansas 72032 stating that you would like to revoke your proxy;

- sending a completed proxy card bearing a later date than your original proxy card; or

- attending the HBI special meeting and voting in person if your shares of HBI common stock are registered in your name rather than in the name of a broker, bank or other nominee, and you so request, although attendance at the special meeting will not by itself revoke a previously granted proxy.

If you choose the first method, you must take the described action no later than the beginning of the HBI special meeting. If you choose to send a completed proxy card bearing a later date than your original proxy card, the new proxy card must be received before the beginning of the HBI special meeting. If you have instructed a bank, broker or other nominee to vote your shares of HBI common stock, you must follow the directions you receive from your bank, broker or other nominee in order to change or revoke your vote.

Attending the HBI Special Meeting

Subject to space availability, all HBI shareholders as of the record date, or their duly appointed proxies, may attend the HBI special meeting. Since seating is limited, admission to the HBI special meeting will be on a first-come, first-served basis. Registration and seating will begin at 9:00 a.m., Central Time.

If you hold your shares of HBI common stock in your name as a shareholder of record and you wish to attend the HBI special meeting, please bring your proxy and valid picture identification to the HBI special meeting.

If your shares of HBI common stock are held in street name in a stock brokerage account or by a bank or nominee and you wish to attend the HBI special meeting, you need to bring a copy of a bank or brokerage statement to the HBI special meeting reflecting your stock ownership as of the record date, along with a legal proxy, executed in your favor, from the broker, bank or other nominee that is the holder of record of your shares. You should also bring valid picture identification.

Proxy Solicitations

HBI is soliciting proxies for the HBI special meeting on behalf of the HBI board of directors. HBI will bear the cost of soliciting proxies from its shareholders. In addition to using the mails, HBI may solicit proxies by personal interview, telephone, and facsimile. Banks, brokerage houses, other institutions, nominees, and fiduciaries will be requested to forward their proxy soliciting material to their principals and obtain authorization for the execution of proxies. HBI does not expect to pay any compensation for the solicitation of proxies. However, HBI will, upon request, pay the standard charges and expenses of banks, brokerage houses, other institutions, nominees, and fiduciaries for forwarding proxy materials to and obtaining proxies from their principals.

Delivery of Proxy Materials To Shareholders Sharing an Address

As permitted by the Exchange Act, only one copy of this joint proxy statement/prospectus is being delivered to multiple shareholders of HBI sharing an address unless HBI has previously received contrary instructions from one or more such shareholders. This is referred to as householding. Shareholders who hold shares in street name can request further information on householding through their banks, brokers or other holders of record. On written or oral request to Corporate Secretary, 719 Harkrider Street, Suite 100, Conway, Arkansas 72032, Telephone No. 501-328-4770, HBI will deliver promptly a separate copy of this joint proxy statement/prospectus to a shareholder at a shared address to which a single copy of the document was delivered.

CERTAIN INFORMATION CONCERNING HBI

General

HBI is a Conway, Arkansas headquartered bank holding company registered under the federal Bank Holding Company Act of 1956. HBI s common stock is traded through The NASDAQ Global Select Market under the symbol HOMB. HBI is primarily engaged in providing a broad range of commercial and retail banking and related financial services to businesses, real estate developers and investors, individuals and municipalities through our wholly owned community bank subsidiary Centennial Bank. Centennial Bank has locations in Central Arkansas, North Central Arkansas, Southern Arkansas, the Florida Keys, Central Florida, Southwestern Florida, the Florida Panhandle and South Alabama.

Financial and other information relating to HBI is set forth in its Annual Report on Form 10-K for the year ended December 31, 2012, and its Quarterly Reports on Form 10-Q for the quarters ended March 31, 2013 and June 30, 2013. Information regarding the names, ages, positions, and business backgrounds of the executive officers and directors of HBI, as well as additional information, including executive compensation, and certain relationships and related person transactions, is set forth in or incorporated by reference in HBI s 10-K and in its proxy statement for its 2013 annual meeting of shareholders. See Documents Incorporated by Reference.

Table of Contents

LBI SPECIAL MEETING OF SHAREHOLDERS

General

LBI s board of directors is using this joint proxy statement/prospectus to solicit proxies from the holders of shares of LBI common stock for use at the LBI special meeting.

Together with this joint proxy statement/prospectus, LBI is also sending you a notice of the special meeting and a form of proxy that is solicited by LBI s board of directors. The LBI special meeting will be held at 2901 East Highland Drive, Jonesboro, Arkansas, at 4:00 p.m. Central Time on October 23, 2013. On September 30, 2013, LBI commenced mailing this joint proxy statement/prospectus and the enclosed form of proxy to its shareholders entitled to vote at the LBI special meeting.

Purpose of LBI Special Meeting

At the LBI special meeting, LBI shareholders will be asked to:

- approve the Merger Agreement, a copy of which is attached as Appendix A to this joint proxy statement/prospectus, which is referred to as the Merger Proposal; and
- approve one or more adjournments of the LBI special meeting, if necessary or appropriate, including adjournments to permit further solicitation of proxies in favor of the Merger Proposal, which is referred to as the LBI Adjournment Proposal.

Recommendation of LBI s Board of Directors

LBI s board of directors recommends that you vote **FOR** the Merger Proposal and **FOR** the LBI Adjournment Proposal. See The Merger Recommendation of LBI s board of Directors and Reasons for the Merger on page 45.

LBI Record Date and Quorum

LBI s board of directors has fixed the close of business on September 26, 2013 as the record date for determining the holders of LBI stock entitled to receive notice of and to vote at the LBI special meeting.

As of the LBI record date, there were 1,174,966 shares of LBI common stock outstanding and entitled to vote at the LBI special meeting held by approximately 486 holders of record. Each share of LBI common stock entitles the holder to one vote at the LBI special meeting on each proposal to be considered at the LBI special meeting.

The representation (in person or by proxy) of holders of at least a majority of the votes entitled to be cast on each of the matters to be voted on at the LBI special meeting constitutes a quorum for action on that matter at the LBI special meeting. All shares of LBI common stock present in person or represented by proxy, including abstentions and broker non-votes, will be treated as present for purposes of determining the presence or absence of a quorum for all matters voted on at the LBI special meeting.

As of the record date, directors and executive officers of LBI and their affiliates owned and were entitled to vote 482,756 shares of LBI common stock, representing approximately 40.77% of the shares of LBI common stock outstanding on that date. We currently expect that LBI s directors and executive officers will vote their shares in favor of the Merger Proposal and the LBI Adjournment Proposal. As of the record date, HBI did not beneficially own any shares of LBI common stock.

Table of Contents

Required Vote; Effects of Abstention or Failure to Vote

Required Vote to Approve the Merger Proposal

The affirmative vote of a majority of the outstanding shares of LBI common stock entitled to vote is required to approve the Merger Proposal. Therefore, assuming that a quorum is present, your abstention or failure to vote will have the same effect as a vote cast **AGAINST** this proposal.

Required Vote to Approve the LBI Adjournment Proposal

The LBI Adjournment Proposal will be approved if a majority of the shares of LBI common stock present at the special meeting, in person or in proxy, are voted in favor of the proposal. Therefore, assuming that a quorum is present, your abstention or failure to vote will have no effect on the outcome of the proposal.

Voting on Proxies; Incomplete Proxies

Giving a proxy means that an LBI shareholder authorizes the persons named in the enclosed proxy card to vote its shares at the LBI special meeting in the manner it directs. An LBI shareholder may vote by proxy or in person at the LBI special meeting. If you hold your shares of the LBI common stock in your name as a shareholder of record, to submit a proxy, you, as an LBI shareholder, may vote by completing and signing the accompanying proxy and returning it to LBI as soon as possible in the enclosed postage-paid envelope. When the accompanying proxy is returned properly executed, the shares of LBI stock represented by it will be voted at the LBI special meeting in accordance with the instructions contained on the proxy card.

If any proxy is returned without indication as to how to vote, the shares of LBI common stock represented by the proxy will be voted as recommended by LBI s board of directors. Unless an LBI shareholder checks the box on its proxy card to withhold discretionary authority, the proxy holders may use their discretion to vote on other matters relating to the LBI special meeting.

If your shares are held in a street name, you should follow the instructions you receive from your broker in order to direct your broker how to vote, and you should also follow the instructions of your broker regarding revocation of proxies.

Every LBI shareholder s vote is important. Accordingly, each LBI shareholder should sign, date and return the enclosed proxy card, whether or not the LBI shareholder plans to attend the LBI special meeting in person.

Revocability of Proxies and Changes to a LBI Shareholder s Vote

An LBI shareholder has the power to change its vote at any time before its shares of LBI common stock are voted at the LBI special meeting by:

- sending a notice of revocation to LBI s corporate secretary at 2901 East Highland Drive, Jonesboro, Arkansas 72401 stating that you would like to revoke your proxy;

- sending a completed proxy card bearing a later date than your original proxy card; or

- attending the LBI special meeting and voting in person if your shares of LBI common stock are registered in your name rather than in the name of a broker, bank or other nominee, and you so request, although attendance at the special meeting will not by itself revoke a previously granted proxy.

If you choose the first method, you must take the described action no later than the beginning of the LBI special meeting. If you choose to send a completed proxy card bearing a later date than your original proxy card, the new proxy card must be received before the beginning of the LBI special meeting. If you have instructed a bank, broker or other nominee to vote your shares of LBI common stock, you must follow the directions you receive from your bank, broker or other nominee in order to change or revoke your vote.

Table of Contents

Solicitation of Proxies

The cost of solicitation of proxies will be borne by LBI. LBI will reimburse brokerage firms and other custodians, nominees and fiduciaries of reasonable expenses incurred by them in sending proxy materials to the beneficial owners of common stock. In addition to solicitations by mail, directors, officers and regular employees of LBI may solicit proxies personally by telephone without additional compensation.

Attending the LBI Special Meeting

Subject to space availability, all LBI shareholders as of the record date, or their duly appointed proxies, may attend the LBI special meeting. Since seating is limited, admission to the LBI special meeting will be on a first-come, first-served basis. Registration and seating will begin at 3:00 p.m., Central Time.

If you hold your shares of LBI common stock in your name as a shareholder of record and you wish to attend the LBI special meeting, please bring your proxy and valid picture identification to the LBI special meeting.

If your shares of LBI common stock are held in street name in a stock brokerage account or by a bank or nominee and you wish to attend the LBI special meeting, you need to bring a copy of a bank or brokerage statement to the LBI special meeting reflecting your stock ownership as of the record date, along with a legal proxy, executed in your favor, from the broker, bank or other nominee that is the holder of record of your shares. You should also bring valid picture identification.

Table of Contents

LBI PROPOSALS

Merger Proposal

As discussed throughout this joint proxy statement/prospectus, LBI is asking its shareholders to approve the Merger Proposal. Holders of LBI common stock should read carefully this joint proxy statement/prospectus in its entirety, including the appendices, for more detailed information concerning the Merger Agreement and the merger. In particular, holders of LBI common stock are directed to the Merger Agreement, a copy of which is attached as **Appendix A** to this joint proxy statement/prospectus.

LBI s board of directors recommends a vote FOR the Merger Proposal.

LBI Adjournment Proposal

The LBI special meeting may be adjourned to another time or place, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the LBI special meeting to approve the Merger Proposal.

If, at the LBI special meeting, the number of shares of LBI common stock present or represented and voting in favor of the Merger Proposal is insufficient to approve the Merger Proposal, LBI intends to move to adjourn the LBI special meeting in order to enable LBI s board of directors to solicit additional proxies for approval of the Merger Agreement. In that event, LBI will ask its shareholders to vote only upon the LBI Adjournment Proposal, and not the Merger Proposal.

In this proposal, LBI is asking its shareholders to authorize the holder of any proxy solicited by LBI s board of directors to vote in favor of granting discretionary authority to the proxy holders, and each of them individually, to adjourn the LBI special meeting to another time and place for the purpose of soliciting additional proxies. If the LBI shareholders approve the LBI Adjournment Proposal, LBI could adjourn the LBI special meeting and use the additional time to solicit additional proxies, including the solicitation of proxies from LBI shareholders who have previously voted.

LBI s board of directors recommends a vote FOR the LBI Adjournment Proposal.

Other Matters To Come Before the LBI Special Meeting

No other matters are intended to be brought before the LBI special meeting by LBI, and LBI does not know of any matters to be brought before the LBI special meeting by others. If, however, any other matters properly come before the LBI special meeting, the persons named in the proxy will vote the shares represented thereby in accordance with the judgment of management on any such matter.

CERTAIN INFORMATION CONCERNING LBI

General

LBI is a registered bank holding company subject to the supervision and regulation by the Federal Reserve and is a corporation organized under the laws of the State of Arkansas. Its main office is located at 2901 East Highland Drive, Jonesboro, Arkansas (telephone number: 870-934-9000).

Business

LBI s banking subsidiary, Liberty Bank of Arkansas, began operations in 2001 and is primarily engaged in the business of obtaining deposits and originating commercial, industrial, consumer and real estate loans within its Arkansas lending area of Craighead County, Greene County, Clay County, Baxter County, Benton County, Conway County, Crawford County, Independence County, Johnson County, Pope County, Sebastian County, Washington County, White County, Sharp County, Yell County and the surrounding counties.

At June 30, 2013, LBI had consolidated total assets of approximately $2.86 billion, net loans of approximately $1.86 billion, total deposits of approximately $2.19 billion, preferred shareholders equity of $52.5 million, and total common shareholders equity of approximately $263.4 million.

Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis identifies significant factors that have affected our financial position and operating results during the periods included in the accompanying consolidated financial statements. LBI encourages you to read this discussion and analysis in conjunction with the consolidated financial statements and the related notes and the other statistical information also included in this report.

Critical Accounting Policies

LBI has adopted various accounting policies that govern the application of accounting principles generally accepted in the United States of America and with general practices within the banking industry in the preparation of its consolidated financial statements. LBI s significant accounting policies are described in Note 1 to LBI s Condensed Notes to Consolidated Financial Statements (Unaudited) for the three months and six months ended June 30, 2013 and its Notes to Consolidated Financial Statements for the year ended December 31, 2012.

Certain accounting policies involve significant judgments and assumptions by LBI that have a material impact on the carrying value of certain assets and liabilities. LBI considers these accounting policies to be critical accounting policies. The judgments and assumptions LBI uses are based on historical experience and other factors, which LBI believes to be reasonable under the circumstances. Because of the nature of the judgments and assumptions LBI makes, actual results could differ from these judgments and estimates and such differences could have a material impact on the carrying values of assets and liabilities and results of operations. Management has reviewed and approved these critical accounting policies and has discussed these policies with LBI s board of directors.

Allowance for Loan Losses

The determination of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. Liberty Bank s loans are generally secured by specific items of collateral including real property, consumer assets and business assets. LBI is primarily a real estate lender in the markets it serves and is subject to the decline in asset quality when real estate values decline during a recession. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral. While management uses available information to recognize losses on loans, further reductions in carrying amounts of loans may be necessary based

on changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require Liberty Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management s periodic review of various factors including the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. For loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that Liberty Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for larger loans by either the present value of expected future cash flows discounted at the loan s effective interest rate, the loans obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Fair Valuation of Financial Instruments

LBI uses fair value measurements to record fair value adjustments to certain financial instruments required by GAAP to be accounted for at fair value and to determine fair value disclosures. Additionally, it may be required to record other assets at fair value on a nonrecurring basis. These nonrecurring fair value adjustments typically involve application of lower-of-cost-or-market accounting or write downs of individual assets. Further, it includes in the Notes to the Consolidated Financial Statements information about the extent to which fair value is used to measure assets and liabilities, the valuation methodologies used, and the related impact to income. Additionally, for financial instruments not recorded at fair value, it discloses the estimate of their fair value.

Fair value is defined as the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. Accounting standards establish a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained

from independent sources, while unobservable inputs reflect LBI s estimates about market data. The three levels of inputs that are used to classify fair value measurements are as follows:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets. Instruments classified as Level 1 generally include securities traded on active exchange markets, such as the New York Stock Exchange, as well as securities that are traded by dealers or brokers in active over-the-counter markets.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques, such as matrix pricing, for which all significant assumptions are observable in the market. Instruments LBI classifies as Level 2 include securities that are valued based on pricing models using relevant observable information generated by transactions that have occurred in the market place and involve similar securities.

Level 3 Valuation is generated from model-based techniques that use significant assumptions unobservable in the market. These unobservable assumptions reflect Liberty Bank s estimates of assumptions market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models, and similar techniques.

LBI attempts to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements. When available, it uses quoted market prices to measure fair value. Specifically, it uses independent pricing services to obtain fair values based on the quoted prices. Quoted prices are subject to its internal price verification procedures. If market prices are not available, fair value measurement is based upon models that use primarily market-based or independently sourced market parameters. Most of LBI s financial instruments use Level 2 measurements, to estimate the fair value of the financial instrument. However, in certain cases, when market observable inputs for model-based valuation techniques may not be readily available, it is required to make judgments about assumptions market participants would use in estimating the fair value of the financial instrument.

The degree of management judgment involved in determining the fair value of an instrument is dependent upon the availability of quoted market prices or observable market parameters. For instruments that trade actively and have quoted market prices or observable market parameters, there is minimal subjectivity involved in measuring fair value. When observable market prices and parameters are not fully available, management s judgment is necessary to estimate fair value. In addition, changes in market conditions may reduce the availability of quoted prices or observable data. For example, reduced liquidity in the capital markets or changes in secondary market activities could result in observable market inputs becoming unavailable. When significant adjustments are required to available observable inputs, it may be appropriate to utilize an estimate based primarily on unobservable inputs. When an active market for a security does not exist, the use of management estimates that incorporate current market participant expectations of future cash flows, and include appropriate risk premiums, is acceptable.

Significant judgment may be required to determine whether certain assets measured at fair value are included in Level 2 or Level 3. If fair value measurement is based upon recent observable market activity of such assets or comparable assets (other than forced or distressed transactions) that occur in sufficient volume and do not require significant adjustment using unobservable inputs, those assets are classified as Level 2. If not, they are classified as Level 3. Making this assessment requires significant judgment.

Other-Than-Temporary Impairment Analysis

Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and are recorded at amortized cost. Other debt securities are classified as securities available for sale and reported at fair value. Unrealized gains and losses, after applicable taxes, on securities classified as available for sale are reported in stockholders equity.

Accounting guidance under FASB ASC Topic 320, *Investments Debt and Equity Securities,* requires a write-down when fair value is below amortized cost in circumstances where: (1) an entity has the intent to sell a security; (2) it is more likely than not that an entity will be required to sell the security before recovery of its amortized cost basis; or (3) an entity does not expect to recover the entire amortized cost basis of the security. If an entity intends to sell a security or if it is more likely than not that the entity will be required to sell the security before recovery, an other than temporary impairment (OTTI) write-down is recognized in earnings equal to the entire difference between the security s amortized cost basis and its fair value. If an entity does not intend to sell the security or it is not more than likely that it will be required to sell the security before recovery, the OTTI write-down is separated into an amount representing credit loss, which is recognized in earnings, and an amount related to all other factors, which is recognized in other comprehensive income.

LBI conducts OTTI analysis on a quarterly basis or more often if a potential loss-triggering event occurs. In estimating OTTI, LBI management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of Liberty Bank to retain its investment in the issuer for a period of time sufficient to allow for an anticipated recovery in fair value.

Other Real Estate Owned

Real estate acquired through, or in lieu of, foreclosure is initially recorded at the lower of cost or fair value less estimated costs of disposal at the date of foreclosure. Any write-downs based on the asset s fair value at the date of acquisition are charged to allowance for loan losses. Subsequent to the date of acquisition, management periodically performs valuations, and property held for sale is carried at the lower of the cost basis or fair value less cost to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are performed at least annually or more frequently as conditions warrant and write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell. Revenue and expense from the operations of other real estate owned are included in noninterest income and expense.

Income Taxes

The LBI consolidated financial statements have been prepared on the accrual basis. The liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

LBI believes that its income tax filing positions taken or expected to be taken on its tax returns will more likely than not be sustained upon audit by the taxing authorities and does not anticipate any adjustments that will result in a material adverse impact on LBI s financial condition, results of operations, or cash flows.

Overview

Like most community banks, LBI derives the majority of its income from interest received on its loans and investments. Its primary source of funds for making these loans and investments is its deposits, including interest bearing deposits on which it pays interest as well as non-interest bearing deposits. Consequently, one of the key measures of LBI s success is its amount of net interest income, or the difference between the income on its interest earning assets, such as loans and investments, and the expense on its interest bearing liabilities, such as deposits and borrowings. Another key measure is the difference between the yield it earns on these interest earning assets and the rate it pays on interest bearing liabilities, which is called net interest spread.

Table of Contents

There are risks inherent in all loans, so LBI maintains an allowance for loan losses to absorb losses on existing loans that may become uncollectible. LBI maintains this allowance by charging a provision for loan losses against its operating earnings for each period. LBI has included a detailed discussion of this process, as well as several tables describing its allowance for loan losses, in this management s discussion and analysis.

In addition to earning interest on its loans and investments, LBI earns income through fees and other services provided to its customers. Also included is a discussion of the various components of this noninterest income, as well as of noninterest expense, in this management s discussion and analysis.

Economic conditions, competition, and the monetary and fiscal policies of the federal government significantly affect most financial institutions, including Liberty Bank. Lending and deposit activities and fee income generation are influenced by levels of business spending and investment, consumer income, consumer spending and savings, capital market activities, and competition among financial institutions, as well as customer preferences, interest rate conditions and prevailing market rates on competing products in our market areas.

Effect of Economic Trends

The quarter ended June 30, 2013 continues to reflect the tumultuous economic conditions experienced in recent years, which have negatively impacted the liquidity and credit quality of a significant number of financial institutions in the United States. Concerns regarding increased credit losses from the weakened economy have negatively affected capital and earnings of many financial institutions. Also, many financial institutions have experienced significant declines in the value of collateral for real estate loans, which have resulted in elevated levels of nonperforming assets, heightened credit losses, charge-offs and foreclosures.

Economic conditions have also resulted in a low interest rate environment. The Federal Funds rate set by the Federal Reserve has remained near zero for several years. Yields on investment securities have significantly declined and remain at very low levels. Financial institutions, including Liberty Bank, have experienced and will likely continue to experience competition for loans and earning assets in the form of more aggressive pricing and structures. These conditions have resulted in downward pressure on earning asset yields and consequently earnings and capital.

Results of Operations for the Three and Six Month Periods Ended June 30, 2013 and 2012

Net Interest Income and Margin

The level of earning assets, interest bearing liabilities, and the management of net interest margin, determines LBI s level of net interest income. For the three months ended June 30, 2013 and 2012, our net interest income, on a fully taxable equivalent basis, was unchanged at $23.4 million. The average yield on interest earning assets, on a fully taxable equivalent basis, decreased 38 basis points (bps) to 4.15% for the three months ended June 30, 2013 compared to 4.53% for the same period in 2012. The cost of interest-bearing liabilities decreased 29 bps to 0.65% for the three months ended June 30, 2013 from 0.94% for the three-months ended June 30, 2012. Average interest earning assets increased $75.8 million while its average interest bearing liabilities increased $42.7 million for the three months ended June 30, 2013 compared to the same period in 2012.

For the six months ended June 30, 2013 and 2012, our net interest income, on a fully taxable equivalent basis, was $45.7 million and $46.5 million, respectively. The average yield on interest earning assets, on a fully taxable equivalent basis, decreased 40 basis points (bps) to 4.13% for the six months ended June 30, 2013 compared to 4.53% for the same period in 2012. The cost of interest-bearing liabilities decreased 32 bps to 0.67% for the six months ended June 30, 2013 from 0.99% for the six months ended June 30, 2012. Average interest earning assets increased $48.7 million while its average interest bearing liabilities increased $23.5 million for the six months ended June 30, 2013 compared to the same period in 2012.

The net interest margin was, on a fully taxable equivalent basis, 3.57% for the three months ended June 30, 2013, a 12 bps decrease from 3.69% for the same period in 2012. The net interest margin, on a fully taxable equivalent basis, was 3.53% for the six months ended June 30, 2013, a 12 bps decrease from 3.65% for the same period in 2012.

Interest income, on a fully taxable equivalent basis, for the three months ended June 30, 2013 and 2012 was $27.1 million and $28.7 million, respectively. During the three months ended June 30, 2013, 87.43% of its interest income, on a fully taxable equivalent basis, related to interest on loans and 12.07% related to interest on investments, compared to the same period in 2012, when 86.09% of its interest income, on a fully taxable equivalent basis, related to interest on loans and 13.42% related to interest on investments.

Interest income, on a fully taxable equivalent basis, for the six months ended June 30, 2013 and 2012 was $53.4 million and $57.7 million, respectively. During the six months ended June 30, 2013, 87.01% of its interest income, on a fully taxable equivalent basis, related to interest on loans and 12.47% related to interest on investments, compared to the same period in 2012, when 85.49% of its interest income, on a fully taxable equivalent basis, related to interest on loans and 13.97% related to interest on investments.

Interest expense for the three months ended June 30, 2013 and 2012 was $3.7 million and $5.3 million, respectively. The decrease in interest expense during the three months ended June 30, 2013, compared to the same period in 2012 relates primarily to the decrease in the cost of deposits from 0.74% for the three months ended June 30, 2012 to 0.46% for the same period in 2013.

Interest expense for the six months ended June 30, 2013 and 2012 was $7.6 million and $11.2 million, respectively. The decrease in interest expense during the six months ended June 30, 2013, compared to the same period in 2012, relates primarily to the decrease in the cost of deposits from 0.76% for the six months ended June 30, 2012 to 0.48% for the same period in 2013.

Interest expense on borrowings for the three months ended June 30, 2013 and 2012 was $1.5 million and $1.7 million, respectively. The decrease is a result of the cost of borrowings decreasing from 2.08% in the second quarter of 2012 to 1.73% in the same period in 2013. The decrease in cost was partially offset by an increase in the average balance from $335.2 million for the three months ended June 30, 2012 compared to $339.1 million at June 30, 2013. Interest expense on deposits for the three months ended June 30, 2013 and 2012 represented 60.90% and 67.27%, respectively, of total interest expense, while interest expense on other borrowings represented 39.10% and 32.73%, respectively, of total interest expense.

Interest expense on borrowings for the six months ended June 30, 2013 and 2012 was $2.9 million and $3.8 million, respectively. The decrease is a result of the cost of borrowings decreasing from 2.32% in the second quarter of 2012 to 1.76% in the same period in 2013. The decrease in cost was partially offset by an increase in the average balance from $333.7 million for the six months ended June 30, 2012 compared to $336.6 million at June 30, 2013. Interest expense on deposits for the six months ended June 30, 2013 and 2012 represented 61.64% and 65.63%, respectively, of total interest expense, while interest expense on other borrowings represented 38.36% and 34.37%, respectively, of total interest expense.

The following table sets forth information related to LBI s average balance sheets, average yields on assets, and average rates of liabilities at June 30, 2013 and 2012. LBI derived these yields or rates by dividing income or expense by the average balance of the corresponding assets or liabilities. LBI derived average balances from the daily balances throughout the periods indicated. Yields on investment securities include amortization of premiums and accretion of discounts as an adjustment to yield. Nonaccrual loans are included in earning assets in the following tables and the average balance of loans includes loans on nonaccrual status. The net of capitalized loan costs and fees are amortized into interest income or loans.

Table of Contents

Average Balances, Income and Expenses, Yields and Rates

	Three Months Ended June 30,					
	2013			2012		
	Average Balance	Income / Expense	Yield / Rate (1)	Average Balance	Income / Expense	Yield / Rate
	(Dollars in thousands)					
Interest-earnings assets:						
Loans	$ 1,889,817	$ 23,733	5.04%	$ 1,825,054	$ 24,707	5.44%
Securities						
Taxable	600,046	2,034	1.36	597,992	2,698	1.81
Tax-exempt	99,397	1,241	5.01	86,754	1,153	5.35
Federal funds sold & other interest earnings assets	37,348	136	1.46	41,047	142	1.39
Total interest-earning assets	2,626,608	27,144	4.15	2,550,847	28,700	4.53
Total non-interest earning assets	234,110			238,295		
Total assets	$ 2,860,718			$ 2,789,142		
Interest-bearing liabilities:						
Deposits	$ 1,975,329	$ 2,274	0.46%	$ 1,936,584	$ 3,558	0.74%
Short-term borrowings	89,603	135	0.60	92,669	241	1.05
Long-term debt	249,513	1,325	2.13	242,485	1,490	2.47
Total interest-bearing liabilities	2,314,445	3,734	0.65	2,271,738	5,289	0.94
Non-interest bearing liabilities:						
Demand deposits	221,983			204,924		
Other liabilities	8,390			7,974		
Total liabilities	2,544,818			2,484,636		
Stockholders equity	315,900			304,506		
Total liabilities and stockholders equity	$ 2,860,718			$ 2,789,142		
Net interest income and margin		$ 23,410			$ 23,411	
Margin analysis:						
Net interest rate spread			3.50%			3.59%
Net yield on interest-earnings assets (net interest margin)			3.57			3.69

(1) Fully tax-equivalent basis at 39.225% tax rate for nontaxable securities.

The decline in income on interest-earning assets during the three months ended June 30, 2013 compared to the same period in 2012 was driven primarily by a decrease in yield on interest earning assets, on a fully taxable equivalent basis, of 38 bps from an average yield of 4.53% for the three months ended June 30, 2012 compared to an average yield of 4.15% for the same time period in 2013.

Interest expense also decreased during the three months ended June 30, 2013 compared to 2012 due to lower rates on interest-bearing liabilities. In addition, LBI s average interest-bearing liabilities increased by $42.7 million during the three months ended June 30, 2013 compared to the same time period of 2012. Additionally, the rates on interest-bearing liabilities decreased 29 bps in the three months ended June 30, 2013 compared to the same period in 2012.

100

Table of Contents

	Six Months Ended June 30,					
	2013			2012		
	Average Balance	Income / Expense	Yield / Rate (1)	Average Balance	Income / Expense	Yield / Rate(1)
	(Dollars in thousands)					
Interest-earnings assets:						
Loans	$ 1,872,388	$ 46,441	5.00%	$ 1,808,101	$ 49,339	5.49%
Securities						
Taxable	599,985	4,228	1.42	606,760	5,809	1.93
Tax-exempt	96,864	2,429	5.06	84,776	2,251	5.34
Federal funds sold & other interest earnings assets	39,992	276	1.39	60,892	315	1.04
Total interest-earning assets	2,609,229	53,374	4.13	2,560,529	57,714	4.53
Total non-interest earning assets	235,599			233,837		
Total assets	$ 2,844,828			$ 2,794,366		
Interest-bearing liabilities:						
Deposits	$ 1,964,295	$ 4,709	0.48%	$ 1,943,685	$ 7,340	0.76%
Short-term borrowings	90,230	272	0.61	85,849	458	1.07
Long-term debt	246,377	2,659	2.18	247,850	3,386	2.75
Total interest-bearing liabilities	2,300,902	7,640	0.67	2,277,384	11,184	0.99
Non-interest bearing liabilities:						
Demand deposits	221,526			206,918		
Other liabilities	8,213			6,659		
Total liabilities	2,530,641			2,490,961		
Stockholders equity	314,187			303,405		
Total liabilities and stockholders equity	$ 2,844,828			$ 2,794,366		
Net interest income and margin		$ 45,734			$ 46,530	
Margin analysis:						
Net interest rate spread			3.46%			3.54%
Net yield on interest-earnings assets (net interest margin)			3.53			3.65

(1) Fully tax-equivalent basis at 39.225% tax rate for nontaxable securities.

The decline in income on interest-earning assets during the six months ended June 30, 2013 compared to the same period in 2012 was driven primarily by a decrease in yield on interest earning assets, on a fully taxable equivalent basis, of 40 bps from an average yield of 4.53% for the six months ended June 30, 2012 compared to an average yield of 4.13% for the same time period in 2013.

Interest expense also decreased during the six months ended June 30, 2013 compared to 2012 due to lower rates on interest-bearing liabilities. In addition, LBI s average interest-bearing liabilities increased by $23.5 million during the six months ended June 30, 2013 compared to the same time period of 2012. Additionally, the rates on interest-bearing liabilities decreased 32 bps in the six months ended June 30, 2013 compared to the same period in 2012.

Table of Contents

Rate/Volume Analysis

Net interest income can be analyzed in terms of the impact of changing interest rates and changing volume. The following table sets forth the effect, which the varying levels of interest-earning assets and interest-bearing liabilities and the applicable rates have had on changes in net interest income for the periods presented.

Volume/Rate Analysis

	Three Months Ended June 30, 2013 over 2012		
	Volume	Yield/Rate (In thousands)	Total
Increase (decrease) in:			
Interest income:			
Loans	$ 856	$ (1,830)	$ (974)
Securities			
Taxable	9	(673)	(664)
Tax-exempt	161	(73)	88
Federal funds sold & other interest earnings assets	(14)	8	(6)
Total interest income	1,012	2,568	(1,556)
Interest expense:			
Deposits	71	(1,355)	(1,284)
Short-term borrowings	(8)	(98)	(106)
Long-term debt	42	(207)	(165)
Total interest expense	105	(1,660)	(1,555)
Increase (decrease) in net interest income	$ 907	$ (908)	$ (1)

	Six Months Ended June 30, 2013 over 2012		
	Volume	Yield/Rate (In thousands)	Total
Increase (decrease) in:			
Interest income:			
Loans	$ 1,709	$ (4,607)	$ (2,898)
Securities			
Taxable	(64)	(1,517)	(1,581)
Tax-exempt	308	(130)	178
Federal funds sold & other interest earnings assets	(126)	87	(39)
Total interest income	1,827	(6,167)	(4,340)
Interest expense:			
Deposits	77	(2,708)	(2,631)
Short-term borrowings	22	(208)	(186)
Long-term debt	(20)	(707)	(727)
Total interest expense	79	(3,623)	(3,544)

Increase (decrease) in net interest income	$ 1,748	$ (2,544)	$ (796)

102

Table of Contents

Provision for Loan Losses

LBI establishes an allowance for loan losses through a provision charged as an expense on its consolidated statements of income. LBI reviews its loan portfolio periodically to evaluate outstanding loans and to measure both the performance of the portfolio and the adequacy of the allowance for loan losses. Please see the discussion below under Balance Sheet Review Allowance for Loan Losses for a description of the factors considered in determining the provision necessary to maintain this allowance.

Following is a summary of the activity in the allowance for loan losses for the three and six months ended June 30, 2013 and for the twelve months ended December 31, 2012.

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013	Twelve Months Ended December 31, 2012
		(In thousands)	
Balance, beginning of period	$ 34,996	$ 33,603	$ 34,280
Provision for loan losses	3,000	6,000	15,000
Loan charge-offs	(2,002)	(3,699)	(18,003)
Loan recoveries	115	205	2,326
Balance, end of the period	$ 36,109	$ 36,109	$ 33,603

At June 30, 2013, the allowance for loan losses was 1.90% of total loans as compared to 1.82% at December 31, 2012. The $36.1 million allowance for loan losses at June 30, 2013 is a $2.5 million increase compared to the allowance for loan losses at December 31, 2012. This increase is primarily related to the lower level of charge-offs that occurred during the first six months of 2013. During the first half of 2013, LBI charged-off $3.7 million in loans, while recoveries on loans previously charged off were $205,000.

At June 30, 2013 and December 31, 2012, the allowance for loan losses represented 135.53% and 245.58% respectively of the amount of nonperforming loans. A significant portion of nonperforming loans is secured by real estate, 90.31% at June 30, 2013 and 97.56% at December 31, 2012.

Noninterest Income

The following table sets forth information related to noninterest income.

	Three Months Ended June 30,		2013 Change from 2012	
	2013	2012		
	(Dollars in thousands)			
Fiduciary activities	$ 380	$ 374	$ 6	1.6%
Service charges on deposit accounts	2,341	2,473	(132)	(5.3)
Insurance activities and annuity sales	591	738	(147)	(19.9)
Net gains on sale of loans held for sale	998	960	38	4.0
Net losses on other real estate owned	(632)	(404)	(228)	(56.4)
Gains on sales of securities		20	(20)	(100.0)
Other noninterest income	2,711	2,354	357	15.2
Total noninterest income	$ 6,389	$ 6,515	$ (126)	(1.9)%

Table of Contents

Noninterest income decreased $126 thousand to $6.4 million for the three months ended June 30, 2013 compared to the same period in 2012.

	Six Months Ended June 30,		2013 Change from 2012	
	2013	2012		
	(Dollars in thousands)			
Fiduciary activities	$ 776	$ 740	$ 36	4.9%
Service charges on deposit accounts	4,590	4,716	(126)	(2.7)
Insurance activities and annuity sales	1,491	1,686	(195)	(11.6)
Net gains on sale of loans held for sale	1,927	1,819	108	5.9
Net losses on other real estate owned	(828)	(3,637)	2,809	(77.2)
Gains on sales of securities		37	(37)	(100.0)
Other noninterest income	5,320	5,689	(369)	(6.5)
Total noninterest income	$ 13,276	$ 11,050	$ 2,226	20.1%

Noninterest income increased $2.2 million from $11.1 million for the first six months of 2012 to $13.3 million for the first six months of 2013. The increase in total noninterest income during the first six months of 2013 compared to the first six months of 2012 resulted primarily from the $2.8 million decrease in net losses on other real estate owned.

Noninterest Expenses

The following table sets forth information related to noninterest expenses.

	Three Months Ended June 30,		2013 Change from 2012	
	2013	2012		
	(Dollars in thousands)			
Salaries and employee benefits	$ 9,415	$ 9,124	$ 291	3.2%
Expenses of premises and fixed assets	2,803	2,764	39	1.4
Data processing expense	353	317	36	11.4
Advertising	575	361	214	59.3
ATM expense	577	475	102	21.5
FDIC and state assessment	659	658	1	0.2
Amortization of intangible assets	213	230	(17)	(7.4)
Other expenses	3,006	3,046	(40)	(1.3)
Total noninterest expense	$ 17,601	$ 16,975	$ 626	3.7%

Noninterest expense was $17.6 million for the three months ended June 30, 2013, a $626,000 or 3.7%, increase from noninterest expense of $17.0 million for the three months ended June 30, 2012. The increase was primarily due to an increase of $291,000 in salaries and employee benefits from $9.1 million for the three months ended June 30, 2012 to $9.4 million for the same period in 2013 and an increase of $214,000 of advertising expenses during the three month period ended June 30, 2013 compared to the same period 2012.

LBI efficiency ratio was 58.35% and 55.95% for the three months ended June 30, 2013 and 2012, respectively. The efficiency ratio represents the percentage of one dollar of expense required to be incurred to earn a full dollar of revenue and is computed by dividing non-interest expense excluding intangible amortization by the sum of net interest income, non-interest income and the fully taxable equivalent adjustment. Based on this calculation, LBI spent $0.58 on average to earn each $1.00 of revenue during the three months ended June 30, 2013 compared to $0.56 spent on average to earn each $1.00 of revenue during the same period in 2012.

104

Table of Contents

The following table sets forth information related to noninterest expenses.

	Six Months Ended June 30,		2013 Change from 2012	
	2013	2012		
	(Dollars in thousands)			
Salaries and employee benefits	$ 18,810	$ 18,243	$ 567	3.1%
Expenses of premises and fixed assets	5,453	5,520	(67)	(1.2)
Data processing expense	694	623	71	11.4
Advertising	1,045	775	270	34.8
ATM expense	1,053	891	162	18.2
FDIC and state assessment	1,240	1,332	(92)	(6.9)
Amortization of intangible assets	441	460	(19)	(4.1)
Other expenses	5,938	5,807	131	2.3
Total noninterest expense	$ 34,674	$ 33,651	$ 1,023	3.0%

Noninterest expense was $34.7 million for the six months ended June 30, 2013, a $1.0 million increase from noninterest expense of $33.7 million for the six months ended June 30, 2012. The increase was primarily due to an increase of $567,000 in salaries and employee benefits from $18.2 million for the six months ended June 30, 2012 to $18.8 million for the same period in 2013, an increase of $270,000 of advertising expenses during the six-month period ended June 30, 2013 compared to the same period 2012 and an increase of $162,000 of ATM expenses for the six-month period ended June 30, 2013 compared to the same period in 2012.

LBI efficiency ratio was 58.01% and 57.64% for the six months ended June 30, 2013 and 2012, respectively. The efficiency ratio represents the percentage of one dollar of expense required to be incurred to earn a full dollar of revenue and is computed by dividing non-interest expense excluding intangible amortization by the sum of net interest income, non-interest income and the fully taxable equivalent adjustment. Based on this calculation, LBI spent $0.58 on average to earn each $1.00 of revenue during both the six months ended June 30, 2013 and 2012.

Balance Sheet Review

At June 30, 2013, LBI had total assets of $2.86 billion, consisting principally of $1.89 billion in net loans, $685.7 million in investments, and $49.2 million in cash and cash equivalents. LBI s liabilities at June 30, 2013 totaled $2.54 billion, consisting principally of $2.19 billion in deposits, $77.6 million in short-term borrowings and $258.8 million in long-term borrowings.

Investment Securities

At June 30, 2013, LBI s investment securities portfolio totaled $685.7 million, of which $291.0 million was classified as held-to-maturity and $394.7 million was classified as available-for-sale. The investment portfolio represented approximately 24.01% of total assets.

At June 30, 2013, LBI s held-to-maturity portfolio was composed of securities of U.S. government agencies and corporations of $239.7 million, at amortized cost, and $235.0 million, at fair value; obligations of state and political subdivisions of $51.1 million, at amortized cost, and $50.6 million, at fair value; and residential mortgaged-backed securities of $211,000, at amortized cost, and $228,000, at fair value.

Table of Contents

At June 30, 2013, LBI s securities classified as available-for-sale were composed of securities of U.S. government agencies and corporations of $330.6 million, at amortized cost, and $325.2 million, at fair value; obligations of state and political subdivisions of $54.0 million, at amortized cost, and $54.0 million, at fair value; and residential mortgage-backed securities of $15.8 million, at amortized cost, and $15.6 million, at fair value.

At December 31, 2012, LBI s securities classified as held-to-maturity were composed of securities of U.S. government agencies and corporations of $259.1 million, at amortized cost, and $259.7 million, at fair value; obligations of state and political subdivisions of $38.3 million, at amortized cost, and $39.1 million, at fair value; and residential mortgage-backed securities of $274,000 at amortized cost and $297,000, at fair value.

At December 31, 2012 LBI s securities classified as available-for-sale were composed of securities of U.S. government agencies and corporations of $344.9 million, at amortized cost, and $346.2 million, at fair value; obligations of state and political subdivisions of $55.9 million, at amortized cost, and $57.2 million, at fair value, and residential mortgage-backed securities of $171,000, at amortized cost, and $176,000, at fair value.

The following table presents the carrying value and fair value of LBI s investment securities for each of the periods indicated.

	June 30, 2013		December 31, 2012	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
	(Dollars in thousands)			
Securities Held to Maturity				
Securities of U.S. government agencies and corporations	$ 239,657	$ 234,962	$ 259,095	$ 259,730
Obligations of state and political subdivisions	51,120	50,570	38,327	39,122
Residential mortgage-backed securities	211	228	274	297
Total	$ 290,988	$ 285,760	$ 297,696	$ 299,149
Securities Available for Sale				
Securities of U.S. government agencies and corporations	$ 330,602	$ 325,177	$ 344,921	$ 346,156
Obligations of state and political subdivisions	54,044	53,971	55,923	57,227
Residential mortgage-backed securities	15,809	15,597	171	176
Total	$ 400,455	$ 394,745	$ 401,015	$ 403,559

Investment securities with a carrying value of $572.6 million and $612.2 million were pledged to secure public deposits, securities sold under agreements to repurchase and for other purposes at June 30, 2013 and December 31, 2012, respectively.

Table of Contents

Contractual maturities and yields on investments are shown in the following table. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2013									
	One Year or Less		One to Five Years		Five to Ten Years		Over Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in thousands)									
Held-to-maturity										
Securities of U.S. government agencies and corporations	$		$ 83,171	1.139%	$ 156,486	1.600%	$		$ 239,657	1.439%
Obligations of state and political subdivisions	380	4.707%	5,119	3.500%	17,919	3.040%	27,702	2.990%	51,120	3.070%
Total	380	4.707%	88,290	1.277%	174,405	1.746%	27,702	2.990%	290,777	1.726%
Residential mortgage-backed securities					33	6.030%	178	5.300%	211	5.408%
Total	$ 380	4.707%	$ 88,290	1.277%	$ 174,438	1.746%	$ 27,880	3.004%	$ 290,988	1.728%
Available-for-sale										
Securities of U.S. government agencies and corporations	$ 3,006	1.020%	$ 137,774	0.923%	$ 184,397	1.480%	$		$ 325,177	1.246%
Obligations of state and political subdivisions	4,637	2.901%	8,764	3.100%	17,967	3.210%	22,603	2.822%	53,971	2.998%
Total	7,643	2.162%	146,538	1.054%	202,364	1.629%	22,603	2.822%	379,148	1.495%
Residential mortgage-backed securities	85	3.430%					15,512	2.100%	15,597	2.110%
Total	$ 7,728	2.175%	$ 146,538	1.054%	$ 202,364	1.629%	$ 38,115	2.531%	$ 394,745	1.516%

At June 30, 2013, Liberty Bank had gross unrealized losses of $13.2 million, approximately 1.92% of the total investment securities balance. The unrealized losses were primarily attributable to changes in interest rates, rather than deterioration in credit quality. Management has the ability and intent to hold the securities classified as held-to-maturity until they mature, at which time Liberty Bank expects to receive full value for the securities. Furthermore, as of June 30, 2013, management also had the ability and intent to hold the securities classified as available-for-sale for a period of time sufficient for a recovery of cost. LBI management does not believe any of the securities are impaired due to reasons of credit quality.

Liberty Bank considers the length of time and extent to which the fair value of available-for-sale debt securities have been less than historical cost to conclude that such securities were not other-than-temporarily impaired. It also considers other factors such as the financial condition of the issuer including credit ratings and specific events affecting the operations of the issuer, volatility of the security, underlying assets that collateralize the debt security, and other industry and macroeconomic conditions. As Liberty Bank has no intent to sell securities with unrealized losses and it is not more-likely-than-not that Liberty Bank will be required to sell these securities before recovery of amortized cost, it has been concluded that the securities are not impaired on an other-than-temporary basis.

Table of Contents

Loans

Since loans typically provide higher interest yields than other types of interest earning assets, a substantial percentage of LBI s earning assets are invested in its loan portfolio. During the six months ended June 30, 2013, total loans increased $56.4 million or 3.06%, compared to December 31, 2012. Average loans for the six months ended June 30, 2013 were $1.87 billion. Before allowance for loan losses, total loans outstanding at June 30, 2013, and December 2012 were $1.99 billion and $1.81 billion, respectively.

The principal component of LBI s loan portfolio is loans secured by real estate mortgages. LBI s real estate loans are secured by residential or commercial property. LBI originates traditional long-term residential mortgages, but the majority are sold into the secondary market. LBI originates traditional second mortgage residential real estate loans and variable rate home equity lines of credit. It obtains a security interest in loans collateralized by real estate whenever possible, and other collateral where appropriate. LBI attempts to maintain a relatively diversified loan portfolio to help reduce the risk inherent in concentration in certain types of collateral.

The following table summarizes the composition of LBI s loan portfolio, including residential loans held for sale.

	June 30, 2013		December 31, 2012	
	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)			
Real Estate:				
Residential 1-4 family (1)	$ 384,732	20.25%	$ 367,251	19.92%
Non-farm/non-residential	765,656	40.31%	778,303	42.23%
Construction/land development	243,984	12.84%	208,523	11.31%
Agricultural	40,239	2.12%	41,527	2.25%
Multifamily residential	120,763	6.36%	120,104	6.52%
Commercial and industrial	251,444	13.24%	245,007	13.29%
Consumer	43,380	2.28%	43,568	2.36%
Other	49,342	2.60%	38,893	2.11%
Total	1,899,540		1,843,176	
Less:				
Allowance for loan losses	36,109		33,603	
Net loans	$ 1,863,431		$ 1,809,573	

(1) Includes residential mortgage loans held for sale of $10.9 million and $15.1 million at June 30, 2013 and December 31, 2012, respectively.

Table of Contents

Maturities and Sensitivity of Loans to Changes in Interest Rates

The following table summarizes the loan maturity distribution, excluding loans held for sale, by type and related interest rate characteristics. The information in this table is based on the contractual maturities of individual loans, including loans which may be subject to renewal at their contractual maturity. Renewal of such loans is subject to review and credit approval, as well as modification of terms upon maturity. Actual repayments of loans may differ from the maturities reflected below because borrowers have the right to prepay obligations with or without prepayment penalties.

	June 30, 2013			
	One year or less	After one but within five years	After five years	Total
	(In thousands)			
Real Estate:				
Residential 1-4 family (1)	$ 113,579	$ 204,482	$ 66,671	$ 384,732
Non-farm/non-residential	209,079	367,851	188,726	765,656
Construction/land development	142,255	85,824	15,905	243,984
Agricultural	18,905	16,219	5,115	40,239
Multifamily residential	43,727	42,168	34,868	120,763
Commercial and industrial	145,622	89,731	16,091	251,444
Consumer	22,999	19,664	717	43,380
Other	34,884	11,124	3,334	49,342
Total	$ 731,050	$ 837,063	$ 331,427	$ 1,899,540
Loans maturing after one year with				
Fixed interest rates				$ 1,035,773
Floating interest rates				132,717

(1) Includes residential mortgage loans held for sale of $10.9 million and $15.1 million at June 30, 2013 and December 31, 2012, respectively.

Allowance for Loan Losses

At June 30, 2013, the allowance for loan losses was $36.1 million, or 1.90% of total loans. The allowance for loan losses increased $2.5 million since December 31, 2012. The increase is the result of provision for loan losses of $6.0 million offset by net charge-offs of $3.5 million. See the discussion of our critical accounting policies above and Note 3 to the Condensed Notes to Consolidated Financial Statements (Unaudited) for the six months ended June 30, 2013 for more information on our allowance for loan losses.

Table of Contents

The following table summarizes the activity related to LBI s allowance for loan losses for the six months ended June 30, 2013.

	For the Six Months ended June 30, 2013				
	Beginning Balance	Charge-Offs	Recoveries (In thousands)	Provisions	Ending Balance
Real Estate					
Residential 1-4 family	$ 4,046	$ (508)	$ 43	$ 674	$ 4,255
Non-farm/non-residential	11,392	(2,619)	53	7,424	16,250
Construction/land development	4,046	(40)	2	(1,698)	2,310
Agricultural	831			(797)	34
Multifamily residential	155		35	307	497
Commercial and industrial	6,261	(438)	47	2,592	8,462
Consumer	348	(94)	25	57	336
Other					
Unallocated	6,524			(2,559)	3,965
	$ 33,603	$ (3,699)	$ 205	$ 6,000	$ 36,109

The allowance consists of specific, general, and unallocated components. In its regular evaluation of the adequacy of the total allowance for loan losses, management reviews the level of the allowance for loan losses in comparison to its evaluation of the aggregate of the specific, general, and unallocated components and maintains the allowance within parameters as established by policy guidelines.

Reclassifications of loans from the general to specific evaluation, or from specific to general evaluation may result in variations in both the dollar amount and percentage in both the specific and general components of the allowance.

For loans that are classified as impaired and are thus specifically evaluated, an allowance is established when the discounted cash flows or collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. For additional information on impaired loans, see the Nonperforming Assets section of this analysis, Note 3 of the Condensed Notes to Consolidated Financial Statements (unaudited) and Note 5 of the Condensed Notes to Consolidated Financial Statements (audited).

The general component, which relates to loans that are not impaired and thus are not specifically evaluated, is based on historical loss experience adjusted for qualitative factors and also includes an unallocated component. The amount of the general allowance is $17.5 million as of June 30, 2013, as compared to $21.3 million as of December 31, 2012. The dollar amount of collectively evaluated loans is $1.81 billion and $1.78 billion as of June 30, 2013 and December 31, 3012, respectively. The general allowance as a percentage of collectively evaluated loans is 0.96% at June 30, 2013 and 1.20% at December 31, 2012. The decrease in the general allowance amount and percentage at June 30, 2013 as compared to December 31, 2012 was principally a result of the reduction of approximately $800,000 in the amount of allowance associated with a pay-down on an agricultural loan categorized as substandard, and to the transfer to specifically evaluated status of approximately $28.1 million of loans which, at the time of the transfer to specifically evaluated status, had related allowances of approximately $1.3 million. For additional information, see the Nonperforming Assets section.

The unallocated component, which is included within the general component and is maintained to cover uncertainties that could affect management s estimate of probable losses, reflects the evaluation of various factors including loan growth, the level of loan-to-value policy exceptions, the volume of non-owner occupied construction and development loans, the level of past due and non-accrual loans, the level of watch rated loans, and evaluation of market economic conditions.

Table of Contents

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

The amount of the general allowance related to the unallocated component is $4.0 million at June 30, 2013 and $6.5 million at December 31, 2012. The changes for the period ended June 30, 2013 and December 31, 2012 in the allocation of the allowance for loan losses for the individual types of loans are primarily associated with changes in the ASC 310 calculations, both individual and aggregate, and changes in the ASC 450 calculations. These calculations are affected by changes in individual loan impairments, changes in asset quality, net charge-offs during the period and normal changes in the outstanding loan portfolio, as well any changes to the general allocation factors due to changes within the actual characteristics of the loan portfolio.

Nonperforming Assets

The following table shows the nonperforming assets and the related percentage of nonperforming assets to total assets and non-performing loans to total loans at June 30, 2013 and December 31, 2012. Generally, a loan is placed on nonaccrual status when it becomes 90 days past due as to principal or interest, or when it s believed, after considering economic and business conditions and collection efforts, that the borrower s financial condition is such that collection of the loan is doubtful. A payment of interest on a loan that is classified as nonaccrual is recognized as a reduction in principal when received.

	June 30, 2013	**December 31, 2012**
	(Dollars in thousands)	
Real Estate:		
Residential 1-4 family (1)	$ 2,848	$ 2,489
Non-farm/non-residential	19,529	7,703
Construction/land development	315	2,035
Agricultural		
Multifamily residential	1,368	1,122
Commercial and industrial	2,454	204
Consumer	129	130
Other		
Total nonperforming loans (1)	26,643	13,683
Other real estate owned and repossessed assets	26,545	29,832
Total nonperforming assets	$ 53,188	$ 43,515
Nonperforming assets to total assets	1.86%	1.54%
Nonperforming loans to total loans	1.40	0.74
Total loans 90 days or more past due	$ 22,439	$ 7,131
Loans 90 days or more past due and still accruing	10	67
Accruing troubled debt restructurings	53,193	41,424

(1) Consists of nonaccrual loans and loans past due over 90 days or more still accruing interest.

At June 30, 2013, nonperforming assets were $53.2 million, or 1.86% of total assets, and nonperforming loans were 1.41% of total loans. Comparatively, at December 31, 2012, nonperforming assets were $43.5 million, or 1.54% of total assets, and nonperforming loans were 0.74% of total loans.

Table of Contents

During the six months ended June 30, 2013, LBI added $25.7 million new loans to nonaccrual while removing or charging off $12.7 million, resulting in a net increase in nonaccrual loans of $13.0 million, or 95.60% as compared to December 31, 2012. The increase was principally attributable to a hotel loan in Little Rock, Arkansas, with an outstanding balance of approximately $12.8 million being placed on nonaccrual status, and is now in process of foreclosure.

At June 30, 2013, impaired loans totaled $89.2 million, as compared to $65.2 million at December 31, 2012. The increase was principally attributable to the hotel loan, discussed in the preceding paragraph, and to a $10.7 million commercial and multi-family land development loan, located near Austin, Texas, being placed on impaired status. The allowance related to impaired loans at June 30, 2013 was $18.7 million, as compared to $12.3 million at December 31, 2012. During the six months ended June 30, 2013, the average recorded investment in impaired loans was $90.3 million, as compared to the average recorded investment during the year ended December 31, 2012, of $67.9 million.

Other nonperforming assets include other real estate owned. These assets decreased to $26.5 million at June 30, 2013 compared to $29.8 million at December 31, 2012. However, during July 2013, the $10.7 million development property discussed in the preceding paragraph was foreclosed and reclassified into other real estate owned.

As a general practice, most of LBI s loans are originated with relatively short maturities of five years or less. When a loan reaches its maturity LBI frequently renews the loan, thereby extending its maturity. Such renewals and extensions are made in accordance with our existing credit policy, using appropriate credit standards and are based upon updated financial information on the borrower. Nonperforming loans are renewed at terms generally consistent with the ultimate source of repayment and appropriate rates. In these cases, Liberty Bank will seek additional credit enhancements, such as additional collateral or additional guarantees to further protect the loan. When a loan is no longer performing in accordance with its stated terms, Liberty Bank will typically seek performance under the guarantee.

At June 30, 2013, approximately 81.9% of loans were collateralized by real estate, and approximately 91.0% of impaired loans were secured by real estate. Liberty Bank utilizes third party appraisers to determine the fair value of collateral dependent loans. Impaired loans are individually reviewed on a quarterly or more frequent basis to determine the level of impairment. LBI typically records a charge-off or creates a specific reserve for impaired loans when it does not expect repayment to occur as agreed upon under the original terms of the loan agreement.

Liberty Bank considers a loan to be a troubled debt restructuring (TDR) when the debtor experiences financial difficulties and Liberty Bank provides concessions on the original terms of the loan agreement. Concessions can relate to the contractual interest rate, maturity date, or payment structure of the note. As part of its workout plan for individual loan relationships, Liberty Bank may restructure loan terms to assist borrowers facing challenges in the current economic environment. As of June 30, 2013, LBI determined that it had loans totaling $53.2 million, which it considered accruing TDRs, and $14.4 million in nonaccrual TDRs. As of December 31, 2012, it had loans totaling $41.4 million which it considered accruing TDRs and $2.9 million in nonaccrual TDRs. During the six month period ending June 30, 2013, a $12.8 loan secured by a hotel located in Little Rock, Arkansas was transferred from accruing TDRs to nonaccrual TDRs. Additionally, during the six months period ending June 30, 2013 two loans, an $11.3 million loan secured by a commercial warehouse in Northwest Arkansas and another loan for $9.9 million secured by undeveloped real estate located in Little Rock, Arkansas, were restructured to accruing TDRs. See Note 3 to the Condensed Notes to Consolidated Financial Statements (Unaudited) for the three months and six months ended June 30, 2013 for additional information on TDRs.

Table of Contents

Deposits and Other Interest Bearing Liabilities

LBI s primary source of funds for loans and investments are its deposits, advances from the FHLB-Dallas, and repurchase agreements. At June 30, 2013, deposits totaled $2.19 billion. LBI s loan-to-deposit ratio was 86.64% at June 30, 2013.

The following table reflects the classification of the average deposits and the average rate paid for the periods indicated.

	Six months ended June 30, 2013		Twelve months ended December 31 , 2012	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
	(Dollars in thousands)			
Types of deposits:				
Non-interest bearing demand deposits	$ 221,526	0.00%	$ 209,489	0.00%
Interest-bearing demand deposits	815,122	0.36%	759,619	0.49%
Money market accounts	94,579	0.21%	90,107	0.34%
Savings deposits	129,615	0.17%	123,659	0.37%
Time deposits less than $100,000	400,555	0.70%	442,420	1.00%
Time deposits of $100,000 or more	524,424	0.64%	522,882	0.90%
Total deposits	$ 2,185,821	0.43%	$ 2,148,176	0.63%

Core deposits, which exclude time deposits of $100,000 or more, provide a relatively stable funding source for its loan portfolio and other earning assets. LBI s core deposits were $1.66 billion at June 30, 2013, and $1.63 billion at December 31, 2012, respectively.

All of our time deposits are certificates of deposits. The maturity distribution of time deposits of $100,000 or more is as follows:

Maturity Period	June 30, 2013	December 31, 2012
	(In thousands)	
Three months or less	$ 110,892	$ 155,640
Over three through twelve months	317,332	218,509
Over twelve months through three years	137,719	138,607
Over three years	12,860	6,386
Total	$ 578,803	$ 519,142

The Dodd-Frank Act permanently raised the standard maximum FDIC deposit insurance amount to $250,000. The FDIC insurance coverage limit applies per depositor, per insured depository institution for each account ownership category.

Short-Term Borrowings

Short-term borrowings consisted of securities sold under agreements to repurchase amounting to $77.6 million (with a weighted average rate of .60%), and $85.7 million (with a weighted average rate of ..88%) as of June 30, 2013 and December 31, 2012, respectively. Securities sold under agreements to repurchase generally mature within one year from the transaction date. The maximum amount of short-term borrowings outstanding at any month-end amounted to approximately $96.3 million during the quarter ended June 30, 2013 and $106.5 million during 2012. Average short-term borrowings outstanding amounted to approximately $89.6 million for the quarter ended June 30, 2013 and $93.1 million for 2012.

113

Table of Contents

Capital Resources

Total stockholders equity was $315.9 million at June 30, 2013 and $310.8 million at December 31, 2012. The $5.1 million increase during the first six months of 2013 is primarily related to net income of $11.3 million during the six months ended June 30, 2013 less cash dividends paid on preferred stock of $1.3 million, less a $4.9 million change in accumulated other comprehensive income.

Total stockholders equity at both June 30, 2013 and December 31, 2012 includes $52.5 million of preferred stock issued to the United States Treasury in the Small Business Lending Fund program.

The following table shows the return on average assets (net income divided by average total assets), return on average equity (net income divided by average equity), dividend payout ratio common shareholders (dividends divided by net income) and equity to assets ratio (common equity divided by total assets) for the three months ended June 30, 2013.

Return on average assets	0.79%
Return on average equity	8.55%
Dividend Payout ratio common shareholders	0.00%
Average Equity to average assets ratio	11.04%
Common equity to assets ratio	9.22%

The following table shows the return on average assets (net income divided by average total assets), return on average equity (net income divided by average equity), dividend payout ratio common shareholders (dividends divided by net income) and equity to assets ratio (common equity divided by total assets) for the six months ended June 30, 2013.

Return on average assets	0.80%
Return on average equity	8.66%
Dividend Payout ratio common shareholders	0.00%
Average Equity to average assets ratio	11.04%
Common equity to assets ratio	9.22%

LBI s annualized return on average assets was 0.80% for the six months ended June 30, 2013. In addition, its annualized return on average equity was 8.66% for six months ended June 30, 2013. The average equity to average assets ratio was 11.04% at June 30, 2013. In addition, common equity to assets ratio was 9.22% at June 30, 2013.

The following table shows the return on average assets (net income divided by average total assets), return on average equity (net income divided by average equity), dividend payout ratio (dividends divided by net income) and equity to assets ratio (common equity divided by total assets) for the year ended December 31, 2012.

Return on average assets	0.75%
Return on average equity	6.79%
Dividend Payout ratio common shareholders	40.12%
Average Equity to average assets ratio	10.98%
Common equity to assets ratio	9.12%

Under the capital adequacy guidelines, regulatory capital is classified into two tiers. These guidelines require an institution to maintain a certain level of Tier 1 and Tier 2 capital to risk-weighted assets. Tier 1 capital consists of common stockholders equity, excluding the unrealized gain or loss on securities available for sale, minus certain intangible assets. In determining the amount of risk-weighted assets, all assets, including certain

Table of Contents

off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100% based on the risks believed to be inherent in the type of asset. Tier 2 capital consists of Tier 1 capital plus the general reserve for loan losses, subject to certain limitations. LBI is also required to maintain capital at a minimum level based on total average assets, which is known as the Tier 1 leverage ratio.

LBI is subject to various regulatory capital requirements administered by the federal banking agencies. To be considered well capitalized, it must maintain total risk-based capital of at least 10%, Tier 1 capital of at least 6%, and a leverage ratio of at least 5%. To be considered adequately capitalized under these capital guidelines, it must maintain a minimum total risk-based capital of 8%, with at least 4% being Tier 1 capital. In addition, it must maintain a minimum Tier 1 leverage ratio of at least 4%. As of June 30, 2013, LBI s capital ratios exceeded these ratios and remains well capitalized.

On July 2, 2013 the Board of Governors of the Federal Reserve System adopted a final rule that revises risk-based and leverage capital requirements for banking organizations. For additional information, please see the section hereinafter following titled Accounting, Reporting, and Regulatory Matters.

The following table summarizes the capital amounts and ratios of Liberty Bank and the regulatory minimum requirements.

	Actual		Federal Reserve minimum ratios to be adequately capitalized		Federal Reserve minimum ratios to be well capitalized	
	Amount	Ratios	Amount	Ratios	Amount	Ratios
			(Dollars in thousands)			
As of June 30, 2013						
Total Risk Based Capital-Consolidated	$ 310,249	15.57%	$ 159,409	8.00%	N/A	N/A
Total Risk Based Capital-Bank	306,630	15.42	159,082	8.00	$ 198,852	10.00%
Tier 1 Risk Based Capital-Consolidated	285,200	14.31	79,720	4.00	N/A	N/A
Tier 1 Risk Based Capital-Bank	281,629	14.16	79,556	4.00	119,334	6.00
Tier 1 Leverage Capital-Consolidated	285,200	10.31	110,650	4.00	N/A	N/A
Tier 1 Leverage Capital-Bank	281,629	10.18	110,660	4.00	138,325	5.00
As of December 31, 2012						
Total Risk Based Capital-Consolidated	$ 299,835	15.00%	$ 159,986	8.00%	N/A	N/A
Total Risk Based Capital-Bank	297,867	14.90	159,528	8.00	$ 199,410	10.00%
Tier 1 Risk Based Capital-Consolidated	274,731	13.70	79,993	4.00	N/A	N/A
Tier 1 Risk Based Capital-Bank	272,834	13.70	79,764	4.00	119,646	6.00
Tier 1 Leverage Capital-Consolidated	274,731	10.00	109,640	4.00	N/A	N/A
Tier 1 Leverage Capital-Bank	272,834	10.00	109,640	4.00	137,050	5.00

Dividends that may be paid by Liberty Bank are subject to regulatory limitations and capital requirements, and may be subject to prior approval by regulators.

Effect of Inflation and Changing Prices

The effect of relative purchasing power over time due to inflation has not been taken into account in LBI s consolidated financial statements. Rather, LBI s consolidated financial statements have been prepared on a historical cost basis in accordance with accounting principles generally accepted in the United States of America.

Unlike most industrial companies, LBI s assets and liabilities are primarily monetary in nature. Therefore, the effect of changes in interest rates will have a more significant impact on its performance than will the effect of changing prices and inflation in general. In addition, interest rates may generally increase as the rate of inflation increases, although not necessarily in the same magnitude. LBI seeks to manage the relationships between interest sensitive assets and liabilities in order to protect against wide rate fluctuations, including those resulting from inflation.

Off-Balance Sheet Risk

Commitments to extend credit are agreements to lend to a customer as long as the customer has not violated any material condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. At June 30, 2013, unfunded commitments to extend credit were approximately $208.5 million. At December 31, 2012, unfunded commitments to extend credit were approximately $179.8 million.

LBI evaluates each customer s credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by LBI upon extension of credit, is based on its credit evaluation of the borrower. The type of collateral varies but may include accounts receivable, inventory, property, plant and equipment, and commercial and residential real estate.

At June 30, 2013 and December 31, 2012 there were $7.1 million and $6.2 million of commitments under letters of credit, respectively. The credit risk and collateral involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Since most of the letters of credit are expected to expire without being drawn upon, they do not necessarily represent future cash requirements.

In order to collateralize deposits of certain public funds or other customers, Liberty Bank may utilize irrevocable letters of credit issued by the Federal Home Loan Bank Dallas. Issuance of these letters of credit reduces the borrowing availability of the bank with the FHLB. The amount of letters of credit issued by FHLB to collateralize deposits was $135.0 million at June 30, 2013 and December 31, 2012.

Except as disclosed in this document, LBI is not involved in off-balance sheet contractual relationships, does not have any unconsolidated related entities that have off-balance sheet arrangements and is not involved in any transactions that could result in liquidity needs or other commitments that significantly impact earnings.

Market Risk and Interest Rate Sensitivity

Market risk is the risk of loss from adverse changes in market prices and rates, which principally arises from interest rate risk inherent in LBI s lending, investing, deposit gathering, and borrowing activities. Other types of market risks, such as foreign currency exchange rate risk and commodity price risk, do not generally arise in the normal course of our business.

LBI actively monitors and manages its interest rate risk exposure in order to control the mix and maturities of its assets and liabilities utilizing a process it calls asset/liability management. The essential purposes of asset/liability management are to ensure adequate liquidity and to maintain an appropriate balance between interest sensitive assets and liabilities in order to minimize potentially adverse impacts on earnings from changes in market interest rates. LBI s asset/liability management committee (ALCO) monitors and considers methods of managing exposure to interest rate risk. It has an internal ALCO consisting of certain members of senior management that meets quarterly or more frequently. ALCO is responsible for maintaining the level of interest rate sensitivity of its interest sensitive assets and liabilities within board-approved limits.

LBI s interest rate risk exposure is managed principally by measuring its interest sensitivity which is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given period of time. Interest rate sensitivity can be managed by repricing assets or liabilities, selling available-for-sale securities, replacing an asset or liability at maturity, or adjusting the interest rate during the life of an asset or liability. Managing the amount of assets and liabilities repricing in this same time interval helps to hedge the risk and minimize the impact on net interest income of rising or falling interest rates. In general, LBI would benefit from increasing market rates of interest when it has an asset-sensitive gap position and from decreasing market rates of interest when it is liability-sensitive.

Table of Contents

The following table sets forth information regarding LBI s rate sensitivity, as of June 30, 2013, at each of the time intervals.

	June 30, 2013				
	1-90 Days	91-365 Days	1-5 years	Over 5 years	Total
	(Dollars in thousands)				
Interest-earning assets:					
Loans	$ 373,490	$ 357,560	$ 837,063	$ 331,427	$ 1,899,540
Securities	3,752	4,356	234,828	442,797	685,733
Federal funds sold and other interest-earning assets	14,169				14,169
Total interest-earning assets	391,411	361,916	1,071,891	774,224	2,599,442
Interest-bearing liabilities:					
Interest-bearing demand deposits	887,206				887,206
Savings deposits	134,451				134,451
Time deposits	165,943	552,011	217,169	7,123	942,246
Short-term borrowing	77,474	149			77,623
Long-term debt	76,020	34,249	67,229	81,305	258,803
Total interest bearing liabilities	1,341,094	586,409	284,398	88,428	2,300,329
Rate sensitive gap	$ (949,683)	$ (224,493)	$ 787,493	$ 685,796	$ 299,113
Cummulative rate sensitive gap	$ (949,683)	$ (1,174,176)	$ (386,683)	$ 299,113	
Cumulative gap as a percentage of interest earnings assets	-36.53%	-45.17%	-14.88%	11.51%	

As measured over the one-year time interval, the above analysis indicates that LBI was liability sensitive at June 30, 2013, since LBI has $1.17 billion more liabilities than assets repricing in the next twelve months. Its gap analysis is not a precise indicator of its interest sensitivity position. This analysis presents only a static view of the timing of maturities and repricing opportunities, without taking into consideration that changes in interest rates do not affect all assets and liabilities equally. For example, rates paid on a substantial portion of core deposits may change contractually within a relatively short time frame, but those rates are viewed by LBI as significantly less interest-sensitive than market based rates such as those paid on noncore deposits.

At June 30, 2013, approximately 83.8% of interest bearing liabilities were either variable rate or had a maturity of less than one year. Of the $1.34 billion of interest bearing liabilities set to reprice within 90 days, 76.18% are transaction, money market or savings accounts which are already at or near their lowest rates and provide little opportunity for benefit should market rates continue to decline or stay constant.

In addition, LBI believes that the interest rates that it pays on the majority of its interest bearing transaction accounts would only be impacted by a portion of any change in market rates. This key assumption is utilized in LBI s overall evaluation of its level of interest sensitivity.

Liquidity Risk

Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss, and the ability to raise additional funds by increasing liabilities. Liquidity management involves monitoring LBI s sources and uses of funds in order to meet its day-to-day cash flow requirements while maximizing profits. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of LBI s investment portfolio is fairly predictable and subject to a high degree of control at the time investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to the same degree of control.

Table of Contents

At June 30, 2013, and December 31, 2012, liquid assets, which consisted of cash and cash equivalents and unencumbered investment collateral, amounted to $162.3 million and $145.8 million, or 5.68%, and 5.15% of total assets, respectively. LBI s investment securities, at June 30, 2013 and December 31, 2012 amounted to $685.7 million and $701.3 million, or 24.01% and 24.77% of total assets, respectively. Investment securities traditionally provide a secondary source of liquidity since they can be converted into cash in a timely manner. However, a significant portion of these securities are pledged against outstanding liabilities. Therefore, the related liabilities would need to be repaid prior to the securities being sold in order for these securities to be converted to cash.

LBI s ability to maintain and expand its deposit base and borrowing capabilities serves as its primary source of liquidity. LBI plans to meet its future cash needs through the liquidation of temporary investments, the generation of deposits, and from additional borrowings. In addition, it will receive cash upon the maturity and sale of loans and the maturity of investment securities.

LBI is also a member of the FHLB-Dallas, from which applications for borrowings can be made. The FHLB-Dallas requires that qualifying mortgage loans and stock of the FHLB-Dallas owned by Liberty Bank be pledged to secure any advances from the FHLB-Dallas. The unused borrowing capacity available from the FHLB-Dallas at June 30, 2013 was $461.3 million, based on Liberty Bank s line of credit backed by a blanket lien on real estate loans of $1.56 billion pledged as collateral. As of June 30, 2013 borrowings from FHLB Dallas were $258.8 million.

LBI believes its existing stable base of core deposits, borrowings from the FHLB-Dallas, and repurchase agreements, will enable it to successfully meet its long-term liquidity needs and short-term liquidity needs.

Contractual Obligations

LBI utilizes a variety of short-term and long-term borrowings to supplement its supply of lendable funds, to assist in meeting deposit withdrawal requirements, and to fund growth of interest earning assets in excess of traditional deposit growth. Certificates of deposit, structured repurchase agreements and FHLB-Dallas advances serve as its primary sources of such funds.

The following table provides payments due by period for obligations under long-term borrowings and operating lease obligations.

	June 30, 2013 Payments Due by Period					
	Within One Year	Over One to Two Years	Over Two to Three Years	Over Three to Five Years	After Five Years	Total
	(In thousands)					
Certificates of deposit	$ 717,954	$ 156,215	$ 47,772	$ 13,182	$ 7,123	$ 942,246
Repurchase agreements	77,623					77,623
Long-term debt	110,269	35,150	30,763	1,316	81,305	258,803
Operating lease obligaions	671	498	419	694	1,622	3,904
Total	$ 906,517	$ 191,863	$ 78,954	$ 15,192	$ 90,050	$ 1,282,576

Annual Results

Net Interest Income and Margin

LBI s level of net interest income is determined by the level of earning assets, interest bearing liabilities, and the management of its net interest margin. For the years ended December 31, 2012, 2011, and 2010, net interest income was $93.5 million, $87.9 million, and $85.9 million, respectively. An increase of $5.6 million

during 2012 compared to 2011 and an increase of $2.0 million during 2011 compared to 2010. The increase in net interest income during 2012 compared to 2011 was primarily the result of an increase of $148.1 million in interest earning assets, which was partially offset by an increase of $114.8 million of interest bearing liabilities.

LBI s net interest margin was 3.55% for 2012 and 3.52% for 2011. Net interest margin for 2011 decreased 6 bps from the 2010 net interest margin of 3.58%, primarily due to the 44 bps reduction in the yield of interest earning assets, compared to a 38 bps reduction in cost of interest bearing liabilities.

Interest income for the years ended December 31, 2012, 2011, and 2010 was $114.2 million, $113.5 million, and $118.2 million, respectively. Interest income from loans represented 86.15%, 84.21% and 81.84% of total interest income during 2012, 2011 and 2010, respectively. Investment interest represented 13.85%, 15.79% and 18.16% of total interest income during 2012, 2011 and 2010, respectively.

Interest expense for 2012, 2011, and 2010 was $20.7 million, $25.6 million, and $32.3 million, respectively. The decrease in interest expense during 2012 compared to 2011 and during 2011 compared to 2010 relates primarily decrease in the average rate on interest bearing liabilities, partially offset by an increase in the balance of interest bearing liabilities. The balance of interest bearing liabilities increased from $2.1 billion for 2010 to $2.2 billion for 2011 and $2.3 billion for 2012. Rates declined on interest bearing liabilities 27 bps in 2012 and 38 bps in 2011. Interest expense on deposits for the years ended December 31, 2012, 2011 and 2010 represented 65.83%, 69.96%, and 68.16%, respectively, of total interest expense, while interest expense on other borrowings represented 34.17%, 30.04%, and 31.84%, respectively, of total interest expense.

The following table sets forth information related to LBI s average balance sheet, average yields on assets, and average rates of liabilities at December 31, 2012, 2011 and 2010. LBI derived these yields or rates by dividing income or expense by the average balance of the corresponding assets or liabilities. It derived average balances from the daily balances throughout the periods indicated. Yields on investment securities include amortization of premiums and accretion of discounts as an adjustment to yield. Nonaccrual loans are included in earning assets in the following tables. The average balance of loans includes loans on nonaccrual status. The net of capitalized loan costs and fees are amortized into interest income on loans.

Table of Contents

Average Balances, Income and Expenses, Yields and Rates

	Years Ended December 31,								
	2012			2011			2010		
	Average Balance	Income / Expense	Yield / Rate (1)	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
	(Dollars in thousands)								
Interest-earning assets:									
Loans	$ 1,819,307	$ 98,389	5.41%	$ 1,702,747	$ 95,588	5.61%	$ 1,653,386	$ 96,762	5.85%
Securities									
Taxable	597,667	10,600	1.77	564,887	13,194	2.34	523,903	16,814	3.21
Tax-exempt	88,108	4,602	5.22	75,668	4,067	5.37	70,702	3,979	5.63
Federal funds sold & other interest earnings assets	57,381	611	1.06	71,044	654	0.92	53,361	673	1.26
Total interest-earning assets	2,562,463	114,202	4.46	2,414,346	113,503	4.70	2,301,352	118,228	5.14
Non-earning assets	237,995			242,847			247,360		
Total assets	$ 2,800,458			$ 2,657,193			$ 2,548,712		
Interest-bearing liabilities:									
Deposits	$ 1,938,687	$ 13,597	0.70%	$ 1,827,147	$ 17,887	0.98%	$ 1,719,022	$ 22,044	1.28%
Short-term borrowings	93,114	811	0.87	77,208	971	1.26	73,377	957	1.30
Long-term debt	243,061	6,246	2.57	255,754	6,711	2.62	279,929	9,339	3.34
Total interest-bearing liabilities	2,274,862	20,654	0.91	2,160,109	25,569	1.18	2,072,328	32,340	1.56
Non-interest-bearing liabilities:									
Demand deposits	209,489			192,383			171,558		
Other liabilities	4,525			1,967			11,584		
Total liabilities	2,488,876			2,354,459			2,255,470		
Stockholders equity	311,582			302,734			293,242		
Total liabilities and stockholders equity	$ 2,800,458			$ 2,657,193			$ 2,548,712		
Net interest income		$ 93,548			$ 87,934			$ 85,888	
Margin analysis:									
Net interest rate spread			3.55%			3.52%			3.58%
Net yield on interest-earnings assets (net interest margin)			3.65			3.64			3.73

(1) Fully tax-equivalent basis at 39.225% tax rate for nontaxable securities.

120

Table of Contents

The average balance of investment securities increased $45.2 million, or 7.06% for 2012 compared to 2011 and increased $46.0 million, or 7.73%, for 2011 compared to 2010. Yields on earning assets decreased from 2012 compared to 2011 and also from 2011 compared to 2010 as assets repriced at market rates which were at historic lows. The yield on loans fell from 5.85% in 2010 to 5.61% in 2011 and to 5.41% in 2012, a decline of 24 bps for 2011 compared to 2010 and a decline of 20 bps for 2012 compared to 2011. The yield on investment securities decreased from 3.23% in 2010 to 2.45% in 2011 and 1.95% in 2012 as market rates continued to decline and maturing securities were replaced at lower yields.

Interest expense also decreased during 2012 compared to 2011 and in 2011 compared to 2010 due to lower rates on interest bearing liabilities. LBI s average interest bearing liabilities increased $114.75 million during 2012 compared to 2011, and increased by $87.8 million during 2011 compared to 2010. Additionally, the rates on interest bearing liabilities decreased 27 bps in 2012 compared to 2011 and decreased 38 bps in 2011 compared to 2010. During both 2012 and 2011, interest bearing liabilities continued to reprice downward.

Rate/Volume Analysis

Net interest income can be analyzed in terms of the impact of changing interest rates and changing volume. The following table sets forth the effect which the varying levels of interest earning assets and interest bearing liabilities and the applicable rates have had on changes in net interest income for the periods presented.

Volume/Rate Analysis

	Years Ended December 31,					
	2012 over 2011			2011 over 2010		
	Volume	Yield /Rate	Total	Volume	Yield /Rate	Total
	(In thousands)					
Increase (decrease) in:						
Interest income:						
Loans	$ 6,387	$ (3,586)	$ 2,801	$ 2,839	$ (4,013)	$ (1,174)
Securities						
Taxable	730	(3,324)	(2,594)	1,235	(4,855)	(3,620)
Tax-exempt	653	(118)	535	271	(183)	88
Federal funds sold & other interest earnings assets	(136)	93	(43)	190	(209)	(19)
Total interest income	7,634	(6,935)	699	4,535	(9,260)	(4,725)
Interest expense:						
Deposits	1,037	(5,327)	(4,290)	1,318	(5,475)	(4,157)
Short-term borrowings	175	(335)	(160)	49	(35)	14
Long-term debt	(328)	(137)	(465)	(757)	(1,871)	(2,628)
Total interest expense	884	(5,799)	(4,915)	610	(7,381)	(6,771)
Increase (decrease) in net interest income	$ 6,750	$ (1,136)	$ 5,614	$ 3,925	$ (1,879)	$ 2,046

Net interest income, the largest component of LBI income, was $91.7 million for 2012, a $5.4 million increase from $86.3 million for 2011. The increase in net interest income is primarily the result of average interest earning assets increasing more than interest bearing liabilities. LBI s average interest earning assets increased $148.1 million during 2012 compared to 2011 while its average interest bearing liabilities increased $114.8 million during 2012 compared to 2011.

Table of Contents

During 2011, its net interest income increased by $2.0 million to $86.3 million from $84.3 million for 2010. The increase in net interest income was primarily the result of average interest earning assets increasing more than interest bearing liabilities. Its average interest earning assets increased $113.0 million during 2011, compared to 2010, and average interest bearing liabilities increased by $87.8 million during 2011 compared to 2010.

Provision for Loan Losses

LBI has established an allowance for loan losses through a provision charged as an expense on its consolidated statements of income. LBI reviews its loan portfolio periodically to evaluate its outstanding loans and to measure both the performance of the portfolio and the adequacy of the allowance for loan losses. Please see the discussion below under Balance Sheet Review Allowance for Loan Losses for a description of the factors considered in determining the amount of the provision it expenses each period to maintain this allowance.

Following is a summary of the activity in the allowance for loan losses.

	2012	2011	2010
		(In thousands)	
Balance, beginning of year	$ 34,280	$ 26,284	$ 30,210
Provision	15,000	18,000	22,000
Loan charge-offs	(18,003)	(10,590)	(26,689)
Loan recoveries	2,326	586	763
Balance, end of the year	$ 33,603	$ 34,280	$ 26,284

At December 31, 2012, the allowance for loan losses was 1.82% of total loans. During 2012, LBI charged off $15.7 million in loans, net of recoveries on loans previously charged off. Loan recoveries during 2012 included proceeds of $1.7 million from an insurance claim by Liberty Bank with its insurance carrier related to fraudulent collateral associated with a loan charged-off in 2010.

The allowance for loan losses as a percentage of total loans was 1.92% and 1.64% at December 31, 2011 and 2010, respectively. For the years ended December 31, 2011 and 2010 LBI added $18.0 million and $22.0 million, respectively, to the allowance for loan losses through the provision, resulting in an allowance of $34.3 million and $26.3 million at December 31, 2011 and 2010, respectively. LBI reported charge-offs, net of recoveries on loans previously charged off, of $10.0 million and $25.9 million for 2011 and 2010, respectively.

At December 31, 2012, 2011 and 2010, the allowance for loan losses represented 245.58%, 77.77%, and 140.69% of the amount of nonperforming loans. A significant portion, or 97.56%, of nonperforming loans at December 31, 2012 are secured by real estate.

Noninterest Income

The following table sets forth information related to noninterest income.

	Year Ended December 31,			2012 Change from 2011		2011 Change from 2010	
	2012	2011	2010				
	(Dollars in thousands)						
Fiduciary activities	$ 1,454	$ 1,414	$ 1,243	40	2.8%	171	13.8%
Service charges on deposit accounts	9,822	10,063	10,182	(241)	(2.4)	(119)	(1.2)
Insurance activities and annuity sales	2,998	3,145	2,951	(147)	(4.7)	194	6.6
Net gains on sale of loans held for sale	4,271	3,181	3,697	1,090	34.3	(516)	(14.0)
Net losses on othe real estate owned	(6,277)	(5,995)	(5,435)	(282)	4.7	(560)	10.3
Gains on sales of securities	158	180	339	(22)	(12.2)	(159)	(46.9)
Other noninterest income	10,442	9,431	6,775	1,011	10.7	2,656	39.2
Total noninterest income	$ 22,868	$ 21,419	$ 19,752	$ 1,449	6.8%	$ 1,667	8.4%

122

Noninterest income increased $1.5 million from $21.4 million for 2011 to $22.9 million for 2012. The increase in total noninterest income during 2012 compared to 2011 resulted primarily from the $1.1 million increase in net gain on sale of loans held for sale from $3.2 million in 2011 to $4.3 million in 2012.

Noninterest income increased $1.7 million to $21.4 million for 2011 from $19.8 million for 2010. The increase during 2011 compared to 2010 resulted primarily from an increase of $2.7 million in other noninterest income from $6.8 million in 2010 to $9.4 million in 2011, which was primarily the result of an increase in ATM and check card fees.

Noninterest income includes gains and losses on other real estate owned. Net losses on other real estate owned was $6.3 million in 2012, $6.0 million in 2011, and $5.4 million in 2010. Foreclosed properties are recorded in other real estate based on appraised values at the time of foreclosure, less estimated cost to dispose of the property. Losses on other real estate may occur when properties are subsequently sold for an amount less than the book value of the property and may also occur as a result of deterioration of market values of such properties as indicated in subsequent appraisals, which results in write downs to the carrying value of such properties. These write downs on other real estate owned amounted to $5.6 million during 2012, $5.3 million during 2011, and $4.4 million during 2010. These write down amounts include write downs on two residential subdivisions in the Memphis, Tennessee metropolitan area, which due to continued declines in the values of such developments in the Memphis market, resulted in write downs of $3.4 million in 2012, $1.6 million in 2011, and $650,000 in 2010.

Noninterest Expenses

The following table sets forth information related to noninterest expenses.

	Year Ended December 31,			2012 Change from 2011		2011 Change from 2010	
	2012	2011	2010				
	(Dollars in thousands)						
Salaries and employee benefits	$ 35,829	$ 35,111	$ 33,339	$ 718	2.0%	$ 1,772	5.3%
Expenses of premises and fixed assets	11,330	10,958	10,958	372	3.4		
Data processing expense	1,259	1,240	1,544	19	1.5	(304)	(19.7)
Advertising	1,788	1,445	1,443	343	23.7	2	0.1
ATM expense	1,864	1,493	1,226	371	24.8	267	21.8
FDIC and state assessment	2,598	2,902	3,508	(304)	(10.5)	(606)	(17.3)
Amortization of intangible assets	924	922	922	2	0.2		
Other	12,113	11,776	10,823	337	2.9	953	8.8
Total noninterest expense	$ 67,705	$ 65,847	$ 63,763	$ 1,858	2.8%	$ 2,084	3.3%

Noninterest expense was $67.7 million for the year ended December 31, 2012, a $1.9 million, or 2.82%, increase from noninterest expense of $65.9 million for the year ended December 31, 2011. The increase was primarily the result of an increase of $718,000 in compensation benefits from $35.1 million in 2011 to $35.8 million in 2012. Noninterest expense for 2011 increased $2.1 million, or 3.27%, from $63.8 million for 2010. The increase during 2011 related primarily to compensation and benefits expense which increased $1.8 million for 2011 compared to 2010 due primarily to annual salary increases. Compensation and benefits and occupancy comprised 69.65% of total noninterest expense during 2012, compared to 69.96% in 2011 and 69.47% in 2010.

LBI s efficiency ratio was 57.36%, 59.37%, and 59.49% for the years ended December 31, 2012, 2011 and 2010, respectively. The efficiency ratio represents the percentage of one dollar of expense required to be incurred to earn a full dollar of revenue and is computed by dividing non-interest expense excluding intangible amortization by the sum of net interest income, non-interest income and the fully taxable equivalent adjustment. Based on this calculation, it spent $0.57 on average to earn each $1 of revenue during the year ended December 31, 2012.

Balance Sheet Review

At December 31, 2012, LBI had total assets of $2.83 billion, consisting principally of $1.8 billion in net loans, $701.25 million in investments, and $56.7 million in cash and cash equivalents. LBI s liabilities at December 31, 2012 totaled $2.5 billion, consisting principally of $2.2 billion in deposits, $85.7 million in short-term borrowings, $185.6 million in Federal Home Loan Bank advances and $57.7 million of subordinated debentures. At December 31, 2012, LBI s stockholders equity was $310.8 million.

At December 31, 2011, LBI had total assets of $2.8 billion, consisting principally of $1.8 billion in net loans, $674.2 million in investments, and $135.7 million in cash and cash equivalents. LBI s liabilities at December 31, 2011 totaled $2.5 billion, consisting principally of $2.2 billion in deposits, $71.4 million in short-term borrowings, $205.3 million in Federal Home Loan Bank advances and $64.0 million in subordinated debentures. At December 31, 2011, LBI s stockholders equity was $301.2 million.

Investment Securities

LBI s investment portfolio totaled $701.3 million, $674.2 million and $630.4 million at December 31, 2012, 2011 and 2010, respectively. LBI s investment portfolio represented 24.77%, 23.98% and 24.80% of its total assets at December 31, 2012, 2011 and 2010, respectively.

At December 31, 2012, LBI s investment portfolio totaled $698.7 million, at amortized cost, and totaled $702.7 million, at fair value, of which, $297.7 million, at amortized cost, and $299.2 million, at fair value, was classified as held-to-maturity and $401.0 million, at amortized cost, and $403.6 million, at fair value, was classified available-for-sale.

At December 31, 2012, LBI s held-to-maturity portfolio was composed of securities of U.S. government agencies and corporations of $259.1 million, at amortized cost, and $259.7 million, at fair value; obligations of state and political subdivisions of $38.3 million, at amortized cost, and $39.1 million, at fair value; and residential mortgaged-backed securities of $274,000, at amortized cost, and $297,000, at fair value.

At December 31, 2012, LBI s securities classified as available-for-sale were composed of securities of U.S. government agencies and corporations and agencies of $344.9 million, at amortized cost, and $346.2 million, at fair value; obligations of state and political subdivisions of $55.9 million, at amortized cost, and $57.2 million, at fair value, and residential mortgage-backed securities of $171,000, at amortized cost, and $176,000, at fair value.

At December 31, 2011, LBI s investment portfolio totaled $670.2 million at amortized cost and totaled $675.7 million at fair value of which, $174.8 million, at amortized cost, and $176.3 million, at fair value, was classified as held-to-maturity and $495.5 million, at amortized cost, and $499.4 million, at fair value, was classified as available-for-sale.

At December 31, 2011, LBI s held-to-maturity portfolio was composed of $146.4 million, at amortized cost, and $147.1 million, at fair value; obligations of state and political subdivisions of $27.9 million, at amortized cost, and $28.7 million, at fair value; and residential mortgaged-backed securities of $442,000, at amortized cost, and $474,000, at fair value.

At December 31, 2011, securities classified as available-for-sale were composed of securities of U.S. government agencies and corporations of $440.7 million, at amortized cost, and $443.0 million, at fair value; obligations of state and political subdivisions of $54.3 million, at amortized cost, and $55.9 million, at fair value, and residential mortgage-backed securities of $465,000, at amortized cost, and $481,000, at fair value.

At December 31, 2010, LBI s investment portfolio totaled $629.7 million, at amortized cost, and totaled $623.6 million, at fair value of which, $379.5 million, at amortized cost, and $372.6 million, at fair value, was

Table of Contents

classified as held-to-maturity and $250.3 million, at amortized cost, and $251.0 million, at fair value, was classified as available-for-sale.

At December 31, 2010, LBI s held-to-maturity portfolio was composed of securities of U.S. government agencies and corporations of $352.4 million, at amortized cost, and $346.3 million, at fair value; obligations of state and political subdivisions of $26.1 million, at amortized cost, and $25.3 million, at fair value; and residential mortgaged-backed securities of $960,000, at amortized cost, and $1.0 million, at fair value.

At December 31, 2010, securities classified as available-for-sale were composed of securities of U.S. government agencies and corporations of $200.8 million, at amortized cost, and $201.0 million, at fair value; obligations of state and political subdivisions of $48.3 million, at amortized cost, and $48.8 million, at fair value, and residential mortgage-backed securities of $1.2 million, at amortized cost, and $1.2 million, at fair value.

Investment securities with a carrying value of $612.2 million, $622.8 million, and $528.1 million were pledged to secure public deposits, securities sold under agreements to repurchase and for other purposes at December 31, 2012, 2011, and 2010, respectively.

The amortized costs and the fair value of investments are as follows.

	December 31,					
	2012		2011		2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					
Securities Held to Maturity:						
Securities of U.S. government agencies and corporations	$ 259,095	$ 259,730	$ 146,390	$ 147,056	$ 352,433	$ 346,262
Obligations of state and political subdivisions	38,327	39,122	27,942	28,728	26,056	25,305
Residential mortgage-backed securities	273	297	443	474	956	999
Total	$ 297,695	$ 299,149	$ 174,775	$ 176,258	$ 379,445	$ 372,566
Securities Available for Sale:						
Securities of U.S. government agencies and corporations	$ 344,921	$ 346,156	$ 440,656	$ 443,044	$ 200,785	$ 201,003
Obligations of state and political subdivisions	55,923	57,227	54,330	55,908	48,254	48,754
Residential mortgage-backed securities	171	176	465	481	1,209	1,235
Total	$ 401,015	$ 403,559	$ 495,451	$ 499,433	$ 250,248	$ 250,992

Table of Contents

Contractual maturities and yields on investments are shown in the following table. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2012									
	One Year or Less		One to Five Years		Five to Ten Years		Over Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in thousands)									
Held-to-maturity										
Securities of U.S. government agencies and corporations	$		$ 65,206	1.264%	$ 193,889	1.680%			$ 259,095	1.578%
Obligations of state and political subdivisions	545	4.345%	3,473	3.640%	16,285	3.180%	18,024	2.990%	38,327	3.149%
Total	545	4.345%	68,679	1.384%	210,174	1.796%	18,024	2.990%	297,422	1.780%
Residential mortgage-backed securities					62	5.700%	212	5.010%	274	5.167%
Total	$ 545	4.345%	$ 68,679	1.384%	$ 210,236	1.800%	$ 18,236	3.015%	$ 297,696	1.783%
Available-for-sale										
Securities of U.S. government agencies and corporations	$ 3,018	1.020%	$ 149,489	1.075%	$ 193,649	1.570%			$ 346,156	1.354%
Obligations of state and political subdivisions	5,154	2.685%	12,296	3.030%	17,297	3.250%	22,480	2.933%	57,227	3.025%
Total	8,172	2.069%	161,785	1.224%	210,946	1.705%	22,480	2.933%	403,383	1.591%
Residential mortgage-backed securities			176	3.600%					176	3.596%
Total	$ 8,172	2.069%	$ 161,961	1.224%	$ 210,946	1.705%	$ 22,480	2.933%	$ 403,559	1.588%

At December 31, 2012, Liberty Bank had gross unrealized losses of $705,000, approximately 0.10% of the investment portfolio balance. The unrealized losses were primarily attributable to changes in interest rates, rather than deterioration in credit quality. LBI management has the ability and intent to hold the securities classified as held-to-maturity until they mature, at which time Liberty Bank expects to receive full value for the securities. Furthermore, as of December 31, 2012, management also had the ability and intent to hold the securities classified as available-for-sale for a period of time sufficient for a recovery of cost. LBI management does not believe any of the securities are impaired due to reasons of credit quality.

Table of Contents

Liberty Bank considers the length of time and extent to which the fair value of available-for-sale debt securities have been less than cost to conclude that such securities were not other-than-temporarily impaired. It also considers other factors such as the financial condition of the issuer including credit ratings and specific events affecting the operations of the issuer, volatility of the security, underlying assets that collateralize the debt security, and other industry and macroeconomic conditions. As Liberty Bank has no intent to sell securities with unrealized losses and it is not more-likely-than-not that the bank will be required to sell these securities before recovery of amortized cost, LBI has concluded that the securities are not impaired on an other-than-temporary basis.

Loans

Since loans typically provide higher interest yields than other types of interest earning assets, a substantial percentage of LBI s earning assets are invested in its loan portfolio. Average loans for the years ended December 31, 2012 and 2011 were $1.8 billion and $1.7 billion, respectively. Before allowance for loan losses, total loans outstanding at December 31, 2012, 2011, 2010, 2009 and 2008 were $1.8 billion, $1.8 billion, $1.6 billion, $1.7 billion and $1.8 billion, respectively. Loans outstanding decreased from 2008 to 2009 and from 2009 to 2010 principally as a result of the significant contraction in real estate development activities following the financial crisis in 2008.

The principal component of its loan portfolio is loans secured by real estate mortgages. Most of LBI s real estate loans are secured by residential or commercial property. LBI does originate traditional long-term residential mortgages, but the majority is sold into the secondary market. LBI does issue traditional second mortgage residential real estate loans and home equity lines of credit. LBI obtains a security interest in real estate whenever possible, in addition to any other available collateral. This collateral is taken to increase the likelihood of the ultimate repayment of the loan. LBI attempts to maintain a relatively diversified loan portfolio to help reduce the risk inherent in concentration in certain types of collateral.

Table of Contents

The following table summarizes the composition of LBI s loan portfolio for each of the five years ended December 31, 2012.

	December 31,									
	2012		2011		2010		2009		2008	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)									
Real Estate:										
Residential 1-4 family	$ 367,251	19.92%	$ 334,410	18.76%	$ 314,406	19.61%	$ 323,851	19.07%	$ 338,756	18.50%
Non-farm/non-residential	778,303	42.23%	741,231	41.57%	626,548	39.07%	629,123	37.04%	656,435	35.85%
Construction/land development	208,523	11.31%	209,135	11.73%	201,635	12.57%	262,391	15.45%	290,023	15.84%
Agricultural	41,527	2.25%	45,288	2.54%	53,026	3.31%	63,895	3.76%	63,988	3.49%
Multifamily residential	120,104	6.52%	110,861	6.22%	74,101	4.62%	60,704	3.57%	65,424	3.57%
Commercial and industrial	245,007	13.29%	255,210	14.31%	245,446	15.31%	263,349	15.51%	323,932	17.69%
Consumer	43,568	2.36%	42,249	2.37%	43,150	2.69%	45,641	2.69%	53,983	2.95%
Other	38,893	2.11%	44,512	2.50%	45,349	2.82%	49,494	2.91%	38,460	2.11%
Total	1,843,176	100.00%	1,782,896	100.00%	1,603,661	100.00%	1,698,448	100.00%	1,831,001	100.00%
Less:										
Allowance for loan losses	33,603		34,280		26,284		30,210		27,635	
Net loans	$ 1,809,573		$ 1,748,616		$ 1,577,377		$ 1,668,238		$ 1,803,366	

Maturities and Sensitivity of Loans to Changes in Interest Rates

The following table summarizes the loan maturity distribution, by type and related interest rate characteristics. The information in this table is based on the contractual maturities of individual loans, including loans which may be subject to renewal at their contractual maturity. Renewal of such loans is subject to review and credit approval, as well as modification of terms upon maturity. Actual repayments of loans may differ from the maturities reflected below because borrowers have the right to prepay obligations with or without prepayment penalties.

	December 31, 2012			
	One year or less	After one but within five years	After five years	Total
	(In thousands)			
Real Estate:				
Residential 1-4 family	$ 115,791	$ 214,740	$ 36,720	$ 367,251
Non-farm/non-residential	283,058	373,271	121,974	778,303
Construction/land development	129,527	74,856	4,140	208,523
Agricultural	19,693	20,353	1,481	41,527
Multifamily residential	39,446	49,146	31,512	120,104
Commercial and industrial	122,715	114,830	7,462	245,007
Consumer	23,359	20,063	146	43,568
Other	23,662	13,492	1,739	38,893
Total	$ 757,251	$ 880,751	$ 205,174	$ 1,843,176
Loans maturing after one year with				
Fixed interest rates				$ 945,004
Floating interest rates				$ 140,921

128

Table of Contents

Allowance for Loan Losses

At December 31, 2012, 2011, 2010, 2009 and 2008 the allowance for loan losses was $33.6 million, $34.3 million, $26.3 million, $30.2 and $27.6 million, respectively, or 1.82%, 1.92%, 1.64%, 1.78% and 1.51% of total loans, respectively. Net charge-offs were $15.7 million, $10.0 million, $26.0 million, $22.9 million and $10.5 million for the years ended December 31, 2012, 2011, 2010, 2009 and 2008, respectively. The increase in charge-offs in 2009 and 2010 were principally related to residential construction and development projects which became distressed due to decreased demand for such properties following the financial crisis in 2008. Charge-offs in 2012 include $3.9 million on a propane distributor located in north-central Arkansas. Charge-offs in 2010 include $8.3 million on a commercial and residential land developer in northwest Arkansas. Charge-offs in 2009 include $5.7 million on a commercial property developer in Arkansas and Texas and $3.4 million on a residential loan. Charge-offs in 2008 include $4.1 million on a residential developer of subdivisions in the Memphis metropolitan area.

See the discussion of LBI s critical accounting policies above, Note 1 and Note 5 of Notes to the Consolidated Financial Statements for more information on its allowance for loan losses.

The following table summarizes the activity related to LBI s allowance for loan losses for the five years ended December 31, 2012.

	Year ended December 31,				
	2012	2011	2010	2009	2008
	(Dollars in thousands)				
Balance, beginning of year	$ 34,280	$ 26,284	$ 30,210	$ 27,635	$ 19,179
Provision for loan losses	15,000	18,000	22,000	25,500	19,000
Loan charge-offs					
Residential 1-4 family	935	2,317	4,338	6,736	2,224
Non-farm/non-residential	3,489	2,001	3,029	3,527	807
Construction/land development	4,292	1,763	14,802	3,421	4,819
Agricultural	13	397	91	58	223
Multifamily residential	782	196	20	266	367
Commercial and industrial	6,962	3,101	4,046	9,726	1,818
Consumer	287	519	319	391	680
Other	1,243	296	44	108	121
Total Loan charge-offs	18,003	10,590	26,689	24,233	11,059
Loan recoveries					
Residential 1-4 family	1,975	209	351	177	19
Non-farm/non-residential	114	80	84	110	85
Construction/land development	49	129	68	576	1
Agricultural		44	4	1	
Multifamily residential	4	11	7	56	
Commercial and industrial	49	35	159	247	91
Consumer	59	48	72	108	89
Other	76	30	18	33	230
Total Recoveries	2,326	586	763	1,308	515
Net loan charge-offs	15,677	10,004	25,926	22,925	10,544
Balance, end of year	$ 33,603	$ 34,280	$ 26,284	$ 30,210	$ 27,635
Allowance for loan losses to gross loans	1.82%	1.92%	1.64%	1.78%	1.51%
Net charge-offs to average loans	0.86%	0.59%	1.57%	1.31%	0.59%

Table of Contents

The following table presents the allocation of the allowance for loan losses for loans as of the dates indicated.

Allocation of Allowance for Loan Losses for Loans

	As of December 31, 2012		As of December 31, 2011		As of December 31, 2010		As of December 31, 2009		As of December 31, 2008	
	Allowance Amount	% of loans(1)	Allowance Amount	% of loans(1)	Allowance Amount	% of loans(1)	Allowance Amount	% of loans(1)	Allowance Amount	% of loans(1)
					(Dollars in thousands)					
Real estate:										
Residential 1-4 family	$ 4,046	19.9%	$ 4,534	18.8%	$ 5,575	19.6%	$ 5,770	19.1%	$ 5,112	18.5%
Non-farm/non-residential	11,392	42.2	14,963	41.6	5,667	39.1	7,760	37.0	8,482	35.9
Construction/land development	4,046	11.3	5,219	11.7	3,668	12.6	4,652	15.4	4,366	15.8
Agricultural	831	2.3	108	2.5	294	3.3	351	3.8	574	3.5
Multifamily residential	155	6.5	676	6.2	1072	4.6	1,088	3.6	995	3.6
Commercial and industrial	6,261	13.3	4,676	14.3	4,910	15.3	4,683	15.5	4,892	17.7
Consumer	348	2.4	339	2.4	476	2.7	816	2.7	801	2.9
Other		2.1		2.5		2.8	0	2.9	0	2.1
Unallocated	6,524		3,765		4,622		5,090		2,413	
Total	$ 33,603	100.0%	$ 34,280	100.0%	$ 26,284	100.0%	$ 30,210	100.0%	$ 27,635	100.0%

(1) Percentage of loans in each category to loans receivable.

The allowance consists of specific, general, and unallocated components. In its regular evaluation of the adequacy of the total allowance for loan losses, management reviews the level of the allowance for loan losses in comparison to its evaluation of the aggregate of the specific, general, and unallocated components and maintains the allowance within parameters as established by policy guidelines.

Reclassifications of loans from the general to specific evaluation, or from specific to general evaluation may result in variations in both the dollar amount and percentage in both the specific and general components of the allowance.

For loans that are classified as impaired and are thus specifically evaluated, an allowance is established when the discounted cash flows or collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. For additional information on impaired loans, see the Nonperforming Assets section of this analysis, Note 3 of the Condensed Notes to Consolidated Financial Statements (unaudited) and Note 5 of the Condensed Notes to Consolidated Financial Statements (audited).

The general component, which relates to loans that are not impaired and thus are not specifically evaluated, is based on historical loss experience adjusted for qualitative factors and also includes an unallocated component. The amount of the general allowance is $21.3 million and $19.0 million as of December 31, 2012 and 2011, respectively. The dollar amount of collectively evaluated loans is $1.78 billion and $1.71 billion as of December 31, 3012 and 2011, respectively. The general allowance as a percentage of collectively evaluated loans is 1.20% at December 31, 2012, and 1.11% at December 31, 2011. The increase at December 31, 2012 as compared to December 31, 2011 was principally the result of a recovery during 2012 of approximately $1.7 million on a loan which had been charged-off in 2010.

The unallocated component, which is included within the general component and is maintained to cover uncertainties that could affect management s estimate of probable losses, reflects the evaluation of factors including loan growth, the level of loan-to-value policy exceptions, the volume of non-owner occupied construction and development loans, the level of past due and non-accrual loans, the level of watch rated loans, and evaluation of market economic conditions.

Table of Contents

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

The amount of the general allowance related to the unallocated component is $6.5 million at December 31, 2012 and $3.8 million at December 31, 2011. The changes for the period ended December 31, 2012 and 2011 in the allocation of the allowance for loan losses for the individual types of loans are primarily associated with changes in the ASC 310 calculations, both individual and aggregate, and changes in the ASC 450 calculations. These calculations are affected by changes in individual loan impairments, changes in asset quality, net charge-offs during the period and normal changes in the outstanding loan portfolio, as well any changes to the general allocation factors due to changes within the actual characteristics of the loan portfolio.

Nonperforming Assets

The following table shows the nonperforming assets and the related percentage of nonperforming assets to total assets and non-performing loans to total loans for the five years ended December 31, 2012. Generally, a loan is placed on nonaccrual status when it becomes 90 days past due as to principal or interest, or when it is believed, after considering economic and business conditions and collection efforts, that the borrower s financial condition is such that collection of the loan is doubtful. A payment of interest on a loan that is classified as nonaccrual is recognized as a reduction in principal when received.

	December 31,				
	2012	**2011**	**2010**	**2009**	**2008**
			(Dollars in thousands)		
Residential 1-4 family	$ 2,489	$ 2,773	$ 4,031	$ 5,776	$ 4,334
Non-farm/non-residential	7,703	21,306	6,055	7,473	2,818
Construction/land development	2,035	12,870	3,093	6,888	3,547
Agricultural		103	450	1,022	240
Multifamily residential	1,122	404	352	312	
Commercial and industrial	204	5,274	4,459	7,391	3,830
Consumer	130	107	146	267	226
Other		1,243	96	484	30
Total nonperforming loans	13,683	44,080	18,682	29,613	15,025
Other real estate owned and repossessed assets	29,832	25,978	32,604	22,527	14,969
Total nonperforming assets	$ 43,515	$ 70,058	$ 51,286	$ 52,140	$ 29,994
Nonperforming assets to total assets	1.54%	2.49%	2.02%	2.04%	1.15%
Nonperforming loans to total loans	0.74%	2.47%	1.16%	1.74%	0.82%
Total loans 90 days or more past due	$ 7,131	$ 29,024	$ 13,606	$ 24,847	$ 10,960
Loans 90 days or more past due and still accruing	94	866	15	12	
Accruing troubled debt restructurings	41,424	20,960	1,734	1,415	

At December 31, 2012, nonperforming assets were $43.5 million, or 1.54% of total assets and nonperforming loans were 0.74% of total loans. Comparatively, December 31, 2011 nonperforming assets were $70.1 million or 2.49% of total assets and nonperforming loans were 2.47% of total loans. Nonperforming loans decreased $30.4 million to $13.7 million at December 31, 2012 from $44.1 million at December 31, 2011. The increase in nonperforming loans at December 31, 2011 was principally the result of various commercial and real estate development loans. These included a commercial land development in Jonesboro, Arkansas of $8.9 million and in Rogers, Arkansas of $5.7 million, both of which were foreclosed on and placed in other real estate owned in 2012.

At December 31, 2012, impaired loans totaled $65.2 with a specific allowance allocation of approximately $12.3 million. During 2012, the average recorded investment in impaired loans was $67.9 million. At December 31, 2011, impaired loans totaled $70.54 million with a specific allowance allocation of $15.3 million. During 2011, the average recorded investment in impaired loans was approximately $65.4 million.

Other nonperforming assets include other real estate owned and repossessed assets. These assets increased $3.9 million to $29.8 million at December 31, 2012 from $26.0 million at December 31, 2011. During 2012, LBI sold 142 properties for approximately $11.9 million and recognized a $37,000 gain on the sales. In addition LBI added 50 properties totaling $23.0 million to other real estate owned during 2012, and recorded write downs totaling $5.6 million on 27 properties. The balance at December 31, 2012 includes 20 commercial properties totaling $28.1 million and 12 residential real estate properties totaling $1.8 million. LBI believes that these properties are appropriately valued at the lower of cost or market as of December 31, 2012.

As a general practice, most of LBI s loans are originated with maturities of five years or less. When a loan reaches its maturity frequently it renew the loan, thereby extending its maturity. Such renewals and extensions are made in accordance with LBI s existing credit policy, using appropriate credit standards and are based upon updated financial information on the borrower. Nonperforming loans are renewed at terms generally consistent with the ultimate source of repayment and appropriate rates. In these cases, Liberty Bank will seek additional credit enhancements, such as additional collateral or additional guarantees to further protect the loan. When a loan is no longer performing in accordance with its stated terms, Liberty Bank will typically seek performance under the guarantee.

At December 31, 2012, approximately 82.23% of its loans were collateralized by real estate, and over 90.56% of its impaired loans were secured by real estate. Liberty Bank utilizes third party appraisers to determine the fair value of collateral dependent loans. Impaired loans are individually reviewed on a quarterly or more frequent basis to determine the level of impairment. It typically records a charge-off or create a specific reserve for impaired loans when it does not expect repayment to occur as agreed upon under the original terms of the loan agreement.

Liberty Bank considers TDRs when the debtor experiences financial difficulties and Liberty Bank provides concessions with the original terms of the loan agreement. Concessions can relate to the contractual interest rate, maturity date, or payment structure of the note. As part of its workout plan for individual loan relationships, it may restructure loan terms to assist borrowers facing challenges in the current economic environment. As of December 31, 2012, LBI determined that it had loans totaling $41.4 million, which it considered accruing TDRs. As of December 31, 2011, it had loans totaling $21.0 million, which it considered accruing TDRs. See Note 5 to the Consolidated Financial Statements for additional information on TDRs.

Deposits and Other Interest Bearing Liabilities

LBI s primary source of funds for loans and investments are its deposits, advances from the Federal Home Loan Bank and repurchase agreements. At December 31, 2012, 2011 and 2010 total deposits were $2.2 billion, $2.2 billion and $1.9 billion, respectively.

Table of Contents

The following table shows the average balance amounts and the average rates paid on deposits held by LBI as of the dates indicated.

	December 31,					
	2012		2011		2010	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
	(Dollars in thousands)					
Non-interest bearing demand deposits	$ 209,489	0.00%	$ 192,383	0.00%	$ 171,558	0.00%
Interest-bearing demand deposits	759,619	0.49%	611,756	0.64%	507,188	0.79%
Money market accounts	90,107	0.34%	84,563	0.62%	81,622	0.84%
Savings deposits	123,659	0.37%	118,277	0.79%	99,356	0.82%
Time deposits less than $100,000	442,420	1.00%	477,240	1.26%	495,944	1.61%
Time deposits of $100,000 or more	522,882	0.90%	535,311	1.22%	534,913	1.60%
Total deposits	$ 2,148,176	0.63%	$ 2,019,530	0.89%	$ 1,890,581	1.17%

Core deposits which exclude time deposits of $100,000 or more provide a relatively stable funding source for its loan portfolio and other earning assets. Core deposits were $1.7 billion, $1.6 billion, and $1.4 billion at December 31, 2012, 2011 and 2010, respectively.

All of LBI s time deposits are certificates of deposits. The maturity distribution of its time deposits of $100,000 or more is as follows:

	December 31,		
	2012	2011	2010
	(In thousands)		
Three months or less	$ 155,640	$ 144,537	$ 129,646
Over three through twelve months	218,509	270,286	324,181
Over twelve months through three years	138,607	123,925	100,174
Over three years	6,386	3,933	395
Total	$ 519,142	$ 542,681	$ 554,396

The Dodd-Frank Act permanently raised the standard maximum deposit FDIC insurance amount to $250,000. The FDIC insurance coverage limit applies per depositor, per insured depository institution for each account ownership category.

Short-Term Borrowings

Short-term borrowings consisted of securities sold under agreements to repurchase amounting to $85.7 million (with a weighted average rate of .88%), $71.4 million (with a weighted average rate of 1.28%), and $74.0 million (with a weighted average rate of 1.34%) as of December 31, 2012, 2011, and 2010 respectively. Securities sold under agreements to repurchase generally mature within one year from the transaction date. The maximum amount of short-term borrowings outstanding at any month-end amounted to approximately $106.5 million during 2012, $98.3 million during 2011, and $87.2 million during 2010. Average short-term borrowings outstanding amounted to approximately $93.1 million for 2012, $77.2 million for 2011 and $73.4 million for 2010.

Capital Resources

Total stockholders equity was $310.8 million at December 31, 2012 and $301.2 million at December 31, 2011. The $9.6 million increase during 2012 is primarily related to net income of $20.9 million during the year less dividends of $10.0 million.

Table of Contents

Beginning in 2009, LBI participated in the U.S. Department of the Treasury TARP Capital Purchase Program for non-public qualifying financial institutions and received $57,500,000 from the Treasury in connection with the issuance of 57,500 shares of Series A Preferred Stock and the issuance of Preferred Stock warrants, which were immediately exercised for a nominal amount, for 2,875 shares of Series B Preferred Stock.

During 2011, LBI repurchased the Series A and Series B Preferred Stock and exited the TARP Capital Purchase Program by issuing to the Treasury s Small Business Lending Fund (SBLF) $52,500,000 of Series C cumulative perpetual Preferred Stock (52,500 shares) and making a cash payment of $7,875,000. The dividend rate on the Series C Preferred Stock is variable (5% at December 31, 2012 and 2011) based on lending increase parameters, as defined by the SBLF, and adjusts to a fixed rate of 9% after 4.5 years from the date of issuance if the funding is still outstanding. The Series C Preferred Stock has a liquidation preference of $1,000 per share. In connection with the issuance of the preferred stock, LBI agreed, among other things, to certain restrictions on dividend payment on common stock.

The following table shows the return on average assets (net income divided by average total assets), return on average equity (net income divided by average equity), dividend payout ratio (cash dividends divided by net income) and equity to assets ratio (average equity divided by average total assets) for the three years ended December 31, 2012, 2011 and 2010.

	Year Ended December 31,		
	2012	2011	2010
Return on average assets	0.75%	0.60%	0.50%
Return on average equity	6.79%	5.34%	4.32%
Dividend Payout ratio	40.12%	21.46%	0.00%
Average Equity to average assets ratio	10.98%	11.30%	11.56%
Common equity to assets ratio	9.12%	8.85%	9.37%

LBI s return on average assets was 0.75% for the year ended December 31, 2012 and 0.60% and 0.50% for the years ended December 31, 2011 and 2010, respectively. In addition, return on average equity was 6.79% for 2012 compared to 5.34% for 2011 and 4.32% for 2010. The dividend payout ratio was 40.12% for the year ended December 31, 2012 compared to 21.46% and 0.00% for the years ended December 31, 2011 and 2010, respectively. The average equity to average assets ratio was 10.98% at December 31, 2012 compared to 11.30% and 11.56% at December 31, 2011 and 2010, respectively. In addition, common equity to assets ratio was 9.12% at December 31, 2012, compared to 8.85% at December 31, 2011 and 9.37% at December 31, 2010.

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

Quantitative measures established by regulation to ensure capital adequacy require LBI and Liberty Bank to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier I capital (as defined) to average assets (as defined). LBI management believes, as of December 31, 2012, that LBI and Liberty Bank meet all capital adequacy requirements to which they are subject. On July 2, 2013 the Board of Governors of the Federal Reserve System adopted a final rule that revises risk-based and leverage capital requirements for banking organizations. For additional information, please see the section hereinafter following titled Accounting, Reporting, and Regulatory Matters.

134

Table of Contents

As of December 31, 2012, 2011 and 2010, capital ratios exceeded these ratios and remain well-capitalized. The following table summarizes the capital amounts and ratios of LBI, Liberty Bank and the regulatory minimum requirements.

	Actual		Federal Reserve minimum ratios to be adequately capitalized		Federal Reserve minimum ratios to be well capitalized	
	Amount	Ratios	Amount	Ratios	Amount	Ratios
			(Dollars in thousands)			
As of December 31, 2012						
Total Risk Based Capital-Consolidated	299,835	15.00%	159,986	8.00%	N/A	N/A
Total Risk Based Capital-Liberty Bank	297,867	14.90%	159,528	8.00%	199,410	10.00%
Tier 1 Risk Based Capital-Consolidated	274,731	13.70%	79,993	4.00%	N/A	N/A
Tier 1 Risk Based Capital-Liberty Bank	272,834	13.70%	79,764	4.00%	119,646	6.00%
Tier 1 Leverage Capital-Consolidated	274,731	10.00%	109,640	4.00%	N/A	N/A
Tier 1 Leverage Capital-Liberty Bank	272,834	10.00%	109,640	4.00%	137,050	5.00%
As of December 31, 2011						
Total Risk Based Capital-Consolidated	293,047	15.70%	149,512	8.00%	N/A	N/A
Total Risk Based Capital-Liberty Bank	292,636	15.70%	149,323	8.00%	186,653	10.00%
Tier 1 Risk Based Capital-Consolidated	269,551	14.40%	74,756	4.00%	N/A	N/A
Tier 1 Risk Based Capital-Liberty Bank	269,169	14.40%	74,661	4.00%	111,992	6.00%
Tier 1 Leverage Capital-Consolidated	269,551	10.00%	107,740	4.00%	N/A	N/A
Tier 1 Leverage Capital-Liberty Bank	269,169	10.00%	107,740	4.00%	134,675	5.00%
As of December 31, 2010						
Total Risk Based Capital-Consolidated	288,091	16.50%	140,121	8.00%	N/A	N/A
Total Risk Based Capital-Liberty Bank	282,102	16.10%	140,247	8.00%	175,309	10.00%
Tier 1 Risk Based Capital-Consolidated	266,143	15.20%	70,060	4.00%	N/A	N/A
Tier 1 Risk Based Capital-Liberty Bank	260,134	14.80%	70,124	4.00%	105,185	6.00%
Tier 1 Leverage Capital-Consolidated	266,143	10.70%	99,077	4.00%	N/A	N/A
Tier 1 Leverage Capital-Liberty Bank	260,134	10.50%	99,077	4.00%	123,846	5.00%

Dividends that may be paid by Liberty Bank are subject to legal limitations and regulatory capital requirements. The approval of the Arkansas State Bank Department is required if the total of all dividends declared by a state charter bank in any calendar year exceeds seventy-five percent of the current year annualized net income plus seventy-five percent of the prior year retained income (net income minus dividends paid).

Effect of Inflation and Changing Prices

The effect of relative purchasing power over time due to inflation has not been taken into account in its consolidated financial statements. Rather, LBI s consolidated financial statements have been prepared on an historical cost basis in accordance with accounting principles generally accepted in the United States of America.

Unlike most industrial companies, LBI s assets and liabilities are primarily monetary in nature. Therefore, the effect of changes in interest rates will have a more significant impact on its performance than will the effect of changing prices and inflation in general. In addition, interest rates may generally increase as the rate of inflation increases, although not necessarily in the same magnitude. LBI seeks to manage the relationships between interest sensitive assets and liabilities in order to protect against wide rate fluctuations, including those resulting from inflation.

Table of Contents

Off-Balance Sheet Risk

LBI is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. The financial instruments included commitments to extend credit, standby letters of credit and loans sold subject to repurchase agreements. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in LBI s financial statements. LBI s exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit, standby letters of credit and loans sold subject to repurchase agreements is represented by contractual terms of those instruments. LBI uses 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 the customer has not violated any material condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. Unfunded commitments to extend credit were approximately $179.8 million and $137.6 million at December 31, 2012 and December 31, 2011, respectively.

At December 31, 2012 and 2011, loans sold subject to repurchase agreements totaled $99.9 and $72.1 million, respectively.

At December 31, 2012 and 2011, there were commitments of $6.2 million and $5.8 million under letters of credit, respectively. The credit risk and collateral involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Since most of the letters of credit are expected to expire without being drawn upon, they do not necessarily represent future cash requirements.

Except as disclosed in this document, LBI is not involved in off-balance sheet contractual relationships, unconsolidated related entities that have off-balance sheet arrangements or transactions that could result in liquidity needs or other commitments that significantly impact earnings.

Market Risk and Interest Rate Sensitivity

Market risk is the risk of loss from adverse changes in market prices and rates, which principally arises from interest rate risk inherent in LBI s lending, investing, deposit gathering, and borrowing activities. Other types of market risks, such as foreign currency exchange rate risk and commodity price risk, do not generally arise in the normal course of its business.

LBI actively monitors and manages its interest rate risk exposure in order to control the mix and maturities of our assets and liabilities utilizing a process it calls asset/liability management. The essential purposes of asset/liability management are to ensure adequate liquidity and to maintain an appropriate balance between interest sensitive assets and liabilities in order to minimize potentially adverse impacts on earnings from changes in market interest rates. Its asset/liability management committee (ALCO) monitors and considers methods of managing exposure to interest rate risk. LBI has an internal ALCO consisting of certain members of senior management that meets quarterly or more frequently. ALCO is responsible for maintaining the level of interest rate sensitivity of our interest sensitive assets and liabilities within board-approved limits.

Its interest rate risk exposure is managed principally by measuring its interest sensitivity which is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given period of time. Interest rate sensitivity can be managed by repricing assets or liabilities, selling securities available for sale, replacing an asset or liability at maturity, or adjusting the interest rate during the life of an asset or liability. Managing the amount of assets and liabilities repricing in this same time interval helps to hedge the risk and minimize the impact on net interest income of rising or falling interest rates. In general, LBI would benefit from increasing market rates of interest when it has an asset-sensitive gap position and from decreasing market rates of interest when it is liability-sensitive.

The following table sets forth information regarding its rate sensitivity, as of December 31, 2012, at each of the time intervals.

	December 31, 2012				
	1 90 days	91 365 days	After one but within five years	After five years	Total
	(Dollars in thousands)				
Interest-earning assets:					
Loans	$ 397,611	$ 385,163	$ 851,455	$ 208,947	$ 1,843,176
Securities	2,368	6,349	230,640	461,898	701,255
Federal funds sold and other interest earning assets	6,289				6,289
Total interest-earning assets	406,268	391,512	1,082,095	670,845	2,550,720
Interest-bearing liabilities:					
Interest-bearing demand deposits	918,638				918,638
Savings deposits	115,536				115,536
Time deposits	282,135	401,850	223,526	1,469	908,980
Short-term borrowing	85,555	148			85,703
Long-term debt	5,000	85,042	71,433	81,852	243,327
Total interest bearing liabilities	1,406,864	487,040	294,959	83,321	2,272,184
Rate sensitive gap	(1,000,596)	(95,528)	787,136	587,524	$ 278,536
Rate sensitive cumulative gap	$ (1,000,596)	$ (1,096,124)	$ (308,988)	$ 278,536	
Cumulative gap as a percentage of interest earnings assets	-39.23%	-42.97%	-12.11%	10.92%	

As measured over the one-year time interval, the above analysis indicates that LBI was liability sensitive at December 31, 2012, since it had more liabilities than assets repricing in the next twelve months. At December 31, 2012, it had $1.1 billion more assets than liabilities that reprice within the next twelve months. However, its gap analysis is not a precise indicator of its interest sensitivity position. This analysis presents only a static view of the timing of maturities and repricing opportunities, without taking into consideration that changes in interest rates do not affect all assets and liabilities equally. For example, rates paid on a substantial portion of core deposits may change contractually within a relatively short time frame, but those rates are viewed by LBI as significantly less interest-sensitive than market-based rates such as those paid on noncore deposits. It periodically utilizes more complex interest rate models than indicated above, and based on those results it believes that its net interest income will be negatively impacted by an increase in interest rates. A substantial portion of its deposits reprice over the next 12 months. Net interest income may be affected by other significant factors in a given interest rate environment, including changes in the volume and mix of interest earning assets and interest bearing liabilities.

At December 31, 2012, approximately $1.9 billion of interest bearing liabilities were either variable rate or had a maturity of less than one year. Of the $1.4 billion of interest bearing liabilities set to reprice within 90 days, $1.0 billion are transaction, money market or savings accounts which are already at or near their lowest rates and provide little opportunity for benefit to LBI should market rates continue to decline or stay constant. However, certificates of deposit that are currently maturing or renewing are repricing at lower rates. LBI expects to benefit as these deposits reprice, even if market rates increase slightly.

Included in its Federal Home Loan Bank advances and related debt were a number of borrowings with callable features as of December 31, 2012. LBI believes that the optionality on many of these borrowings will not be exercised until interest rates increase significantly. In addition, it believes that the interest rates that it pays on the majority of its interest bearing transaction accounts would only be impacted by a portion of any change in market rates. This key assumption is utilized in LBI s overall evaluation of its level of interest sensitivity.

Table of Contents

Contractual Obligations

LBI utilizes a variety of short-term and long-term borrowings to supplement its supply of lendable funds, to assist in meeting deposit withdrawal requirements, and to fund growth of interest earning assets in excess of traditional deposit growth. Certificates of deposit, structured repurchase agreements and FHLB-Dallas advances serve as its primary sources of such funds. Contractual obligations relative to these agreements are noted in the table below. Option periods that it has not yet exercised are not included in this analysis as they do not represent contractual obligations until exercised.

The following table provides payments due by period for obligations under long-term borrowings and operating lease obligations.

	December 31, 2012 Payments Due by Period					
	Within One Year	Over One to Two Years	Over Two to Three Years	Over Three to Five Years	After Five Years	Total
	(Dollars in thousands)					
Certificates of deposit	$ 683,985	$ 184,084	$ 30,948	$ 8,494	$ 1,469	$ 908,980
Repurchase agreements	$ 85,703	$	$	$	$	$ 85,703
Long-term debt	90,044	35,146	36,126	691	81,320	243,327
Operating lease obligations	723	573	452	738	1,572	4,058
Total	$ 860,455	$ 219,803	$ 67,526	$ 9,923	$ 84,361	$ 1,242,068

Approximately $860.46 million, or 69.28% of the contractual obligations noted above are due within one year and approximately $1.08 billion or 86.97% are due within two years. See discussions of rate sensitivity and liquidity above.

Accounting, Reporting and Regulatory Matters

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and/disclosure of financial information by LBI.

Recent accounting pronouncements. In February 2013, the FASB issued an update, ASU 2013-02, Comprehensive *Income (Topic 220): Reporting Items Reclassified Out of Accumulated Other Comprehensive Income* which requires disclosure of amounts reclassified out of accumulated other comprehensive income in their entirety, by component, on the face of the statement of comprehensive income or in the notes to the financial statements. Amounts that are not required to be classified in their entirety to net income must be cross-referenced to other disclosures that provide additional detail. ASU 2013-02 is effective prospectively for fiscal years and interim periods beginning after January 1, 2013, and did not have an impact on the Company s financial position or results of operations.

Presently, the Company is not aware of any changes from the Financial Accounting Standards Board that will have a material impact on the Company s present or future financial statements.

Regulatory matters. Liberty Bank is restricted from paying dividends that exceed 75% of the current year s net income plus 75% of the retained net income for the immediately preceding year without obtaining regulatory approval.

LBI and Liberty Bank are subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect

Table of Contents

on the LBI and Liberty Bank s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, LBI and Liberty Bank must meet specific capital guidelines that involve quantitative measures of the LBI and Liberty Bank s assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The LBI and Liberty Bank s capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

On July 2, 2013, the Office of the Comptroller of the Currency and Board of Governors of the Federal Reserve System adopted a final rule that revises risk-based and leverage capital requirements for banking organizations. Among other matters, the final rule implements a revised definition of regulatory capital, a new common equity tier 1 minimum capital requirement, a higher minimum tier 1 capital requirement, and incorporates these new requirements into the agencies prompt corrective action framework. In addition, the final rule establishes limits on a banking organization s capital distributions if the banking organization does not hold a specified amount of common equity tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. Further, the final rule amends the methodologies for determining risk-weighted assets for all banking organizations, and also adopts changes to the agencies regulatory capital requirements that meet the requirements of section 171 and section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The mandatory compliance date for organizations such as LBI is January 1, 2015. As this rule was only recently adopted, there has been no determination of the potential impact, if any, on LBI.

For additional information on regulatory matters and regulatory capital, please see Note 21 of the LBI Consolidated Financial Statements as of December 31, 2012.

Table of Contents

CERTAIN BENEFICIAL OWNERS OF LBI COMMON STOCK

As of June 25, 2013, LBI had 478 shareholders of record of its common stock. The following table lists the stock ownership of LBI directors, its executive officers, all directors and executive officers as a group, and those persons who, to LBI s knowledge, beneficially owned 5% or more of LBI common stock outstanding as of June 25, 2013. According to SEC rules, a beneficial owner of securities has or shares the power to vote securities or to direct their investment. Thus, under the rules, more than one person may be deemed to be a beneficial owner of the same shares. A person is also deemed to be a beneficial owner of any shares as to which that person has the right to acquire beneficial ownership within 60 days from June 25, 2013.

Except as otherwise indicated, all shares are owned directly, and the named person possesses sole voting and investment power with respect to his shares. The address for each of LBI s directors and executive officers is c/o Liberty Bancshares, Inc., 2901 East Highland Drive, Jonesboro, Arkansas 72401.

Name of Directors, Executive Officers	Number of Shares Beneficially Owned of LBI Common Stock Pre-Merger	Percent of Total Class of LBI Common Stock Pre-Merger(1)
Wayne F. Baker (3)	10,000	*
Susan Cathcart (4)	10,123	*
Richard S. Darouse (5)	16,197	1.38%
Chris Fowler (6)	43,308	3.69%
Jama M. Fowler (7)	137,986	11.74%
Mark P. Fowler (2)(8)	29,029	2.46%
Wallace W. Fowler (9)	165,861	14.12%
John C. Freeman (2)(10)	5,505	*
Moud Gazaway (11)	2,000	*
Stacy Greene (12)	13,168	1.12%
Howard Hamilton (13)	2,931	*
Al M. Heringer, III (14)	6,803	*
Sam Hummelstein (15)	3,000	*
Mike Langford (16)	24,920	2.12%
Charles F. Luter (17)	31,640	2.69%
Hugh McClain (18)	53,100	4.52%
Lloyd McCracken, Jr. (2)(19)	9,486	*
Matt Parker (20)	2,631	*
Roy Reaves (21)	48,603	4.14%
Ed Way (2)(22)	4,451	*
Directors and Executive Officers as a group (20 persons)	482,756	40.77%
Other 5% Shareholders:		
None		

* Less than one percent.

(1) The percentage of LBI common stock beneficially owned was calculated based on 1,174,966 shares of LBI common stock outstanding and 18,350 vested stock options outstanding as of June 25, 2013. The percentage assumes that the person in each row has exercised all options that are exercisable by that person or group within 60 days of June 25, 2013.

(2) Includes shares that may be issued upon the exercise of vested common stock options, as follows: Mr. Mark Fowler, 3,000 shares; Mr. Freeman, 3,000 shares; Mr. McCracken, 3,000 shares; Mr. Way, 200 shares ; and all directors and executive officers as a group, 9,200 shares.

140

Table of Contents

(3) Includes 10,000 shares held jointly with his spouse.
(4) Includes 10,123 shares held jointly with her spouse.
(5) Includes 10,846 shares held jointly with his spouse. Also includes 3,420 shares held in an IRA of which he has sole voting power, and 1,931 shares owned by his wife s IRA.
(6) Includes 3,506 shares held in an IRA of which he has sole voting power. Also includes 3,200 shares held in the name of TB of Jonesboro, Inc. of which he is the sole owner, 10,880 shares held in the name of FB Foods, LLC of which he owns 52% and is the General Manager, 1,985 shares held in the name of Fowler Delta Foods, LLC of which he owns 33% and is the General Manager. Also includes 4,788 shares held in a trust for Megan Fowler and 4,855 shares held in a trust for Matthew Fowler of which he is the trustee and has sole voting power. Also includes 200 shares owned by his spouse. Chris Fowler is the son of Wallace W. and Jama M. Fowler.
(7) Includes 39,918 shares held in her living trust of which she is co-trustee with Wallace W. Fowler and 39,918 shares held in Wallace W. Fowler s living trust of which she is co-trustee. Also includes 28,650 shares owned by Fowler Foods, Inc. which is owned 50% by each of their living trusts and 29,500 shares held in the name of JWF Investments, LLC which is owned 5% by each of their living trusts with she and Wallace W. Fowler serving as co-General Managers. Jama M. Fowler is the spouse of Wallace W. Fowler.
(8) Includes 7,372 shares held in the Mark Fowler Children s Trust of which he is the trustee and has sole voting power. Also includes 3,400 shares held in an IRA of which he has sole voting power. Also includes 3,459 shares held in trust for Crystal Fowler, 2,740 shares held in trust for Aaron Fowler, 5,045 shares held in trust for Chris Fowler, Jr., and 4,013 shares held in trust for Alexandra Fowler of which he is the trustee and has sole voting power. Mark Fowler is the son of Wallace W. and Jama M. Fowler.
(9) Includes 39,918 shares held in his living trust of which he is co-trustee with Jama M. Fowler and 39,918 shares held in Jama M. Fowler s living trust of which he is co-trustee. Includes 28,650 shares owned by Fowler Foods, Inc. which is owned 50% by each of their living trusts, 27,875 shares held in the name of Fowler Family Investments, LLC and owned 20% each by Wallace W. Fowler, Jama M. Fowler, and each of their three sons with Wallace W. Fowler serving as the General Manager, and also 29,500 shares held in the name of JWF Investments, LLC which is owned 5% by each of the Wallace W. Fowler and Jama M. Fowler living trusts, of which he serves as co-trustee with Jama M. Fowler. Wallace W. Fowler is the spouse of Jama M. Fowler.
(10) Includes 1,535 shares owned jointly with spouse and 970 shares held in an IRA of which he has sole voting power.
(11) Includes 2,000 shares held in a trust of which Mr. Gazaway is co-trustee with his spouse.
(12) Includes 730 shares held in an IRA of which Mr. Greene has sole voting power and also includes 3,849 shares held in an irrevocable trust of which he is the trustee and has sole voting power, and 4,750 shares held in a trust and an estate over which he exercises control.
(13) Includes 2,931 shares held in the name of Nest Egg Enterprises, LLC which is owned 50% by Howard Hamilton who serves as the Manager.
(14) Includes 3,730 shares held in a living trust of which Mr. Heringer is the trustee and has sole voting power. Also includes 2,600 shares held in a profit sharing plan for the benefit of Mr. Heringer of which Liberty Bank of Arkansas is the trustee. Includes 323 shares held in an IRA of which Mr. Heringer has sole voting power, and 150 shares owned by his spouse s IRA.
(15) Includes 1,500 shares owned by his spouse.
(16) Includes 9,000 shares owned by Lamco Limited Partnership I and 15,920 shares owned by Lamco Limited Partnership II of which Mr. Langford owns 50% of each entity and also serves as co-managing partner of each.
(17) Includes 31,640 shares held in a revocable trust of which Mr. Luter is the trustee and has sole voting power.
(18) Includes 9,902 shares held in a limited partnership of which Mr. McClain is the Managing Partner and 43,198 shares held in a trust of which Mr. McClain is the trustee and has sole voting power.
(19) Includes 1,785 shares held jointing with his spouse, 3,369 shares in an IRA of which he has sole voting power, and 1,332 shares held in a limited liability company of which he owns 10% and is the General Manager, with the remaining units of the LLC owned by his spouse and children.

Table of Contents

(20) Includes 461 shares held in an IRA of which he has sole voting power. Also includes 131 shares each in trust for his three children of which he is the trustee and has sole voting power.

(21) Includes 37,001 shares held in a revocable trust of which Mr. Reaves is the trustee and has sole voting power, 10,325 shares held in an IRA of which he has sole voting power, and 1,277 shares owned by his spouse s IRA.

(22) Includes 2,251 shares held in an IRA of which Mr. Way has sole voting power, and also includes 810 shares held in his spouse s IRA.

Table of Contents

CERTAIN LEGAL MATTERS

The validity of the HBI common stock to be issued in the merger will be passed upon for HBI by its counsel, Mitchell, Williams, Selig, Gates & Woodyard, P.L.L.C., Little Rock, Arkansas. Mitchell, Williams, Selig, Gates & Woodyard, P.L.L.C., will also pass upon certain federal income tax matters for HBI and LBI.

EXPERTS

The consolidated financial statements incorporated in this joint proxy statement/prospectus by reference from HBI s Annual Report on Form 10-K for the year ended December 31, 2012, and the effectiveness of HBI s internal control over financial reporting have been audited by BKD, LLP, an independent registered public accounting firm, as stated in their reports, which are incorporated herein by reference. Such consolidated financial statements have been so incorporated in reliance on the reports of BKD given as experts in accounting and auditing.

The consolidated financial statements of LBI included in this joint proxy statement/prospectus, as of December 31, 2012 and 2011 and the related consolidation statements of income, comprehensive income, shareholders equity and cash flows for each of the years in the three-year period ended December 31, 2012, have been audited by Kemp & Company, a Professional Association, an independent public accounting firm, as stated in their report and have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

SUBMISSION OF HBI ANNUAL MEETING SHAREHOLDER PROPOSALS

In order for a proposal by an HBI shareholder to be presented at an annual meeting of HBI s shareholders, the proposal must be included in the related proxy statement and proxy form. Proposals by shareholders intended to be presented at the Annual Meeting of Shareholders in 2014 must be received by HBI no later than November 8, 2013, for possible inclusion in the proxy statement relating to that meeting.

For a shareholder proposal to be included in the proxy statement and proxy form for an annual meeting of the HBI s shareholders, the proposal must: (1) concern a matter that may be properly considered and acted upon at the annual meeting in accordance with applicable laws, including HBI s Bylaws and Rule 14a-8 of the Exchange Act; and (2) be received by HBI at its home office, 719 Harkrider Street, Suite 100, Conway, Arkansas 72032, Attention: Holly A. McKenna, Secretary, not less than 120 calendar days before the anniversary of the date of the previous year s proxy statement, or November 8, 2013, in the case of the Annual Meeting of Shareholders in 2014. If no annual meeting was held the previous year and in any year in which the date of the annual meeting is moved by more than 30 days from the date of the previous year s annual meeting, the proposal will be considered timely if received within a reasonable time before HBI begins to print and mail its proxy materials.

DOCUMENTS INCORPORATED BY REFERENCE

The SEC allows HBI to incorporate by reference information into this joint proxy statement/prospectus, which means that the companies can disclose important information to you by referring you to another document filed separately by them with the SEC. The information incorporated by reference is deemed to be part of this joint proxy statement/prospectus, except for any information superseded by any information in this joint proxy statement/prospectus.

Table of Contents

This joint proxy statement/prospectus incorporates by reference the following documents that have previously been filed with the SEC by HBI:

- Annual Report on Form 10-K for the year ended December 31, 2012;
- Definitive Proxy Statement on Schedule 14A for HBI s 2013 Annual Meeting of Shareholders;
- Quarterly Report on Form 10-Q for the quarters ended March 31, 2013 and June 30, 2013; and
- Current Reports on Form 8-K filed January 17, 2013; April 18, 2013; April 19, 2013; June 25, 2013; June 27, 2013; July 18, 2013; and August 2, 2013, respectively.

In addition, HBI is incorporating by reference any documents it may file under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this joint proxy statement/prospectus and prior to the date of the special meeting of the HBI shareholders, provided, however, that HBI is not incorporating by reference any information furnished (but not filed), except as otherwise specified herein.

HBI files annual, quarterly and special reports, proxy statements and other business and financial information with the SEC. You may obtain the information incorporated by reference and any other materials HBI files with the SEC without charge by following the instructions in the section entitled Where You Can Find More Information in the forepart of this joint proxy statement/prospectus.

HBI has not authorized anyone to give any information or make any representation about the merger or its companies that is different from, or in addition to, that contained in this joint proxy statement/prospectus or in any of the materials that have been incorporated into this joint proxy statement/prospectus. Therefore, if anyone does give you information of this sort, you should not rely on it. If you are in a jurisdiction where offers to exchange or sell, or solicitations of offers to exchange or purchase, the securities offered by this joint proxy statement/prospectus or the solicitation of proxies is unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this joint proxy statement/prospectus does not extend to you. The information contained in this joint proxy statement/prospectus speaks only as of the date of this joint proxy statement/prospectus unless the information specifically indicates that another date applies.

Table of Contents

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS OF LBI

	Page
Unaudited Consolidated Financial Statements as of and for the three months and six months ended June 30, 2013:	
Consolidated balance sheets as of June 30, 2013 and December 31, 2012	F-2
Consolidated statements of income for the three months and six months ended June 30, 2013 and 2012	F-3
Consolidated statements of comprehensive income for the three months and six months ended June 30, 2013 and 2012	F-4
Consolidated statements of shareholders equity for the six months ended June 30, 2013 and 2012	F-5
Consolidated statements of cash flows for the six months ended June 30, 2013 and 2012	F-6
Condensed notes to Consolidated Financial Statements	F-7
Audited Consolidated Financial Statements as of and for the years ended December 31, 2012, 2011 and 2010:	
Report of Kemp & Company, a Professional Association, independent auditors	F-24
Consolidated balance sheets as of December 31, 2012 and 2011	F-25
Consolidated statements of income for the years ended December 31, 2012, 2011 and 2010	F-26
Consolidated statements of comprehensive income for the years ended December 31, 2012, 2011 and 2010	F-27
Consolidated statements of shareholders equity for the years ended December 31, 2012, 2011 and 2010	F-28
Consolidated statements of cash flows for the years ended December 31, 2012, 2011 and 2010	F-29
Notes to Consolidated Financial Statements	F-30

Table of Contents

LIBERTY BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except for share data)

	June 30, 2013 (unaudited)	December 31, 2012
ASSETS		
Cash and due from banks (including interest bearing amounts:		
2013 $14,169 and 2012 $5,989)	$ 49,162	$ 56,353
Federal funds sold		300
Total cash and cash equivalents	49,162	56,653
Investment securities:		
Held-to-maturity securities (approximate fair value:		
2013 $285,760 and 2012 $299,149)	290,988	297,696
Available-for-sale securities	394,745	403,559
	685,733	701,255
Loans	1,899,540	1,843,176
Allowance for loan losses	(36,109)	(33,603)
Net loans	1,863,431	1,809,573
Premises and fixed assets, net	83,888	80,989
Other real estate owned	26,545	29,832
Accrued interest receivable	9,817	10,747
Investments in unconsolidated subsidiaries	1,733	1,733
Goodwill	88,499	88,499
Core deposit intangibles and other intangible assets	1,760	2,201
Other assets	45,952	49,673
	$ 2,856,520	$ 2,831,155
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits:		
Noninterest bearing	$ 228,454	$ 234,520
Interest bearing	1,963,903	1,943,154
Total deposits	2,192,357	2,177,674
Short-term borrowings	77,623	85,703
Long-term debt	258,803	243,327
Accrued interest payable	669	783
Other liabilities	11,170	12,903
Total liabilities	2,540,622	2,520,390
Shareholders equity:		
Preferred Stock, $.01 par value authorized 5,000,000 shares, issued: 52,500 shares	52,500	52,500
Common Stock, $.01 par value authorized 10,000,000 shares, issued: 2013 1,210,638 shares and 2012 1,208,247 shares	12	12
Surplus	167,089	167,066

Retained earnings	108,212	98,182
Accumulated other comprehensive (loss) income	(3,561)	1,336
Less: Treasury stock, at cost (2013 35,672 shares; 2012 35,572 shares)	(8,354)	(8,331)
Total shareholders equity	315,898	310,765
	$ 2,856,520	$ 2,831,155

See condensed notes to consolidated financial statements.

LIBERTY BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except for per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(unaudited)		(unaudited)	
Interest income:				
Loans including fees	$ 23,733	$ 24,707	$ 46,441	$ 49,339
Investment securities				
Taxable	2,034	2,698	4,228	5,809
Tax-exempt	754	701	1,476	1,368
Other	136	142	276	315
	26,657	28,248	52,421	56,831
Interest expense:				
Deposits	2,274	3,558	4,709	7,340
Short-term borrowings	135	241	272	458
Long-term debt	1,325	1,490	2,659	3,386
	3,734	5,289	7,640	11,184
Net interest income	22,923	22,959	44,781	45,647
Provision for loan losses	3,000	3,750	6,000	7,500
	19,923	19,209	38,781	38,147
Other income:				
Fiduciary activities	380	374	776	740
Service charges on deposit accounts	2,341	2,473	4,590	4,716
Insurance activities and annuity sales	591	738	1,491	1,686
Net gains on sales of loans held for sale	998	960	1,927	1,819
Realized net gains on investment securities		20		37
Other noninterest income	2,079	1,950	4,492	2,052
	6,389	6,515	13,276	11,050
Other expense:				
Salaries and employee benefits	9,415	9,124	18,810	18,243
Expenses of premises and fixed assets	2,803	2,764	5,453	5,520
Amortization of intangible assets	213	230	441	460
Other	5,170	4,857	9,970	9,428
	17,601	16,975	34,674	33,651
Income before income taxes	8,711	8,749	17,383	15,546
Provision for income taxes	3,063	3,060	6,102	5,322

Net income	5,648	5,689	11,281	10,224
Preferred Stock dividends	(656)	(656)	(1,251)	(1,312)
Net income available to common shareholders	$ 4,992	$ 5,033	$ 10,030	$ 8,912
Net income per share:				
Basic	$ 4.25	$ 4.29	$ 8.55	$ 7.60
Diluted	$ 4.24	$ 4.27	$ 8.54	$ 7.58

See condensed notes to consolidated financial statements.

F-3

Table of Contents

LIBERTY BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(unaudited)		(unaudited)	
Net income	$ 5,648	$ 5,689	$ 11,281	$ 10,224
Other comprehensive income (loss):				
Securities available-for-sale:				
Change in unrealized gains/losses during the period	(8,260)	882	(8,255)	(383)
Tax effect	3,240	(346)	3,238	150
Net of tax amount	(5,020)	536	(5,017)	(233)
Less: reclassification adjustment for gains included in net income		(20)		(37)
Tax effect		8		15
Net of tax amount		(12)		(22)
Total securities available-for-sale, net of tax	(5,020)	524	(5,017)	(255)
Derivatives:				
Change in fair value of derivatives used for cash flow hedge	79	63	197	74
Tax effect	(31)	(25)	(77)	(29)
Total derivatives, net of tax	48	38	120	45
Other comprehensive income (loss), net of tax	(4,972)	562	(4,897)	(210)
Comprehensive income	$ 676	$ 6,251	$ 6,384	$ 10,014

See condensed notes to consolidated financial statements.

Table of Contents

LIBERTY BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

Six Months Ended June 30, 2013 and 2012

(In thousands, except for share data)

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at January 1, 2012	$ 52,500	$ 12	$ 167,102	$ 87,241	$ 2,128	$ (7,779)	$ 301,204
Net income				10,224			10,224
Other comprehensive loss, net of tax					(210)		(210)
Share-based compensation			13				13
Issuance of Common Stock (5,543 shares) in connection with exercise and cancellation of stock options			(57)				(57)
Purchases of treasury stock (1,436 shares)						(338)	(338)
Dividends on Preferred Stock				(1,312)			(1,312)
Dividends on Common Stock				(2,339)			(2,339)
Balance at June 30, 2012 (unaudited)	$ 52,500	$ 12	$ 167,058	$ 93,814	$ 1,918	$ (8,117)	$ 307,185
Balance at January 1, 2013	$ 52,500	$ 12	$ 167,066	$ 98,182	$ 1,336	$ (8,331)	$ 310,765
Net income				11,281			11,281
Other comprehensive income, net of tax					(4,897)		(4,897)
Share-based compensation			18				18
Issuance of Common Stock (2,391 shares) in connection with exercise and cancellation of stock options			5				5
Purchases of treasury stock (100 shares)						(23)	(23)
Dividends on Preferred Stock				(1,251)			(1,251)
Balance at June 30, 2013 (unaudited)	$ 52,500	$ 12	$ 167,089	$ 108,212	$ (3,561)	$ (8,354)	$ 315,898

See condensed notes to consolidated financial statements.

F-5

Table of Contents

LIBERTY BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, except for share data)

	Six Months Ended June 30, 2013	2012
	(unaudited)	
Operating activities:		
Net income	$ 11,281	$ 10,224
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	6,000	7,500
Provision for losses on other real estate owned	100	3,186
Depreciation and amortization	2,729	2,686
Deferred income taxes	(1,455)	(517)
Share-based compensation expense	18	13
Excess tax benefits from exercise of stock options	(360)	(877)
Net gains on investment securities		(37)
Net losses on sales of other real estate owned	727	457
Net decrease (increase) in loans held for sale	4,161	(1,190)
Net decrease in accrued interest receivable and all other assets	6,134	5,052
Net decrease in accrued interest payable and other liabilities	(1,847)	(1,780)
Net cash provided by operating activities	27,488	24,717
Investing activities:		
Proceeds from maturities of held-to-maturity securities	61,950	92,270
Proceeds from maturities of available-for-sale securities	111,428	260,121
Purchases of held-to-maturity securities	(58,086)	(208,631)
Purchases of available-for-sale securities	(104,667)	(151,806)
Net increase in loans not held for sale	(67,798)	(88,057)
Proceeds from sales of other real estate owned	6,239	5,207
Purchases of premises and fixed assets	(5,187)	(2,735)
Net cash used in investing activities	(56,121)	(93,631)
Financing activities:		
Net increase (decrease) in deposits	14,683	(18,501)
Increase (decrease) in short-term borrowings	(8,080)	22,667
Proceeds from long-term debt borrowings	65,450	896
Repayments of long-term borrowings	(49,974)	(26,443)
Proceeds from exercise of stock options	72	65
Payments for cancellation of stock options	(95)	(389)
Excess tax benefits from exercise of stock options	360	877
Cash dividends on Preferred Stock	(1,251)	(1,312)
Cash dividends on Common Stock		(2,339)
Purchases of treasury stock	(23)	(338)
Net cash provided by (used in) financing activities	21,142	(24,817)
Cash and cash equivalents:		
Net decrease	(7,491)	(93,731)
Balance beginning of period	56,653	135,695

Balance end of period	$ 49,162	$ 41,964

See condensed notes to consolidated financial statements.

F-6

Table of Contents

LIBERTY BANCSHARES, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1: Nature of business and summary of significant accounting policies

Basis of presentation

The unaudited consolidated financial statements include the accounts of Liberty Bancshares, Inc. and its majority-owned subsidiaries (the Company) for the three months and six months ended June 30, 2013 and 2012. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America. In management s opinion, the accompanying unaudited consolidated financial statements reflect all adjustments (consisting solely of normal recurring adjustments) necessary for a fair presentation of the interim financial statements. They do not include all of the information and footnotes required by such accounting principles for complete financial statements, and therefore should be read in conjunction with the audited consolidated financial statements and accompanying notes contained herein.

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheet and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near-term relate primarily to the determination of the allowance for loan losses.

Nature of operations

The Company provides a diverse range of financial services and products principally to Arkansas customers. The Company is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

Recent accounting pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-05, *Presentation of Comprehensive Income* which amended existing guidance and eliminated the option to present the components of other comprehensive income as part of the statement of shareholders equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in a two separate consecutive statement approach and changes the presentation of reclassification items out of other comprehensive income to net income. In December 2011, the FASB deferred certain provisions related to the reclassifications of items out of accumulated other comprehensive income and the presentation of the reclassification items. The adoption of this amendment during 2012, which was applied retrospectively as required, changed the presentation of the components of comprehensive income for the Company as part of the consolidated statement of shareholders equity. The components of comprehensive income are now presented in a separate statement.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company s financial position, results of operations or cash flows.

Table of Contents

LIBERTY BANCSHARES, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1: Nature of business and summary of significant accounting policies (continued)

Net income per common share

Basic net income per common share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during each period. Diluted net income per common share is computed by dividing net income available to common shareholders by the weighted average number of shares outstanding during each period after consideration of the dilutive effect of the Company s Common Stock options using the treasury stock method. The computation of net income per common share is as follows (in thousands except for per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Numerator:				
Distributed income allocated to Common Stock	$	$	$	$ 2,339
Undistributed income allocated to Common Stock	4,992	5,033	10,030	6,573
Net income allocated to common shareholders	$ 4,992	5,033	$ 10,030	$ 8,912
Denominator:				
For basic calculation weighted average shares	1,175	1,174	1,173	1,172
Effect of dilutive securities stock options	2	4	2	4
For diluted calculation	1,177	1,178	1,175	1,176
Basic net income per common share	$ 4.25	$ 4.29	$ 8.55	$ 7.60
Diluted net income per common share	$ 4.24	$ 4.27	$ 8.54	$ 7.58

Note 2: Investment securities

The amortized cost and approximate fair values of investment securities are as follows (in thousands):

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
June 30, 2013				
Held-to-maturity				
Securities of U.S. government agencies and corporations	$ 239,657	$ 224	$ (4,919)	$ 234,962
Residential mortgage-backed securities	211	17		228
Obligations of states and political subdivisions	51,120	458	(1,008)	50,570

	$290,988	$ 699	$ (5,927)	$ 285,760
Available-for-sale				
Securities of U.S. government agencies and corporations	$ 330,602	$ 768	$ (6,193)	$ 325,177
Residential mortgage-backed securities	15,809	1	(213)	15,597
Obligations of states and political subdivisions	54,044	751	(824)	53,971
	$400,455	$ 1,520	$ (7,230)	$ 394,745

Table of Contents

LIBERTY BANCSHARES, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 2: Investment securities (continued)

(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
December 31, 2012				
Held-to-maturity				
Securities of U.S. government agencies and corporations	$ 259,095	$ 881	$ (246)	$ 259,730
Residential mortgage-backed securities	274	23		297
Obligations of states and political subdivisions	38,327	830	(35)	39,122
	$297,696	$ 1,734	$ (281)	$ 299,149
Available-for-sale				
Securities of U.S. government agencies and corporations	$ 344,921	$ 1,626	$ (391)	$ 346,156
Residential mortgage-backed securities	171	5		176
Obligations of states and political subdivisions	55,923	1,338	(34)	57,227
	$401,015	$ 2,969	$ (425)	$ 403,559

The amortized cost and approximate fair value of available-for-sale debt securities at June 30, 2013, by contractual maturity, are as follows (in thousands):

	Held-to-maturity		Available-for-sale	
	Amortized cost	Fair value	Amortized cost	Fair value
Due in one year or less	$ 380	$ 381	$ 7,595	$ 7,643
Due after one year through five years	88,290	87,506	146,783	146,538
Due after five years through ten years	174,405	170,771	206,995	202,364
Due after ten years	27,702	26,874	23,273	22,603
	290,777	285,532	384,646	379,148
Mortgage-backed securities	211	228	15,809	15,597
	$290,988	$ 285,760	$ 400,455	$ 394,745

F-9

Table of Contents

LIBERTY BANCSHARES, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 2: Investment securities (continued)

The following table shows the Company s investments in debt securities estimated fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2013 and December 31, 2012 (in thousands):

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
June 30, 2013						
Held-to-maturity						
U.S. government agencies and corporations	$ 220,715	$ (4,919)	$	$	$ 220,715	$ (4,919)
Obligations of states and political subdivisions	21,224	(1,008)			21,224	(1,008)
	$ 241,939	$ (5,927)	$	$	$ 241,939	$ (5,927)
Available-for-sale						
U.S. government agencies and corporations	$ 291,951	$ (6,193)	$	$	$ 291,951	$ (6,193)
Residential mortgage-backed securities	11,487	(213)			11,487	(213)
Obligations of states and political subdivisions	16,460	(824)			16,460	(824)
	$ 319,898	$ (7,230)	$	$	$ 319,898	$ (7,230)
December 31, 2012						
Held-to-maturity						
U.S. government agencies and corporations	$ 94,861	$ (246)	$	$	$ 94,861	$ (246)
Obligations of states and political subdivisions	3,327	(35)			3,327	(35)
	$ 98,188	$ (281)	$	$	$ 98,188	$ (281)
Available-for-sale						
U.S. government agencies and corporations	$ 171,755	$ (391)	$	$	$ 171,755	$ (391)
Obligations of states and political subdivisions	3,837	(32)	298	(2)	4,135	(34)
	$ 175,592	$ (423)	$ 298	$ (2)	$ 175,890	$ (425)

For the period ended June 30, 2013 and the year ended December 31, 2012, the unrealized losses on the Company s investment securities were caused by rate increases. The fair values of the investments are expected to recover as the securities approach their maturity dates or if market yields for such investments decline. Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time the Company expects to receive full value for the securities. Furthermore, as of June 30, 2013 and December 31, 2012, management also had the ability and intent to hold the securities classified as available-for-sale for a period of time sufficient for a recovery of cost. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of June 30, 2013 and December 31, 2012, since it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, management believes the impairments are temporary.

F-10

Table of Contents

LIBERTY BANCSHARES, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 3: Loans and allowance for loan losses

Loans consisted of the following at June 30, 2013 and December 31, 2012:

	2013	2012
	(In thousands)	
Real estate:		
Residential 1-4 family (1)	$ 384,732	$ 367,251
Non-farm/non-residential	765,656	778,303
Construction/land development	243,984	208,523
Agricultural	40,239	41,527
Multifamily residential	120,763	120,104
Commercial and industrial	251,444	245,007
Consumer	43,380	43,568
Other	49,342	38,893
Total Loans	$ 1,899,540	$ 1,843,176

(1) Includes residential mortgage loans held for sale of $10,938,000 and $15,099,000 at June 30, 2013 and December 31, 2012, respectively.
Nonaccrual loans consisted of the following at June 30, 2013 and December 31, 2012:

	2013	2012
	(In thousands)	
Real estate:		
Residential 1-4 family	$ 2,848	$ 2,423
Non-farm/non-residential	19,529	7,703
Construction/land development	315	2,035
Agricultural		
Multifamily residential	1,368	1,122
Commercial and industrial	2,454	204
Consumer	119	129
Other		
Total Nonaccrual Loans	$ 26,633	$ 13,616

Summarized below are the transactions in allowance for loan losses for the indicated periods:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			

Balance Beginning of period	$ 34,996	$ 32,178	$ 33,603	$ 34,280
Provision for loan losses	3,000	3,750	6,000	7,500
Net charge-offs:				
Charge-offs (deductions)	(2,002)	(686)	(3,699)	(6,844)
Recoveries	115	180	205	486
	(1,887)	(506)	(3,494)	(6,358)
Balance End of period	$ 36,109	$ 35,422	$ 36,109	$ 35,422

Table of Contents

LIBERTY BANCSHARES, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 3: Loans and allowance for loan losses (continued)

The tables on the following two pages are a summary of the Company s allowance for loan losses and recorded investment in loans by principal loan category and a summary of credit quality indicators for the Company s loans by principal loan category for the period ended June 30, 2013 and the year ended December 31, 2012.

Allowance for Loan Losses (ALL) and Recorded Investment in Loans

	Residential 1-4 Family	Non-farm/ Non-Residential	Real Estate Construction/ Land Development	Agricultural	Multi-Family Residential	Commercial and Industrial	Consumer	Other	Unallocated	Total
					(Dollars in thousands)					
Three Months Ended June 30, 2013										
Allowance for loan losses:										
Beginning balance	$ 3,285	$ 15,563	$ 2,176	$ 49	$ 671	$ 7,863	$ 334	$	$ 5,055	$ 34,996
Charge-offs	(397)	(1,260)	(1)			(308)	(36)			(2,002)
Recoveries	37	22	1		35	2	18			115
Provisions	1,330	1,925	134	(15)	(209)	905	20		(1,090)	3,000
Ending balance	$ 4,255	$ 16,250	$ 2,310	$ 34	$ 497	$ 8,462	$ 336	$	$ 3,965	$ 36,109
Six Months Ended June 30, 2013										
Allowance for loan losses:										
Beginning balance	$ 4,046	$ 11,392	$ 4,046	$ 831	$ 155	$ 6,261	$ 348	$	$ 6,524	$ 33,603
Charge-offs	(508)	(2,619)	(40)			(438)	(94)			(3,699)
Recoveries	43	53	2		35	47	25			205
Provisions	674	7,424	(1,698)	(797)	307	2,592	57		(2,559)	6,000
Ending balance	$ 4,255	$ 16,250	$ 2,310	$ 34	$ 497	$ 8,462	$ 336	$	$ 3,965	$ 36,109
Ending balance: ALL for individually evaluated impaired loans	$ 28	$ 14,253	$ 268	$	$ 52	$ 4,054	$	$	$	$ 18,655
Ending balance: ALL for all other loans	4,227	1,997	2,042	34	445	4,408	336		3,965	17,454
Ending balance	$ 4,255	$ 16,250	$ 2,310	$ 34	$ 497	$ 8,462	$ 336	$	$ 3,965	$ 36,109
Loans:										
Ending balance: individually evaluated impaired loans	$ 805	$ 48,152	$ 30,817	$	$ 1,366	$ 8,048	$	$	$	$ 89,188

Ending balance: all other loans	383,927	717,504	213,167	40,239	119,397	243,396	43,380	49,342		1,810,352
	$ 384,732	$ 765,656	$ 243,984	$ 40,239	$ 120,763	$ 251,444	$ 43,380	$ 49,342	$	$ 1,899,540

Credit Quality Indicators

	Residential 1-4 Family	Non-farm/ Non-Residential	Real Estate Construction/ Land Development	Agricultural	Multi-Family Residential	Commercial and Industrial	Consumer	Other	Total
	(Dollars in thousands)								
Credit quality indicators:									
Satisfactory	$ 367,929	$ 667,197	$ 197,074	$ 37,396	$ 115,670	$ 232,026	$ 42,683	$ 49,342	$ 1,709,317
Watch	10,090	40,758	27,750	2,795	3,727	10,416	232		95,768
Substandard	6,713	57,701	19,160	48	1,366	9,002	465		94,455
Total loans	$ 384,732	$ 765,656	$ 243,984	$ 40,239	$ 120,763	$ 251,444	$ 43,380	$ 49,342	$ 1,899,540

Table of Contents

LIBERTY BANCSHARES, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 3: Loans and allowance for loan losses (continued)

Allowance for Loan Losses (ALL) and Recorded Investment in Loans

December 31, 2012

	Residential 1-4 Family	Non-farm/ Non-Residential	Real Estate Construction/ Land Development	Agricultural	Multi-Family Residential	Commercial and Industrial	Consumer	Other	Unallocated	Total
	(Dollars in thousands)									
Allowance for loan losses:										
Beginning balance	$ 4,534	$ 14,963	$ 5,219	$ 108	$ 676	$ 4,676	$ 339	$	$ 3,765	$ 34,280
Charge-offs	(935)	(3,489)	(4,292)	(13)	(782)	(6,962)	(287)	(1,243)		(18,003)
Recoveries	1,975	114	49		4	49	59	76		2,326
Provisions	(1,528)	(196)	3,070	736	257	8,498	237	1,167	2,759	15,000
Ending balance	$ 4,046	$ 11,392	$ 4,046	$ 831	$ 155	$ 6,261	$ 348	$	$ 6,524	$ 33,603
Ending balance: ALL for individually evaluated impaired loans	$ 169	$ 7,973	$ 1,132	$	$	$ 2,996	$	$	$	$ 12,270
Ending balance: ALL for all other loans	3,877	3,419	2,914	831	155	3,265	348		6,524	21,333
Ending balance	$ 4,046	$ 11,392	$ 4,046	$ 831	$ 155	$ 6,261	$ 348	$	$ 6,524	$ 33,603
Loans:										
Ending balance: individually evaluated impaired loans	$ 960	$ 46,550	$ 10,438	$	$ 1,053	$ 6,151	$	$	$	$ 65,152
Ending balance: all other loans	366,291	731,753	198,085	41,527	119,051	238,856	43,568	38,893		1,778,024
	$ 367,251	$ 778,303	$ 208,523	$ 41,527	$ 120,104	$ 245,007	$ 43,568	$ 38,893	$	$ 1,843,176

Credit Quality Indicators

	Residential 1-4 Family	Non-farm/ Non-Residential	Real Estate Construction/ Land Development	Agricultural	Multi-Family Residential	Commercial and Industrial	Consumer	Other	Total
	(Dollars in thousands)								

Credit quality indicators:									
Satisfactory	$ 348,382	$ 683,298	$ 157,179	$ 37,130	$ 114,950	$ 225,440	$ 42,939	$ 38,893	$ 1,648,211
Watch	9,420	43,739	40,099	1,106	4,253	11,986	245		110,848
Substandard	9,449	51,266	11,245	3,291	901	7,581	384		84,117
Total loans	$ 367,251	$ 778,303	$ 208,523	$ 41,527	$ 120,104	$ 245,007	$ 43,568	$ 38,893	$ 1,843,176

The following categories of credit quality indicators are used by the Company:

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

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

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

LIBERTY BANCSHARES, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 3: Loans and allowance for loan losses (continued)

The following is a summary of impaired loans as of and for the six months ended June 30, 2013:

	Total Recorded Investment	Unpaid Contractual Principal Balance	Allocation of Allowance for Loan Losses	Average Recorded Investment
		(In thousands)		
Loans with a specific valuation allowance				
Real Estate:				
Residential 1-4 family	$ 805	$ 805	$ 28	$ 805
Non farm/Non residential	47,522	47,522	14,253	48,263
Construction/land development	5,839	5,839	268	6,190
Agricultural				
Multifamily residential	1,366	1,366	52	1,366
Commercial & Industrial	8,048	8,048	4,054	8,048
Consumer				
Other				
Total loans with a specific valuation allowance	63,580	63,580	18,655	64,672
Loans without a specific valuation allowance				
Real Estate:				
Residential 1-4 family				
Non farm/Non residential	630	630		630
Construction/land development	24,978	24,978		24,981
Agricultural				
Multifamily residential				
Commercial & Industrial				
Consumer				
Other				
Total loans without a specific valuation allowance	25,608	25,608		25,611
Total Impaired Loans				
Real Estate:				
Residential 1-4 family	805	805	28	805
Non farm/Non residential	48,152	48,152	14,253	48,893
Construction/land development	30,817	30,817	268	31,171
Agricultural				
Multifamily residential	1,366	1,366	52	1,366
Commercial & Industrial	8,048	8,048	4,054	8,048
Consumer				
Other				
Total impaired loans	$ 89,188	$ 89,188	$ 18,655	$ 90,283

The average recorded investment for the three months ended June 30, 2013 was not significantly different from the amounts shown for the six months ended June 30, 2013.

F-14

LIBERTY BANCSHARES, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 3: Loans and allowance for loan losses (continued)

The following is a summary of impaired loans as of and for the year ended December 31, 2012:

	Total Recorded Investment	Unpaid Contractual Principal Balance	Allocation of Allowance for Loan Losses	Average Recorded Investment
		(In thousands)		
Loans with a specific valuation allowance				
Real Estate:				
Residential 1-4 family	$ 960	$ 960	$ 169	$ 965
Non farm/Non residential	32,695	32,695	7,973	32,658
Construction/land development	8,613	8,613	1,132	7,889
Agricultural				
Multifamily residential				
Commercial & Industrial	6,151	6,151	2,996	9,621
Consumer				
Other				
Total loans with a specific valuation allowance	48,419	48,419	12,270	51,133
Loans without a specific valuation allowance				
Real Estate:				
Residential 1-4 family				
Non farm/Non residential	13,855	13,855		13,855
Construction/land development	1,825	1,825		1,825
Agricultural				
Multifamily residential	1,053	1,053		1,053
Commercial & Industrial				
Consumer				
Other				
Total loans without a specific valuation allowance	16,733	16,733		16,733
Total Impaired Loans				
Real Estate:				
Residential 1-4 family	960	960	169	965
Non farm/Non residential	46,550	46,550	7,973	46,513
Construction/land development	10,438	10,438	1,132	9,714
Agricultural				
Multifamily residential	1,053	1,053		1,053
Commercial & Industrial	6,151	6,151	2,996	9,621
Consumer				
Other				
Total impaired loans	$ 65,152	$ 65,152	$ 12,270	$ 67,866

Interest income recognized on impaired loans was not significant during the three months and six months ended June 30, 2013 and during the year ended December 31, 2012

F-15

Table of Contents

LIBERTY BANCSHARES, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 3: Loans and allowance for loan losses (continued)

The following is an aging analysis of past due loans at June 30, 2013:

	30-89 Days Past Due (1)	Greater than 90 Days (2)	Total Past Due	Current (3)	Total Loans
			(In thousands)		
Real Estate:					
Residential 1-4 family	$ 2,538	$ 2,848	$ 5,386	$ 379,346	$ 384,732
Non-farm/non-residential	2,694	17,193	19,887	745,769	765,656
Construction/land development	10,837	315	11,152	232,832	243,984
Agricultural	112		112	40,127	40,239
Multifamily residential				120,763	120,763
Commercial and industrial	1,443	1,954	3,397	248,047	251,444
Consumer	287	129	416	42,964	43,380
Other				49,342	49,342
Total	$ 17,911	$ 22,439	$ 40,350	$ 1,859,190	$ 1,899,540

(1) Includes $1,930,000 of loans on nonaccrual status.
(2) Includes $22,429,000 of loans on nonaccrual status.
(3) Includes $2,274,000 of loans on nonaccrual status.

The following is an aging analysis of past due loans at December 31, 2012:

	30-89 Days Past Due (4)	Greater than 90 Days (5)	Total Past Due	Current (6)	Total Loans
			(In thousands)		
Real Estate:					
Residential 1-4 family	$ 4,664	$ 2,427	$ 7,091	$ 360,160	$ 367,251
Non-farm/non-residential	4,060	3,059	7,119	771,184	778,303
Construction/land development	485	214	699	207,824	208,523
Agricultural				41,527	41,527
Multifamily residential		1,122	1,122	118,982	120,104
Commercial and industrial	417	193	610	244,397	245,007
Consumer	324	116	440	43,128	43,568
Other	94		94	38,799	38,893
Total	$ 10,044	$ 7,131	$ 17,175	$ 1,826,001	$ 1,843,176

(4) Includes $44,000 of loans on nonaccrual status.
(5) Includes $7,039,000 of loans on nonaccrual status.
(6) Includes $6,533,000 of loans on nonaccrual status.

Table of Contents

LIBERTY BANCSHARES, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 3: Loans and allowance for loan losses (continued)

The following is a summary of loans restructured in troubled debt restructurings (TDRs) as of June 30, 2013 and December 31, 2012:

	Accruing TDRs	Nonaccrual TDRs (In thousands)	Total TDRs
June 30, 2013			
Real estate:			
Residential 1-4 family	$ 360	$	$ 360
Non-farm/non-residential	31,009	12,838	43,847
Construction/land development	15,823	1,366	17,189
Agricultural			
Multifamily residential			
Commercial and industrial	6,001	200	6,201
Consumer			
Other			
Total	$ 53,193	$ 14,404	$ 67,597

	Accruing TDRs	Nonaccrual TDRs (In thousands)	Total TDRs
December 31, 2012			
Real estate:			
Residential 1-4 family	$ 380	$	$ 380
Non-farm/non-residential	30,971	2,948	33,919
Construction/land development	3,870		3,870
Agricultural			
Multifamily residential			
Commercial and industrial	6,203		6,203
Consumer			
Other			
Total	$ 41,424	$ 2,948	$ 44,372

At June 30, 2013 and December 31, 2012 there were no significant commitments to lend additional funds to debtors for loans classified as TDRs.

Table of Contents

LIBERTY BANCSHARES, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 3: Loans and allowance for loan losses (continued)

Loans that were restructured during the period ended June 30, 2013 and the year ended December 31, 2012 as TDRs were as follows:

	2013		2012	
	Number of Loans	Outstanding Principal Balance	Number of Loans	Outstanding Principal Balance
	(In thousands)			
Real estate:				
Residential 1-4 family		$	1	$ 360
Non-farm/non-residential	1	11,256	4	15,268
Construction/land development	2	11,966	1	46
Agricultural				
Multifamily residential	1	1,366		
Commercial and industrial				
Consumer				
Other				
Total	4	$ 24,588	6	$ 15,674

The modifications during the period ended June 30, 2013 and the year ended December 31, 2012 primarily related to extending the amortization period of the loans, granting interest rate concessions or converting the loans to interest payments only for a limited period of time. The post-modification balances of the TDRs during the periods approximated the pre-modification balances. Payment defaults (generally defined as 90 days contractually past due under the modified terms) on TDRs restructured during the periods ended were not significant. The modifications did not have a significant impact on the Company s determination of the allowance for loan losses during the reported periods since the loans were generally classified in accordance with the Company s credit quality indicator system prior to restructuring.

Note 4: Stock options

No options were granted during the periods ended June 30, 2013 or 2012. During the periods, options for 350 shares and 600 shares, respectively, were exercised for cash, options for 13,100 and 16,500 shares, respectively, were exercised using the cashless exercise provisions of the related stock option agreements (2,041 and 4,943 shares, respectively, issued), and options for 5,000 and 3,600 shares, respectively, were cancelled for cash payments aggregating $94,599 and $389,300, respectively.

Note 5: Fair value measurements

ASC 820, *Fair Value Measurement*, provides that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy (hierarchy) that prioritizes the inputs used to develop those assumptions and measure fair value. The hierarchy requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

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

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

LIBERTY BANCSHARES, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 5: Fair value measurements (continued)

Level 3   Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

A description of the valuation methodologies used for instruments measured at fair value follows, as well as the classification of such instruments within the valuation hierarchy.

Available-for-sale Securities

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

Mortgage loans held for sale

As of June 30, 2013 and December 31, 2012, the Company has $10,938,000 and $15,099,000, respectively, of conforming mortgage loans held for sale. Mortgage loans originated and held for sale are carried at the lower of cost or estimated fair value. The Company obtains quotes or bids on these loans directly from purchasing investors. Typically these quotes include a premium on the sale and thus these quotes indicate the fair value of the held for sale loans is greater than cost. At June 30, 2013 and December 31, 2012, the entire balances of mortgage loans held for sale are recorded at cost.

Impaired Loans

Impaired loans that are collateral dependent are the only material financial assets valued on a non-recurring basis which are held by the Company at fair value. Loan impairment is reported when full payment under the loan terms is not expected. Impaired loans are carried at the net realizable value of the collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require increase, such increase is reported as a component of the provision for loan losses. The fair value of loans with specific allocated losses was $63,579,000 and $48,961,000 as of June 30, 2013 and December 31, 2012, respectively. This valuation is considered Level 3, consisting of appraisals of underlying collateral.

Other Real Estate Owned (OREO)

As of June 30, 2013 and December 31, 2012, the Company has $26,545,000 and $29,832,000, respectively, in OREO, consisting primarily of real estate held for sale which was acquired in settlement of loans. OREO assets held for sale are the only material nonfinancial assets valued on a nonrecurring basis which are held by the Company at fair value, less estimated costs to sell. At foreclosure, if the fair value, less estimated costs to sell, of the real estate acquired is less than the Company s recorded investment in the related loan, a write-down is recognized through a charge to the allowance for loan losses. Additionally, valuations are periodically performed by management and any subsequent reduction in value is recognized by a charge to income. The fair value of

Table of Contents

LIBERTY BANCSHARES, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 5: Fair value measurements (continued)

OREO held for sale is estimated using Level 3 inputs based on appraisals of underlying collateral. As of June 30, 2013 and December 31, 2012, the fair value of OREO held for sale, less estimated costs to sell, for which write-downs were recognized by a charge to income subsequent to acquisition of the properties was $19,657,000 and $21,559,000, respectively.

Derivative Financial Instruments

The Company utilizes an interest rate swap agreement to convert a portion of its variable-rate debt to a fixed rate (cash flow hedge). The fair value of the interest rate swap is estimated using prices of financial instruments with similar characteristics, and thus the commitments are classified within Level 2 of the hierarchy.

The Company has segregated financial and nonfinancial assets and liabilities that are measured at fair value into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the following table:

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
	(In thousands)			
June 30, 2013				
Assets				
Available-for-sale securities	$ 394,745	$	$ 394,745	$
Impaired loans	63,579			63,579
OREO	19,657			19,657
Liabilities				
Interest rate swap agreement	153		153	
December 31, 2012				
Assets				
Available-for-sale securities	$ 403,559	$	$ 403,559	$
Impaired loans	48,961			48,961
OREO	21,559			21,559
Liabilities				
Interest rate swap agreement	302		302	

The Company did not record any liabilities at fair value for which measurement of the fair value was made on a nonrecurring basis during the period ended June 30, 2013 and the year ended December 31, 2012.

Note 6: Fair value of financial instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments as of June 30, 2013 and December 31, 2012:

Cash, due from banks, and federal funds sold: The carrying amounts for these assets reported in the balance sheet approximate their fair values and are classified within Level 1 of the hierarchy.

LIBERTY BANCSHARES, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 6: Fair value of financial instruments (continued)

Investment securities: Fair values for investment securities are based on quoted market prices, where available (Level 1 of the hierarchy none at June 30, 2013 and December 31, 2012). If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments, which would be classified within Level 2 of the hierarchy.

Loans: The fair values for loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality, which would be classified within Level 3 of the hierarchy.

Deposits: The fair values of noninterest bearing deposits, interest bearing transaction accounts and savings accounts are the amount payable on demand at the reporting date (i.e., their carrying amounts), which would be classified within Level 1 of the hierarchy. Fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities of such deposits, which would be classified within Level 3 of the hierarchy.

Short-term borrowings: The carrying amounts of securities sold under agreements to repurchase, federal funds purchased and other short-term borrowings approximate their fair values and are classified within Level 1 of the hierarchy.

Long-term debt: Fair values are estimated using rates currently offered for borrowings of similar maturities, which would be classified within Level 2 of the hierarchy.

Accrued interest receivable and payable: The carrying amounts of accrued interest receivable and payable approximate their fair values and are classified within Level 1 of the hierarchy.

Commitments to extend credit and standby letters of credit: The fair values of commitments are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit worthiness of the counterparties. The fair values of standby letters of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. Due to the insignificance of the fees that would be currently charged for such agreements and the short-term nature of the current agreements, no fair value estimates have been made for commitments to extend credit and standby letters of credit.

Derivatives: The fair value of the Company s interest rate swap agreement is estimated using prices of financial instruments with similar characteristics, and thus the commitments are classified within Level 2 of the hierarchy. Unfunded commitments to originate loans held for sale and the related unfunded commitments to sell such loans meet the definition of a derivative financial instrument. The related asset and liability are considered immaterial at June 30, 2013 and December 31, 2012.

Table of Contents

LIBERTY BANCSHARES, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 6: Fair value of financial instruments (continued)

The estimated fair values of the Company s financial instruments were as follows (in thousands):

	Carrying Amount	Fair Value
June 30, 2013		
Financial assets		
Cash and cash equivalents	$ 49,162	$ 49,162
Held-to-maturity securities	290,988	285,760
Available-for-sale securities	394,745	394,745
Loans-net	1,863,431	1,862,700
Accrued interest receivable	9,817	9,817
Financial liabilities		
Deposits	$ 2,192,357	$ 2,191,800
Short-term borrowings	77,623	77,623
Long-term debt	258,803	261,600
Accrued interest payable	669	669
Interest rate swap agreement	153	153

	Carrying Amount	Fair Value
December 31, 2012		
Financial assets		
Cash and cash equivalents	$ 56,653	$ 56,653
Held-to-maturity securities	297,696	299,149
Available-for-sale securities	403,559	403,559
Loans-net	1,809,573	1,810,400
Accrued interest receivable	10,747	10,747
Financial liabilities		
Deposits	$ 2,177,674	$ 2,186,000
Short-term borrowings	85,703	85,703
Long-term debt	243,327	247,800
Accrued interest payable	783	783
Interest rate swap agreement	302	302

Note 7: Supplemental cash flows and income statement information

The Company paid approximately $7,754,000 and $11,495,000 in interest on deposits and borrowings during the six months ended June 30, 2013 and 2012, respectively. Cash payments for income taxes amounted to $5,100,000 and $4,900,000 during the six months ended June 30, 2013 and 2012, respectively. During the six months ended June 30, 2013 and 2012, the Company transferred loans aggregating approximately $3,800,000, and $17,400,000, respectively, to other real estate owned.

Table of Contents

LIBERTY BANCSHARES, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 7: Supplemental cash flows and income statement information (continued)

The following categories of other noninterest income and other noninterest expenses exceeded one percent of the aggregate of total interest income and total noninterest income for the indicated periods:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Noninterest income:				
ATM and checkcard income	$ 1,649	$ 1,539	$ 3,204	$ 3,062
Net losses on sales of OREO	(632)	(404)	(828)	(3,637)
Noninterest expenses:				
FDIC assessment charges	$ 555	$ 557	$ 1,035	$ 1,131
Repossession expense	553	551	1,063	1,021
Checkcard and ATM card expenses	577	475	1,053	891
Advertising	575	361	1,045	775

Note 8: Agreement and plan of merger

On June 25, 2013, the Company and Home Bancshares, Inc. (HBI) entered into an Agreement and Plan of Merger (Agreement) providing for the acquisition of all of the outstanding Common Stock of the Company by HBI. Under the terms of the Agreement, shareholders of the Company will receive, in the aggregate, $250 million of HBI common stock plus $30 million in cash. The number of shares of HBI common stock to be issued to the Company s shareholders will be determined based on the average closing price of HBI common stock for the 20 trading days immediately prior to the closing date. If the average closing price of the HBI common stock increases by more than twenty-five percent (25%) from the date of the Agreement, then the minimum number of HBI shares to be issued will be 8,764,242. In addition, if the 20-day average closing price of the HBI common stock decreases by more than twenty-five percent (25%) from the date of the Agreement, then either party has the option to terminate the Agreement. The transaction is expected to close late in the third quarter or early in the fourth quarter of 2013, and is subject to the approval of the shareholders of HBI and the Company, regulatory approvals, and other conditions set forth in the Agreement.

F-23

Report of Independent Auditors

Board of Directors

Liberty Bancshares, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Liberty Bancshares, Inc. and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, shareholders equity and cash flows for each of the years in the three-year period ended December 31, 2012, and the related notes to the consolidated financial statements.

Management s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Liberty Bancshares, Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

/s/ Kemp & Company, a Professional Association

Little Rock, Arkansas

March 27, 2013

Table of Contents

LIBERTY BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

December 31, 2012 and 2011

	2012	2011
ASSETS		
Cash and due from banks (including interest bearing amounts: 2012 $5,988,749 and 2011 $95,485,022)	$ 56,353,100	$ 133,845,406
Federal funds sold	300,000	1,850,000
Total cash and cash equivalents	56,653,100	135,695,406
Investment securities:		
Held-to-maturity securities (approximate fair value: 2012 $299,148,993 and 2011 $176,257,940)	297,695,471	174,774,565
Available-for-sale securities	403,558,938	499,433,045
	701,254,409	674,207,610
Loans:	1,843,176,038	1,782,896,004
Allowance for loan losses	(33,603,424)	(34,279,545)
Net loans	1,809,572,614	1,748,616,459
Premises and fixed assets, net	80,989,132	78,767,002
Other real estate owned	29,831,979	25,078,156
Accrued interest receivable	10,747,209	11,093,857
Investments in unconsolidated subsidiaries	1,733,000	1,922,000
Goodwill	88,499,280	88,499,280
Core deposit intangibles and other intangible assets	2,200,851	3,124,586
Other assets	49,673,186	44,225,328
	$ 2,831,154,760	$ 2,811,229,684
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits:		
Noninterest bearing	$ 234,520,082	$ 217,673,858
Interest bearing	1,943,153,876	1,940,959,682
Total deposits	2,177,673,958	2,158,633,540
Short-term borrowings	85,703,417	71,392,881
Long-term debt	243,326,736	269,325,990
Accrued interest payable	783,067	1,369,198
Other liabilities	12,901,974	9,304,240
Total liabilities	2,520,389,152	2,510,025,849
Shareholders equity:		
Preferred Stock, $.01 par value authorized 5,000,000 shares, issued: 52,500 shares	52,500,000	52,500,000
Common Stock, $.01 par value - authorized 10,000,000 shares, issued: 2012 1,208,247 shares and 2011 1,202,704 shares	12,083	12,027
Surplus	167,065,964	167,102,481
Retained earnings	98,182,140	87,240,869
Accumulated other comprehensive income	1,336,190	2,127,917
Less: Treasury stock, at cost (2012 35,572 shares; and 2011 33,226 shares)	(8,330,769)	(7,779,459)

Total shareholders equity	310,765,608	301,203,835
	$ 2,831,154,760	$ 2,811,229,684

See notes to consolidated financial statements.

Table of Contents

LIBERTY BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2012, 2011 and 2010

	2012	2011	2010
Interest income:			
Loans including fees	$ 98,388,786	$ 95,587,349	$ 96,762,090
Investment securities			
Taxable	10,599,193	13,194,052	16,814,216
Tax-exempt	2,796,639	2,471,907	2,418,189
Other	611,905	654,309	672,591
	112,396,523	111,907,617	116,667,086
Interest expense:			
Deposits	13,597,370	17,887,405	22,044,102
Short-term borrowings	810,957	970,830	957,415
Long-term debt	6,245,530	6,710,411	9,338,492