

SIMMONS FIRST NATIONAL CORP
Form 10-K
March 07, 2012
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Exchange Act of 1934
For the fiscal year ended: December 31, 2011

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 0-6253

SIMMONS FIRST NATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

Arkansas 71-0407808
(State or other jurisdiction of (I.R.S. employer
incorporation or organization) identification No.)

501 Main Street, Pine Bluff, Arkansas 71601
(Address of principal executive (Zip Code)
offices)

(870) 541-1000
(Registrant's telephone number, including area code)

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

Common Stock, \$0.01 par value The NASDAQ Global Select Market®
(Title of each class) (Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes
 No

The aggregate market value of the Registrant’s Common Stock, par value \$0.01 per share, held by non-affiliates on June 30, 2011, was \$406,151,971 based upon the last trade price as reported on the NASDAQ Global Select Market® of \$25.66.

The number of shares outstanding of the Registrant's Common Stock as of February 3, 2012, was 17,214,120.

Part III is incorporated by reference from the Registrant's Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 17, 2012.

Introduction

The Company has chosen to combine our Annual Report to Shareholders with our Form 10-K, which is a document that U.S. public companies file with the Securities and Exchange Commission every year. Many readers are familiar with “Part II” of the Form 10-K, as it contains the business information and financial statements that were included in the financial sections of our past Annual Reports. These portions include information about our business that we believe will be of interest to investors. We hope investors will find it useful to have all of this information available in a single document.

The Securities and Exchange Commission allows us to report information in the Form 10-K by “incorporated by reference” from another part of the Form 10-K, or from the proxy statement. You will see that information is “incorporated by reference” in various parts of our Form 10-K.

A more detailed table of contents for the entire Form 10-K follows:

FORM 10-K INDEX

Part I

| | | |
|----------------|--|-----------|
| <u>Item 1</u> | <u>Business</u> | <u>1</u> |
| <u>Item 1A</u> | <u>Risk Factors</u> | <u>10</u> |
| <u>Item 1B</u> | <u>Unresolved Staff Comments</u> | <u>17</u> |
| <u>Item 2</u> | <u>Properties</u> | <u>17</u> |
| <u>Item 3</u> | <u>Legal Proceedings</u> | <u>17</u> |
| <u>Item 4</u> | <u>Submission of Matters to a Vote of Security-Holders</u> | <u>17</u> |

Part II

| | | |
|----------------|--|------------|
| <u>Item 5</u> | <u>Market for Registrant's Common Equity and Related Stockholder Matters</u> | <u>18</u> |
| <u>Item 6</u> | <u>Selected Consolidated Financial Data</u> | <u>20</u> |
| <u>Item 7</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>22</u> |
| <u>Item 7A</u> | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>54</u> |
| <u>Item 8</u> | <u>Consolidated Financial Statements and Supplementary Data</u> | <u>57</u> |
| <u>Item 9</u> | <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> | <u>112</u> |
| <u>Item 9A</u> | <u>Controls and Procedures</u> | <u>112</u> |
| <u>Item 9B</u> | <u>Other Information</u> | <u>112</u> |

Part III

| | | |
|----------------|---|------------|
| <u>Item 10</u> | <u>Directors and Executive Officers of the Company</u> | <u>112</u> |
| <u>Item 11</u> | <u>Executive Compensation</u> | <u>112</u> |
| <u>Item 12</u> | <u>Security Ownership of Certain Beneficial Owners and Management</u> | <u>112</u> |
| <u>Item 13</u> | <u>Certain Relationships and Related Transactions</u> | <u>112</u> |
| <u>Item 14</u> | <u>Principal Accounting Fees and Services</u> | <u>112</u> |

Part IV

| | | |
|-------------------|---|------------|
| <u>Item 15</u> | <u>Exhibits and Financial Statement Schedules</u> | <u>113</u> |
| <u>Signatures</u> | | <u>118</u> |

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report may not be based on historical facts and are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements may be identified by reference to a future period(s) or by the use of forward-looking terminology, such as “anticipate,” “estimate,” “expect,” “foresee,” “believe,” “may,” “might,” “will,” “would,” “could” or “intend,” future or conditional verb tenses, and variations or negatives of such terms. These forward-looking statements include, without limitation, those relating to the Company’s future growth, revenue, assets, asset quality, profitability and customer service, critical accounting policies, net interest margin, non-interest revenue, market conditions related to the Company’s stock repurchase program, allowance for loan losses, the effect of certain new accounting standards on the Company’s financial statements, income tax deductions, credit quality, the level of credit losses from lending commitments, net interest revenue, interest rate sensitivity, loan loss experience, liquidity, capital resources, market risk, earnings, effect of pending litigation, acquisition strategy, legal and regulatory limitations and compliance and competition.

These forward-looking statements involve risks and uncertainties, and may not be realized due to a variety of factors, including, without limitation: the effects of future economic conditions, governmental monetary and fiscal policies, as well as legislative and regulatory changes; the risks of changes in interest rates and their effects on the level and composition of deposits, loan demand and the values of loan collateral, securities and interest sensitive assets and liabilities; the costs of evaluating possible acquisitions and the risks inherent in integrating acquisitions; the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in our market area and elsewhere, including institutions operating regionally, nationally and internationally, together with such competitors offering banking products and services by mail, telephone, computer and the Internet; the failure of assumptions underlying the establishment of reserves for possible loan losses, fair value for covered loans, covered other real estate owned and FDIC indemnification asset; and those factors set forth under Item 1A. Risk-Factors of this report and other cautionary statements set forth elsewhere in this report. Many of these factors are beyond our ability to predict or control. In addition, as a result of these and other factors, our past financial performance should not be relied upon as an indication of future performance.

We believe the expectations reflected in our forward-looking statements are reasonable, based on information available to us on the date hereof. However, given the described uncertainties and risks, we cannot guarantee our future performance or results of operations and you should not place undue reliance on these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, and all written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this section.

PART I

ITEM 1.

BUSINESS

Company Overview

Simmons First National Corporation (the “Company”) is a multi-bank financial holding company registered under the Bank Holding Company Act of 1956, as amended. The Company is headquartered in Arkansas with total assets of \$3.3 billion, loans of \$1.7 billion, deposits of \$2.7 billion and equity capital of \$408 million as of December 31, 2011. We own eight community banks that are strategically located throughout Arkansas and conduct our operations through 88 offices, of which 84 are branches, or “financial centers,” located in 47 communities in Arkansas, Missouri and Kansas.

We seek to build shareholder value by (i) focusing on strong asset quality, (ii) maintaining strong capital (iii) managing our liquidity position, (iv) improving our efficiency through specific initiatives and (v) opportunistically growing our business, both organically and through potential Federal Deposit Insurance Corporation (“FDIC”)-assisted transactions and traditional private community bank acquisitions. We believe the depth and experience of our corporate executive management team and the management teams and directors of each of our community banks has allowed us to achieve excellent asset quality, a strong capital position and increased liquidity, even in the current challenging economic climate.

Community Bank Strategy

Our community banks feature locally based management and boards of directors, community-focused growth strategies, and flexibility in pricing of loans and deposits. Our community banks are supported by our main subsidiary bank, Simmons First National Bank (“SFNB” or “lead bank”), which allows our community banks to provide products and services, such as a bank-issued credit card, that are usually offered only by larger banks. We believe that our enterprise-wide support system enables us to “out-product” our smaller, community bank competitors while our local focus allows us to “out-service” our larger interstate bank competitors.

Our community banking business model involves some additional administrative costs as a result of maintaining multiple bank charters, but has allowed us to maintain strong management at the local level to meet the needs of local customers while ensuring good asset quality. In addition we, along with our lead bank, provide efficiencies through consolidated back office support for information systems, loan review, compliance, human resources, accounting and internal audit. Likewise, through a standardizing initiative, our banks share a common name, signage and products that enable us to maximize our branding and overall marketing strategy.

Growth Strategy

Over the past 20 years, as we have expanded our markets and services, our growth strategy has evolved and diversified. From 1989 through 1991, in addition to our internal branching expansion, we acquired nine branches from the Resolution Trust Corporation, the federal agency that oversaw the sale or liquidation of assets of closed savings and loans institutions.

From 1995 to 2005, our strategic focus was on creating geographic diversification throughout Arkansas, driven primarily by acquisitions of other banking institutions. During this period we completed acquisitions of nine financial institutions and a total of 20 branches from five other banking institutions, some of which allowed us to enter key growth markets such as Conway, Hot Springs, Russellville, Searcy and Northwest Arkansas. In 2005, we initiated a de novo branching strategy to enter selected new Arkansas markets and to complement our presence in existing markets. From 2005 to 2008, we opened 12 new financial centers, a regional headquarters in Northwest Arkansas and a corporate office in Little Rock. We substantially completed our de novo branching strategy in 2008.

In late 2007, as we anticipated deteriorating economic conditions, we concentrated on maintaining our strong asset quality, building capital and improving our liquidity position. We intensified our focus on loan underwriting and on monitoring our loan portfolio in order to maintain asset quality, which is well above our peer group and the industry average. From late 2007 to December 31, 2009, our liquidity position (net overnight funds sold) improved by approximately \$150 million as a result of a strategic initiative to introduce deposit products that grew our core deposits in transaction and savings accounts and improved our deposit mix. Transaction and savings deposits increased from 48% of total deposits as of December 31, 2007, to 62% of total deposits as of December 31, 2009, to 63% of total deposits as of December 31, 2010, and to 67% of total deposits as of December 31, 2011.

Our capital levels have remained strong during the recent economic downturn. As part of our strategic focus on building capital, we suspended our stock repurchase program in July 2008. Additionally, despite our strong capital position, in October 2008 we applied, and were one of the earliest banks approved, for funding of up to \$60 million under the U.S. Treasury’s Capital Purchase Program, referred to as the “CPP.” After careful consideration and analysis, we believed there had been considerable improvement in the economic indicators since October 2008 and we determined that participation in the CPP was not necessary nor in the best interest of our shareholders. We notified the Treasury in July 2009 that we did not intend to participate in the CPP.

On August 26, 2009, we filed a shelf registration statement with the Securities and Exchange Commission (“SEC”). The shelf registration statement will allow us to raise capital from time to time, up to an aggregate of \$175

million, through the sale of common stock, preferred stock, or a combination thereof, subject to market conditions. Specific terms and prices will be determined at the time of any offering under a separate prospectus supplement that we will be required to file with the SEC at the time of the specific offering.

In December 2009, we completed a secondary stock offering by issuing a total of 3,047,500 shares of common stock, including the over-allotment, at a price of \$24.50 per share, less underwriting discounts and commissions. The net proceeds of the offering after deducting underwriting discounts and commissions and offering expenses were approximately \$70.5 million. Subsequent to the stock offering, we have approximately \$100 million available from our shelf registration for future offerings. The excess capital positions us to continue to take advantage of unprecedented acquisition opportunity through FDIC-assisted transactions of failed banks. We continue to actively pursue the right opportunities that meet our strategic plan regarding mergers and acquisitions.

In 2010, we expanded outside the borders of Arkansas by acquiring two failed institutions through FDIC-assisted transactions. The first was a \$100 million failed bank located in Springfield, Missouri and the second was a \$400 million failed thrift located in Olathe, Kansas. On both transactions, we entered into a loss share agreement with the FDIC, which provides significant protection of 80% of covered assets. As part of the acquisitions, we recognized a pre-tax bargain purchase gain of \$3.0 million and \$18.3 million, respectively, on the Missouri and Kansas transactions.

In September 2011, we reinstated our stock repurchase program as we continue to have one of the strongest capital positions within our peer group. A portion of our capital has been allocated for our acquisition program, and we plan to leave this portion available for this purpose. However, we plan to utilize a portion of our annual earnings to repurchase shares from time to time at prevailing market prices, through open market or unsolicited negotiated transactions, depending upon market conditions.

Acquisition Strategy

We believe we are strategically positioned to leverage our strong capital position to grow through acquisitions. In the near term, the disruptions in the financial markets continue to create opportunities for strong financial institutions to acquire selected assets and deposits of failed banks through FDIC-assisted transactions. We intend to continue focusing our near term acquisition strategy on such transactions. We also believe that the challenging economic environment combined with more restrictive bank regulatory reform will cause many financial institutions to seek merger partners in the intermediate future. We believe our community bank model, strong capital and successful acquisition history position us as a purchaser of choice for community banks seeking a strong partner.

We expect that our primary geographic target area for acquisitions, both FDIC-assisted and negotiated, will continue within a 325 mile radius of central Arkansas. Our first priority will be to focus on acquisitions within Arkansas while also seeking acquisitions within our target area in states contiguous to Arkansas. The senior management teams of both our parent company and lead bank have had extensive experience during the past twenty years in acquiring banks, branches and deposits and post-acquisition integration of operations. We believe this experience positions us to successfully acquire and integrate banks on both an FDIC-assisted and unassisted basis.

With respect to FDIC-assisted transactions:

- We believe one of our key strengths is our management depth at the community bank level that will enable us to redeploy our human resources to integrate and operate an acquired institution's business with minimal disruption to our existing operations. From our management pool we have assembled an in-house acquisition team to focus on evaluating and executing FDIC-assisted transactions.
- We have retained a consultant with FDIC-assisted transaction experience that has supplemented our management's acquisition experience with additional training focused on the unique aspects of acquiring, converting and integrating banks through FDIC-assisted transactions.

With respect to negotiated community bank acquisitions:

- We have historically retained the target institution's senior management and have provided them with an appealing level of autonomy post-integration. We intend to continue to pursue negotiated community bank acquisitions and we believe that our history with respect to such acquisitions has positioned us as an acquirer of choice for community banks.
- We encourage acquired community banks, their boards and associates to maintain their community involvement, while empowering the banks to offer a broader array of financial products and services. We believe this approach leads to enhanced profitability after the acquisition.

Efficiency Initiatives

In 2008, we began two significant initiatives to improve our operating performance by implementing cost efficiencies and selected revenue enhancements. These initiatives have led to cost savings and revenue enhancements in 2010 and 2011 are expected to lead to further improvements in years beyond.

3

Our first such initiative was an effort to leverage our corporate buying power to renegotiate our existing vendor contracts at lower prices and to maximize the return on our investment in technology. We began to benefit from operating expense savings as a result of more favorable contract terms with our vendors in 2009 with the full annualized benefits substantially realized in 2011.

Our second initiative, which is larger in scope, was to identify and implement process improvements. We have reviewed our business processes in an effort to improve our profitability while preserving the quality of our customer service. The scope of this initiative includes implementing revenue enhancements, further consolidating back office processes and refining our organizational structure. We began implementing this initiative in 2010, continued throughout 2011 and intend to finalize implementation in 2012. We have experienced savings and additional revenue and expect to experience significant savings and revenue enhancements as this initiative takes full effect.

Subsidiary Banks

Our lead bank, SFNB, is a national bank which has been in operation since 1903. As of December 31, 2011, SFNB had total assets of \$1.8 billion, total loans of \$0.9 billion and total deposits of \$1.5 billion. Simmons First Trust Company N.A., a wholly owned subsidiary of SFNB, performs the trust and fiduciary business operations for SFNB and for us. Simmons First Investment Group, Inc., a wholly owned subsidiary of SFNB, is a broker-dealer registered with the SEC and a member of the Financial Industry Regulatory Authority and performs the broker-dealer operations for SFNB.

The following table shows our community subsidiary banks other than the lead bank:

| Subsidiary | Year Acquired | Primary Market | As of December 31, 2011 | | |
|--|---------------|------------------------|--------------------------|-----------|-----------|
| | | | Assets (In thousands) | Loans | Deposits |
| Simmons First Bank of Northeast Arkansas | 1984 | Northeast Arkansas | \$340,348 | \$259,573 | \$295,025 |
| Simmons First Bank of South Arkansas | 1984 | Southeast Arkansas | 190,727 | 82,697 | 162,715 |
| Simmons First Bank of Northwest Arkansas | 1995 | Northwest Arkansas | 249,938 | 135,301 | 201,781 |
| Simmons First Bank of Russellville | 1997 | Russellville, Arkansas | 185,652 | 97,238 | 134,421 |
| Simmons First Bank of Searcy | 1997 | Searcy, Arkansas | 145,701 | 96,169 | 112,226 |
| Simmons First Bank of El Dorado | 1999 | South central Arkansas | 231,965 | 84,265 | 195,091 |
| Simmons First Bank of Hot Springs | 2004 | Hot Springs, Arkansas | 170,987 | 69,665 | 128,412 |

Our subsidiary banks provide complete banking services to individuals and businesses throughout the market areas they serve. These banks offer consumer (credit card and other consumer), real estate (construction, single family residential and other commercial) and commercial (commercial, agriculture and financial institutions) loans, checking, savings and time deposits, trust and investment management services and securities and investment services.

Loan Risk Assessment

As part of our ongoing risk assessment, the Company has an Asset Quality Review Committee of management that meets quarterly to review the adequacy of the allowance for loan losses. The Committee reviews the status of past due, non-performing and other impaired loans, reserve ratios, and additional performance indicators for all of its

subsidiary banks. The allowance for loan losses is determined based upon the aforementioned performance factors, and adjustments are made accordingly. Also, an unallocated reserve is established to compensate for the uncertainty in estimating loan losses, including the possibility of improper risk ratings and specific reserve allocations.

The Boards of Directors of each of our subsidiary banks review the adequacy of its allowance for loan losses on a monthly basis giving consideration to past due loans, non-performing loans, other impaired loans, and current economic conditions. Our loan review department monitors each of its subsidiary bank's loan information monthly. In addition, the loan review department prepares an analysis of the allowance for loan losses for each subsidiary bank twice a year, and reports the results to our Audit and Security Committee. In order to verify the accuracy of the monthly analysis of the allowance for loan losses, the loan review department performs an on-site detailed review of each subsidiary bank's loan files on a semi-annual basis. Additionally, we have instituted a Special Asset Committee for the purpose of reviewing criticized loans in regard to collateral adequacy, workout strategies and proper reserve allocations.

The Board of Directors has delegated oversight of assets covered by FDIC loss share agreements to the Loss Share Loan Committee, comprised of the Corporate CEO, President and an Executive Vice President, along with several SFNB executives. The Board authorizes the Committee to transact loan origination, renewal and workout procedures relative to FDIC-assisted acquisitions. Duties of the Committee shall be carried out in accordance with the Purchase and Assumption Agreements executed between the Bank and the FDIC.

Competition

There is significant competition among commercial banks in our various market areas. In addition, we also compete with other providers of financial services, such as savings and loan associations, credit unions, finance companies, securities firms, insurance companies, full service brokerage firms and discount brokerage firms. Some of our competitors have greater resources and, as such, may have higher lending limits and may offer other services that we do not provide. We generally compete on the basis of customer service and responsiveness to customer needs, available loan and deposit products, the rates of interest charged on loans, the rates of interest paid for funds, and the availability and pricing of trust and brokerage services.

Principal Offices and Available Information

Our principal executive offices are located at 501 Main Street, Pine Bluff, Arkansas 71601, and our telephone number is (870) 541-1000. We also have corporate offices in Little Rock, Arkansas. We maintain a website at <http://www.simmonsfirst.com>. On this website under the section "Investor Relations", we make our filings with the Securities and Exchange Commission available free of charge, along with other Company news and announcements.

Employees

As of February 3, 2012, the Company and its subsidiaries had approximately 1,075 full time equivalent employees. None of the employees is represented by any union or similar groups, and we have not experienced any labor disputes or strikes arising from any such organized labor groups. We consider our relationship with our employees to be good.

Executive Officers of the Company

The following is a list of all executive officers of the Company. The Board of Directors elects executive officers annually.

| NAME | AGE | POSITION | YEARS SERVED |
|-------------------|-----|---|--------------|
| J. Thomas May | 65 | Chairman and Chief Executive Officer | 25 |
| David L. Bartlett | 60 | President and Chief Operating Officer | 15 |
| Robert A. Fehlman | 47 | Executive Vice President and Chief Financial Officer | 23 |
| Marty D. Casteel | 60 | Executive Vice President and Secretary | 23 |
| Robert C. Dill | 68 | Executive Vice President, Marketing | 45 |
| David W. Garner | 42 | Senior Vice President and Controller | 14 |
| Kevin J. Archer | 48 | Senior Vice President/Credit Policy and Risk Assessment | 16 |
| Sharon K. Burdine | 46 | Senior Vice President and Human Resources Director | 14 |
| Tina M. Groves | 42 | Senior Vice President/Manager, Audit/Compliance | 6 |

Board of Directors of the Company

The following is a list of the Board of Directors of the Company as of December 31, 2011, along with their principal occupation.

| NAME | PRINCIPAL OCCUPATION |
|-----------------------|--|
| William E. Clark, II | Chairman and Chief Executive Officer Clark Contractors, LLC |
| Steven A. Cossé | Executive Vice President and General Counsel (retired) Murphy Oil Corporation |
| Edward Drilling | President AT&T Arkansas |
| Sharon L. Gaber | Provost and Vice Chancellor for Academic Affairs University of Arkansas |
| Eugene Hunt | Attorney Hunt Law Firm |
| George A. Makris, Jr. | President M.K. Distributors, Inc. |
| J. Thomas May | Chairman and Chief Executive Officer Simmons First National Corporation |
| W. Scott McGeorge | President Pine Bluff Sand and Gravel Company |
| Harry L. Ryburn | Orthodontist (retired) |
| Robert L. Shoptaw | Chairman of the Board Arkansas Blue Cross and Blue Shield |

SUPERVISION AND REGULATION

The Company

The Company, as a bank holding company, is subject to both federal and state regulation. Under federal law, a bank holding company generally must obtain approval from the Board of Governors of the Federal Reserve System ("FRB") before acquiring ownership or control of the assets or stock of a bank or a bank holding company. Prior to approval of any proposed acquisition, the FRB will review the effect on competition of the proposed acquisition, as well as other regulatory issues.

The federal law generally prohibits a bank holding company from directly or indirectly engaging in non-banking activities. This prohibition does not include loan servicing, liquidating activities or other activities so closely related to banking as to be a proper incident thereto. Bank holding companies, including Simmons First National Corporation, which have elected to qualify as financial holding companies, are authorized to engage in financial

activities. Financial activities include any activity that is financial in nature or any activity that is incidental or complimentary to a financial activity.

As a financial holding company, we are required to file with the FRB an annual report and such additional information as may be required by law. From time to time, the FRB examines the financial condition of the Company and its subsidiaries. The FRB, through civil and criminal sanctions, is authorized to exercise enforcement powers over bank holding companies (including financial holding companies) and non-banking subsidiaries, to limit activities that represent unsafe or unsound practices or constitute violations of law.

We are subject to certain laws and regulations of the state of Arkansas applicable to financial and bank holding companies, including examination and supervision by the Arkansas Bank Commissioner. Under Arkansas law, a financial or bank holding company is prohibited from owning more than one subsidiary bank, if any subsidiary bank owned by the holding company has been chartered for less than five years and, further, requires the approval of the Arkansas Bank Commissioner for any acquisition of more than 25% of the capital stock of any other bank located in Arkansas. No bank acquisition may be approved if, after such acquisition, the holding company would control, directly or indirectly, banks having 25% of the total bank deposits in the state of Arkansas, excluding deposits of other banks and public funds.

Legislation enacted in 1994 allows bank holding companies (including financial holding companies) from any state to acquire banks located in any state without regard to state law, provided that the holding company (1) is adequately capitalized, (2) is adequately managed, (3) would not control more than 10% of the insured deposits in the United States or more than 30% of the insured deposits in such state, and (4) such bank has been in existence at least five years if so required by the applicable state law.

Subsidiary Banks

During the fourth quarter of 2010, the Company realigned the regulatory oversight for its affiliate banks in order to create efficiencies through regulatory standardization. We operate as a multi bank holding company and over the years, have acquired several banks. In accordance with the corporate strategy of leaving the bank structure unchanged, each acquired bank stayed intact as did its regulatory structure. As a result, the Company's eight affiliate banks were regulated by the Arkansas State Bank Department, the Federal Reserve, the FDIC, and/or the Office of the Comptroller of the Currency ("OCC").

Following the regulatory realignment, the lead bank remained a national bank regulated by the OCC while the other seven affiliate banks became state member banks and with the Arkansas State Bank Department as their primary regulator and the Federal Reserve as their federal regulator.

The lending powers of each of the subsidiary banks are generally subject to certain restrictions, including the amount, which may be lent to a single borrower. All of our subsidiary banks are members of the FDIC, which provides insurance on deposits of each member bank up to applicable limits by the Deposit Insurance Fund. For this protection, each bank pays a statutory assessment to the FDIC each year.

Federal law substantially restricts transactions between banks and their affiliates. As a result, our subsidiary banks are limited in making extensions of credit to the Company, investing in the stock or other securities of the Company and engaging in other financial transactions with the Company. Those transactions that are permitted must generally be undertaken on terms at least as favorable to the bank as those prevailing in comparable transactions with independent third parties.

Potential Enforcement Action for Bank Holding Companies and Banks

Enforcement proceedings seeking civil or criminal sanctions may be instituted against any bank, any financial or bank holding company, any director, officer, employee or agent of the bank or holding company, which is believed by the federal banking agencies to be violating any administrative pronouncement or engaged in unsafe and unsound practices. In addition, the FDIC may terminate the insurance of accounts, upon determination that the insured institution has engaged in certain wrongful conduct or is in an unsound condition to continue operations.

Risk-Weighted Capital Requirements for the Company and the Subsidiary Banks

Since 1993, banking organizations (including financial holding companies, bank holding companies and banks) were required to meet a minimum ratio of Total Capital to Total Risk-Weighted Assets of 8%, of which at least 4% must be in the form of Tier 1 Capital. A well-capitalized institution is one that has at least a 10% "total risk-based capital" ratio. For a tabular summary of our risk-weighted capital ratios, see "Management's Discussion and Analysis of

Financial Condition and Results of Operations – Capital" and Note 20, Stockholders' Equity, of the Notes to Consolidated Financial Statements.

A banking organization's qualifying total capital consists of two components: Tier 1 Capital and Tier 2 Capital. Tier 1 Capital is an amount equal to the sum of common shareholders' equity, hybrid capital instruments (instruments with characteristics of debt and equity) in an amount up to 25% of Tier 1 Capital, certain preferred stock and the minority interest in the equity accounts of consolidated subsidiaries. For bank holding companies and financial holding companies, goodwill (net of any deferred tax liability associated with that goodwill) may not be included in Tier 1 Capital. Identifiable intangible assets may be included in Tier 1 Capital for banking organizations, in accordance with certain further requirements. At least 50% of the banking organization's total regulatory capital must consist of Tier 1 Capital.

Tier 2 Capital is an amount equal to the sum of the qualifying portion of the allowance for loan losses, certain preferred stock not included in Tier 1, hybrid capital instruments (instruments with characteristics of debt and equity), certain long-term debt securities and eligible term subordinated debt, in an amount up to 50% of Tier 1 Capital. The eligibility of these items for inclusion as Tier 2 Capital is subject to certain additional requirements and limitations of the federal banking agencies.

Under the risk-based capital guidelines, balance sheet assets and certain off-balance sheet items, such as standby letters of credit, are assigned to one of four-risk weight categories (0%, 20%, 50%, or 100%), according to the nature of the asset, its collateral or the identity of the obligor or guarantor. The aggregate amount in each risk category is adjusted by the risk weight assigned to that category to determine weighted values, which are then added to determine the total risk-weighted assets for the banking organization. For example, an asset, such as a commercial loan, assigned to a 100% risk category, is included in risk-weighted assets at its nominal face value, but a loan secured by a one-to-four family residence is included at only 50% of its nominal face value. The applicable ratios reflect capital, as so determined, divided by risk-weighted assets, as so determined.

Federal Deposit Insurance Corporation Improvement Act

The Federal Deposit Insurance Corporation Improvement Act ("FDICIA"), enacted in 1991, requires the FDIC to increase assessment rates for insured banks and authorizes one or more "special assessments," as necessary for the repayment of funds borrowed by the FDIC or any other necessary purpose. As directed in FDICIA, the FDIC has adopted a transitional risk-based assessment system, under which the assessment rate for insured banks will vary according to the level of risk incurred in the bank's activities. The risk category and risk-based assessment for a bank is determined from its classification, pursuant to the regulation, as well capitalized, adequately capitalized or undercapitalized.

FDICIA substantially revised the bank regulatory provisions of the Federal Deposit Insurance Act and other federal banking statutes, requiring federal banking agencies to establish capital measures and classifications. Pursuant to the regulations issued under FDICIA, a depository institution will be deemed to be well capitalized if it significantly exceeds the minimum level required for each relevant capital measure; adequately capitalized if it meets each such measure; undercapitalized if it fails to meet any such measure; significantly undercapitalized if it is significantly below any such measure; and critically undercapitalized if it fails to meet any critical capital level set forth in regulations. The federal banking agencies must promptly mandate corrective actions by banks that fail to meet the capital and related requirements in order to minimize losses to the FDIC. The FDIC and OCC advised the Company that the subsidiary banks have been classified as well capitalized under these regulations.

The federal banking agencies are required by FDICIA to prescribe standards for banks and bank holding companies (including financial holding companies) relating to operations and management, asset quality, earnings, stock valuation and compensation. A bank or bank holding company that fails to comply with such standards will be required to submit a plan designed to achieve compliance. If no plan is submitted or the plan is not implemented, the bank or holding company would become subject to additional regulatory action or enforcement proceedings.

A variety of other provisions included in FDICIA may affect the operations of the Company and the subsidiary banks, including new reporting requirements, revised regulatory standards for real estate lending, "truth in savings" provisions, and the requirement that a depository institution give 90 days prior notice to customers and regulatory authorities before closing any branch.

FDIC Deposit Insurance Assessments

On October 16, 2008, in response to the problems facing the financial markets and the economy, the FDIC published a restoration plan ("Restoration Plan") designed to replenish the Deposit Insurance Fund ("DIF") such that the reserve ratio

would return to 1.15 percent within five years. On December 16, 2008, the FDIC adopted a final rule increasing risk-based assessment rates uniformly by seven basis points, on an annual basis, for the first quarter 2009.

On February 27, 2009, the FDIC concluded that the problems facing the financial services sector and the economy at large constituted extraordinary circumstances and amended the Restoration Plan and extended the time within which the reserve ratio would return to 1.15 percent from five to seven years ("Amended Restoration Plan"). In May 2009, Congress amended the statutory provision governing establishment and implementation of a Restoration Plan to allow the FDIC eight years to bring the reserve ratio back to 1.15 percent, absent extraordinary circumstances.

On May 22, 2009, the FDIC adopted a final rule imposing a five basis point special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009. The special assessment was collected on September 30, 2009.

In a final rule issued on September 29, 2009, the FDIC amended the Amended Restoration Plan as follows:

- The period of the Amended Restoration Plan was extended from seven to eight years.
- The FDIC announced that it will not impose any further special assessments under the final rule it adopted in May 2009.
- The FDIC announced plans to maintain assessment rates at their current levels through the end of 2010. The FDIC also immediately adopted a uniform three basis point increase in assessment rates effective January 1, 2011 to ensure that the DIF returns to 1.15 percent within the Amended Restoration Plan period of eight years.
 - The FDIC announced that, at least semi-annually following the adoption of the Amended Restoration Plan, it will update its loss and income projections for the DIF. The FDIC also announced that it may, if necessary, adopt a new rule prior to the end of the eight-year period to increase assessment rates in order to return the reserve ratio to 1.15 percent.

On November 12, 2009, the FDIC adopted a final rule to require insured institutions to prepay their quarterly risk-based deposit insurance assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012, on December 30, 2009. Our payment was \$11.2 million.

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), which was signed into law on July 21, 2010, changes how the FDIC will calculate future deposit insurance premiums payable by insured depository institutions. The Dodd-Frank Act directs the FDIC to amend its assessment regulations so that future assessments will generally be based upon a depository institution's average total consolidated assets minus the average tangible equity of the insured depository institution during the assessment period, whereas assessments were previously based on the amount of an institution's insured deposits. The minimum deposit insurance fund rate will increase from 1.15% to 1.35% by September 30, 2020, and the cost of the increase will be borne by depository institutions with assets of \$10 billion or more.

The Dodd-Frank Act also provides the FDIC with discretion to determine whether to pay rebates to insured depository institutions when its deposit insurance reserves exceed certain thresholds. Previously, the FDIC was required to give rebates to depository institutions equal to the excess once the reserve ratio exceeded 1.50%, and was required to rebate 50% of the excess over 1.35% but not more than 1.5% of insured deposits. The FDIC adopted a final rule on February 7, 2011 that implements these provisions of the Dodd-Frank Act.

Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, the President signed into law the Dodd-Frank Act, which significantly changes the regulation of financial institutions and the financial services industry. The Dodd-Frank Act includes provisions affecting large and small financial institutions alike, including several provisions that profoundly affect how community banks, thrifts, and small bank and thrift holding companies are regulated in the future. Among other things, these provisions abolish the Office of Thrift Supervision and transfer its functions to the other federal banking agencies, relax rules regarding interstate branching, allow financial institutions to pay interest on business checking accounts, and impose new capital requirements on bank and thrift holding companies.

The Dodd-Frank Act also made permanent the temporary increase in deposit insurance coverage from \$100,000 to \$250,000 that was included in the EESA, and extends until December 31, 2012 the period during which the FDIC will provide unlimited deposit insurance for "noninterest bearing transaction accounts".

Effective July 21, 2011, the Dodd-Frank Act requires that the amount of any interchange fee charged by a debit card issuer with respect to a debit card transaction must be reasonable and proportional to the cost incurred by the issuer. On June 29, 2011, the Federal Reserve Board set the interchange rate cap at \$0.24 per transaction. While the restrictions on interchange fees do not apply to banks that, together with their affiliates, have assets of less than \$10 billion, the rule has affected the competitiveness of debit cards issued by smaller banks and has negatively impacted our earnings.

The Dodd-Frank Act also established the Bureau of Consumer Financial Protection (the “CFPB”) as an independent entity within the Federal Reserve, which will be given the authority to promulgate consumer protection regulations applicable to all entities offering consumer financial services or products, including banks. Additionally, the Dodd-Frank Act includes a series of provisions covering mortgage loan origination standards affecting, among other things, originator compensation, minimum repayment standards, and pre-payment penalties. The Dodd-Frank Act contains numerous other provisions affecting financial institutions of all types, many of which may have an impact on our operating environment in substantial and unpredictable ways.

Because many of the regulations required to implement the Dodd-Frank Act have not yet been issued, the statute’s effect on the financial services industry in general, and on us in particular, is uncertain at this time. The Dodd-Frank Act is likely to affect our cost of doing business, however, and may limit or expand the scope of our permissible activities and affect the competitive balance within our industry and market areas. Our management is actively reviewing the provisions of the Dodd-Frank Act and assessing its probable impact on our business, financial condition, and results of operations.

Basel Committee

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced agreement on the calibration and phase – in arrangements for a strengthened set of capital requirements, known as Basel III. Basel III increases the minimum Tier 1 common equity ratio to 4.5%, net of regulatory deductions, and introduces a capital conservation buffer of an additional 2.5% of common equity to risk-weighted assets, raising the target minimum common equity ratio to 7% . This capital conservation buffer also increases the minimum Tier 1 capital ratio from 6% to 8.5% and the minimum total capital ratio from 8% to 10.5%. In addition, Basel III introduces a countercyclical capital buffer of up to 2.5% of common equity or other fully loss absorbing capital for periods of excess credit growth. Basel III also introduces a non-risk adjusted Tier 1 leverage ratio of 3%, based on a measure of total exposure rather than total assets, and new liquidity standards. The Basel III capital and liquidity standards will be phased in over a multi-year period.

The final package of Basel III reforms was submitted to the Seoul G20 Leaders Summit in November 2010 for endorsement by G20 leaders, and then will be subject to individual adoption by member nations, including the United States. The Federal Reserve will likely implement changes to the capital adequacy standards applicable to the Company and our subsidiary banks in light of Basel III.

Pending Legislation

Because of concerns relating to competitiveness and the safety and soundness of the banking industry, Congress often considers a number of wide-ranging proposals for altering the structure, regulation, and competitive relationships of the nation’s financial institutions. We cannot predict whether or in what form any proposals will be adopted or the extent to which our business may be affected.

ITEM 1A.

RISK FACTORS

Risks Related to Our Industry

Our business may be adversely affected by conditions in the financial markets and general economic conditions.

From 2007 through 2009, the United States was in a recession. Although there are some indicators of improvement, business activity across a wide range of industries and regions has been greatly reduced and local governments and many businesses are having difficulty due to the lack of consumer spending, the lack of liquidity in the credit markets and high unemployment.

Market conditions have also led to the failure or merger of a number of prominent financial institutions. Financial institution failures or near-failures have resulted in further losses as a consequence of defaults on securities issued by them and defaults under contracts entered into with such entities as counterparties. Furthermore, declining asset values, defaults on mortgages and consumer loans, and the lack of market and investor confidence, as well as other factors, have all combined to increase credit default swap spreads, to cause rating agencies to lower credit ratings, and to otherwise increase the cost and decrease the availability of liquidity, despite very significant declines in Federal Reserve borrowing rates and other government actions. Some banks and other lenders have suffered significant losses and have become reluctant to lend, even on a secured basis, due to the increased risk of default and the impact of declining asset values on the value of collateral. The foregoing has significantly weakened the strength and liquidity of some financial institutions worldwide.

The Company's financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, is highly dependent upon the business environment in the states of Arkansas, Missouri and Kansas, and in the United States as a whole. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, high business and investor confidence and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by: declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; natural disasters; or a combination of these or other factors.

The business environment in Arkansas, Missouri and Kansas could continue to deteriorate. There can be no assurance that these business and economic conditions will improve in the near term. The continuation of these conditions could adversely affect the credit quality of our loans and our results of operations and financial condition.

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

In response to the financial crisis affecting the banking system and financial markets, the Dodd-Frank Act was enacted in 2010, as well as several programs that have been initiated by the U.S. Treasury, the FRB, and the FDIC to stabilize the financial system.

Some of the provisions of recent legislation and regulation that may adversely impact the Company include: the Durbin Amendment to the Dodd-Frank Act which mandates a limit to debit card interchange fees and Regulation E amendments to the EFTA regarding overdraft fees. These provisions may limit the type of products we offer, the methods by which we offer them, and the prices at which they are offered. These provisions may also increase our costs in offering these products.

The newly created CFPB has unprecedented authority over the regulation of consumer financial products and services. The CFPB has broad rule-making, supervisory and examination authority, as well as expanded data collecting and enforcement powers. The scope and impact of the CFPB's actions cannot be determined at this time, which creates significant uncertainty for the Company and the financial services industry in general.

These new laws, regulations, and changes may increase our costs of regulatory compliance. They may significantly affect the markets in which we do business, the markets for and value of our investments, and our ongoing operations, costs, and profitability. The future impact of the many provisions in the Dodd-Frank Act and other legislative and regulatory initiatives on the Company's business and results of operations will depend upon regulatory interpretation and rulemaking that will be undertaken over the next several months and years. As a result, we are unable to predict the ultimate impact of the Dodd-Frank Act or of other future legislation or regulation, including the extent to which it could increase costs or limit our ability to pursue business opportunities in an efficient manner, or otherwise adversely affect our business, financial condition and results of operations.

Difficult market conditions have adversely affected our industry.

The financial markets have continued to experience significant volatility. In some cases, the financial markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. If financial market volatility worsens, or if there are more disruptions in the financial markets, including disruptions to the United States or international banking systems, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

Risks Related to Our Business

Our concentration of banking activities in Arkansas, including our real estate loan portfolio, makes us more vulnerable to adverse conditions in the particular Arkansas markets in which we operate.

Until our 2010 FDIC-assisted acquisitions in Missouri and Kansas, our subsidiary banks operated exclusively within the state of Arkansas, where the majority of the buildings and properties securing our loans and the businesses of our customers are located. Our financial condition, results of operations and cash flows are subject to changes in the economic conditions in our home state, the ability of our borrowers to repay their loans, and the value of the collateral securing such loans. We largely depend on the continued growth and stability of the communities we serve for our continued success. Declines in the economies of these communities or the states of Arkansas, Missouri or Kansas, in general could adversely affect our ability to generate new loans or to receive repayments of existing loans, and our ability to attract new deposits, thus adversely affecting our net income, profitability and financial condition.

The ability of our borrowers to repay their loans could also be adversely impacted by the significant changes in market conditions in the region or by changes in local real estate markets, including deflationary effects on collateral value caused by property foreclosures. This could result in an increase in our charge-offs and provision for loan losses. Either of these events would have an adverse impact on our results of operations.

Our loan portfolio in Northwest Arkansas has been more negatively impacted than our loan portfolio comprised from other regions in Arkansas. This fact results primarily from the acute contraction in that region's economy and its real estate markets as compared to Arkansas as a whole. In 2010 we put an additional \$9 million in capital into our Northwest Arkansas bank. A continued deterioration of the Northwest Arkansas economy or its failure to fully participate in an economic recovery could require us to further tighten our local lending standards, inject more capital into our Northwest Arkansas bank and increase allowances for loan losses relative to loans made in the region.

A significant decline in general economic conditions caused by inflation, recession, unemployment, acts of terrorism or other factors beyond our control could also have an adverse effect on our financial condition and results of operations. In addition, because multi-family and commercial real estate loans represent the majority of our real estate loans outstanding, a decline in tenant occupancy due to such factors or for other reasons could adversely impact the ability of our borrowers to repay their loans on a timely basis, which could have a negative impact on our results of operations.

Deteriorating credit quality, particularly in our credit card portfolio, may adversely impact us.

We have a significant consumer credit card portfolio. Although we experienced a decreased amount of net charge-offs in our credit card portfolio in 2011, the amount of net charge-offs could worsen. While we continue to experience a better performance with respect to net charge-offs than the national average in our credit card portfolio, our net charge-offs were 2.06% of our average outstanding credit card balances for the year ended December 31, 2011, compared to 2.37% of the average outstanding balances for the year ended on December 31, 2010. The current economic downturn could adversely affect consumers in a more delayed fashion compared to commercial businesses in general. Increasing unemployment and diminished asset values may prevent our credit card customers from repaying their credit card balances which could result in an increased amount of our net charge-offs that could have a material adverse effect on our unsecured credit card portfolio.

Changes to consumer protection laws may impede our origination or collection efforts with respect to credit card accounts, change account holder use patterns or reduce collections, any of which may result in decreased profitability of our credit card portfolio.

Credit card receivables that do not comply with consumer protection laws may not be valid or enforceable under their terms against the obligors of those credit card receivables. Federal and state consumer protection laws regulate the creation and enforcement of consumer loans, including credit card receivables. For instance, the federal Truth in Lending Act was recently amended by the “Credit Card Accountability, Responsibility and Disclosure Act of 2009,” or the “Credit CARD Act,” which, among other things:

- prevents any increases in interest rates and fees during the first year after a credit card account is opened, and increases at any time on interest rates on existing credit card balances, unless (i) the minimum payment on the related account is 60 or more days delinquent, (ii) the rate increase is due to the expiration of a promotional rate, (iii) the account holder fails to comply with a negotiated workout plan or (iv) the increase is due to an increase in the index rate for a variable rate credit card;
 - requires that any promotional rates for credit cards be effective for at least six months;
- requires 45 days notice for any change of an interest rate or any other significant changes to a credit card account;
- empowers federal bank regulators to promulgate rules to limit the amount of any penalty fees or charges for credit card accounts to amounts that are “reasonable and proportional to the related omission or violation;” and
- requires credit card companies to mail billing statements 21 calendar days before the due date for account holder payments.

As a result of the Credit CARD Act and other consumer protection laws and regulations, it may be more difficult for us to originate additional credit card accounts or to collect payments on credit card receivables, and the finance charges and other fees that we can charge on credit card account balances may be reduced. Furthermore, account holders may choose to use credit cards less as a result of these consumer protection laws. Each of these results, independently or collectively, could reduce the effective yield on revolving credit card accounts and could result in decreased profitability of our credit card portfolio.

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

We have historically employed, as important parts of our business strategy, growth through acquisition of banks and, to a lesser extent, through branch acquisitions and de novo branching. Any future acquisitions, including any FDIC-assisted transactions, in which we might engage will be accompanied by the risks commonly encountered in acquisitions. These risks include, among other risks:

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

In the current economic environment, we anticipate that in addition to opportunities to acquire other banks in privately negotiated transactions, we may also have opportunities to bid to acquire the assets and liabilities of failed banks in FDIC-assisted transactions. These acquisitions involve risks similar to acquiring existing banks. Because FDIC-assisted acquisitions are structured in a manner that would not allow us the time normally associated with due diligence investigations prior to committing to purchase the target bank or preparing for integration of an acquired bank, we may face additional risks in FDIC-assisted transactions. These risks include, among other things:

- loss of customers of the failed bank;
- strain on management resources related to collection and management of problem loans; and
 - problems related to integration of personnel and operating systems.

In addition to pursuing the acquisition of existing viable financial institutions or the acquisition of assets and liabilities of failed banks in FDIC-assisted transactions, as opportunities arise we may also continue to engage in de novo branching to further our growth strategy. De novo branching and growing through acquisition involve numerous risks, including the following:

- the inability to obtain all required regulatory approvals;
- the significant costs and potential operating losses associated with establishing a de novo branch or a new bank;
 - the inability to secure the services of qualified senior management;
- the local market may not accept the services of a new bank owned and managed by a bank holding company headquartered outside of the market area of the new bank;
 - the risk of encountering an economic downturn in the new market;
- the inability to obtain attractive locations within a new market at a reasonable cost; and
 - the additional strain on management resources and internal systems and controls.

We expect that competition for suitable acquisition candidates, whether such candidates are viable banks or are the subject of an FDIC-assisted transaction, will be significant. We may compete with other banks or financial service companies that are seeking to acquire our acquisition candidates, many of which are larger competitors and have greater financial and other resources. We cannot assure you that we will be able to successfully identify and acquire suitable acquisition targets on acceptable terms and conditions. Further, we cannot assure you that we will be successful in overcoming these risks or any other problems encountered in connection with acquisitions and de novo branching. Our inability to overcome these risks could have an adverse effect on our ability to achieve our business and growth strategy and maintain or increase our market value and profitability.

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

We may not be able to sustain our historical rate of growth or be able to expand our business. Various factors, such as economic conditions, regulatory and legislative considerations and competition, may also impede or prohibit our ability to expand our market presence. We may also be unable to identify advantageous acquisition opportunities or, once identified, enter into transactions to make such acquisitions. If we are not able to successfully grow our business, our financial condition and results of operations could be adversely affected.

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

Our cost of funds may increase as a result of general economic conditions, fluctuations in interest rates and competitive pressures. We have traditionally obtained funds principally through local deposits as we have a base of lower cost transaction deposits. Our costs of funds and our profitability and liquidity are likely to be adversely affected, if we have to rely upon higher cost borrowings from other institutional lenders or brokers to fund loan demand or liquidity needs. Also, changes in our deposit mix and growth could adversely affect our profitability and the ability to expand our loan portfolio.

We have been active in making student loans and this part of our business has been terminated by the federal government.

Our subsidiary banks historically have been active in the student loan market and our student loan portfolio has been profitable in the past. Recent interruptions in the credit markets and certain changes in the federal government programs affecting student loans, however, have decreased the marketability of student loans and increased our holding period for such loans. These events have increased our expenses associated with making and holding student loans and decreased the profitability of making such loans. The Company has terminated its student loan origination activities as a result of changes mandated by the Department of Education. These changes by the federal government eliminate banks from participating in student loan programs. Terminating our ability to originate student loans could adversely affect our profitability in the future.

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

Federal and state regulatory authorities require us and our subsidiary banks to maintain adequate levels of capital to support our operations. Many circumstances could require us to seek additional capital, such as:

- faster than anticipated growth;
 - reduced earning levels;
 - operating losses;
- changes in economic conditions;
- revisions in regulatory requirements; or

- additional acquisition opportunities.

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

Accounting standards periodically change and the application of our accounting policies and methods may require management to make estimates about matters that are uncertain.

The regulatory bodies that establish accounting standards, including, among others, the Financial Accounting Standards Board and the SEC, periodically revise or issue new financial accounting and reporting standards that govern the preparation of our consolidated financial statements. The effect of such revised or new standards on our financial statements can be difficult to predict and can materially impact how we record and report our financial condition and results of operations.

In addition, our management must exercise judgment in appropriately applying many of our accounting policies and methods so they comply with generally accepted accounting principles. In some cases, management may have to select a particular accounting policy or method from two or more alternatives. In some cases, the accounting policy or method chosen might be reasonable under the circumstances and yet might result in our reporting materially different amounts than would have been reported if we had selected a different policy or method. Accounting policies are critical to fairly presenting our financial condition and results of operations and may require management to make difficult, subjective or complex judgments about matters that are uncertain.

The Federal Reserve Board's source of strength doctrine could require that we divert capital to our subsidiary banks instead of applying available capital towards planned uses, such as engaging in acquisitions or paying dividends to shareholders.

The Federal Reserve Board's policies and regulations require that a bank holding company, including a financial holding company, serve as a source of financial strength to its subsidiary banks, and further provide that a bank holding company may not conduct operations in an unsafe or unsound manner. It is the Federal Reserve Board's policy that a bank holding company should stand ready to use available resources to provide adequate capital to its subsidiary banks during periods of financial stress or adversity, such as during periods of significant loan losses, and that such holding company should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks if such a need were to arise.

A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered to be an unsafe and unsound banking practice or a violation of the Federal Reserve Board's regulations, or both. Accordingly, if the financial condition of our subsidiary banks were to deteriorate, we could be compelled to provide financial support to our subsidiary banks at a time when, absent such Federal Reserve Board policy, we may not deem it advisable to provide such assistance. Under such circumstances, there is a possibility that we may not either have adequate available capital or feel sufficiently confident regarding our financial condition, to enter into acquisitions, pay dividends, or engage in other corporate activities.

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

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

Our management has broad discretion over the use of proceeds from our recent common stock offering.

Although we have indicated our intent to use the proceeds from our recent common stock offering for general corporate purposes, including funding internal growth and selected future acquisitions, our Board of Directors retains significant discretion with respect to the use of proceeds from this offering. If we use the funds to acquire other businesses, there can be no assurance that any business we acquire will be successfully integrated into our operations or otherwise perform as expected. Likewise, other uses of the proceeds from this offering may not generate favorable returns for us.

Risks Related to Owning Our Stock

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

We have \$30.9 million of subordinated debentures issued in connection with trust preferred securities. Payments of the principal and interest on the trust preferred securities are unconditionally guaranteed by us. The subordinated debentures are senior to our shares of common stock. As a result, we must make payments on the subordinated debentures (and the related trust preferred securities) before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the debentures must be satisfied before any distributions can be made to the holders of our common stock. We have the right to defer distributions on the subordinated debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid to holders of our capital stock. If we elect to defer or if we default with respect to our obligations to make payments on these subordinated debentures, this would likely have a material adverse effect on the market value of our common stock. Moreover, without notice to or consent from the holders of our common stock, we may issue additional series of subordinated debt securities in the future with terms similar to those of our existing subordinated debt securities or enter into other financing agreements that limit our ability to purchase or to pay dividends or distributions on our capital stock.

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

We cannot assure you of our ability to continue to pay dividends. Our ability to pay dividends depends on the following factors, among others:

- We may not have sufficient earnings since our primary source of income, the payment of dividends to us by our subsidiary banks, is subject to federal and state laws that limit the ability of those banks to pay dividends;
- Federal Reserve Board policy requires bank holding companies to pay cash dividends on common stock only out of net income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition; and
- Our Board of Directors may determine that, even though funds are available for dividend payments, retaining the funds for internal uses, such as expansion of our operations, is a better strategy.

If we fail to pay dividends, capital appreciation, if any, of our common stock may be the sole opportunity for gains on an investment in our common stock. In addition, in the event our subsidiary banks become unable to pay dividends to us, we may not be able to service our debt or pay our other obligations or pay dividends on our common stock.

Accordingly, our inability to receive dividends from our subsidiary banks could also have a material adverse effect on our business, financial condition and results of operations and the value of your investment in our common stock.

There may be future sales of additional common stock or preferred stock or other dilution of our equity, which may adversely affect the value of our common stock.

We are not restricted from issuing additional common stock or preferred stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or preferred stock or any substantially similar securities. The value of our common stock could decline as a result of sales by us of a large number of shares of common stock or preferred stock or similar securities in the market or the perception that such sales could occur.

Anti-takeover provisions could negatively impact our shareholders.

Provisions of our articles of incorporation and by-laws and federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire us, even if doing so would be perceived to be beneficial to our shareholders. The combination of these provisions effectively inhibits a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of our common stock. These provisions could also discourage proxy contests and make it more difficult for holders of our common stock to elect directors other than the candidates nominated by our Board of Directors.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are currently no unresolved Commission staff comments.

ITEM 2. PROPERTIES

The principal offices of the Company and the lead bank consist of an eleven-story office building and adjacent office space located in the central business district of the city of Pine Bluff, Arkansas. Additionally, we also have corporate offices located in Little Rock, Arkansas.

The Company and its subsidiaries own or lease additional offices in the states of Arkansas, Missouri and Kansas. The Company and its eight banks conduct financial operations from 88 offices, of which 84 are financial centers, in 47 communities throughout Arkansas, Missouri and Kansas.

ITEM 3. LEGAL PROCEEDINGS

The Company and/or its subsidiaries have various unrelated legal proceedings, most of which involve loan foreclosure activity pending, which, in the aggregate, are not expected to have a material adverse effect on the financial position of the Company and its subsidiaries. The Company or its subsidiaries remain the subject of the following lawsuit asserting claims against the Company or its subsidiaries.

On October 1, 2003, an action in Pulaski County Circuit Court was filed by Thomas F. Carter, Tena P. Carter and certain related entities against Simmons First Bank of South Arkansas and Simmons First National Bank alleging wrongful conduct by the banks in the collection of certain loans. The Company was later added as a party defendant. The plaintiffs were seeking \$2,000,000 in compensatory damages and \$10,000,000 in punitive damages. The Company and the banks filed Motions to Dismiss. The plaintiffs were granted additional time to discover any evidence for litigation, and submitted such findings. At the hearing on the Motions for Summary Judgment, the Court dismissed Simmons First National Bank due to lack of venue. Venue was changed to Jefferson County for the Company and Simmons First Bank of South Arkansas. Non-binding mediation failed on June 24, 2008. A pretrial was conducted on July 24, 2008. Several dispositive motions previously filed were heard on April 9, 2009, and arguments were presented on June 22, 2009. On July 10, 2009, the Court issued its Order dismissing five claims, leaving only a single claim for further pursuit in this matter. On August 18, 2009, plaintiffs took a nonsuit on their remaining claim of breach of good faith and fair dealing, thereby bringing all claims set forth in this action to a conclusion.

Plaintiffs subsequently filed their Notice of Appeal to the appellate court, lodged the transcript with the Arkansas Supreme Court Clerk, and filed their initial Brief. The Company and South Arkansas timely filed their Brief in response. On September 8, 2010, the Arkansas Court of Appeals dismissed the plaintiffs' appeal without prejudice, finding that the Trial Court had not entered a final Order, which may allow the plaintiffs to re-file the appeal at a later date.

On September 14, 2011, plaintiffs filed a motion for requesting the circuit court enter a judgment on this matter. The Company and South Arkansas timely filed an objection to the plaintiffs' motion. On November 3, 2011, the circuit court denied the plaintiffs' motion. The plaintiffs have filed a notice of appeal of the denial of the motion and have until late February, 2012 to lodge the record for appeal. On February 13, 2012, the Company and South Arkansas filed a motion to dismiss the appeal along with a brief and a partial transcript. At this time, no basis for any material liability has been identified.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS

No matters were submitted to a vote of security-holders, through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is listed on the NASDAQ Global Select Market under the symbol "SFNC." Set forth below are the high and low sales prices for our common stock as reported by the NASDAQ Global Select Market for each quarter of the fiscal years ended December 31, 2011 and 2010. Also set forth below are dividends declared per share in each of these periods:

| | Price Per Common Share | | Quarterly Dividends Per Common Share |
|-------------|---------------------------|---------|---|
| | High | Low | |
| 2011 | | | |
| 1st quarter | \$30.16 | \$26.45 | \$ 0.19 |
| 2nd quarter | 27.28 | 24.14 | 0.19 |
| 3rd quarter | 26.83 | 18.71 | 0.19 |
| 4th quarter | 28.41 | 20.50 | 0.19 |
| 2010 | | | |
| 1st quarter | \$28.42 | \$24.99 | \$ 0.19 |
| 2nd quarter | 29.50 | 25.46 | 0.19 |
| 3rd quarter | 28.99 | 24.18 | 0.19 |
| 4th quarter | 30.13 | 26.44 | 0.19 |

On February 3, 2012, the closing price for our common stock as reported on the NASDAQ was \$28.38. As of February 3, 2012, there were 1,291 shareholders of record of our common stock.

The timing and amount of future dividends are at the discretion of our Board of Directors and will depend upon our consolidated earnings, financial condition, liquidity and capital requirements, the amount of cash dividends paid to us by our subsidiaries, applicable government regulations and policies and other factors considered relevant by our Board of Directors. Our Board of Directors anticipates that we will continue to pay quarterly dividends in amounts determined based on the factors discussed above. However, there can be no assurance that we will continue to pay dividends on our common stock at the current levels or at all.

Our principal source of funds for dividend payments to our stockholders is distributions, including dividends, from our subsidiary banks, which are subject to restrictions tied to such institution's earnings. Under applicable banking laws, the declaration of dividends by SFNB in any year, in excess of its net profits, as defined, for that year, combined with its retained net profits of the preceding two years, must be approved by the Office of the Comptroller of the Currency. Further, as to Simmons First Bank of Northeast Arkansas, Simmons First Bank of El Dorado, Simmons First Bank of Northwest Arkansas, Simmons First Bank of South Arkansas, Simmons First Bank of Hot Springs, Simmons First Bank of Russellville and Simmons First Bank of Searcy, regulators have specified that the maximum dividends state banks may pay to the parent company without prior approval is 75% of the current year earnings plus 75% of the retained net earnings of the preceding year. At December 31, 2011, approximately \$18.7 million was available for the payment of dividends by the subsidiary banks without regulatory approval. For further discussion of restrictions on the payment of dividends, see "Quantitative and Qualitative Disclosures About Market Risk – Liquidity and Market Risk Management," and Note 20, Stockholders' Equity, of Notes to Consolidated Financial Statements.

Stock Repurchase

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The Company made the following purchases of its common stock during the three months ended December 31, 2011:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans | Maximum Number of Shares that May Yet be Purchased Under the Plans |
|--------------------------|---|---------------------------------------|---|---|
| October 1 – October 31 | 64,628 | \$ 23.70 | 64,628 | 562,044 |
| November 1 – November 30 | 45,347 | 24.84 | 45,347 | 516,697 |
| December 1 – December 31 | 8,169 | 26.93 | 8,169 | 508,528 |
| Total | 118,144 | \$ 24.36 | 118,144 | |

On November 28, 2007, we announced the substantial completion of the existing stock repurchase program and the adoption by the Board of Directors of a new stock repurchase program. The program authorizes the repurchase of up to 700,000 shares of Class A common stock, or approximately 5% of the outstanding common stock. Under the repurchase program, there is no time limit for the stock repurchases, nor is there a minimum number of shares we intend to repurchase. We may discontinue purchases at any time that management determines additional purchases are not warranted. As part of our strategic focus on building capital, we suspended our stock repurchase program in July 2008.

On September 27, 2011, we announced that we would reinstate the existing stock repurchase program. Prior to the suspension of the program, we had repurchased 54,328 shares, thereby leaving authority to repurchase 645,672 shares under the program. The shares are to be purchased from time to time at prevailing market prices, through open market or unsolicited negotiated transactions, depending upon market conditions. We intend to use the repurchased shares to satisfy stock option exercises, for payment of future stock dividends and for general corporate purposes.

During 2011, after announcing the reinstatement of the program, we repurchased 137,144 shares of stock with a weighted average repurchase price of \$23.98 per share. Under the current stock repurchase plan, we can repurchase an additional 508,528 shares.

Performance Graph

The performance graph below compares the cumulative total shareholder return on the Company's Common Stock with the cumulative total return on the equity securities of companies included in the NASDAQ Bank Stock Index and the S&P 500 Stock Index. The graph assumes an investment of \$100 on December 31, 2006 and reinvestment of dividends on the date of payment without commissions. The performance graph represents past performance and should not be considered to be an indication of future performance.

| Index | Period Ending | | | | | |
|------------------------------------|---------------|----------|----------|----------|----------|----------|
| | 12/31/06 | 12/31/07 | 12/31/08 | 12/31/09 | 12/31/10 | 12/31/11 |
| Simmons First National Corporation | 100.00 | 86.73 | 98.96 | 96.08 | 101.24 | 99.58 |
| NASDAQ Bank Index | 100.00 | 80.09 | 62.84 | 52.60 | 60.04 | 53.74 |
| S&P 500 Index | 100.00 | 105.49 | 66.46 | 84.05 | 96.71 | 98.76 |

ITEM 6.

SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected consolidated financial data concerning the Company and is qualified in its entirety by the detailed information and consolidated financial statements, including notes thereto, included elsewhere in this report. The income statement, balance sheet and per common share data as of and for the years ended December 31, 2011, 2010, 2009, 2008 and 2007, were derived from consolidated financial statements of the Company, which were audited by BKD, LLP. Results from past periods are not necessarily indicative of results that may be expected for any future period.

Management believes that certain non-GAAP measures, including diluted core earnings per share, tangible book value, the ratio of tangible common equity to tangible assets, tangible stockholders' equity and return on average tangible equity, may be useful to analysts and investors in evaluating the performance of our Company. We have included certain of these non-GAAP measures, including cautionary remarks regarding the usefulness of these analytical tools, in this table. The selected consolidated financial data set forth below should be read in conjunction with the financial statements of the Company and related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report.

| (In thousands, except per share & other data) | Years Ended December 31 | | | | |
|--|-------------------------|------------|------------|------------|------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| Income statement data: | | | | | |
| Net interest income | \$108,660 | \$101,949 | \$97,727 | \$94,017 | \$92,116 |
| Provision for loan losses | 11,676 | 14,129 | 10,316 | 8,646 | 4,181 |
| Net interest income after provision for loan losses | 96,984 | 87,820 | 87,411 | 85,371 | 87,935 |
| Non-interest income | 53,465 | 77,874 | 52,711 | 49,326 | 46,003 |
| Non-interest expense | 114,650 | 111,263 | 104,722 | 96,360 | 94,197 |
| Income before taxes | 35,799 | 54,431 | 35,400 | 38,337 | 39,741 |
| Provision for income taxes | 10,425 | 17,314 | 10,190 | 11,427 | 12,381 |
| Net income | \$25,374 | \$37,117 | \$25,210 | \$26,910 | \$27,360 |
| Per share data: | | | | | |
| Basic earnings | 1.47 | 2.16 | 1.75 | 1.93 | 1.95 |
| Diluted earnings | 1.47 | 2.15 | 1.74 | 1.91 | 1.92 |
| Diluted core earnings (non-GAAP) (1) | 1.45 | 1.51 | 1.74 | 1.73 | 1.97 |
| Book value | 23.70 | 23.01 | 21.72 | 20.69 | 19.57 |
| Tangible book value (non-GAAP) (2) | 20.09 | 19.36 | 18.07 | 16.16 | 14.97 |
| Dividends | 0.76 | 0.76 | 0.76 | 0.76 | 0.73 |
| Basic average common shares outstanding | 17,309,488 | 17,204,200 | 14,375,323 | 13,945,249 | 14,043,626 |
| Diluted average common shares outstanding | 17,317,850 | 17,264,900 | 14,465,718 | 14,107,943 | 14,241,182 |
| Balance sheet data at period end: | | | | | |
| Assets | 3,320,129 | 3,316,432 | 3,093,322 | 2,923,109 | 2,692,447 |
| Investment securities | 697,656 | 613,662 | 646,915 | 646,134 | 530,930 |
| Total loans | 1,737,844 | 1,915,064 | 1,874,989 | 1,933,074 | 1,850,454 |

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| | | | | | | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|---|-------|---|-------|---|
| Allowance for loan losses | 30,108 | 26,416 | 25,016 | 25,841 | 25,303 | | | | | |
| Goodwill & other intangible assets | 62,184 | 63,068 | 62,374 | 63,180 | 63,987 | | | | | |
| Non interest bearing deposits | 532,259 | 428,750 | 363,154 | 334,998 | 310,181 | | | | | |
| Deposits | 2,650,397 | 2,608,769 | 2,432,172 | 2,336,333 | 2,182,857 | | | | | |
| Long-term debt | 89,898 | 133,394 | 128,894 | 127,741 | 51,355 | | | | | |
| Subordinated debt & trust preferred | 30,930 | 30,930 | 30,930 | 30,930 | 30,930 | | | | | |
| Stockholders' equity | 407,911 | 397,371 | 371,247 | 288,792 | 272,406 | | | | | |
| Tangible stockholders' equity (non GAAP) (2) | 345,727 | 334,303 | 308,873 | 225,612 | 208,419 | | | | | |
| Capital ratios at period end: | | | | | | | | | | |
| Stockholders' equity to total assets | 12.29 | % | 11.98 | % | 12.00 | % | 9.88 | % | 10.12 | % |
| Tangible common equity to tangible assets (non-GAAP) (3) | 10.61 | % | 10.28 | % | 10.19 | % | 7.89 | % | 7.93 | % |
| Tier 1 leverage ratio | 11.86 | % | 11.33 | % | 11.64 | % | 9.15 | % | 9.06 | % |
| Tier 1 risk-based ratio | 21.58 | % | 20.05 | % | 17.91 | % | 13.24 | % | 12.43 | % |
| Total risk-based capital ratio | 22.83 | % | 21.30 | % | 19.17 | % | 14.50 | % | 13.69 | % |
| Dividend payout | 51.70 | % | 35.35 | % | 43.68 | % | 39.79 | % | 38.02 | % |

Annualized performance ratios:

| | | | | | | | | | | |
|--|-------|---|-------|---|-------|---|-------|---|-------|---|
| Return on average assets | 0.77 | % | 1.19 | % | 0.85 | % | 0.94 | % | 1.03 | % |
| Return on average equity | 6.25 | % | 9.69 | % | 8.26 | % | 9.54 | % | 10.26 | % |
| Return on average tangible equity (non-GAAP) (2) (4) | 7.54 | % | 11.71 | % | 10.61 | % | 12.54 | % | 13.78 | % |
| Net interest margin (5) | 3.85 | % | 3.78 | % | 3.78 | % | 3.75 | % | 3.96 | % |
| Efficiency ratio (6) | 67.86 | % | 65.28 | % | 65.69 | % | 66.84 | % | 64.94 | % |

Balance sheet ratios: (7)

| | | | | | | | | | | |
|---|--------|---|--------|---|-------|---|--------|---|--------|---|
| Nonperforming assets as a percentage of period-end assets | 1.18 | % | 1.12 | % | 1.12 | % | 0.64 | % | 0.51 | % |
| Nonperforming loans as a percentage of period-end loans | 1.02 | % | 0.83 | % | 1.35 | % | 0.81 | % | 0.60 | % |
| Nonperforming assets as a percentage of period-end loans & OREO | 2.44 | % | 2.18 | % | 1.83 | % | 0.96 | % | 0.75 | % |
| Allowance/to nonperforming loans | 186.14 | % | 190.17 | % | 98.81 | % | 165.12 | % | 226.10 | % |
| Allowance for loan losses as a percentage of period-end loans | 1.91 | % | 1.57 | % | 1.33 | % | 1.34 | % | 1.37 | % |
| Net (recoveries) charge-offs as a percentage of average loans | 0.49 | % | 0.71 | % | 0.58 | % | 0.43 | % | 0.23 | % |

Other data

| | | | | | | | | | | |
|--|-------|--|-------|--|-------|--|-------|--|-------|--|
| Number of financial centers | 84 | | 85 | | 84 | | 84 | | 83 | |
| Number of full time equivalent employees | 1,083 | | 1,075 | | 1,091 | | 1,123 | | 1,128 | |

(1) Diluted core earnings (net income excluding nonrecurring items) is a non-GAAP measure. The following nonrecurring items were excluded in the calculation of diluted core earnings per share (non-GAAP). In 2011, the Company recorded a \$0.04 increase in EPS from the sale of MasterCard stock. Also in 2011, the Company recorded a \$0.01 decrease in EPS from the closing cost of a branch and a \$0.01 EPS decrease from merger related costs from an FDIC-assisted acquisition. In 2010, the Company recorded a net \$0.65 increase in EPS from FDIC-assisted acquisitions (bargain purchase gains, merger related costs, gains from disposition of investment securities and costs from disposition of FHLB borrowings). Also in 2010, the Company recorded a \$0.01 decrease in EPS from costs to close nine branches. In 2008, the Company recorded a \$0.13 increase in EPS from the cash proceeds on a mandatory Visa stock redemption and a \$0.05 increase in EPS from the reversal of Visa, Inc.'s litigation expense recorded in 2007. In 2007, the Company recorded a \$0.05 reduction in EPS from litigation expense associated with the recognition of certain contingent liabilities related to Visa, Inc.'s litigation.

(2) Because of our significant level of intangible assets, total goodwill and core deposit premiums, management believes a useful calculation for investors in their analysis of our Company is tangible book value per share (non-GAAP). This non-GAAP calculation eliminates the effect of goodwill and acquisition related intangible assets and is calculated by subtracting goodwill and intangible assets from total stockholders' equity, and dividing the resulting number by the common stock outstanding at period end. The following table reflects the reconciliation of this non-GAAP measure to the GAAP presentation of book value for the periods presented above:

| (\$ in thousands, except per share data) | Years Ended December 31 | | | | |
|--|-------------------------|-----------|-----------|-----------|-----------|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| Stockholders' equity | \$407,911 | \$397,371 | \$371,247 | \$288,792 | \$272,406 |
| Less: Intangible assets | | | | | |
| Goodwill | 60,605 | 60,605 | 60,605 | 60,605 | 60,605 |

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| | | | | | |
|--|------------|------------|------------|------------|------------|
| Other intangibles | 1,579 | 2,463 | 1,769 | 2,575 | 3,382 |
| Tangible stockholders' equity (non-GAAP) | \$345,727 | \$334,303 | \$308,873 | \$225,612 | \$208,419 |
| Book value per share | \$23.70 | \$23.01 | \$21.72 | \$20.69 | \$19.57 |
| Tangible book value per share (non-GAAP) | \$20.09 | \$19.36 | \$18.07 | \$16.16 | \$14.97 |
| Shares outstanding | 17,212,317 | 17,271,594 | 17,093,931 | 13,960,680 | 13,918,368 |

(3) Tangible common equity to tangible assets ratio is tangible stockholders' equity (non-GAAP) divided by total assets less goodwill and other intangible assets as and for the periods ended presented above.

(4) Return on average tangible equity is a non-GAAP measure that removes the effect of goodwill and intangible assets, as well as the amortization of intangibles, from the return on average equity. This non-GAAP measure is calculated as net income, adjusted for the tax-effected effect of intangibles, divided by average tangible equity.

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

(6) The efficiency ratio is total non-interest expense less foreclosure expense and amortization of intangibles, divided by the sum of net interest income on a fully taxable equivalent basis plus total non-interest income less security gains, net of tax. For the year ended December 31, 2011, this calculation excludes the \$1.1 million gain on sale of MasterCard stock. For the year ended December 31, 2010, this calculation excludes the gain on FDIC-assisted transactions of \$21.3 million from total non-interest income. For the year ended December 31, 2009, this calculation excludes the FDIC special assessment of \$1.4 million from total non-interest expense. For the year ended December 31, 2008, this calculation adds the VISA litigation expense reversal of \$1.2 million to total non-interest expense and excludes gain on partial redemption of Visa shares of \$3.0 million from total non-interest income. For the year ended December 31, 2007, this calculation excludes VISA litigation expense of \$1.2 million from total non-interest expense.

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

ITEM 7.MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIALCONDITION AND RESULTS OF OPERATIONS

Critical Accounting Policies

Overview

We follow accounting and reporting policies that conform, in all material respects, to generally accepted accounting principles and to general practices within the financial services industry. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. While we base estimates on historical experience, current information and other factors deemed to be relevant, actual results could differ from those estimates.

We consider accounting estimates to be critical to reported financial results if (i) the accounting estimate requires management to make assumptions about matters that are highly uncertain and (ii) different estimates that management reasonably could have used for the accounting estimate in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on our financial statements.

The accounting policies that we view as critical to us are those relating to estimates and judgments regarding (a) the determination of the adequacy of the allowance for loan losses, (b) acquisition accounting, (c) the valuation of goodwill and the useful lives applied to intangible assets, (d) the valuation of employee benefit plans and (e) income taxes.

Allowance for Loan Losses on Loans Not Covered by Loss Share

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

The allowance is maintained at a level considered appropriate to provide for potential loan losses related to specifically identified loans as well as probable credit losses inherent in the remainder of the loan portfolio as of period end and at a level considered appropriate in relation to the estimated risk inherent in the loan portfolio. This estimate is based on management's evaluation of the loan portfolio, as well as on prevailing and anticipated economic conditions and historical losses by loan category. General reserves have been established, based upon the aforementioned factors and allocated to the individual loan categories. Allowances are accrued on specific loans evaluated for impairment for which the basis of each loan, including accrued interest, exceeds the discounted amount of expected future collections of interest and principal or, alternatively, the fair value of loan collateral. The unallocated reserve generally serves to compensate for the uncertainty in estimating loan losses, including the possibility of changes in risk ratings and specific reserve allocations in the loan portfolio as a result of our ongoing risk management system.

A loan is considered impaired when it is probable that we will not receive all amounts due according to the contractual terms of the loan. This includes loans that are delinquent 90 days or more, nonaccrual loans and certain other loans identified by management. Certain other loans identified by management consist of performing loans with specific allocations of the allowance for loan losses. Specific allocations are applied when quantifiable factors are present requiring an allocation other than that we established based on our analysis of historical losses for each loan category. Accrual of interest is discontinued and interest accrued and unpaid is removed at the time such amounts are

delinquent 90 days unless management is aware of circumstances which warrant continuing the interest accrual. Interest is recognized for nonaccrual loans only upon receipt and only after all principal amounts are current according to the terms of the contract.

Acquisition Accounting, Covered Loans and Related Indemnification Asset

The Company accounts for its acquisitions under ASC Topic 805, Business Combinations, which requires the use of the purchase method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date as the fair value of the loans acquired incorporates assumptions regarding credit risk. Loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820, exclusive of the shared-loss agreements with the Federal Deposit Insurance Corporation (the "FDIC"). The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

Over the life of the acquired loans, the Company continues to estimate cash flows expected to be collected on pools of loans sharing common risk characteristics, which are treated in the aggregate when applying various valuation techniques. The Company evaluates at each balance sheet date whether the present value of its pools of loans determined using the effective interest rates has decreased significantly and if so, recognizes a provision for loan loss in its consolidated statement of income. For any significant increases in cash flows expected to be collected, the Company adjusts the amount of accretable yield recognized on a prospective basis over the pool's remaining life.

Because the FDIC will reimburse the Company for losses incurred on certain acquired loans, an indemnification asset is recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectability or contractual limitations. The shared-loss agreements on the acquisition date reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties.

The shared-loss agreements continue to be measured on the same basis as the related indemnified loans. Because the acquired loans are subject to the accounting prescribed by ASC Topic 310, subsequent changes to the basis of the shared-loss agreements also follow that model. Deterioration in the credit quality of the loans (immediately recorded as an adjustment to the allowance for loan losses) would immediately increase the basis of the shared-loss agreements, with the offset recorded through the consolidated statement of income. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the remaining life of the loans) decrease the basis of the shared-loss agreements, with such decrease being accreted into income over 1) the same period or 2) the life of the shared-loss agreements, whichever is shorter. Loss assumptions used in the basis of the indemnified loans are consistent with the loss assumptions used to measure the indemnification asset. Fair value accounting incorporates into the fair value of the indemnification asset an element of the time value of money, which is accreted back into income over the life of the shared-loss agreements.

Upon the determination of an incurred loss the indemnification asset will be reduced by the amount owed by the FDIC. A corresponding claim receivable is recorded until cash is received from the FDIC.

Goodwill and Intangible Assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Other intangible assets represent purchased assets that also lack physical substance but can be separately distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset or liability. We perform an annual goodwill impairment test, and more frequently if circumstances warrant, in accordance with ASC Topic 350, Intangibles – Goodwill and Other. ASC Topic 350 requires that goodwill and intangible assets that have indefinite lives be reviewed for impairment annually, or more frequently if certain conditions occur. Impairment losses on recorded goodwill, if any, will be recorded as operating expenses.

Employee Benefit Plans

We have adopted various stock-based compensation plans. The plans provide for the grant of incentive stock options, nonqualified stock options, stock appreciation rights and bonus stock awards. Pursuant to the plans, shares are reserved for future issuance by the Company upon exercise of stock options or awarding of bonus shares granted to directors, officers and other key employees.

In accordance with ASC Topic 718, Compensation – Stock Compensation, the fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model that uses various assumptions. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. For additional information, see Note 12, Employee Benefit Plans, in the accompanying Notes to Consolidated Financial Statements included elsewhere in this report.

Income Taxes

We are subject to the federal income tax laws of the United States and the tax laws of the states and other jurisdictions where we conduct business. Due to the complexity of these laws, taxpayers and the taxing authorities may subject these laws to different interpretations. Management must make conclusions and estimates about the application of these innately intricate laws, related regulations, and case law. When preparing the Company's income tax returns, management attempts to make reasonable interpretations of the tax laws. Taxing authorities have the ability to challenge management's analysis of the tax law or any reinterpretation management makes in its ongoing assessment of facts and the developing case law. Management assesses the reasonableness of its effective tax rate quarterly based on its current estimate of net income and the applicable taxes expected for the full year. On a quarterly basis, management also reviews circumstances and developments in tax law affecting the reasonableness of deferred tax assets and liabilities and reserves for contingent tax liabilities.

2011 Overview

Our net income for the year ended December 31, 2011, was \$25.4 million, or \$1.47 diluted earnings per share, compared to \$37.1 million, or \$2.15 diluted earnings per share in 2010. Net income in 2009 was \$25.2 million, or \$1.74 diluted earnings per share.

Net income for both 2011 and 2010 included several significant nonrecurring items that impacted net income, mostly related to our FDIC-assisted acquisitions. Excluding all nonrecurring items, core earnings for the year ended December 31, 2011, were \$25.0 million, or \$1.45 diluted core earnings per share, compared to \$26.0 million, or \$1.51 diluted core earnings per share in 2010. See Reconciliation of Non-GAAP Measures and Table 21 – Reconciliation of Core Earnings (non-GAAP) for additional discussion of non-GAAP measures.

During the first half of 2011, we recorded a pre-tax gain of \$1.1 million on the sale of MasterCard stock. We also recorded pre-tax merger related costs of \$0.4 million and branch right sizing expenses of \$0.1 million. After-taxes, the combined 2011 nonrecurring items contributed \$0.4 million to net income, or \$0.02 to diluted earnings per share.

On October 15, 2010, we announced that our wholly-owned bank subsidiary, Simmons First National Bank ("SFNB" or the "lead bank"), entered into a purchase and assumption agreement with loss share arrangements with the FDIC to purchase substantially all of the assets and to assume substantially all of the deposits and certain other liabilities of Security Savings Bank, FSB ("SSB") in Olathe, Kansas. The Company recognized a pre-tax bargain purchase gain of \$18.3 million on this transaction and incurred pre-tax merger related costs of \$2.0 million. As part of our acquisition strategy, the investment portfolio was liquidated resulting in a pre-tax gain of \$317,000. Additionally, in order to utilize some of the Company's excess liquidity, \$58.4 million in FHLB advances were paid off, which resulted in a one-time pre-payment expense of \$594,000. After taxes, the combined fourth quarter 2010 nonrecurring items

contributed \$9.7 million to net income, or \$0.56 to diluted earnings per share, for the year ended December 31, 2010.

On May 14, 2010, we announced that our wholly-owned bank subsidiary, SFNB, entered into a purchase and assumption agreement with loss share arrangements with the FDIC to purchase substantially all of the assets and to assume substantially all of the deposits and certain other liabilities of Southwest Community Bank (“SWCB”) in Springfield, Missouri. The Company recognized a pre-tax bargain purchase gain of \$3.0 million on this transaction and incurred pre-tax merger related costs of \$0.4 million. After taxes, these nonrecurring items contributed \$1.6 million to net income, or \$0.09 to diluted earnings per share, for the year ended December 31, 2010. Also, during the second quarter of 2010, as a result of our branch right sizing initiative, we recorded a one-time, nonrecurring charge of \$0.01 to diluted earnings per share. See Efficiency Initiatives below for more information on branch right sizing.

Stockholders' equity as of December 31, 2011, was \$407.9 million, an increase of \$10.5 million, or approximately 2.65%, from December 31, 2010. Book value per share was \$23.70 and tangible book value per share was \$20.09. Our ratio of stockholders' equity to total assets was 12.3% and the ratio of tangible stockholders' equity to tangible assets was 10.6% at December 30, 2011. The Company's Tier I leverage ratio of 11.86%, as well as our other regulatory capital ratios, remain significantly above the "well capitalized" levels. See Table 18 – Risk-Based Capital for regulatory capital ratios. Our excess capital positions us to continue to take advantage of unprecedented acquisition opportunities through FDIC-assisted transactions of failed banks. We continue to actively pursue the right opportunities that meet our strategic plan regarding mergers and acquisitions. As with our history, we will continue to be very deliberate and disciplined in these acquisition opportunities.

Total loans, including loans covered by FDIC loss share agreements, were \$1.7 billion at December 31, 2011, a decrease of \$177 million, or 9.3%, from the same period in 2010. In our legacy portfolio, we experienced a decrease of \$104 million, or 6.2%, compared to December 31, 2010. Additionally, like the rest of the industry, we continue to experience weak loan demand as a result of the overall general economic environment. We believe loan demand is likely to remain soft through the first quarter of 2012, but we are becoming more optimistic relative to improved loan demand in the last half of 2012. Loans covered by FDIC loss share agreements, which provide 80% Government guaranteed protection against credit risk on those covered assets, were \$158 million at December 31, 2011, compared to \$232 million at December 31, 2010.

Although the general state of the national economy has shown signs of improvement, it remains somewhat unsettled. Also, despite continued challenges in the Northwest Arkansas region, overall, we continue to have good asset quality, compared to the rest of the industry. The allowance for loan losses as a percent of total loans was 1.91% at December 31, 2011. Non-performing loans equaled 1.02% of total loans. Non-performing assets were 1.18% of total assets. The allowance for loan losses was 186.14% of non-performing loans. The Company's net charge-offs for 2011 were 0.49% of total loans. Excluding credit cards, net charge-offs for 2011 were 0.30% of total loans.

Total assets at December 31, 2011, were \$3.3 billion, an increase of \$3.7 million, or 0.11%, over the period ended December 31, 2010.

Simmons First National Corporation is an Arkansas based financial holding company with \$3.3 billion in assets and eight community banks in Pine Bluff, Lake Village, Jonesboro, Rogers, Searcy, Russellville, El Dorado and Hot Springs, Arkansas. Including one office in Missouri and nine offices in Kansas acquired in 2010 through FDIC-assisted transactions, our eight subsidiary banks conduct financial operations from 88 offices, of which 84 are financial centers, in 47 communities in Arkansas, Missouri and Kansas.

Efficiency Initiatives

We previously reported that we hired a consultant to help us identify and implement revenue enhancements, process improvements and branch staff level adjustments. We are in the final stages of implementation and expect to be fully complete in 2012. We estimate a total annual benefit from the efficiency initiative of approximately \$5 million before tax, with a phase-in period from 2010 through 2012. A portion of the benefit is projected from revenue enhancements, with the remainder from non-interest expense savings. We assured our associates that no one would lose their job as a result of this initiative, as all positions impacted are being eliminated through attrition.

During June 2010, as scheduled as part of our branch right sizing initiative, and after much deliberation and analysis, we closed or consolidated nine financial centers, primarily smaller branches in rural areas. During June 2011, we closed another small branch. We believe most of the customers have been absorbed into other Simmons locations in close proximity to the closed branches. After the closings, we now have 74 financial centers in Arkansas, still one of the best footprints in the state. As a result of these closings, we recorded a one-time, nonrecurring pre-tax charge of

\$372,000, or \$0.01 to diluted earnings per share in 2010, and \$141,000 in 2011. Again, staff reductions are being realized through attrition and associates at the affected branches have been reassigned to other locations. Our branch right sizing initiative has been under way for some time. Over the last several years we have added numerous new financial centers, closed several and relocated others. We will continue our efforts to manage our product delivery system in the most efficient manner possible.

Both our efficiency and branch right sizing initiatives resulted in significant cost savings and staff reductions. Since the beginning of both projects in early 2009, our staffing levels are down 144 headcount. As mentioned earlier, all of the staffing reduction is being realized through attrition, and no associate has lost their job.

Net Interest Income

Net interest income, our principal source of earnings, is the difference between the interest income generated by earning assets and the total interest cost of the deposits and borrowings obtained to fund those assets. Factors that determine the level of net interest income include the volume of earning assets and interest bearing liabilities, yields earned and rates paid, the level of non-performing loans and the amount of non-interest bearing liabilities supporting earning assets. Net interest income is analyzed in the discussion and tables below on a fully taxable equivalent basis. The adjustment to convert certain income to a fully taxable equivalent basis consists of dividing tax-exempt income by one minus the combined federal and state income tax rate of 39.225%.

The Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. Our loan portfolio is significantly affected by changes in the prime interest rate. The prime interest rate, which is the rate offered on loans to borrowers with strong credit, began 2008 at 7.25% and decreased 200 basis points in the first quarter, 25 basis points in the second quarter and another 175 basis points in the fourth quarter to end the year at 3.25%. The prime interest rate has remained unchanged at 3.25% since December 16, 2008.

The Federal Funds rate, which is the cost to banks of immediately available overnight funds, began 2008 at 4.25%. During 2008, the Federal Funds rate decreased 200 basis points in the first quarter, 25 basis points in the second quarter and another 175-200 basis points in the fourth quarter to end the year at 0.00% - 0.25%. The Federal Funds rate has remained unchanged since December 16, 2008.

Our practice is to limit exposure to interest rate movements by maintaining a significant portion of earning assets and interest bearing liabilities in short-term repricing. Historically, approximately 70% of our loan portfolio and approximately 80% of our time deposits have repriced in one year or less. These historical percentages are consistent with our current interest rate sensitivity.

For the year ended December 31, 2011, net interest income on a fully taxable equivalent basis was \$113.6 million, an increase of \$6.7 million, or 6.2%, from the same period in 2010. The increase in net interest income was the result of a \$6.6 million decrease in interest expense and a \$0.1 million increase in interest income.

The \$6.6 million decrease in interest expense for 2011 was primarily the result of a 29 basis point decrease in cost of funds due to competitive repricing during a low interest rate environment, coupled with a shift in our mix of interest bearing deposits. The lower interest rates accounted for an \$5.9 million decrease in interest expense. The most significant component of this decrease was the \$3.1 million decrease associated with the repricing of our time deposits that resulted from time deposits that matured during the period or were tied to a rate that fluctuated with changes in market rates. Historically, approximately 80% of our time deposits reprice in one year or less. As a result, the average rate paid on time deposits decreased 34 basis points from 1.58% to 1.24%. Lower rates on interest bearing transaction and savings accounts resulted in an additional \$1.8 million decrease in interest expense, with the average rate decreasing by 14 basis points from 0.44% to 0.30%. Another \$1.5 million decrease in interest expense resulted from the 2011 conversion of \$10.3 million in trust preferred securities from a fixed rate of 6.97% to a floating rate of 2.80% above the three month LIBOR rate. Another decrease for 2011 resulted from a \$0.6 million one-time pre-payment expense recorded in 2010 from the pay-off of \$58.4 million in FHLB advances related to the SSB FDIC-assisted transaction. As part of our acquisition strategy, we decided to pay-off these advances in order to utilize some of the Company's excess liquidity. Additional scheduled payoffs of FHLB borrowings caused a \$0.8 million decrease in interest expense, with a \$0.2 million increase due to deposit growth.

The \$0.1 million increase in interest income for 2011 can be attributed to our FDIC-assisted acquisitions in 2010, as the acquired covered loans generated an additional \$12.9 million of interest income in 2011 over 2010. The declining balance of the legacy loan portfolio, which excludes loans covered by FDIC loss share agreements, caused a \$10.6 million decrease in interest income. Another \$2.4 million decrease in interest income resulted from a 35 basis point decline in the yield on investment securities.

Of the \$12.9 million increase in interest income from covered loans, \$8.6 million was due to higher average balances in 2011 over 2010, as the majority of the covered loans were acquired during the fourth quarter of 2010. The remaining \$4.3 million increase in interest income was the result of higher average yields on the covered loans in 2011. The average yield on covered loans increased from 5.26% in 2010 to 8.90% in 2011. A portion of the yield increase was due to additional yield accretion recognized in conjunction with the fair value of the loan pools acquired in the 2010 FDIC-assisted transactions as discussed in Note 2 and Note 5 of the Notes to Consolidated Financial Statements. Each quarter, we estimate the cash flows expected to be collected from the acquired loan pools. During the fourth quarter of 2011, this cash flows estimate increased based on the payment histories and reduced loss expectations of the loan pools, resulting in a total of \$23.7 million of adjustments to be spread on a level-yield basis over the remaining expected lives of the loan pools. The increases in expected cash flows also reduced the amount of expected reimbursements under the loss sharing agreements with the FDIC, which are recorded as indemnification assets. The expected indemnification assets have also been reduced during the fourth quarter of 2011, resulting in a total of \$20.9 million of adjustments to be amortized on a level-yield basis over the remainder of the loss sharing agreements or the remaining expected life of the loan pools, whichever is shorter.

For the year ended December 31, 2011, the adjustments increased interest income by \$1.1 million and decreased non-interest income by \$1.0 million. The net impact to pre-tax income was \$146,000 for 2011. Because these adjustments will be recognized over the estimated remaining lives of the loan pools and the remainder of the loss sharing agreements, respectively, they will impact future periods as well. The current estimate of the remaining accretable yield adjustment that will positively impact interest income is \$22.6 million and the remaining adjustment to the indemnification assets that will reduce non-interest income is \$19.9 million. Of the remaining adjustments, we expect to recognize \$11.0 million of interest income and a \$9.7 million reduction of non-interest income during 2012. The accretable yield adjustments recorded in future periods will change as we continue to evaluate expected cash flows from the acquired loan pools.

Our net interest margin was 3.85% for the year ended December 31, 2011, up 7 basis points from 2010. Although we have seen an increase in margin from 2010, our margin remains compacted primarily due to two factors. First, while keeping us prepared to benefit from rising interest rates, our high levels of liquidity are holding the margin down. Also, margin is impacted by our drop in legacy loan balances. The increase in margin in 2011 was primarily due to covered loans acquired through acquisitions. The accretable yield adjustment discussed above accounted for 4 basis points of the increase, while the remainder of the increase was due to a higher yield on acquired covered loans compared to the yield on loans in our legacy portfolio. Based on our current interest rate risk pricing model, we anticipate a slight margin expansion in 2012 due to the impact of our FDIC-assisted acquisitions.

Our net interest margin was 3.78% for the year ended December 31, 2010, unchanged from same period in 2009.

Tables 1 and 2 reflect an analysis of net interest income on a fully taxable equivalent basis for the years ended December 31, 2011, 2010 and 2009, respectively, as well as changes in fully taxable equivalent net interest margin for the years 2011 versus 2010 and 2010 versus 2009.

Table 1: Analysis of Net Interest Income

(FTE =Fully Taxable Equivalent)

| (In thousands) | Years Ended December 31 | | | | | |
|--------------------------------------|-------------------------|---------|------|---------|------|---------|
| | 2011 | | 2010 | | 2009 | |
| Interest income | \$ | 129,056 | \$ | 128,955 | \$ | 136,533 |
| FTE adjustment | | 4,970 | | 5,012 | | 4,935 |
| Interest income - FTE | | 134,026 | | 133,967 | | 141,468 |
| Interest expense | | 20,396 | | 27,006 | | 38,806 |
| Net interest income - FTE | \$ | 113,630 | \$ | 106,961 | \$ | 102,662 |
| Yield on earning assets - FTE | | 4.54 % | | 4.74 % | | 5.21 % |
| Cost of interest bearing liabilities | | 0.86 % | | 1.15 % | | 1.69 % |
| Net interest spread - FTE | | 3.68 % | | 3.59 % | | 3.52 % |
| Net interest margin - FTE | | 3.85 % | | 3.78 % | | 3.78 % |

Table 2: Changes in Fully Taxable Equivalent Net Interest Margin

| (In thousands) | 2011 vs. | |
|---|-------------|---------------|
| | 2010 | 2010 vs. 2009 |
| Decrease due to change in earning assets | \$ (1,877) | \$ (2,062) |
| Increase (decrease) due to change in earning asset yields | 1,936 | (5,439) |
| Increase due to change in interest rates paid on interest bearing liabilities | 5,946 | 11,013 |
| Increase due to change in interest bearing liabilities | 664 | 787 |
| Increase in net interest income | \$ 6,669 | \$ 4,299 |

Table 3 shows, for each major category of earning assets and interest bearing liabilities, the average (computed on a daily basis) amount outstanding, the interest earned or expensed on such amount and the average rate earned or expensed for each of the years in the three-year period ended December 31, 2011. The table also shows the average rate earned on all earning assets, the average rate expensed on all interest bearing liabilities, the net interest spread and the net interest margin for the same periods. The analysis is presented on a fully taxable equivalent basis. Nonaccrual loans were included in average loans for the purpose of calculating the rate earned on total loans.

Table 3: Average Balance Sheets and Net Interest Income Analysis

| (In thousands) | Years Ended December 31 | | | | | | | | |
|--|----------------------------|--------------------|-------------------|----------------------------|--------------------|-------------------|----------------------------|--------------------|-------------------|
| | 2011 Average Balance | Income/ Expense | Yield/ Rate(%) | 2010 Average Balance | Income/ Expense | Yield/ Rate(%) | 2009 Average Balance | Income/ Expense | Yield/ Rate(%) |
| ASSETS | | | | | | | | | |
| Earning Assets | | | | | | | | | |
| Interest bearing balances due from banks | \$486,274 | \$1,100 | 0.23 | \$273,001 | \$721 | 0.26 | \$120,763 | \$439 | 0.36 |
| Federal funds sold | 886 | 6 | 0.68 | 1,686 | 15 | 0.89 | 4,271 | 27 | 0.63 |
| Investment securities - taxable | 426,226 | 6,719 | 1.58 | 440,379 | 8,951 | 2.03 | 448,918 | 13,896 | 3.10 |
| Investment securities - non-taxable | 207,929 | 12,784 | 6.15 | 206,832 | 13,211 | 6.39 | 196,446 | 12,632 | 6.43 |
| Mortgage loans held for sale | 11,953 | 503 | 4.21 | 16,762 | 715 | 4.27 | 12,428 | 608 | 4.89 |
| Assets held in trading accounts | 7,466 | 33 | 0.44 | 7,278 | 30 | 0.41 | 6,187 | 20 | 0.32 |
| Loans not covered by loss share agreements | 1,621,251 | 95,763 | 5.91 | 1,800,868 | 106,120 | 5.89 | 1,924,317 | 113,846 | 5.92 |
| Loans covered by FDIC loss share agreements | 192,300 | 17,118 | 8.90 | 79,912 | 4,204 | 5.26 | -- | -- | -- |
| Total interest earning assets | 2,954,285 | 134,026 | 4.54 | 2,826,718 | 133,967 | 4.74 | 2,713,330 | 141,468 | 5.21 |
| Non-earning assets | 330,342 | | | 307,143 | | | 251,282 | | |
| Total assets | \$3,284,627 | | | \$3,133,861 | | | \$2,964,612 | | |

**LIABILITIES
AND**

STOCKHOLDERS'
EQUITY

| | | | | | | | | | |
|--|-------------|---------|------|-------------|---------|------|-------------|---------|------|
| Liabilities | | | | | | | | | |
| Interest bearing liabilities | | | | | | | | | |
| Interest bearing transaction and savings deposits | | | | | | | | | |
| | \$1,217,218 | \$3,611 | 0.30 | \$1,181,597 | \$5,227 | 0.44 | \$1,091,960 | \$8,252 | 0.76 |
| Time deposits | 913,009 | 11,314 | 1.24 | 907,146 | 14,310 | 1.58 | 939,358 | 22,794 | 2.43 |
| Total interest bearing deposits | 2,130,227 | 14,925 | 0.70 | 2,088,743 | 19,537 | 0.94 | 2,031,318 | 31,046 | 1.53 |
| Federal funds purchased and securities sold under agreements to repurchase | | | | | | | | | |
| | 103,557 | 450 | 0.43 | 101,918 | 532 | 0.52 | 107,975 | 769 | 0.71 |
| Other borrowed funds | | | | | | | | | |
| Short-term debt (1) | 667 | 51 | 7.65 | 3,135 | 58 | 1.85 | 2,583 | 33 | 1.28 |
| Long-term debt | 127,577 | 4,970 | 3.90 | 147,042 | 6,879 | 4.68 | 160,963 | 6,958 | 4.32 |
| Total interest bearing liabilities | 2,362,028 | 20,396 | 0.86 | 2,340,838 | 27,006 | 1.15 | 2,302,839 | 38,806 | 1.69 |
| Non-interest bearing liabilities | | | | | | | | | |
| Non-interest bearing deposits | | | | | | | | | |
| | 482,651 | | | 375,941 | | | 332,998 | | |
| Other liabilities | 33,855 | | | 33,941 | | | 23,565 | | |
| Total liabilities | 2,878,534 | | | 2,750,720 | | | 2,659,402 | | |
| Stockholders' equity | 406,093 | | | 383,141 | | | 305,210 | | |
| Total liabilities and stockholders' equity | \$3,284,627 | | | \$3,133,861 | | | \$2,964,612 | | |
| Net interest spread | | | 3.68 | | | 3.59 | | | 3.52 |
| Net interest margin | \$113,630 | | 3.85 | \$106,961 | | 3.78 | \$102,662 | | 3.78 |

(1) Interest expense on short-term debt includes fees related to an open line of credit from the FHLB. Because the average balance of short-term debt was so low in 2011, the fees caused a significant increase to the 2011 rate.

Table 4: Volume/Rate Analysis

| (In thousands, on a fully taxable equivalent basis) | Years Ended December 31 2011 over 2010 | | | 2010 over 2009 | | |
|--|---|-----------------|-----------------|--------------------|------------------|------------------|
| | Volume | Yield/ Rate | Total | Volume | Yield/ Rate | Total |
| Increase (decrease) in | | | | | | |
| Interest income | | | | | | |
| Interest bearing balances due from banks | \$ 495 | \$ (116) | \$ 379 | \$ 429 | \$ (147) | \$ 282 |
| Federal funds sold | (6) | (3) | (9) | (20) | 8 | (12) |
| Investment securities - taxable | (280) | (1,952) | (2,232) | (259) | (4,686) | (4,945) |
| Investment securities - non-taxable | 70 | (497) | (427) | 664 | (85) | 579 |
| Mortgage loans held for sale | (202) | (10) | (212) | 192 | (85) | 107 |
| Assets held in trading accounts | 1 | 2 | 3 | 4 | 6 | 10 |
| Loans not covered by loss share | (10,609) | 252 | (10,357) | (7,276) | (450) | (7,726) |
| Loans covered by FDIC loss share agreements | 8,654 | 4,260 | 12,914 | 4,204 | -- | 4,204 |
| Total | (1,877) | 1,936 | 59 | (2,062) | (5,439) | (7,501) |
| Interest expense | | | | | | |
| Interest bearing transaction and savings accounts | 154 | (1,770) | (1,616) | 631 | (3,656) | (3,025) |
| Time deposits | 91 | (3,087) | (2,996) | (758) | (7,726) | (8,484) |
| Federal funds purchased and securities sold under agreements to repurchase | 9 | (91) | (82) | (41) | (196) | (237) |
| Other borrowed funds | | | | | | |
| Short-term debt | (75) | 68 | (7) | 8 | 17 | 25 |
| Long-term debt | (843) | (1,066) | (1,909) | (627) | 548 | (79) |
| Total | (664) | (5,946) | (6,610) | (787) | (11,013) | (11,800) |
| Increase (decrease) in net interest income | \$ (1,213) | \$ 7,882 | \$ 6,669 | \$ (1,275) | \$ 5,574 | \$ 4,299 |

Provision for Loan Losses

The provision for loan losses represents management's determination of the amount necessary to be charged against the current period's earnings in order to maintain the allowance for loan losses at a level considered appropriate in relation to the estimated risk inherent in the loan portfolio. The level of provision to the allowance is based on management's judgment, with consideration given to the composition, maturity and other qualitative characteristics of the portfolio, historical loan loss experience, assessment of current economic conditions, past due and non-performing loans and net loan loss experience. It is management's practice to review the allowance on at least a quarterly basis, but generally on a monthly basis, and, after considering the factors previously noted, to determine the level of provision made to the allowance.

The provision for loan losses for 2011, 2010 and 2009, was \$11.7 million, \$14.1 million and \$10.3 million, respectively. During 2011, we decreased our provision by approximately \$2.5 million, primarily due to a decrease from 2010 in net loan charge-offs. However, we did add a special \$500,000 provision during the second quarter of 2011, as we believe there remain many economic and financial factors, including the many uncertainties related to our

national debt, spending and taxes that have recently consumed the news, that necessitate the need for a higher level of unallocated reserve, resulting in a higher level of provision. See Allowance for Loan Losses section for additional information.

During 2010, we increased our provision by approximately \$3.8 million, primarily due to an increase in net loan charge-offs. Management also determined that there were several economic and environmental factors that necessitated the need for a higher level of unallocated reserve, resulting in a higher level of provision.

Non-Interest Income

Total non-interest income was \$53.5 million in 2011, compared to \$77.9 million in 2010 and \$52.7 million in 2009. Non-interest income for 2011 decreased \$24.4 million, or 31.3%, from 2010. The most significant factor for the decrease was the nonrecurring \$21.3 million gain on the FDIC-assisted transactions in 2010. Another nonrecurring item was the \$317,000 gain on sale of securities related from the liquidation of the SSB investment portfolio. See 2011 Overview section for more discussion of the FDIC-assisted transactions. The decrease in non-interest income was partially offset by a nonrecurring \$1.1 million gain from the sale of MasterCard stock in the second quarter of 2011 (see further discussion below). Normalizing for these nonrecurring items, core non-interest income for 2011 was down 6.9% from 2010.

Non-interest income is principally derived from recurring fee income, which includes service charges, trust fees and credit card fees. Non-interest income also includes income on the sale of mortgage loans, investment banking income, premiums on sale of student loans, income from the increase in cash surrender values of bank owned life insurance, gains (losses) from sales of securities and gains (losses) related to FDIC-assisted transactions and covered assets.

Table 5 shows non-interest income for the years ended December 31, 2011, 2010 and 2009, respectively, as well as changes in 2011 from 2010 and in 2010 from 2009.

Table 5:

Non-Interest Income

| (In thousands) | Years Ended December 31 | | | 2011 Change from 2010 | 2010 Change from 2009 | | |
|---|-------------------------|----------|----------|-----------------------------|-----------------------------|---|------------------|
| | 2011 | 2010 | 2009 | | | | |
| Trust income | \$ 5,375 | \$ 5,179 | \$ 5,227 | \$ 196 | 3.78 | % | \$ (48) -0.92 % |
| Service charges on deposit accounts | 16,808 | 17,700 | 17,944 | (892) | -5.04 | | (244) -1.36 |
| Other service charges and fees | 2,980 | 2,812 | 2,668 | 168 | 5.97 | | 144 5.40 |
| Income on sale of mortgage loans, net of commissions | 4,188 | 4,810 | 4,032 | (622) | -12.93 | | 778 19.30 |
| Income on investment banking, net of commissions | 1,478 | 2,236 | 2,153 | (758) | -33.90 | | 83 3.86 |
| Credit card fees | 16,828 | 16,140 | 14,392 | 688 | 4.26 | | 1,748 12.15 |
| Premiums on sale of student loans | -- | 2,524 | 2,333 | (2,524) | -100.00 | | 191 8.19 |
| Bank owned life insurance income | 1,481 | 1,670 | 1,270 | (189) | -11.32 | | 400 31.50 |
| Gain on FDIC-assisted transactions | -- | 21,314 | -- | (21,314) | -100.00 | | 21,314 -- |
| Net gain (loss) on assets covered by FDIC loss share agreements | 154 | 318 | -- | (164) | -51.57 | | 318 100.00 |
| Other income | 4,173 | 2,854 | 2,548 | 1,319 | 46.22 | | 306 12.01 |
| Gain on sale of securities, net | -- | 317 | 144 | (317) | -100.00 | | 173 120.14 |

| | | | | | | | |
|---------------------------|-----------|-----------|-----------|-------------|----------|-----------|---------|
| Total non-interest income | \$ 53,465 | \$ 77,874 | \$ 52,711 | \$ (24,409) | -31.34 % | \$ 25,163 | 47.74 % |
|---------------------------|-----------|-----------|-----------|-------------|----------|-----------|---------|

Recurring fee income for 2011 was \$42.0 million, an increase of \$160,000, or 0.4%, when compared with the 2010 amounts. Service charges on deposits accounts decreased by \$892,000 primarily due to a significant decline in fee income as a result of recent regulatory changes related to overdrafts on point-of-sale transactions. Credit card fees increased \$688,000 due primarily to a higher volume of credit and debit card transactions. In July, the Federal Reserve released final rules regarding debit card fee income under the Durbin amendment. While the Durbin amendment only applies to banks of \$10 billion or more in size, we have consistently indicated that we believe all banks will ultimately be negatively impacted. In fact, we continue to estimate the potential negative impact to our institution, going forward, to be approximately \$600,000 annually.

Recurring fee income for 2010 was \$41.8 million, an increase of \$1.6 million, or 4.0%, when compared with the 2009 amounts. Credit card fees increased \$1.7 million, primarily due to a higher volume of credit and debit card transactions, with the credit card volume increase a direct result of the addition of new credit card accounts in 2007 through 2009.

Income on sale of mortgage loans decreased by \$622,000, or 12.9%, in 2011 compared to 2010, due to the significant industry-wide slowdown of financing and refinancing. Income on sale of mortgage loans increased by \$778,000, or 19.3%, in 2010 compared to 2009. The majority of the increase resulted from the sale of mortgage loans in Kansas from our SSB transaction, with the remainder primarily due to lower mortgage rates producing an increase in residential refinancing volume.

Income on investment banking decreased by \$758,000, or 33.9%, in 2011 compared to 2010, due in part to an industry-wide decline in dealer-bank activities. Another factor in the decrease was a favorable mark-to-market adjustment on trading investment during 2010, with unfavorable adjustments in 2011.

As expected, premiums on sale of student loans decreased by \$2.5 million, or 100.0%, for the year ended December 31, 2011, compared to 2010. U.S. government legislation has eliminated the private sector from providing student loans after the 2009-2010 school year. Therefore, we had no student loan sales during 2011. Premiums on sale of student loans increased by \$191,000, or 8.2%, for the year ended December 31, 2010, compared to 2009. The increase was due to a higher volume of loan sales in 2010. During the second and third quarters of 2010, we sold the balance of our loans that were originated for the 2009-2010 school year, approximately \$65 million of student loans, to the government, resulting in premiums of approximately \$2.5 million.

We currently plan to continue servicing the remaining student loans internally until the loans pay off, we find a suitable buyer or the students consolidate their loans. Unless we do find a suitable buyer, we do not expect to receive income from premiums on sale of student loans during 2012 or thereafter. See Loan Portfolio section for additional information on student loans.

Net gain (loss) on assets covered by FDIC loss share agreements decreased by \$164,000 in 2011 compared to 2010. Although the amount of the net change is not significant, there are considerable changes from 2010 to 2011 in the components. First, we recognized \$1.2 million of income from the accretion of the FDIC indemnification assets, net of amortization of the FDIC true-up liability, during 2011, compared to \$0.3 million during 2010. Because the SSB acquisition came in October 2010, only a small amount of income was recorded in 2010, with a full year of accretion in 2011. Also, 2011 included \$40,000 of gains from the sale of covered foreclosed assets, with no gains in 2010.

Finally, as described in Note 5 of the Notes to Consolidated Financial Statements, due to the increase in cash flows expected to be collected from the FDIC-covered loan portfolios, \$978,000 of amortization, a reduction of non-interest income, was recorded in 2011 relating to reductions of expected reimbursements under the loss sharing agreements with the FDIC, which are recorded as indemnification assets. There was no amortization adjustment recorded in 2010 relating to reductions of expected reimbursements under the loss sharing agreements with the FDIC.

Other non-interest income for 2011 increased by \$1.3 million over 2010, primarily due to a \$1.1 million gain from the sale of MasterCard stock in the second quarter of 2011. On May 31, 2006, MasterCard Incorporated completed its Initial Public Offering ("IPO"). As a part of the IPO, approximately 41% of the equity was issued to member-banks as Class B common stock. Conversion of Class B shares to Class A shares was restricted as to the timing and number of shares eligible until the fourth anniversary of the IPO. As a member-bank the Company received 4,077 shares of MasterCard Class B stock. As there was no market or readily ascertainable fair market value for the class B shares, they were recorded with no basis value. On May 31, 2010, restrictions on the conversion of the Class B shares to Class A shares expired, permitting Class B stockholders to convert Class B shares into an equal number of Class A shares for prompt disposition to the public. On May 13, 2011, the Company applied for conversion of its Class B shares to Class A common stock and recorded a \$1.1 million pre-tax gain upon conversion approval by MasterCard Incorporated and immediately sold the Class A shares.

We recorded no gains or losses on sale of securities during 2011. As part of our acquisition strategy related to SSB, we liquidated the acquired investment portfolio, resulting in net realized gain of \$317,000 in 2010. We recorded \$144,000 of securities gains in 2009.

Non-Interest Expense

Non-interest expense consists of salaries and employee benefits, occupancy, equipment, foreclosure losses and other expenses necessary for the operation of the Company. Management remains committed to controlling the level of non-interest expense through the continued use of expense control measures that have been installed. We utilize an extensive profit planning and reporting system involving all subsidiaries. Based on a needs assessment of the business plan for the upcoming year, monthly and annual profit plans are developed, including manpower and capital expenditure budgets. These profit plans are subject to extensive initial reviews and monitored by management on a monthly basis. Variances from the plan are reviewed monthly and, when required, management takes corrective action intended to ensure financial goals are met. We also regularly monitor staffing levels at each affiliate to ensure productivity and overhead are in line with existing workload requirements.

Non-interest expense for 2011 was \$114.7 million, an increase of \$3.4 million or 3.0%, from 2010. This increase includes approximately \$5.7 million of incremental normal operating expenses in 2011 for our FDIC-assisted acquisitions of 2010. Also included in non-interest expense are merger related costs of \$0.4 million and \$2.6 million in 2011 and 2010, respectively. Normalizing for these incremental operating expenses, merger related costs and other nonrecurring items, non-interest expense decreased by 0.2% in 2011 from 2010. This decrease is the result of the implementation of our efficiency initiatives. See the Reconciliation of Non-GAAP Measures section for details of the nonrecurring items. Also see the section titled Efficiency Initiatives in the 2011 Overview for additional information.

Non-interest expense for 2010 was \$111.3 million, an increase of \$6.6 million or 6.3%, from 2009. This increase includes \$2.6 million of merger related costs and approximately \$3.0 million of normal operating expense at our two new FDIC-assisted acquisitions. Normalizing for these expenses, as well as for \$372,000 of one-time nonrecurring costs associated with our branch closings in 2010, non-interest expense increased by 0.6% in 2010 over 2009. This modest increase was the result of the implementation of our efficiency initiatives. See the section titled Efficiency Initiatives in the 2010 Overview for additional information.

Deposit insurance expense during 2011 decreased to \$2.4 million from \$3.8 million in 2010, a decrease of \$1.4 million, or 37.4%. The decrease was primarily due to a decrease in deposit insurance premiums resulting from changes in the FDIC's assessment base and rates.

Deposit insurance expense during 2010 decreased to \$3.8 million from \$4.6 million in 2009, a decrease of \$829,000, or 17.9%. The decrease in deposit insurance expense was due to the June 30, 2009, FDIC special assessment, partially offset by increases in the fee assessment rates during 2010.

In May 2009, the FDIC issued a final rule which levied a special assessment applicable to all insured depository institutions totaling 5 basis points of each institution's total assets less Tier 1 capital as of June 30, 2009. The special assessment, collected by the FDIC on September 30, 2009, is part of the FDIC's efforts to rebuild the Deposit Insurance Fund ("DIF"). Deposit insurance expense during 2009 included \$1.5 million related to the special assessment.

Fees paid for professional services increased by \$98,000, or 2.2%, in 2011 over 2010, as we were in the second of three years of increased professional fees related to our ongoing efficiency initiatives. Fees paid for professional services increased by \$833,000, or 22.9%, in 2010 over 2009. The increase in professional services, which consist of audit, accounting, legal and consulting fees, was primarily due to costs associated with our ongoing efficiency initiatives, which began to positively impact earnings in 2010 and 2011, and we expect to produce significant savings and revenue enhancements in 2012 and beyond. See Item 1. Business – Efficiency Initiatives for additional information on our efficiency initiatives.

Credit card expense for 2011 increased \$726,000, or 12.4%, from 2010, following an increase of \$788,000, or 15.6%, in 2010. These increases were primarily due to increased card usage, interchange fees and other related expense resulting from initiatives we have taken to grow our credit card portfolio. See Loan Portfolio section for additional information on our credit card portfolio.

Core deposit premium amortization expense recorded for the years ended December 31, 2011, 2010 and 2009, was \$884,000, \$786,000 and \$805,000, respectively. The Company's estimated amortization expense for each of the following five years is: 2012 – \$295,000; 2013 – \$261,000; 2014 – \$157,000; 2015 – \$151,000; and 2016 – \$148,000. The estimated amortization expense decreases as core deposit premiums fully amortize in future years.

Table 6 below shows non-interest expense for the years ended December 31, 2011, 2010 and 2009, respectively, as well as changes in 2011 from 2010 and in 2010 from 2009.

Table 6:

Non-Interest Expense

| (In thousands) | Years Ended December 31 | | | 2011 | | 2010 | |
|---|-------------------------|------------|------------|------------------|--------|------------------|--------|
| | 2011 | 2010 | 2009 | Change from 2010 | | Change from 2009 | |
| Salaries and employee benefits | \$ 65,058 | \$ 60,731 | \$ 58,317 | \$ 4,327 | 7.12 % | \$ 2,414 | 4.14 % |
| Occupancy expense, net | 8,443 | 7,808 | 7,457 | 635 | 8.13 | 351 | 4.71 |
| Furniture and equipment expense | 6,633 | 6,093 | 6,195 | 540 | 8.86 | (102) | -1.65 |
| Other real estate and foreclosure expense | 678 | 974 | 453 | (296) | -30.39 | 521 | 115.01 |
| Deposit insurance | 2,387 | 3,813 | 4,642 | (1,426) | -37.40 | (829) | -17.86 |
| Merger related costs | 357 | 2,611 | -- | (2,254) | -86.33 | 2,611 | -- |
| Other operating expenses | | | | | | | |
| Professional services | 4,574 | 4,476 | 3,643 | 98 | 2.19 | 833 | 22.87 |
| Postage | 2,486 | 2,465 | 2,409 | 21 | 0.85 | 56 | 2.32 |
| Telephone | 2,480 | 2,328 | 2,113 | 152 | 6.53 | 215 | 10.18 |
| Credit card expense | 6,565 | 5,839 | 5,051 | 726 | 12.43 | 788 | 15.60 |
| Operating supplies | 1,653 | 1,403 | 1,470 | 250 | 17.82 | (67) | -4.56 |
| Amortization of core deposits | 884 | 786 | 805 | 98 | 12.47 | (19) | -2.36 |
| Other expense | 12,452 | 11,936 | 12,167 | 516 | 4.32 | (231) | -1.90 |
| Total non-interest expense | \$ 114,650 | \$ 111,263 | \$ 104,722 | \$ 3,387 | 3.04 % | \$ 6,541 | 6.25 % |

Income Taxes

The provision for income taxes for 2011 was \$10.4 million, compared to \$17.3 million in 2010 and \$10.2 million in 2009. The effective income tax rates for the years ended 2011, 2010 and 2009 were 29.1%, 31.8% and 28.8%, respectively.

Loan Portfolio

Our loan portfolio, excluding loans covered by FDIC loss share arrangements, averaged \$1.621 billion during 2011 and \$1.801 billion during 2010. As of December 31, 2011, total loans, excluding loans covered by FDIC loss share arrangements, were \$1.580 billion, compared to \$1.684 billion on December 31, 2010. The most significant components of the loan portfolio were loans to businesses (commercial loans, commercial real estate loans and agricultural loans) and individuals (consumer loans, credit card loans and single-family residential real estate loans).

We seek to manage our credit risk by diversifying the loan portfolio, determining that borrowers have adequate sources of cash flow for loan repayment without liquidation of collateral, obtaining and monitoring collateral, providing an appropriate allowance for loan losses and regularly reviewing loans through the internal loan review

process. The loan portfolio is diversified by borrower, purpose and industry and, in the case of credit card loans, which are unsecured, by geographic region. We seek to use diversification within the loan portfolio to reduce credit risk, thereby minimizing the adverse impact on the portfolio, if weaknesses develop in either the economy or a particular segment of borrowers. Collateral requirements are based on credit assessments of borrowers and may be used to recover the debt in case of default. We use the allowance for loan losses as a method to value the loan portfolio at its estimated collectable amount. Loans are regularly reviewed to facilitate the identification and monitoring of deteriorating credits.

Consumer loans consist of credit card loans, student loans and other consumer loans. Consumer loans were \$346.6 million at December 31, 2011, or 21.9% of total loans, compared to \$370.2 million, or 22.0% of total loans at December 31, 2010. The \$23.6 million consumer loan decrease from 2010 to 2011 is primarily due to a \$13.9 million decrease in our student loan portfolio, as expected. The balance of our consumer loan portfolio decreased by \$9.7 million, with declines in both our direct and indirect lending areas.

The student loan portfolio balance at December 31, 2011 was \$47.4 million, a decrease of \$13.9 million, or 22.7%, from December 31, 2010. Student loans were 3.0% of total loans at December 31, 2011, compared with 3.6% at December 31, 2010 and 6.1% at December 31, 2009.

Simmons First had been in the student loan business since 1966, and we believe that the banking industry had been very efficient in serving the students and the schools in Arkansas. However, U.S. government legislation finalized during the first quarter of 2010 has eliminated the private sector from providing student loans after the 2009-2010 school year. Therefore, as of June 30, 2010, the Company and the banking industry were no longer providers of student loans.

As for our current student loan portfolio, we have sold the loans we originated during the 2009-2010 school year under the program established in 2008 in which the government will purchase the loans at par plus a premium. Sales of these loans during the third quarter of 2010 left approximately \$61.3 million of student loans in our portfolio that will not qualify for the government purchase program, down \$53.0 million, or 46.4%, from December 31, 2009. Payoffs and consolidations have left approximately \$47.4 million of student loans in our portfolio at December 31, 2011. We currently plan to continue servicing the remaining student loans internally until the loans pay off, we find a suitable buyer or the students consolidate their loans. See Non-Interest Income section for additional information on student loans.

The credit card portfolio balance at December 31, 2011, decreased by \$359,000, or 0.2%, when compared to the same period in 2010. After several years of significant growth, including a \$19.5 million, or 11.5% increase during 2009, growth in the credit card portfolio stabilized during 2010 and 2011. After five consecutive years of growth, we did not see a large increase in net new accounts in 2010 or 2011, due primarily to increased competition from the large credit card banks.

The growth in outstanding credit card balances in recent years through 2009 was primarily the result of an increase in net new accounts. We added over 15,000 net new accounts in 2009 and over 5,000 net new accounts in 2008. We believe the increase in outstanding balances and the addition of new accounts were the result of the introduction of several initiatives over the past few years to make our credit card products more competitive, while maintaining extremely high underwriting standards.

Real estate loans consist of construction loans, single family residential loans and commercial loans. Real estate loans were \$1.001 billion at December 31, 2011, or 63.4% of total loans, compared to \$1.067 billion, or 63.4% of total loans at December 31, 2010, a decrease of \$65.3 million, or 6.1%. Our construction and development ("C&D") loans decreased by \$43.9 million, with loans either migrating to our commercial real estate ("CRE") portfolio or being liquidated or refinanced elsewhere. Single family residential loans decreased by \$9.3 million and CRE loans decreased by \$12.0 million. Considering the continuing challenges in the economy, we believe it is important to note that we have no significant concentrations in our real estate loan portfolio mix. Our C&D loans represent only 7.0% of our loan portfolio and CRE loans (excluding C&D) represent 34.0% of our loan portfolio, both of which compare very favorably to our peers.

Commercial loans consist of commercial loans and agricultural loans. Commercial loans were \$227.2 million at December 31, 2011, or 14.4% of total loans, compared to the \$236.7 million, or 14.1% of total loans at December 31, 2010. This \$9.5 million decrease in commercial loans is primarily due to weak loan demand throughout Arkansas, Kansas and southern Missouri.

The balances of loans outstanding, excluding loans covered by FDIC loss share agreements, at the indicated dates are reflected in table 7, according to type of loan.

Table 7:

Loan Portfolio

| (In thousands) | Years Ended December 31 | | | | |
|---------------------------|-------------------------|------------------|------------------|------------------|------------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| Consumer | | | | | |
| Credit cards | \$189,970 | \$190,329 | \$189,154 | \$169,615 | \$166,044 |
| Student loans | 47,419 | 61,305 | 114,296 | 111,584 | 76,277 |
| Other consumer | 109,211 | 118,581 | 139,647 | 138,145 | 137,624 |
| Total consumer | 346,600 | 370,215 | 443,097 | 419,344 | 379,945 |
| Real Estate | | | | | |
| Construction | 109,825 | 153,772 | 180,759 | 224,924 | 260,924 |
| Single family residential | 355,094 | 364,442 | 392,208 | 409,540 | 382,676 |
| Other commercial | 536,372 | 548,360 | 596,517 | 584,843 | 542,184 |
| Total real estate | 1,001,291 | 1,066,574 | 1,169,484 | 1,219,307 | 1,185,784 |
| Commercial | | | | | |
| Commercial | 141,422 | 150,501 | 172,091 | 195,967 | 200,531 |
| Agricultural | 85,728 | 86,171 | 84,866 | 88,233 | 73,470 |
| Total commercial | 227,150 | 236,672 | 256,957 | 284,200 | 274,001 |
| Other | 4,728 | 10,003 | 5,451 | 10,223 | 10,724 |