SIMMONS FIRST NATIONAL CORP
Form 10-Q
November 12, 2013

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

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended September 30, 2013 Commission File Number 000-06253

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

Arkansas (State or other jurisdiction of incorporation or organization)	71-0407808 (I.R.S. Employer Identification No.)
501 Main Street, Pine Bluff, Arkansas (Address of principal executive offices)	71601 (Zip Code)

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

Not Applicable
Former name, former address and former fiscal year, if changed since last report

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
[x] Yes [ ] No

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.

Large accelerated filer [ ] Accelerated filer [x] Non-accelerated filer [ ] Smaller reporting company [ ]

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

The number of shares outstanding of the Registrant’s Common Stock as of October 25, 2013, was 16,202,435.

Simmons First National Corporation
Quarterly Report on Form 10-Q
September 30, 2013

Table of Contents

Part I: Financial Information
Item 1. Financial Statements

Simmons First National Corporation
Consolidated Balance Sheets
September 30, 2013 and December 31, 2012

(In thousands, except share data)	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Cash and non-interest bearing balances due from banks	$ 37,752	$ 47,470
Interest bearing balances due from banks	320,368	467,984
Federal funds sold	18,365	22,343
Cash and cash equivalents	376,485	537,797
Investment securities	761,705	687,483
Mortgage loans held for sale	10,605	25,367
Assets held in trading accounts	8,744	6,224
Loans:		
Loans	1,741,161	1,628,513
Allowance for loan losses	(27,533)	(27,882)
Loans acquired, not covered by FDIC loss share (net of discount)	68,133	82,764
Loans acquired, covered by FDIC loss share (net of discount)	148,884	210,842
Net loans	1,930,645	1,894,237
FDIC indemnification asset	61,500	75,286
Premises and equipment	87,065	87,557
Foreclosed assets	26,203	33,352
Foreclosed assets covered by FDIC loss share	23,260	27,620
Interest receivable	15,635	14,530
Bank owned life insurance	60,040	52,066
Goodwill	60,605	60,605
Other intangible assets	5,420	3,760
Other assets	13,797	21,605
Total assets	$ 3,441,709	$ 3,527,489
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing transaction accounts	$ 580,063	$ 576,655
Interest bearing transaction accounts and savings deposits	1,453,139	1,421,137
Time deposits	805,596	876,371
Total deposits	2,838,798	2,874,163
Federal funds purchased and securities sold under agreements to repurchase	62,311	104,078
Other borrowings	75,987	89,441
Subordinated debentures	20,620	20,620
Accrued interest and other liabilities	40,959	33,125
Total liabilities	3,038,675	3,121,427
Stockholders' equity:		
Preferred stock, $0.01 par value; 40,040,000 shares authorized and unissued at September 30, 2013 and December 31, 2012	-	-

Common stock, Class A, $0.01 par value; 60,000,000 shares authorized; 16,198,964 and 16,542,778 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	162	165
Surplus	87,279	96,587
Undivided profits	318,194	309,053
Accumulated other comprehensive (loss) income	(2,601)	257
Total stockholders' equity	403,034	406,062
Total liabilities and stockholders' equity	$ 3,441,709	$ 3,527,489

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Statements of Income
Three and Nine Months Ended September 30, 2013 and 2012

(In thousands, except per share data)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	(Unaudited)		(Unaudited)	
INTEREST INCOME				
Loans not covered by FDIC loss share	$ 23,483	$ 23,192	$ 69,781	$ 67,822
Loans covered by FDIC loss share	7,132	5,041	19,776	16,009
Federal funds sold	6	2	14	4
Investment securities	3,428	3,027	9,349	9,615
Mortgage loans held for sale	122	171	395	487
Assets held in trading accounts	6	12	23	37
Interest bearing balances due from banks	234	267	875	919
TOTAL INTEREST INCOME	34,411	31,712	100,213	94,893
INTEREST EXPENSE				
Deposits	1,993	2,521	6,274	8,165
Federal funds purchased and securities sold under agreements to repurchase	46	69	165	248
Other borrowings	646	792	2,072	2,406
Subordinated debentures	162	389	483	1,166
TOTAL INTEREST EXPENSE	2,847	3771	8,994	11,985
NET INTEREST INCOME	31,564	27,941	91,219	82,908
Provision for loan losses	1,081	1,299	3,034	2,846
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	30,483	26,642	88,185	80,062
NON-INTEREST INCOME				
Trust income	1,448	1,440	4,234	3,988
Service charges on deposit accounts	4,603	4,368	13,318	12,163
Other service charges and fees	728	684	2,294	2,211
Mortgage lending income	1,122	1,705	3,677	4,441
Investment banking income	240	560	1,390	1,700
Credit card fees	4,400	4,104	12,779	12,390
Bank owned life insurance income	328	355	974	1,078
Gain on FDIC-assisted transactions	-	1,120	-	1,120
Loss on sale of securities	-	-	(193)	-
Net (loss) gain on assets covered by FDIC loss share agreements	(3,443)	(2,689)	(8,200)	(7,507)
Other income	887	165	2,626	2,037
TOTAL NON-INTEREST INCOME	10,313	11,812	32,899	33,621
NON-INTEREST EXPENSE				
Salaries and employee benefits	17,701	15,911	54,146	49,323
Occupancy expense, net	2,485	2,182	7,490	6,291
Furniture and equipment expense	1,613	1,835	5,367	5,047

Other real estate and foreclosure expense	385	280	775	681
Deposit insurance	595	444	1,862	1,472
Merger related costs	190	815	(37)	815
Other operating expenses	7,934	7,219	23,529	21,928
TOTAL NON-INTEREST EXPENSE	30,903	28,686	93,132	85,557
INCOME BEFORE INCOME TAXES	9,893	9,768	27,952	28,126
Provision for income taxes	2,961	3,008	8,507	8,475
NET INCOME	$ 6,932	$ 6,760	$ 19,445	$ 19,651
BASIC EARNINGS PER SHARE	$ 0.43	$ 0.41	$ 1.19	$ 1.16
DILUTED EARNINGS PER SHARE	$ 0.43	$ 0.41	$ 1.19	$ 1.16

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Statements of Comprehensive Income
Three and Nine Months Ended September 30, 2013 and 2012

(In thousands, except per share data)	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
	(Unaudited)		(Unaudited)	
NET INCOME	$ 6,932	$ 6,760	$ 19,445	$ 19,651
OTHER COMPREHENSIVE INCOME				
Unrealized holding (losses) gains arising during the period on available-for-sale securities	(314)	133	(4,896)	235
Less: Reclassification adjustment for realized losses included in net income	-	-	(193)	-
Other comprehensive (loss) gain, before tax effect	(314)	133	(4,703)	235
Less: Tax effect of other comprehensive (loss) gain	(123)	52	(1,845)	92
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME	(191)	81	(2,858)	143
COMPREHENSIVE INCOME	$ 6,741	$ 6,841	$ 16,587	$ 19,794

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2013 and 2012

(In thousands)	September 30, 2013	September 30, 2012
	(Unaudited)	
OPERATING ACTIVITIES		
Net income	$ 19,445	$ 19,651
Items not requiring (providing) cash:		
Depreciation and amortization	4,416	4,116
Provision for loan losses	3,034	2,846
Net accretion of investment securities and assets not covered by FDIC loss share	(389)	(112)
Stock-based compensation expense	1,039	1,065
Net accretion on assets covered by FDIC loss share	(4,553)	(1,912)
Gain on FDIC-assisted transactions	-	(1,120)
Deferred income taxes	(2,274)	86
Loss on sale of investments	193	-
Bank owned life insurance income	(974)	(1,078)
Changes in:		
Interest receivable	(1,078)	(127)
Mortgage loans held for sale	14,762	(1,004)
Assets held in trading accounts	(2,520)	539
Other assets	1,594	(2,143)
Accrued expenses and other liabilities	(1,680)	5,750
Income taxes payable	(462)	(2,575)
Net cash provided by operating activities	30,553	23,982
INVESTING ACTIVITIES		
Net originations of loans	(97,444)	(52,392)
Net collections of loans covered by FDIC loss share	68,674	51,922
Purchases of premises and equipment, net	(3,516)	(1,988)
Proceeds from sale of foreclosed assets held for sale	12,943	5,296
Proceeds from sale of foreclosed assets held for sale, covered by FDIC loss share	11,684	10,000
Proceeds from sale of available-for-sale securities	16,029	813
Proceeds from maturities of available-for-sale securities	53,144	236,921
Purchases of available-for-sale securities	(60,848)	(246,929)
Proceeds from maturities of held-to-maturity securities	113,289	512,920
Purchases of held-to-maturity securities	(199,201)	(497,955)
Purchase of bank owned life insurance	(7,000)	(25)
Net cash proceeds received in FDIC-assisted transactions	-	44,015
Cash received on FDIC loss share	11,621	12,553
Net cash (used in) provided by investing activities	(80,625)	75,151
FINANCING ACTIVITIES		
Net change in deposits	(35,365)	(83,655)
Dividends paid	(10,304)	(10,172)
Net change in other borrowed funds	(13,454)	(1,318)
	(41,767)	(71,393)

Net change in federal funds purchased and securities sold under agreements to repurchase		
Net shares issued under stock compensation plans	498	324
Repurchase of common stock	(10,848)	(14,674)
Net cash used in financing activities	(111,240)	(180,888)
DECREASE IN CASH AND CASH EQUIVALENTS	(161,312)	(81,755)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	537,797	570,206
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 376,485	$ 488,451

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Statements of Stockholders' Equity
Nine Months Ended September 30, 2013 and 2012

(In thousands, except share data)	Common Stock	Surplus	Accumulated Other Comprehensive Income (Loss)	Undivided Profits	Total
Balance, December 31, 2011	$ 172	$ 112,436	$ 439	$ 294,864	$ 407,911
Comprehensive income:					
Net income	-	-	-	19,651	19,651
Change in unrealized appreciation on available-for-sale securities, net of income taxes of $92	-	-	143	-	143
Comprehensive income					19,794
Stock issued as bonus shares – 51,245 shares	1	191	-	-	192
Vesting bonus shares	-	998	-	-	998
Stock issued for employee stock purchase plan – 5,103 shares	-	132	-	-	132
Stock granted under stock-based compensation plans	-	67	-	-	67
Repurchase of common stock – (608,387 shares)	(6)	(14,668)	-	-	(14,674)
Cash dividends – $0.60 per share	-	-	-	(10,172)	(10,172)
Balance, September 30, 2012 (Unaudited)	167	99,156	582	304,343	404,248
Comprehensive income:					
Net income	-	-	-	8,033	8,033
Change in unrealized appreciation on available-for-sale securities, net of income taxes of ($209)	-	-	(325)	-	(325)
Comprehensive income					7,708
Vesting bonus shares	-	307	-	-	307
Stock granted under stock-based compensation plans	-	16	-	-	16
Repurchase of common stock – (117,500 shares)	(2)	(2,892)	-	-	(2,894)
Cash dividends – $0.20 per share	-	-	-	(3,323)	(3,323)
Balance, December 31, 2012	165	96,587	257	309,053	406,062
Comprehensive income:					
Net income	-	-	-	19,445	19,445
Change in unrealized appreciation on available-for-sale securities, net of income taxes of ($1,845)	-	-	(2,858)	-	(2,858)
Comprehensive income					16,587
Stock issued as bonus shares – 64,506 shares	1	228	-	-	229
Vesting bonus shares	-	1,012	-	-	1,012
Stock issued for employee stock purchase plan – 5,244 shares	-	126	-	-	126
Exercise of stock options – 6,000 shares	-	143	-	-	143

Stock granted under stock-based compensation plans	-	27	-	-	27
Repurchase of common stock – (419,564 shares)	(4)	(10,844)	-	-	(10,848)
Cash dividends – $0.63 per share	-	-	-	(10,304)	(10,304)
Balance, September 30, 2013 (Unaudited)	$ 162	$ 87,279	$ (2,601)	$ 318,194	$ 403,034

See Condensed Notes to Consolidated Financial Statements.

SIMMONS FIRST NATIONAL CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1: BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Simmons First National Corporation (the “Company”) and its subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

All adjustments made to the unaudited financial statements were of a normal recurring nature. In the opinion of management, all adjustments necessary for a fair presentation of the results of interim periods have been made. Certain prior year amounts are reclassified to conform to current year classification. The consolidated balance sheet of the Company as of December 31, 2012, has been derived from the audited consolidated balance sheet of the Company as of that date. The results of operations for the period are not necessarily indicative of the results to be expected for the full year.

Certain information and note disclosures normally included in the Company’s annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Form 10-K Annual Report for 2012 filed with the U.S. Securities and Exchange Commission (the “SEC”).

Recently Issued Accounting Pronouncements

In July 2012, the FASB issued ASU 2012-02, Intangibles – Goodwill and Other (Topic 350) – Testing Indefinite-Lived Intangible Assets for Impairment. ASU 2012-02 amends the guidance related to testing indefinite-lived intangible assets, other than goodwill, for impairment. The provisions of ASU 2012-02 allow for a qualitative assessment in testing an indefinite-lived intangible asset for impairment before calculating the fair value of the asset. If the qualitative assessment determines that it is more likely than not that the asset is impaired, then a quantitative assessment of the fair value of the asset is required; otherwise, the quantitative calculation is not necessary. The provisions of ASU 2012-02 became effective for the Company on January 1, 2013, and did not have a significant impact on the Company’s ongoing financial position or results of operations.

In October, 2012, the FASB issued ASU 2012-06, Business Combinations (Topic 805) – Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution. ASU 2012-06 amends guidance on the subsequent accounting for an indemnification asset recognized at the acquisition date as a result of a government assisted acquisition of a financial institution. ASU 2012-06 requires that a subsequent adjustment to the indemnification asset be measured on the same basis as the underlying indemnified assets. Any amortization of changes in value of the indemnification asset should be limited to the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets. ASU 2012-06 became effective for the Company on January 1, 2013. Because the Company has historically accounted for its indemnification assets in accordance with ASU 2012-06, its adoption did not have a significant impact on the Company’s financial position or results of operations.

In February, 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220) – Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU 2013-02 requires disclosure of amounts reclassified out of accumulated other comprehensive income in their entirety, by component, on the face of the statement of comprehensive income or in the notes to the financial statements. Amounts that are not required to be classified in their entirety to net income must be cross-referenced to other disclosures that provide additional detail. ASU 2013-02 became effective prospectively for the Company on January 1, 2013, and did not have a significant impact on the Company's financial position or results of operations.

There have been no other significant changes to the Company’s accounting policies from the 2012 Form 10-K. Presently, the Company is not aware of any other changes to the Accounting Standards Codification that will have a material impact on the Company’s present or future financial position or results of operations.

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 FDIC, if any. 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 individual loans or on pools of loans sharing common risk characteristics and were treated in the aggregate when applying various valuation techniques. The Company evaluates at each balance sheet date whether the present value of its loans determined using the effective interest rates has decreased and if so, recognizes a provision for loan loss in its consolidated statement of income. For any increases in cash flows expected to be collected, the Company adjusts the amount of accretable yield recognized on a prospective basis over the loan's or 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. For further discussion of the Company's acquisition and loan accounting, see Note 5, Loans Acquired.

Earnings Per Share ("EPS)

Basic EPS is computed by dividing reported net income by weighted average number of common shares outstanding during each period. Diluted EPS is computed by dividing reported net income by the weighted average common shares and all potential dilutive common shares outstanding during the period.

Following is the computation of per share earnings for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share data)	2013	2012	2013	2012

Net income	$ 6,932	$ 6,760	$ 19,445	$ 19,651
Average common shares outstanding	16,220	16,757	16,383	17,005
Average potential dilutive common shares	5	3	5	3
Average diluted common shares	16,225	16,760	16,388	17,008
Basic earnings per share	$ 0.43	$ 0.41	$ 1.19	$ 1.16
Diluted earnings per share	$ 0.43	$ 0.41	$ 1.19	$ 1.16

Stock options to purchase 138,528 and 177,870 shares for the three and nine months ended September 30, 2013 and 2012, respectively, were not included in the diluted EPS calculation because the exercise price of those options exceeded the average market price.

NOTE 2: PENDING ACQUISITION

On September 12, 2013, the Company issued a press release announcing the U.S. Bankruptcy Court approved a Stock Purchase Agreement (the "Agreement") between the Company and Rogers Bancshares, Inc. ("RBI") for the stock of Metropolitan National Bank ("Metropolitan"). The Company will purchase all of the issued and outstanding shares of common stock free and clear of all liens, claims and encumbrances, and assumes no liabilities of RBI. Under the terms of the Agreement, RBI will receive $53.6 million in cash. The Company will fund the transaction with $46 million in unsecured debt from correspondent banks with a 3.25% floating rate to be repaid in three years or less.

The transaction is expected to close during the fourth quarter of 2013 and is subject to customary regulatory approval. Upon completion of the transaction, the combined company will have approximately $4.4 billion in total assets, $3.7 billion in deposits and $2.3 billion in net loans.

NOTE 3: INVESTMENT SECURITIES

The amortized cost and fair value of investment securities that are classified as held-to-maturity and available-for-sale are as follows:

(In thousands)	September 30, 2013 Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	December 31, 2012 Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Held-to-Maturity								
U.S. Government agencies	$ 313,052	$ 23	$ (8,580)	$ 304,495	$ 288,098	$ 135	$ (679)	$ 287,554
Mortgage-backed securities	41	1	-	42	49	1	-	50
State and political subdivisions	268,055	2,548	(5,057)	265,546	207,374	5,140	(160)	212,354
Other securities	620	-	-	620	620	-	-	620
Total HTM	$ 581,768	$ 2,572	$ (13,637)	$ 570,703	$ 496,141	$ 5,276	$ (839)	$ 500,578
Available-for-Sale								
U.S. Government agencies	$ 168,055	$ 4	$ (4,932)	$ 163,127	$ 152,708	$ 65	$ (292)	$ 152,481
Mortgage-backed securities	1,811	183	-	1,994	20,436	287	(89)	20,634
State and political subdivisions	1,268	-	(5)	1,263	2,989	-	(1)	2,988
Other securities	13,082	471	-	13,553	14,787	456	(4)	15,239
Total AFS	$ 184,216	$ 658	$ (4,937)	$ 179,937	$ 190,920	$ 808	$ (386)	$ 191,342

Certain investment securities are valued at less than their historical cost. These declines primarily resulted from the rate for these investments yielding less than current market rates. Based on evaluation of available evidence, management believes the declines in fair value for these securities are temporary. Management does not have the intent to sell these securities and management believes it is more likely than not the Company will not have to sell these securities before recovery of their amortized cost basis less any current period credit losses. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

As of September 30, 2013, securities with unrealized losses, segregated by length of impairment, were as follows:

	Less Than 12 Months		12 Months or More		Total	
(In thousands)	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Held-to-Maturity						
U.S. Government agencies	$ 289,718	$ (8,334)	$ 8,754	$ (246)	$ 298,472	$ (8,580)
State and political subdivisions	88,357	(5,024)	1,590	(334)	89,947	(5,057)
Total HTM	$ 378,075	$ (13,358)	$ 10,344	$ (279)	$ 388,419	$ (13,637)
Available-for-Sale						
U.S. Government agencies	$ 154,760	$ (4,904)	$ 973	$ (28)	$ 155,733	$ (4,932)
State and political subdivisions	1,213	(5)	-	-	1,213	(5)
Total AFS	$ 155,973	$ (4,909)	$ 973	$ (28)	$ 156,946	$ (4,937)

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time the Company expects to receive full value for the securities. Furthermore, as of September 30, 2013, management also had the ability and intent to hold the securities classified as available-for-sale for a period of time sufficient for a recovery of cost. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of September 30, 2013, management believes the impairments detailed in the table above are temporary.

The carrying value, which approximates the fair value, of securities pledged as collateral, to secure public deposits and for other purposes, amounted to $476.3 million at September 30, 2013, and $434.8 million at December 31, 2012.

The book value of securities sold under agreements to repurchase equaled $58.1 million and $58.8 million for September 30, 2013, and December 31, 2012, respectively.

Income earned on securities for the three and nine months ended September 30, 2013 and 2012, is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2013	2012	2013	2012
Taxable:				
Held-to-maturity	$ 818	$ 707	$ 2,281	$ 2,389
Available-for-sale	540	514	1,605	1,624
Non-taxable:				
Held-to-maturity	2,066	1,806	5,450	5,602
Available-for-sale	4	-	13	-

Total	$	3,428	$	3,027	$	9,349	$	9,615

11

Maturities of investment securities at September 30, 2013, are as follows:

	Held-to-Maturity		Available-for-Sale	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	$ 29,360	$ 29,432	$ 350	$ 350
After one through five years	194,855	193,353	60,734	60,389
After five through ten years	227,380	220,876	109,091	104,589
After ten years	129,553	126,422	959	1,056
Other securities	620	620	13,082	13,553
Total	$581,768	$570,703	$184,216	$179,937

There were no realized gains and realized losses of $193,000 on investment securities for the three and nine months ended September 30, 2013. There were no realized gains or losses on investment securities for the three and nine months ended September 30, 2012.

The state and political subdivision debt obligations are primarily non-rated bonds and represent small, Arkansas and Texas issues, which are evaluated on an ongoing basis.

NOTE 4: LOANS AND ALLOWANCE FOR LOAN LOSSES

At September 30, 2013, the Company's loan portfolio was $1.96 billion, compared to $1.92 billion at December 31, 2012. The various categories of loans are summarized as follows:

(In thousands)	September 30, 2013	December 31, 2012
Consumer:		
Credit cards	$ 177,463	$ 185,536
Student loans	28,392	34,145
Other consumer	101,399	105,319
Total consumer	307,254	325,000
Real Estate:		
Construction	161,024	138,132
Single family residential	375,703	356,907
Other commercial	602,463	568,166
Total real estate	1,139,190	1,063,205
Commercial:		
Commercial	154,508	141,336
Agricultural	135,633	93,805
Total commercial	290,141	235,141
Other	4,576	5,167
Loans	1,741,161	1,628,513
Loans acquired, covered by FDIC loss share (net of discount)	148,884	210,842
Loans acquired, not covered by FDIC loss share (net of discount)	68,133	82,764
Total loans before allowance for loan losses	$ 1,958,178	$ 1,922,119

Loan Origination/Risk Management – The Company seeks to manage its credit risk by diversifying its loan portfolio, determining that borrowers have adequate sources of cash flow for loan repayment without liquidation of collateral;

obtaining and monitoring collateral; providing an adequate allowance for loans losses by regularly reviewing loans through the internal loan review process. The loan portfolio is diversified by borrower, purpose and industry. The Company seeks to use diversification within the loan portfolio to reduce its 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.

Consumer – The consumer loan portfolio consists of credit card loans, student loans and other consumer loans. The Company no longer originates student loans, and the current portfolio is guaranteed by the Department of Education at 97% of principal and interest. Credit card loans are diversified by geographic region to reduce credit risk and minimize any adverse impact on the portfolio. Although they are regularly reviewed to facilitate the identification and monitoring of creditworthiness, credit card loans are unsecured loans, making them more susceptible to be impacted by economic downturns resulting in increasing unemployment. Other consumer loans include direct and indirect installment loans and overdrafts. Loans in this portfolio segment are sensitive to unemployment and other key consumer economic measures.

Real estate – The real estate loan portfolio consists of construction loans, single family residential loans and commercial loans. Construction and development loans ("C&D") and commercial real estate loans ("CRE") can be particularly sensitive to valuation of real estate. Commercial real estate cycles are inevitable. The long planning and production process for new properties and rapid shifts in business conditions and employment create an inherent tension between supply and demand for commercial properties. While general economic trends often move individual markets in the same direction over time, the timing and magnitude of changes are determined by other forces unique to each market. CRE cycles tend to be local in nature and longer than other credit cycles. Factors influencing the CRE market are traditionally different from those affecting residential real estate markets; thereby making predictions for one market based on the other difficult. Additionally, submarkets within commercial real estate – such as office, industrial, apartment, retail and hotel – also experience different cycles, providing an opportunity to lower the overall risk through diversification across types of CRE loans. Management realizes that local demand and supply conditions will also mean that different geographic areas will experience cycles of different amplitude and length. The Company monitors these loans closely and has no significant concentrations in its real estate loan portfolio.

Commercial – The commercial loan portfolio includes commercial and agricultural loans, representing loans to commercial customers and farmers for use in normal business or farming operations to finance working capital needs, equipment purchase or other expansion projects. Collection risk in this portfolio is driven by the creditworthiness of the underlying borrowers, particularly cash flow from customers' business or farming operations. The Company continues its efforts to keep loan terms short, reducing the potential negative impact of upward movement in interest rates. Term loans are generally set up with a one or three year balloon, and the Company has recently instituted a pricing mechanism for commercial loans. It is standard practice to require personal guaranties on all commercial loans, particularly as they relate to closely-held or limited liability entities.

Nonaccrual and Past Due Loans – Loans are considered past due if the required principal and interest payments have not been received as of 30 days from the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Nonaccrual loans, excluding loans acquired, segregated by class of loans, are as follows:

(In thousands)	September 30, 2013	December 31, 2012
Consumer:		
Credit cards	$ 336	$ 281
Student Loans	-	-

Other consumer	683	801
Total consumer	1,019	1,082
Real estate:		
Construction	102	463
Single family residential	2,105	2,706
Other commercial	2,225	4,254
Total real estate	4,432	7,423
Commercial:		
Commercial	448	471
Agricultural	76	147
Total commercial	524	618
Total	$ 5,975	$ 9,123

An age analysis of past due loans, excluding loans acquired, segregated by class of loans, is as follows:

(In thousands)	Gross 30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days Past Due & Accruing
September 30, 2013						
Consumer:						
Credit cards	$ 687	$ 520	$ 1,207	$ 176,256	$ 177,463	$ 184
Student loans	1,705	2,966	4,671	23,721	28,392	2,966
Other consumer	953	381	1,334	100,065	101,399	99
Total consumer	3,345	3,867	7,212	300,042	307,254	3,249
Real estate:						
Construction	348	13	361	160,663	161,024	-
Single family residential	2,209	1,283	3,492	372,211	375,703	308
Other commercial	934	2,095	3,029	599,434	602,463	-
Total real estate	3,491	3,391	6,882	1,132,308	1,139,190	308
Commercial:						
Commercial	346	470	816	153,692	154,508	134
Agricultural	11	53	64	135,569	135,633	-
Total commercial	357	523	880	289,261	290,141	134
Other	-	-	-	4,576	4,576	-
Total	$ 7,193	$ 7,781	$ 14,974	$ 1,726,187	$ 1,741,161	$ 3,691
December 31, 2012						
Consumer:						
Credit cards	$ 710	$ 547	$ 1,257	$ 184,279	$ 185,536	$ 266
Student loans	901	2,234	3,135	31,010	34,145	2,234
Other consumer	1,149	529	1,678	103,641	105,319	204
Total consumer	2,760	3,310	6,070	318,930	325,000	2,704
Real estate:						
Construction	309	365	674	137,458	138,132	-
Single family residential	3,069	1,539	4,608	352,299	356,907	137
Other commercial	716	3,303	4,019	564,147	568,166	-
Total real estate	4,094	5,207	9,301	1,053,904	1,063,205	137
Commercial:						
Commercial	340	385	725	140,611	141,336	74
Agricultural	81	113	194	93,611	93,805	-
Total commercial	421	498	919	234,222	235,141	74
Other	-	-	-	5,167	5,167	-
Total	$ 7,275	$ 9,015	$ 16,290	$ 1,612,223	$ 1,628,513	$ 2,915

Impaired Loans – A loan is considered impaired when it is probable that the Company will not receive all amounts due according to the contractual terms of the loans, including scheduled principal and interest payments. This includes loans that are delinquent 90 days or more, nonaccrual loans and certain other loans identified by management. Impaired loans are carried at the present value of estimated future cash flows using the loan's existing rate, or the fair value of the collateral if the loan is collateral dependent.

Impairment is evaluated in total for smaller-balance loans of a similar nature and on an individual loan basis for other loans. Impaired loans, or portions thereof, are charged-off when deemed uncollectible.

Impaired loans, net of government guarantees and excluding loans acquired, segregated by class of loans, are as follows:

(In thousands)	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
						Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
September 30, 2013									
Consumer:									
Credit cards	$ 520	$ 520	$ -	$ 520	$ 77	$ 514	$ 3	$ 517	$ 11
Other consumer	878	814	58	872	158	946	9	1,014	30
Total consumer	1,398	1,334	58	1,392	235	1,460	12	1,531	41
Real estate:									
Construction	3,237	2,020	1,174	3,194	365	3,212	32	3,814	114
Single family residential	3,357	2,019	1,298	3,317	574	3,231	32	3,705	111
Other commercial	9,016	5,192	2,608	7,800	522	7,932	78	12,609	377
Total real estate	15,610	9,231	5,080	14,311	1,461	14,375	142	20,128	602
Commercial:									
Commercial	695	453	146	599	110	603	6	651	19
Agricultural	76	76	-	76	8	82	1	86	3
Total commercial	771	529	146	675	118	685	7	737	22
Total	$ 17,779	$ 11,094	$ 5,284	$ 16,378	$ 1,814	$ 16,520	$ 161	$ 22,396	$ 665
						Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
December 31, 2012									
Consumer:									
Credit cards	$ 547	$ 547	$ -	$ 547	$ 82	$ 563	$ 4	$ 570	$ 12
Other consumer	1,140	999	131	1,130	249	1,193	14	1,192	44
Total consumer	1,687	1,546	131	1,677	331	1,756	18	1,762	56
Real estate:									
Construction	5,443	3,866	1,494	5,360	505	5,634	68	5,493	203
Single family residential	4,091	2,877	1,140	4,017	494	3,611	43	4,034	149
Other commercial	21,199	5,903	13,078	18,981	1,310	21,992	265	23,405	862
Total real estate	30,733	12,646	15,712	28,358	2,309	31,237	376	32,932	1,214
Commercial:									
Commercial	842	487	191	678	179	827	10	810	30
Agricultural	236	74	16	90	24	132	2	267	10
Total commercial	1,078	561	207	768	203	959	12	1,077	40
Total	$ 33,498	$ 14,753	$ 16,050	$ 30,803	$ 2,843	$ 33,952	$ 406	$ 35,771	$ 1,310

At September 30, 2013, and December 31, 2012, impaired loans, net of government guarantees and excluding loans acquired, totaled $16.4 million and $30.8 million, respectively. Allocations of the allowance for loan losses relative to impaired loans were $1.8 million at September 30, 2013, and $2.8 million at December 31, 2012. Approximately $161,000 and $665,000 of interest income was recognized on average impaired loans of $16.5 million and $22.4 million for the three and nine months ended September 30, 2013. Interest income recognized on impaired loans on a cash basis during the three and nine months ended September 30, 2013 and 2012 was not material.

Included in certain impaired loan categories are troubled debt restructurings ("TDRs"). When the Company restructures a loan to a borrower that is experiencing financial difficulty and grants a concession that it would not otherwise consider, a "troubled debt restructuring" results and the Company classifies the loan as a TDR. The Company grants various types of concessions, primarily interest rate reduction and/or payment modifications or extensions, with an occasional forgiveness of principal.

Under ASC Topic 310-10-35 – Subsequent Measurement, a TDR is considered to be impaired, and an impairment analysis must be performed. The Company assesses the exposure for each modification, either by collateral discounting or by calculation of the present value of future cash flows, and determines if a specific allocation to the allowance for loan losses is required.

Once an obligation has been restructured because of such credit problems, it continues to be considered a TDR until paid in full; or, if an obligation yields a market interest rate and no longer has any concession regarding payment amount or amortization, then it is not considered a TDR at the beginning of the calendar year after the year in which the improvement takes place. The Company returns TDRs to accrual status only if (1) all contractual amounts due can reasonably be expected to be repaid within a prudent period, and (2) repayment has been in accordance with the contract for a sustained period, typically at least six months.

The following table presents a summary of troubled debt restructurings, excluding loans acquired, segregated by class of loans.

	Accruing TDR Loans		Nonaccrual TDR Loans		Total TDR Loans	
(Dollars in thousands)	Number	Balance	Number	Balance	Number	Balance
September 30, 2013						
Consumer:						
Other consumer	1	$ 33	-	$ -	1	$ 33
Total consumer	1	33	-	-	1	33
Real estate:						
Construction	1	988	-	-	1	988
Single-family residential	4	874	1	8	5	882
Other commercial	12	7,012	1	608	13	7,619
Total real estate	17	8,874	2	616	19	9,489
Commercial:						
Commercial	1	39	1	85	2	124
Agriculture	1	638	-	-	1	638
Total commercial	2	677	1	85	3	762
Total	20	$ 9,584	3	$ 701	23	$ 10,284
December 31, 2012						
Consumer:						
Other consumer	1	$ 33	1	$ 12	2	$ 45
Total consumer	1	33	1	12	2	45
Real estate:						
Construction	2	1,212	-	-	2	1,212
Single-family residential	3	570	1	15	4	585
Other commercial	14	8,508	4	2,962	18	11,470
Total real estate	19	10,290	5	2,977	24	13,267
Commercial:						
Commercial	1	39	1	85	2	124
Agricultural	1	653	-	-	1	653
Total commercial	2	692	1	85	3	777
Total	22	$ 11,015	7	$ 3,074	29	$ 14,089

The following table presents loans that were restructured as TDRs during the nine months ended September 30, 2013 and 2012, excluding loans acquired, segregated by class of loans.

(Dollars in thousands)	Number of Loans	Balance Prior to TDR	Balance at September 30	Modification Type: Change in Maturity Date	Modification Type: Change in Rate	Financial Impact on Date of Restructure
Nine Months Ended September 30, 2013						
Real estate:						
Single-family residential	1	$ 321	$ 311	$ -	311	$ -
Total real estate	1	321	311	-	311	-
Total	1	$ 321	$ 311	$ -	$ 311	$ -
Nine Months Ended September 30, 2012						
Consumer:						
Other consumer	1	$ 48	$ 33	$ -	$ 33	$ -
Total consumer	1	48	33	-	33	-
Real estate:						
Other commercial	4	1,054	887	-	887	-
Total real estate	4	1,054	887	-	887	-
Commercial:						
Commercial	1	50	39	-	39	-
Total commercial	1	50	39	-	39	-
Total	6	$ 1,152	$ 959	$ -	$ 959	$ -

During the three months ended September 30, 2013, the Company did not modify any loans which were deemed troubled debt restructurings. During the nine months ended September 30, 2013, the Company modified one loan with a recorded investment of $321,000 prior to modification which was deemed troubled debt restructuring. The restructured loan was modified by lowering of the interest rate. Based on the fair value of the collateral, no specific reserve was determined necessary for this loan. Also, there was no immediate financial impact from the restructuring of this loan, as it was not considered necessary to charge-off interest or principal on the date of restructure.

There were no loans for which a payment default occurred during the nine months ended September 30, 2013 and 2012, and that had been modified as a TDR within 12 months or less of the payment default, excluding loans acquired. We define a payment default as a payment received more than 90 days after its due date.

Credit Quality Indicators – As part of the on-going monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators including trends related to (i) the weighted-average risk rating of commercial and real estate loans, (ii) the level of classified commercial and real estate loans, (iii) net charge-offs, (iv) non-performing loans (see details above) and (v) the general economic conditions in the States of Arkansas, Kansas and Missouri.

The Company utilizes a risk rating matrix to assign a risk rate to each of its commercial and real estate loans. Loans are rated on a scale of 1 to 8. A description of the general characteristics of the 8 risk ratings is as follows:

•

Risk Rate 1 – Pass (Excellent) – This category includes loans which are virtually free of credit risk. Borrowers in this category represent the highest credit quality and greatest financial strength.

- Risk Rate 2 – Pass (Good) - Loans under this category possess a nominal risk of default. This category includes borrowers with strong financial strength and superior financial ratios and trends. These loans are generally fully secured by cash or equivalents (other than those rated "excellent”).

- Risk Rate 3 – Pass (Acceptable – Average) - Loans in this category are considered to possess a normal level of risk. Borrowers in this category have satisfactory financial strength and adequate cash flow coverage to service debt requirements. If secured, the perfected collateral should be of acceptable quality and within established borrowing parameters.

- Risk Rate 4 – Pass (Monitor) - Loans in the Watch (Monitor) category exhibit an overall acceptable level of risk, but that risk may be increased by certain conditions, which represent "red flags". These "red flags" require a higher level of supervision or monitoring than the normal "Pass" rated credit. The borrower may be experiencing these conditions for the first time, or it may be recovering from weakness, which at one time justified a harsher rating. These conditions may include: weaknesses in financial trends; marginal cash flow; one-time negative operating results; non-compliance with policy or borrowing agreements; poor diversity in operations; lack of adequate monitoring information or lender supervision; questionable management ability/stability.

- Risk Rate 5 – Special Mention - A loan in this category has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special Mention loans are not adversely classified (although they are "criticized") and do not expose an institution to sufficient risk to warrant adverse classification. Borrowers may be experiencing adverse operating trends, or an ill-proportioned balance sheet. Non-financial characteristics of a Special Mention rating may include management problems, pending litigation, a non-existent, or ineffective loan agreement or other material structural weakness, and/or other significant deviation from prudent lending practices.

- Risk Rate 6 – Substandard - A Substandard loan is inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Loans so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. The loans are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. This does not imply ultimate loss of the principal, but may involve burdensome administrative expenses and the accompanying cost to carry the loan.

- Risk Rate 7 – Doubtful – A loan classified Doubtful has all the weaknesses inherent in a substandard loan except that the weaknesses make collection or liquidation in full (on the basis of currently existing facts, conditions, and values) highly questionable and improbable. Doubtful borrowers are usually in default, lack adequate liquidity, or capital, and lack the resources necessary to remain an operating entity. The possibility of loss is extremely high, but because of specific pending events that may strengthen the asset, its classification as loss is deferred. Pending factors include: proposed merger or acquisition; liquidation procedures; capital injection; perfection of liens on additional collateral; and refinancing plans. Loans classified as Doubtful are placed on nonaccrual status.

- Risk Rate 8 – Loss - Loans classified Loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loans has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless loan, even though partial recovery may be affected in the future. Borrowers in the Loss category are often in bankruptcy, have formally suspended debt repayments, or have otherwise ceased normal business operations. Loans should be classified as Loss and charged-off in the period in which they become uncollectible.

Loans acquired, including loans covered by FDIC loss share agreements, are evaluated using this internal grading system. However, since these loans are accounted for in pools, all of the loan pools were considered satisfactory at September 30, 2013 and December 31, 2012, respectively. Loans acquired, covered by loss share agreements, have additional protection provided by the FDIC. See Note 5, Loans Acquired, for further discussion of the acquired loan pools and loss sharing agreements.

Classified loans for the Company include loans in Risk Ratings 6, 7 and 8. Loans may be classified, but not considered impaired, due to one of the following reasons: (1) The Company has established minimum dollar amount thresholds for loan impairment testing. Loans rated 6 – 8 that fall under the threshold amount are not tested for impairment and therefore are not included in impaired loans. (2) Of the loans that are above the threshold amount and tested for impairment, after testing, some are considered to not be impaired and are not included in impaired loans. Total classified loans were $38.1 million and $39.0 million as of September 30, 2013 and December 31, 2012, respectively.

The following table presents a summary of loans by credit risk rating as of September 30, 2013 and December 31, 2012, segregated by class of loans.

(In thousands)	Risk Rate 1-4	Risk Rate 5	Risk Rate 6	Risk Rate 7	Risk Rate 8	Total
September 30, 2013						
Consumer:						
Credit cards	$ 176,943	$ -	$ 520	$ -	$ -	$ 177,463
Student loans	25,426	-	2,966	-	-	28,392
Other consumer	100,089	3	1,229	60	18	101,399
Total consumer	302,458	3	4,715	60	18	307,254
Real estate:						
Construction	156,701	74	4,249	-	-	161,024
Single family residential	368,159	1,423	6,121	-	-	375,703
Other commercial	573,657	8,156	20,650	-	-	602,463
Total real estate	1,098,517	9,653	31,020	-	-	1,139,190
Commercial:						
Commercial	152,158	186	2,164	-	-	154,508
Agricultural	135,471	-	162	-	-	135,633
Total commercial	287,629	186	2,326	-	-	290,141
Other	4,576	-	-	-	-	4,576
Loans acquired, covered by FDIC loss share	148,884	-	-	-	-	148,884
Loans acquired, not covered by FDIC loss share	68,133	-	-	-	-	68,133
Total	$ 1,910,197	$ 9,842	$ 38,061	$ 60	$ 18	$ 1,958,178

(In thousands)	Risk Rate 1-4	Risk Rate 5	Risk Rate 6	Risk Rate 7	Risk Rate 8	Total
December 31, 2012						
Consumer:						
Credit cards	$ 184,989	$ -	$ 547	$ -	$ -	$ 185,536
Student loans	31,911	-	2,234	-	-	34,145
Other consumer	103,597	7	1,660	33	22	105,319
Total consumer	320,497	7	4,441	33	22	325,000
Real estate:						
Construction	131,873	30	6,229	-	-	138,132
Single family residential	348,628	1,458	6,821	-	-	356,907
Other commercial	540,986	8,484	18,696	-	-	568,166
Total real estate	1,021,487	9,972	31,746	-	-	1,063,205
Commercial:						
Commercial	138,948	114	2,235	39	-	141,336
Agricultural	93,357	-	448	-	-	93,805
Total commercial	232,305	114	2,683	39	-	235,141
Other	5,167	-	-	-	-	5,167
	210,842	-	-	-	-	210,842

Loans acquired, covered by FDIC loss share						
Loans acquired, not covered by FDIC loss share	82,764	-	-	-	-	82,764
Total	$ 1,873,062	$ 10,093	$ 38,870	$ 72	$ 22	$ 1,922,119

Net (charge-offs)/recoveries for the three and nine months ended September 30, 2013 and 2012, excluding loans acquired, segregated by class of loans, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2013	2012	2013	2012
Consumer:				
Credit cards	$ (535)	$ (564)	$ (1,747)	$ (1,968)
Student loans	(8)	(20)	(38)	(58)
Other consumer	(327)	(231)	(670)	(380)
Total consumer	(870)	(815)	(2,455)	(2,406)
Real estate:				
Construction	-	-	(119)	46
Single-family residential	(100)	(246)	(189)	(457)
Other commercial	4	(466)	(551)	(1,741)
Total real estate	(96)	(712)	(859)	(2,152)
Commercial:				
Commercial	(5)	(24)	(62)	(67)
Agriculture	25	-	(7)	(184)
Total commercial	20	(24)	(69)	(251)
Total	$ (946)	$ (1,551)	$ (3,383)	$ (4,809)

Allowance for Loan Losses – The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The Company's allowance for loan loss methodology includes allowance allocations calculated in accordance with ASC Topic 310-10, Receivables, and allowance allocations calculated in accordance with ASC Topic 450-20, Loss Contingencies. Accordingly, the methodology is based on the Company's internal grading system, specific impairment analysis, qualitative and quantitative factors.

As mentioned above, allocations to the allowance for loan losses are categorized as either specific allocations or general allocations.

A loan is considered impaired when it is probable that the Company will not receive all amounts due according to the contractual terms of the loan, including scheduled principal and interest payments. For a collateral dependent loan, the Company's evaluation process includes a valuation by appraisal or other collateral analysis. This valuation is compared to the remaining outstanding principal balance of the loan. If a loss is determined to be probable, the loss is included in the allowance for loan losses as a specific allocation. If the loan is not collateral dependent, the measurement of loss is based on the fair value of the difference between the expected and contractual future cash flows of the loan.

The general allocation is calculated monthly based on management's assessment of several factors such as (1) historical loss experience based on loan volumes and types, (2) volume and trends in delinquencies and nonaccruals, (3) lending policies and procedures including those for loan losses, collections and recoveries, (4) national, state and local economic trends and conditions, (5) concentrations of credit within the loan portfolio, (6) the experience, ability and depth of lending management and staff and (7) other factors and trends that will affect specific loans and categories of loans. The Company establishes general allocations for each major loan category. This category also includes allocations to loans which are collectively evaluated for loss such as credit cards, one-to-four family owner occupied residential real estate loans and other consumer loans.

As of December 31, 2012, the Company refined its allowance calculation. As part of the refinement process, management evaluated the criteria previously applied to the entire loan portfolio, and used to calculate the unallocated portion of the allowance, and applied those criteria to each specific loan category. This included the impact of national, state and local economic trends, external factors and competition, economic outlook and business conditions and other factors and trends that will affect specific loans and categories of loans. As a result of the refined allowance calculation, the allocation of the Company's allowance for loan losses may not be comparable with periods prior to December 31, 2012.

The following table details activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2013. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

(In thousands)	Commercial	Real Estate	Credit Card	Other Consumer and Other	Unallocated	Total
Three Months Ended September 30, 2013						
Balance, beginning of period	$ 3,719	$ 15,475	$ 6,876	$ 1,328	$ -	$ 27,398
Provision for loan losses	(15)	308	369	419	-	1,081
Charge-offs	(20)	(247)	(770)	(449)	-	(1,486)
Recoveries	40	151	235	114	-	540
Net charge-offs	20	(96)	(535)	(335)	-	(946)
Balance, September 30, 2013	$ 3,724	$ 15,687	$ 6,710	$ 1,412	$ -	$ 27,533
Nine Months Ended September 30, 2013						
Balance, beginning of period	$ 3,446	$ 15,453	$ 7,211	$ 1,772	$ -	$ 27,882
Provision for loan losses	347	1,093	1,246	348	-	3,034
Charge-offs	(249)	(1,373)	(2,422)	(1,133)	-	(5,177)
Recoveries	180	514	675	425	-	1,794
Net charge-offs	(69)	(859)	(1,747)	(708)	-	(3,383)
Balance, September 30, 2013	$ 3,724	$ 15,687	$ 6,710	$ 1,412	$ -	$ 27,533
Period-end amount allocated to:						
Loans individually evaluated for impairment	$ 118	$ 1,461	$ 77	$ 158	$ -	$ 1,814
Loans collectively evaluated for impairment	3,606	14,226	6,633	1,254	-	25,719
Balance, September 30, 2013	$ 3,724	$ 15,687	$ 6,710	$ 1,412	$ -	$ 27,533

Activity in the allowance for loan losses for the three and nine months ended September 30, 2012 was as follows:

(In thousands)	Commercial	Real Estate	Credit Card	Other Consumer and Other	Unallocated	Total
Three Months Ended September 30, 2012						
Balance, beginning of period	$ 1983	$ 10,468	$ 5,486	$ 1,776	$ 8,684	$ 28,397
Provision for loan losses	83	327	527	236	126	1,299
Charge-offs	(86)	(773)	(806)	(358)	-	(2,023)
Recoveries	62	61	242	107	-	472
Net charge-offs	(24)	(712)	(564)	(251)	-	(1,551)
Balance, September 30, 2012	$ 2,042	$ 10,083	$ 5,449	$ 1,761	$ 8,810	$ 28,145
Nine Months Ended September 30, 2012						
Balance, beginning of period	$ 2,063	$ 10,117	$ 5,513	$ 1,847	$ 10,568	$ 30,108
Provision for loan losses	230	2,118	1904	352	(1,758)	2,846
Charge-offs	(380)	(3,390)	(2,632)	(836)	-	(7,238)
Recoveries	129	1,238	664	398	-	2,429
Net charge-offs	(251)	(2,152)	(1,968)	(438)	-	(4,809)
Balance, September 30, 2012	$ 2,042	$ 10,083	$ 5,449	$ 1,761	$ 8,810	$ 28,145
Period-end amount allocated to:						
Loans individually evaluated for impairment	$ 272	$ 2,676	$ 89	$ 254	$ -	$ 3291
Loans collectively evaluated for impairment	1,770	7,407	5,360	1,507	8,810	24,854
Balance, September 30, 2012	$ 2,042	$ 10,083	$ 5,449	$ 1,761	$ 8,810	$ 28,145
Period-end amount allocated to:						
Loans individually evaluated for impairment	$ 203	$ 2,309	$ 82	$ 249	$ -	$ 2,843
Loans collectively evaluated for impairment	3,243	13,144	7,129	1,523	-	25,039
Balance, December 31, 2012	$ 3,446	$ 15,453	$ 7,211	$ 1,772	$ -	$ 27,882

The Company’s recorded investment in loans, excluding loans acquired, related to each balance in the allowance for loan losses by portfolio segment on the basis of the Company’s impairment methodology was as follows:

(In thousands)	Commercial	Real Estate	Credit Card	Other Consumer and Other	Total
September 30, 2013					
Loans individually evaluated for impairment	$ 675	$ 14,311	$ 520	$ 872	$ 16,378
Loans collectively evaluated for impairment	289,466	1,124,879	176,943	133,495	1,724,783
Balance, end of period	$ 290,141	$ 1,139,190	$ 177,463	$ 134,367	$ 1,741,161
December 31, 2012					

Loans individually evaluated for impairment	$ 768	$ 28,358	$ 547	$ 1,130	$ 30,803
Loans collectively evaluated for impairment	234,373	1,034,847	184,989	143,501	1,597,710
Balance, end of period	$ 235,141	$ 1,063,205	$ 185,536	$ 144,631	$ 1,628,513

NOTE 5: LOANS ACQUIRED

The Company evaluated loans acquired in its FDIC-assisted transactions for impairment in accordance with the provisions of ASC Topic 310-30. All loans acquired, whether or not covered by FDIC loss share agreements, are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected.

The following table reflects the carrying value of all acquired impaired and non-impaired loans as of September 30, 2013 and December 31, 2012:

(in thousands)	Loans Acquired September 30, 2013	Loans Acquired December 31, 2012
Consumer:		
Credit cards	$ 9,379	$ -
Other consumer	972	1,847
Total consumer	10,351	1,847
Real estate:		
Construction	15,015	19,172
Single family residential	70,907	90,795
Other commercial	112,959	160,148
Total real estate	198,881	270,115
Commercial:		
Commercial	7,785	18,950
Agricultural	-	2,694
Total commercial	7,785	21,644
Total loans acquired (1) (2)	$ 217,017	$ 293,606

(1) These loans were not classified as non-performing assets at September 30, 2013 or December 31, 2012, as the loans are accounted for on a pooled basis and the pools are considered to be performing. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all purchased impaired and non-impaired loans. The loans are grouped in pools sharing common risk characteristics and were treated in the aggregate when applying various valuation techniques.

(2) Included in loans acquired were $148.9 million and $210.8 million of loans covered by FDIC loss share agreements at September 30, 2013 and December 31, 2012, respectively.

The acquired loans were grouped into pools based on common risk characteristics and were recorded at their estimated fair values, which incorporated estimated credit losses at the acquisition date. These loan pools are systematically reviewed by the Company to determine the risk of losses that may exceed those identified at the time of the acquisition. Techniques used in determining risk of loss are similar to the Company’s non-covered loan portfolio, with most focus being placed on those loan pools which include the larger loan relationships and those loan pools which exhibit higher risk characteristics.

The amount of the estimated cash flows expected to be received from the acquired loan pools in excess of the fair values recorded for the loan pools is referred to as the accretable yield. The accretable yield is recognized as interest income over the estimated lives of the loans. Each quarter, the Company estimates the cash flows expected to be collected from the acquired loan pools, and adjustments may or may not be required. Beginning in the fourth quarter of 2011, the cash flows estimate has increased on the loans acquired in 2010 based on payment histories and reduced loss expectations of the loan pools. Beginning in the quarter ended September 30, 2013, the cash flows estimate has also increased on the loans acquired in 2012. These projected cash flow improvements have resulted in increased interest income that is spread on a level-yield basis over the remaining expected lives of the loan pools. For those loan pools covered by FDIC loss share, the increases in expected cash flows also reduce the amount of expected reimbursements under the loss sharing agreements with the FDIC, which are recorded as indemnification assets. The estimated adjustments to the indemnification assets are amortized on a level-yield basis over the remainder of the loss sharing agreements or the remaining expected lives of the loan pools, whichever is shorter.

The impact of the adjustments on the Company's financial results for the three and nine months ended September 30, 2013 and 2012, is shown below:

(In thousands)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Impact on net interest income	$ 4,005	$ 2,915	$ 10,102	$ 9,104
Non-interest income	(3,844)	(2,729)	(9,734)	(8,245)
Net impact to pre-tax income	161	186	368	859
Net impact, net of taxes	$ 98	$ 113	$ 224	$ 522

Because these adjustments will be recognized over the 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 $36.7 million and the remaining adjustment to the indemnification assets that will reduce non-interest income is $28.9 million. Of the remaining adjustments, the Company expects to recognize $8.4 million of interest income and a $7.9 million reduction of non-interest income, resulting in a $476,000 positive impact to pre-tax income, during the remainder of 2013. The accretable yield adjustments recorded in future periods will change as the Company continues to evaluate expected cash flows from the acquired loan pools.

Changes in the carrying amount of the accretable yield for all purchased impaired and non-impaired loans were as follows for the three and nine months ended September 30, 2013 and 2012.

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
(In thousands)	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
Beginning balance	$ 41,535	$ 227,236	$ 58,066	$ 293,606
Additions	-	9,047	-	9,047
Accretable yield adjustments	17,380	-	17,380	-
Accretion	(8,384)	8,384	(24,915)	24,915
Payments and other reductions, net	-	(27,650)	-	(110,551)
Balance, ending	$ 50,531	$ 217,017	$ 50,531	$ 217,017

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
(In thousands)	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
Beginning balance	$ 31,865	$ 114,189	$ 42,833	$ 158,075
Additions	21,200	130,536	21,200	130,536
Accretable yield adjustments	-	-	-	-
Accretion	(5,041)	5,041	(16,009)	16,009
Payments and other reductions, net	-	(13,086)	-	(67,940)
Balance, ending	$ 48,024	$ 236,680	$ 48,024	$ 236,680

No pools evaluated by the Company were determined to have experienced impairment in the estimated credit quality or cash flows. There were no allowances for loan losses related to the purchased impaired loans at September 30, 2013 or December 31, 2012.

The purchase and assumption agreements for the FDIC-assisted acquisitions allow for the FDIC to recover a portion of the funds previously paid out under the indemnification agreement in the event losses fail to reach the expected loss level under a claw back provision ("true-up provision"). The amount of the true-up provision for each acquisition is measured and recorded at Day 1 fair values. It is calculated as the difference between management's estimated losses on covered loans and covered foreclosed assets and the loss threshold contained in each loss share agreement, multiplied by the applicable clawback provisions contained in each loss share agreement. This true-up amount, which is payable to the FDIC upon termination of the applicable loss share agreement, is then discounted back to net present value. To the extent that actual losses on covered loans and covered foreclosed assets are less than estimated losses, the applicable true-up provision payable to the FDIC upon termination of the loss share agreements will increase. To the extent that actual losses on covered loans and covered foreclosed assets are more than estimated losses, the applicable true-up provision payable to the FDIC upon termination of the loss share agreements will decrease.

The following table presents a summary of the changes in the FDIC true-up provision for the three and nine months ended September 30, 2013 and 2012.

(In thousands)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Beginning balance	$ 5,577	$ 3,987	$ 4,854	$ 3,419
FDIC true-up provision recorded on new acquisitions	-	-	-	-
Amortization expense	40	37	121	103
Adjustments related to changes in expected losses	350	246	992	748
Balance, ending	$ 5,967	$ 4,270	$ 5,967	$ 4,270

NOTE 6: GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is tested annually, or more than annually, if circumstances warrant, for impairment. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements. Goodwill totaled $60.6 million at September 30, 2013, unchanged from December 31, 2012.

Core deposit premiums are amortized over a ten year period and are periodically evaluated, at least annually, as to the recoverability of their carrying value.

On September 30, 2013, the Company acquired a credit card portfolio and recorded Purchased Credit Card Relationships ("PCCR's") of $2.1 million. This intangible asset will be amortized over a five year period, with monthly amortization beginning in October 2013. The Company had no PCCR's as of December 31, 2012.

The Company's goodwill and other intangibles (carrying basis and accumulated amortization) at September 30, 2013, and December 31, 2012, were as follows:

(In thousands)	September 30, 2013	December 31, 2012
Goodwill	$ 60,605	$ 60,605
Core deposit premiums:		
Gross carrying amount	5,401	5,597
Accumulated amortization	(2,049)	(1,837)
Core deposit premiums, net	3,352	3,760
Purchased credit card relationships:		
Gross carrying amount	2,068	-
Accumulated amortization	-	-
Purchased credit card relationships, net	2,068	-
Other intangible assets, net	5,420	3,760
Total goodwill and other intangible assets	$ 66,025	$ 64,365

Core deposit premium amortization expense recorded for the nine months ended September 30, 2013 and 2012, was $408,000 and $222,000, respectively. The Company's estimated remaining amortization expense on core deposit premiums as of September 30, 2013, is as follows:

(In thousands)	Year		Amortization Expense
	Remainder of 2013	$	106
	2014		410
	2015		403
	2016		401
	2017		401
	Thereafter		1,631
	Total	$	3,352

There was no PCCR amortization expense recorded for the nine months ended September 30, 2013 and 2012. The Company's estimated remaining amortization expense on PCCR's as of September 30, 2013, is as follows:

(In thousands)	Year		Amortization Expense
	Remainder of 2013	$	103
	2014		414
	2015		414
	2016		414
	2017		413
	Thereafter		310
	Total	$	2,068

NOTE 7: TIME DEPOSITS

Time deposits include approximately $351,271,000 and $370,598,000 of certificates of deposit of $100,000 or more at September 30, 2013, and December 31, 2012, respectively.

NOTE 8: INCOME TAXES

The provision for income taxes is comprised of the following components:

(In thousands)	September 30, 2013	September 30, 2012
Income taxes currently payable	$ 10,781	$ 8,389
Deferred income taxes	(2,274)	86
Provision for income taxes	$ 8,507	$ 8,475

The tax effects of temporary differences related to deferred taxes shown on the balance sheets were:

(In thousands)	September 30, 2013	December 31, 2012
Deferred tax assets		
Loans acquired	$ 18,632	$ 24,186
FDIC true-up liability	2,207	1,775
Allowance for loan losses	10,713	10,736
Valuation of foreclosed assets	222	669
Deferred compensation payable	1,755	1,676
FHLB advances	313	409
Vacation compensation	1,117	1,058
Accumulated depreciation	738	280
Loan interest	767	767
Available-for-sale securities	1,678	-
Other	594	569
Total deferred tax assets	38,736	42,125
Deferred tax liabilities		
Deferred loan fee income and expenses, net	(3,291)	(2,373)
FHLB stock dividends	(300)	(296)
Goodwill and core deposit premium amortization	(12,289)	(11,190)
FDIC indemnification asset	(24,048)	(31,846)
Available-for-sale securities	-	(166)
Other	(1,879)	(3,443)
Total deferred tax liabilities	(41,807)	(49,314)
Net deferred tax liabilities included in other liabilities on balance sheets	$ (3,071)	$ (7,189)

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

(In thousands)	September 30, 2013	September 30, 2012
Computed at the statutory rate (35%)	$ 9,783	$ 9,844
Increase (decrease) in taxes resulting from:		
State income taxes, net of federal tax benefit	777	773

Tax exempt interest income	(1,932)	(1,980)
Tax exempt earnings on BOLI	(341)	(377)
Other differences, net	220	215
Actual tax provision	$ 8,507	$ 8,475

The Company follows ASC Topic 740, Income Taxes, which prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. ASC Topic 740 also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties.

The amount of unrecognized tax benefits may increase or decrease in the future for various reasons including adding amounts for current tax year positions, expiration of open income tax returns due to the statutes of limitation, changes in management's judgment about the level of uncertainty, status of examinations, litigation and legislative activity and the addition or elimination of uncertain tax positions.

The Company files income tax returns in the U.S. federal jurisdiction. The Company's U.S. federal income tax returns are open and subject to examinations from the 2009 tax year and forward. The Company's various state income tax returns are generally open from the 2006 and later tax return years based on individual state statute of limitations.

NOTE 9: OTHER BORROWINGS AND SUBORDINATED DEBENTURES

Debt at September 30, 2013, and December 31, 2012, consisted of the following components:

(In thousands)	September 30, 2013	December 31, 2012
Other Borrowings		
FHLB advances, due 2013 to 2033, 0.35% to 8.41% secured by real estate loans	$ 75,987	$ 89,441
Subordinated Debentures		
Trust preferred securities, due 12/30/2033, floating rate of 2.80% above the three month LIBOR rate, reset quarterly, callable without penalty	20,620	20,620
Total other borrowings and subordinated debentures	$ 96,607	$ 110,061

At September 30, 2013, the Company had no Federal Home Loan Bank ("FHLB") advances with original maturities of one year or less.

The Company had total FHLB advances of $76.0 million at September 30, 2013, with approximately $528.1 million of additional advances available from the FHLB. The FHLB advances are secured by mortgage loans and investment securities totaling approximately $653.9 million at September 30, 2013.

The trust preferred securities are tax-advantaged issues that qualify for Tier 1 capital treatment. Distributions on these securities are included in interest expense on long-term debt. Each of the trusts is a statutory business trust organized for the sole purpose of issuing trust securities and investing the proceeds thereof in junior subordinated debentures of the Company, the sole asset of each trust. The preferred securities of each trust represent preferred beneficial interests in the assets of the respective trusts and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the trust. The common securities of each trust are wholly-owned by the Company. Each trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related junior subordinated debentures. The Company's obligations under the junior subordinated securities and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of each respective trust's obligations under the trust securities issued by each respective trust.

Aggregate annual maturities of long-term debt at September 30, 2013, are:

(In thousands)	Year	Annual Maturities
	2013	$ 6,951
	2014	6,332
	2015	10,462
	2016	9,057
	2017	21,838
	Thereafter	41,967
	Total	$ 96,607

NOTE 10: CONTINGENT LIABILITIES

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.

NOTE 11: CAPITAL STOCK

During 2007, the Company approved a stock repurchase program which authorized the repurchase of up to 700,000 shares of common stock. On July 23, 2012, the Company 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 new program authorizes the repurchase of up to 850,000 additional shares of Class A common stock, or approximately 5% of the shares outstanding. 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. Under the repurchase program, there is no time limit for the stock repurchases, nor is there a minimum number of shares that the Company intends to repurchase. The Company may discontinue purchases at any time that management determines additional purchases are not warranted. The Company intends to use the repurchased shares to satisfy stock option exercises, payment of future stock awards and dividends and general corporate purposes.

The Company repurchased 419,564 shares of stock with a weighted average repurchase price of $25.89 per share during the nine month period ended September 30, 2013. Under the current stock repurchase plan, the Company can repurchase an additional 154,136 shares.

As a result of its announced acquisition of Metropolitan National Bank, the Company suspended its stock repurchases in August of 2013. See Note 2, Acquisitions, for additional information on the Metropolitan acquisition.

NOTE 12: UNDIVIDED PROFITS

The Company's subsidiary banks are subject to a legal limitation on dividends that can be paid to the parent company without prior approval of the applicable regulatory agencies. The approval of the Comptroller of the Currency is required, if the total of all dividends declared by a national bank in any calendar year exceeds the total of its net profits, as defined, for that year combined with its retained net profits of the preceding two years. Arkansas bank regulators have specified that the maximum dividend limit state banks may pay to the parent company without prior approval is 75% of current year earnings plus 75% of the retained net earnings of the preceding year. At September 30, 2013, the Company subsidiaries had approximately $12.5 million available for payment of dividends to the Company, without prior approval of the regulatory agencies.

The risk-based capital guidelines of the Federal Reserve Board and the Office of the Comptroller of the Currency include the definitions for (1) a well-capitalized institution, (2) an adequately-capitalized institution, and (3) an undercapitalized institution. The criteria for a well-capitalized institution are: a 5% "Tier l leverage capital" ratio, a 6% "Tier 1 risk-based capital" ratio, and a 10% "total risk-based capital" ratio. As of September 30, 2013, each of the eight subsidiary banks met the capital standards for a well-capitalized institution. The Company's “total risk-based capital” ratio was 19.62% at September 30, 2013.

NOTE 13: STOCK BASED COMPENSATION

The Company's Board of Directors has adopted various stock 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 the exercise of stock options or awarding of bonus shares granted to directors, officers and other key employees.

The table below summarizes the transactions under the Company's active stock compensation plans for the nine months ended September 30, 2013:

	Stock Options Outstanding		Non-Vested Stock Awards Outstanding	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Grant-Date Fair-Value
Balance, January 1, 2013	217,650	$ 26.77	134,730	$ 25.89
Granted	-	-	64,506	25.58
Stock Options Exercised	(6,000)	23.78	-	-
Stock Awards Vested	-	-	(46,975)	26.92
Forfeited/Expired	(4,522)	27.07	-	-
Balance, September 30, 2013	207,128	$ 26.85	152,261	$ 25.44
Exercisable, September 30, 2013	207,128	$ 26.85		

The following table summarizes information about stock options under the plans outstanding at September 30, 2013:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$23.78 - $23.78	39,800	0.8	$ 23.78	39,800	$ 23.78
24.50 - 24.50	30,800	1.6	24.50	30,800	24.50
26.19 - 27.67	47,100	2.6	26.21	47,100	26.21
28.42 - 28.42	45,100	3.5	28.42	45,100	28.42
30.31 - 30.31	44,328	4.5	30.31	44,328	30.31

Total stock-based compensation expense was $1,039,000 and $1,065,000 during the nine months ended September 30, 2013 and 2012, respectively. Stock-based compensation expense is recognized ratably over the requisite service period for all stock-based awards. There was no unrecognized stock-based compensation expense related to stock options at September 30, 2013. Unrecognized stock-based compensation expense related to non-vested stock awards was $2,725,000 at September 30, 2013. At such date, the weighted-average period over which this unrecognized expense is expected to be recognized was 2.48 years.

The intrinsic value of stock options outstanding and stock options exercisable at September 30, 2013 was $878,000. Intrinsic value represents the difference between the Company's closing stock price on the last trading day of the period, which was $31.09 as of September 30, 2013, and the exercise price multiplied by the number of options outstanding and exercisable at a price below that closing price. The total intrinsic value of stock options exercised during the nine months ended September 30, 2013 was $44,000. There were no stock options exercised during the nine months ended September 30, 2012.

NOTE 14: ADDITIONAL CASH FLOW INFORMATION

The following is a summary of the Company's additional cash flow information during the nine months ended:

(In thousands)	Nine Months Ended September 30, 2013	2012
Interest paid	$ 9,136	$ 11,729
Income taxes paid	11,243	10,965
Transfers of loans to foreclosed assets	5,794	4,321
Transfers of loans acquired, covered by FDIC loss share, to foreclosed assets covered by FDIC loss share	7,324	9,667
Unsettled purchase of credit card portfolio	10,999	-
Unsettled retirement of trust preferred securities	-	10,310

NOTE 15: OTHER OPERATING EXPENSES

Other operating expenses consist of the following:

(In thousands)	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Professional services	$ 913	$ 1,078	$ 3,160	$ 3,196
Postage	597	574	1,838	1,820
Telephone	542	586	1,751	1,666
Credit card expense	1,706	1,787	5,038	5,198
Operating supplies	341	342	1,136	1,009
Amortization of intangibles	135	74	408	221
Other expense	3,700	2,778	10,198	8,818
Total other operating expenses	$ 7,934	$ 7,219	$ 23,529	$ 21,928

NOTE 16: CERTAIN TRANSACTIONS

From time to time the Company and its subsidiaries have made loans and other extensions of credit to directors, officers, their associates and members of their immediate families. From time to time directors, officers and their associates and members of their immediate families have placed deposits with the Company's subsidiary banks. Such loans, other extensions of credit and deposits were made in the ordinary course of business, on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons not related to the lender and did not involve more than normal risk of collectability or present other unfavorable features.

NOTE 17: COMMITMENTS AND CREDIT RISK

The Company grants agri-business, commercial and residential loans to customers throughout Arkansas, Kansas and Missouri, along with credit card loans to customers throughout the United States. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

At September 30, 2013, the Company had outstanding commitments to extend credit aggregating approximately $439,083,000 and $330,880,000 for credit card commitments and other loan commitments. At December 31, 2012, the Company had outstanding commitments to extend credit aggregating approximately $401,817,000 and $301,444,000 for credit card commitments and other loan commitments.

Standby letters of credit are conditional commitments issued by the Company, to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Company had total outstanding letters of credit amounting to $9,119,000 and $9,901,000 at September 30, 2013, and December 31, 2012, respectively, with terms ranging from 7 months to 5 years. At September 30, 2013 and December 31, 2012, the Company's deferred revenue under standby letter of credit agreements was approximately $15,000 and $10,000, respectively.

NOTE 18: FAIR VALUE MEASUREMENTS

ASC Topic 820, Fair Value Measurements defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance also establishes a fair value hierarchy that requires the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Topic 820 describes three levels of inputs that may be used to measure fair value:

- Level 1 Inputs – Quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices for similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Inputs – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein. A more detailed description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Following is a description of the inputs and valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in valuation techniques during the periods ended September 30, 2013 and 2012.

Available-for-sale securities – Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. Other securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions, among other things. In order to ensure the fair values are consistent with ASC Topic 820, we periodically check the fair values by comparing them to another pricing source, such as Bloomberg. The availability of pricing confirms Level 2 classification in the fair value hierarchy. The third-party pricing service is subject to an annual review of internal controls (SSAE 16), which is made available to us for our review. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Company's investment in a government money market mutual fund (the "AIM Fund") is reported at fair value utilizing Level 1 inputs. The remainder of the Company's available-for-sale securities are reported at fair value utilizing Level 2 inputs.

Assets held in trading accounts – The Company’s trading account investment in the AIM Fund is reported at fair value utilizing Level 1 inputs. The remainder of the Company's assets held in trading accounts are reported at fair value utilizing Level 2 inputs.

The following table sets forth the Company’s financial assets by level within the fair value hierarchy that were measured at fair value on a recurring basis as of September 30, 2013 and December 31, 2012.

		Fair Value Measurements Using		
(In thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2013				
ASSETS				
Available-for-sale securities:				
U.S. Government agencies	$ 163,127	$ -	$ 163,127	$ -
Mortgage-backed securities	1,994	-	1,994	-
State and political subdivisions	1,263	-	1,263	-
Other securities	13,553	1,504	12,049	-
Assets held in trading accounts	8,744	1,650	7,094	-
December 31, 2012				
ASSETS				
Available-for-sale securities:				
U.S. Government agencies	$ 152,481	$ -	$ 152,481	$ -
Mortgage-backed securities	20,634	-	20,634	-
State and political subdivisions	2,988	-	2,988	-
Other securities	15,239	1,504	13,735	-
Assets held in trading accounts	6,224	1,800	4,424	-

Certain financial assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and liabilities measured at fair value on a nonrecurring basis include the following:

Impaired loans (collateral dependent) – Loan impairment is reported when full payment under the loan terms is not expected. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral-dependent loans. If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require an increase, such increase is reported as a component of the provision for loan losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan is confirmed. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

Appraisals are updated at renewal, if not more frequently, for all collateral dependent loans that are deemed impaired by way of impairment testing. Impairment testing for selected loans rated Special Mention or worse begins at $500,000, with testing on all loans over $1.5 million rated Special Mention or worse. All collateral dependent impaired loans meeting these thresholds have had updated appraisals or internally prepared evaluations within the last one to two years and these updated valuations are considered in the quarterly review and discussion of the corporate Special Asset Committee. On targeted CRE loans, appraisals/internally prepared valuations may be updated before the typical 1-3 year balloon/maturity period. If an updated valuation results in decreased value, a specific (ASC 310) impairment is placed against the loan, or a partial charge-down is initiated, depending on the circumstances and anticipation of the loan's ability to remain a going concern, possibility of foreclosure, certain market factors, etc.

Foreclosed assets held for sale – Foreclosed assets held for sale are reported at fair value, less estimated costs to sell. At foreclosure, if the fair value, less estimated costs to sell, of the real estate acquired is less than the Company's recorded investment in the related loan, a write-down is recognized through a charge to the allowance for loan losses. Additionally, valuations are periodically performed by management and any subsequent reduction in value is recognized by a charge to income. The fair value of foreclosed assets held for sale is estimated using Level 3 inputs based on observable market data. As of September 30, 2013 and December 31, 2012, the fair value of foreclosed assets held for sale, excluding those covered by FDIC loss share agreements, less estimated costs to sell was $26.2 million and $33.4 million, respectively.

The significant unobservable inputs (Level 3) used in the fair value measurement of collateral for collateral-dependent impaired loans and foreclosed assets primarily relate to the specialized discounting criteria applied to the borrower's reported amount of collateral. The amount of the collateral discount depends upon the condition and marketability of the collateral, as well as other factors which may affect the collectability of the loan. Management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset. It is reasonably possible that a change in the estimated fair value for instruments measured using Level 3 inputs could occur in the future. As the Company's primary objective in the event of default would be to liquidate the collateral to settle the outstanding balance of the loan, collateral that is less marketable would receive a larger discount. During the reported periods, collateral discounts ranged from 10% to 40% for commercial and residential real estate collateral.

Mortgage loans held for sale – Mortgage loans held for sale are reported at fair value if, on an aggregate basis, the fair value of the loans is less than cost. In determining whether the fair value of loans held for sale is less than cost when quoted market prices are not available, the Company may consider outstanding investor commitments, discounted cash flow analyses with market assumptions or the fair value of the collateral if the loan is collateral dependent. Such loans are classified within either Level 2 or Level 3 of the fair value hierarchy. Where assumptions are made using significant unobservable inputs, such loans held for sale are classified as Level 3. At September 30, 2013, and December 31, 2012, the aggregate fair value of mortgage loans held for sale exceeded their cost. Accordingly, no mortgage loans held for sale were marked down and reported at fair value.

The following table sets forth the Company's financial assets by level within the fair value hierarchy that were measured at fair value on a nonrecurring basis as of September 30, 2013, and December 31, 2012.

		Fair Value Measurements Using		
(In thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2013				
ASSETS				
Impaired loans (1) (2) (collateral dependent)	$ 3,132	$ -	$ -	$ 3,132
Foreclosed assets held for sale (1)	447	-	-	447
December 31, 2012				

ASSETS				
Impaired loans (1) (2) (collateral dependent)	$ 4,900	$ -	$ -	$ 4,900
Foreclosed assets held for sale (1)	1,484	-	-	1,484

(1) These amounts represent the resulting carrying amounts on the Consolidated Balance Sheets for impaired collateral dependent loans and foreclosed assets held for sale for which fair value re-measurements took place during the period.

(2) Specific allocations of $376,000 and $219,000 were related to the impaired collateral dependent loans for which fair value re-measurements took place during the periods ended September 30, 2013 and December 31, 2012, respectively.

ASC Topic 825, Financial Instruments, requires disclosure in annual and interim financial statements of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or nonrecurring basis. The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

Cash and cash equivalents – The carrying amount for cash and cash equivalents approximates fair value (Level 1).

Held-to-maturity securities – Fair values for held-to-maturity securities equal quoted market prices, if available, such as for highly liquid government bonds (Level 1). If quoted market prices are not available, fair values are estimated based on quoted market prices of similar securities. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions, among other things (Level 2). In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Loans – The fair value of loans, excluding loans acquired, is estimated by discounting the future cash flows, using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations (Level 3).

Loans acquired – Fair values of loans acquired are based on a discounted cash flow methodology that considers factors including the type of loan and related collateral, variable or fixed rate, classification status, remaining term, interest rate, historical delinquencies, loan to value ratios, current market rates and remaining loan balance. The loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques. The discount rates used for loans were based on current market rates for new originations of similar loans. Estimated credit losses were also factored into the projected cash flows of the loans (Level 3).

FDIC indemnification asset – Fair value of the FDIC indemnification asset is based on the net present value of future cash proceeds expected to be received from the FDIC under the provisions of the loss share agreements using a discount rate that is based on current market rates (Level 3).

Deposits – The fair value of demand deposits, savings accounts and money market deposits is the amount payable on demand at the reporting date (i.e., their carrying amount) (Level 2). The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities (Level 3).

Federal Funds purchased, securities sold under agreement to repurchase – The carrying amount for Federal funds purchased, securities sold under agreement to repurchase and short-term debt are a reasonable estimate of fair value (Level 2).

Other borrowings – For short-term instruments, the carrying amount is a reasonable estimate of fair value. For long-term debt, rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value (Level 2).

Subordinated debentures – The fair value of subordinated debentures is estimated using the rates that would be charged for subordinated debentures of similar remaining maturities (Level 2).

Accrued interest receivable/payable – The carrying amounts of accrued interest approximated fair value (Level 2).

Commitments to extend credit, letters of credit and lines of credit – The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The estimated fair values, and related carrying amounts, of the Company's financial instruments are as follows:

(In thousands)	Carrying Amount	Fair Value Measurements Level 1	Level 2	Level 3	Total
September 30, 2013					
Financial assets:					
Cash and cash equivalents	$ 376,485	$ 376,485	$ -	$ -	$ 376,485
Held-to-maturity securities	581,768	-	570,703	-	570,703
Mortgage loans held for sale	10,605	-	-	10,605	10,605
Interest receivable	15,635	-	15,635	-	15,635
Loans	1,713,628	-	-	1,702,306	1,702,306
Loans acquired, covered by FDIC loss share	148,884	-	-	145,971	145,971
Loans acquired, not covered by FDIC loss share	68,133	-	-	66,163	66,163
FDIC indemnification asset	61,500	-	-	61,500	61,500
Financial liabilities:					
Non-interest bearing transaction accounts	580,063	-	580,063	-	580,063
Interest bearing transaction accounts and savings deposits	1,453,139	-	1,453,139	-	1,453,139
Time deposits	805,596	-	-	808,972	808,972
Federal funds purchased and securities sold under agreements to repurchase	62,311	-	62,311	-	62,311
Other borrowings	75,987	-	77,594	-	77,594
Subordinated debentures	20,620	-	13,165	-	13,165
Interest payable	954	-	954	-	954
December 31, 2012					
Financial assets:					
Cash and cash equivalents	$ 537,797	$ 537,797	$ -	$ -	$ 537,797
Held-to-maturity securities	496,141	-	500,578	-	500,578
Mortgage loans held for sale	25,367	-	-	25,367	25,367
Interest receivable	14,530	-	14,530	-	14,530
Loans	1,600,631	-	-	1,602,014	1,602,014
Loans acquired, covered by FDIC loss share	210,842	-	-	208,685	208,685
Loans acquired, not covered by FDIC loss share	82,764	-	-	82,764	82,764
FDIC indemnification asset	75,286	-	-	75,286	75,286
Financial liabilities:					
Non-interest bearing transaction accounts	576,655	-	576,655	-	576,655
Interest bearing transaction accounts and savings deposits	1,421,137	-	1,421,137	-	1,421,137
Time deposits	876,371	-	-	880,201	880,201
Federal funds purchased and securities sold under agreements to repurchase	104,078	-	104,078	-	104,078
Other borrowings	89,441	-	94,472	-	94,472
Subordinated debentures	20,620	-	15,414	-	15,414
Interest payable	1,096	-	1,096	-	1,096

The fair value of commitments to extend credit, letters of credit and lines of credit is not presented since management believes the fair value to be insignificant.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Committee, Board of Directors and Stockholders
Simmons First National Corporation
Pine Bluff, Arkansas

We have reviewed the accompanying condensed consolidated balance sheet of SIMMONS FIRST NATIONAL CORPORATION as of September 30, 2013, and the related condensed consolidated statements of income and comprehensive income for the three month and nine month periods ended September 30, 2013 and 2012 and statements of stockholders' equity and cash flows for the nine month periods ended September 30, 2013 and 2012. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated March 12, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2012, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

BKD, LLP

/s/ BKD, LLP

Pine Bluff, Arkansas
November 12, 2013

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Our net income for the three months ended September 30, 2013, was $6.9 million and diluted earnings per share were $0.43, compared to net income of $6.8 million and $0.41 diluted earnings per share for the same period of 2012. Net income for the nine months ended September 30, 2013, was $19.4 million and diluted earnings per share were $1.19, compared to net income of $19.6 million and $1.16 diluted earnings per share for the same period of 2012.

On September 12, 2013, we issued a press release announcing the U.S. Bankruptcy Court approved a Stock Purchase Agreement (the "Agreement") between the Company and Rogers Bancshares, Inc. ("RBI") in which we will purchase all the stock of Metropolitan National Bank ("Metropolitan") for $53.6 million in cash. We expect to close the transaction no later than early December of 2013, subject to customary regulatory approval. Upon completion of the transaction, the combined company will have approximately $4.4 billion in total assets, $3.7 billion in deposits and $2.3 billion in net loans. We will fund the transaction with $46 million in unsecured debt from correspondent banks with a 3.25% floating rate to be repaid in three years or less.

The Metropolitan franchise, headquartered in Little Rock, will fit nicely into our footprint by expanding our presence in central and northwest Arkansas, the two leading growth market in our home state. Metropolitan has a rich history of providing exemplary customer service to the communities in which it is located. We will combine the operations of Metropolitan with our flagship institution, Simmons First National Bank, which will enable us to provide the highest quality customer service throughout the combined service area. We expect some significant branch consolidation resulting in more "super branches" offering enhanced customer service and products. Also, at the close of business November 1, 2013, we merged Simmons First Bank of Northwest Arkansas into Simmons First National Bank in anticipation of the Metropolitan acquisition.

As a result of the Agreement, we recognized $116,000 in after-tax merger related legal and advisory fees during the quarter ended September 30, 2013. Additionally, we closed five underperforming branches and recorded $323,000 in after-tax nonrecurring expenses related to those closures. Excluding these nonrecurring items and other nonrecurring items from 2012 (see Table 13 in the Reconciliation of non-GAAP Measures section of this Item for details of the nonrecurring items), core earnings for the quarter were $7.4 million, an increase of $796,000, or 12.1%, compared to the same quarter last year. Diluted core earnings per share were $0.45, a $0.05, or 12.5%, increase. Diluted core earnings per share for the nine months ended September 30, 2013, were $1.21, a $0.06, or 5.2%, increase over the same period in 2012.

We are pleased with the core earnings results for the third-quarter and for the year. As a result of acquisitions and efficiency initiatives in recent reporting periods, we have and will continue to recognize one-time revenue and expense items which may skew our short-term core business results but provide long-term performance benefits. Our focus continues to be improvement in core operating income.

We are also pleased with the positive trends in our balance sheet, as reflected in our organic loan growth of over 7% over the past year, which enabled us to produce a net interest margin of 4.27%. In addition, we completed the acquisition of a $9.8 million credit card portfolio on September 30, and we continue to evaluate opportunities for additional credit card portfolio acquisitions.

Stockholders' equity as of September 30, 2013, was $403.0 million, book value per share was $24.88 and tangible book value per share was $20.80. Our ratio of stockholders' equity to total assets was 11.7% and the ratio of tangible stockholders' equity to tangible assets was 10.0% at September 30, 2013. The Company's Tier I leverage ratio of 11.1%, as well as our other regulatory capital ratios, remain significantly above the "well capitalized" levels (see Table 12 in the Capital section of this Item).

During the first quarter we fully integrated the acquired locations, including system conversions, on our 2012 FDIC-assisted acquisitions. Those acquisitions were strategic in that they complement the footprint we have been building in the Kansas and Missouri market. We continue to actively pursue the right opportunities to expand our presence in that geographic region through additional FDIC and/or traditional acquisitions going forward.

We believe our stock, even after the recent market increase in our stock value, continues to be an excellent investment. We increased our quarterly dividend from $0.20 to $0.21 per share, beginning with the first quarter of 2013. On an annual basis, the $0.84 per share dividend results in a return in excess of 2.5%, based on our recent stock price. We have repurchased approximately 420,000 shares at an average price of $25.89 this year. During the third quarter, as a result of the Metropolitan acquisition announcement, we suspended our stock repurchase program.

Total assets were $3.44 billion at September 30, 2013, compared to $3.53 billion at December 31, 2012. Total loans, including loans acquired, were $1.96 billion at September 30, 2013, compared to $1.92 billion at December 31, 2012. We continue to have good asset quality.

Simmons First National Corporation is an Arkansas based financial holding company with seven community banks in Pine Bluff, Lake Village, Jonesboro, Searcy, Russellville, El Dorado and Hot Springs, Arkansas. Our seven banks conduct financial operations from 90 offices, of which 86 are financial centers, located in 53 communities in Arkansas, Kansas and Missouri.

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 and valuation of covered loans and related indemnification asset, (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 other than Acquired Loans

The allowance for loan losses is management's estimate of probable losses in the loan portfolio. 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.

Prior to the fourth quarter of 2012, we measured the appropriateness of the allowance for loan losses in its entirety using (a)ASC 450-20 which includes quantitative (historical loss rates) and qualitative factors (management adjustment factors) such as (1) lending policies and procedures, (2) economic outlook and business conditions, (3) level and trend in delinquencies, (4) concentrations of credit and (5) external factors and competition; which are combined with the historical loss rates to create the baseline factors that are allocated to the various loan categories; (b) specific allocations on impaired loans in accordance with ASC 310-10; and (c) the unallocated amount.

The unallocated amount was evaluated on the loan portfolio in its entirety and was based on additional factors, such as (1) trends in volume, maturity and composition, (2) national, state and local economic trends and conditions, (3) the experience, ability and depth of lending management and staff and (4) other factors and trends that will affect specific loans and categories of loans, such as a heightened risk in agriculture, credit card and commercial real estate loan portfolios.

As of December 31, 2012, we refined our allowance calculation. As part of the refinement process, we evaluated the criteria previously applied to the entire loan portfolio, and used to calculate the unallocated portion of the allowance, and applied those criteria to each specific loan category. For example, the impact of national, state and local economic trends and conditions was evaluated by and allocated to specific loan categories.

After this refinement, the allowance is calculated monthly based on management's assessment of several factors such as (1) historical loss experience based on volumes and types, (2) volume and trends in delinquencies and nonaccruals, (3) lending policies and procedures including those for loan losses, collections and recoveries, (4) national, state and local economic trends and conditions, (5) concentrations of credit within the loan portfolio, (6) the experience, ability and depth of lending management and staff and (7) other factors and trends that will affect specific loans and categories of loans. We establish general allocations for each major loan category. This category also includes allocations to loans which are collectively evaluated for loss such as credit cards, one-to-four family owner occupied residential real estate loans and other consumer loans. General reserves have been established, based upon the aforementioned factors and allocated to the individual loan categories. Allowances are accrued for probable losses 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.

Acquisition Accounting, Covered Loans and Related Indemnification Asset

We account for our 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 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, we continue 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. We evaluate at each balance sheet date whether the present value of our pools of loans determined using the effective interest rates has decreased significantly and if so, recognize a provision for loan loss in our consolidated statement of income. For any significant increases in cash flows expected to be collected, we adjust the amount of accretable yield recognized on a prospective basis over the pool's remaining life.

Because the FDIC will reimburse us 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, as prescribed by ASC Topic 805. 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. For further discussion of our acquisition and loan accounting, see Note 5, Loans Acquired, in the accompanying Condensed Notes to Consolidated Financial Statements included elsewhere in this report.

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 than annually if circumstances warrant, in accordance with ASC Topic 350, Intangibles – Goodwill and Other, as amended by ASU 2011-08 – Testing Goodwill for Impairment. 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 13, Stock Based Compensation, in the accompanying Condensed 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.

NET INTEREST INCOME

Overview

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%.

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 fairly consistent with our current interest rate sensitivity.

Net Interest Income Quarter-to-Date Analysis

For the three month period ended September 30, 2013, net interest income on a fully taxable equivalent basis was $32.9 million, an increase of $3.8 million, or 13.1%, over the same period in 2012. The increase in net interest income was the result of a $2.9 million increase in interest income and a $0.9 million decrease in interest expense.

The increase in interest income of $2.9 million can be attributed to the growth in our loan portfolio, despite a decline in loan yields. The acquired covered loans generated an additional $2.1 million in interest income, while noncovered loans (acquired and legacy), added another $0.3 million. The remaining $0.5 million increase in interest income was primarily due to an increased balance in the investment portfolio.

The $2.1 million increase in interest income from covered loans included a $1.7 million increase due to the increased loan volume resulting from our 2012 FDIC-assisted acquisitions, and a $0.4 million increase due to higher average yields on the covered loans, increasing to 18.09% in 2013 from 17.02% in 2012. The yield increase was due to increased yield accretion, including that recognized in conjunction with the fair value of the loan pools acquired in the 2010 FDIC-assisted transactions as discussed in Note 5, Loans Acquired, in the accompanying Condensed Notes to Consolidated Financial Statements included elsewhere in this report. Each quarter, we estimate the cash flows expected to be collected from the acquired loan pools. Beginning in the fourth quarter of 2011, this cash flows estimate increased based on the payment histories and reduced loss expectations of the loan pools. This resulted in increased interest income that is spread on a level-yield basis over the remaining expected lives of the loan pools. The increases in expected cash flows also reduce the amount of expected reimbursements under the loss sharing agreements with the FDIC, which are recorded as indemnification assets. The estimated adjustments to the indemnification assets will 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, and are recorded in non-interest expense.

For the three months ended September 30, 2013, the adjustments increased interest income by $4.0 million and decreased non-interest income by $3.8 million. The net impact to pre-tax income was $161,000 for the three months ended September 30, 2013. 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 $36.7 million and the remaining adjustment to the indemnification assets that will reduce non-interest income is $28.9 million. Of the remaining adjustments, we expect to recognize $8.4 million of interest income and a $7.9 million reduction of non-interest income during the remainder of 2013. The accretable yield adjustments recorded in future periods will change as we continue to evaluate expected cash flows from the acquired loan pools.

The $0.9 million decrease in interest expense is the result of an 18 basis point decrease in cost of funds due to competitive repricing during a low interest rate environment. The lower interest rates accounted for a $0.7 million decrease in interest expense, while declining volume caused a $0.2 million decrease in interest expense. The most significant component of this decrease was the $0.4 million decrease associated with the repricing of the Company’s 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. As a result, the average rate paid on time deposits decreased 21 basis points from 0.88% to 0.67%. Interest expense on subordinated debentures decreased by $0.2 million due to our redemption of $10 million of 8.25% fixed rate trust preferred securities in the third quarter of 2012.

Net Interest Income Year-to-Date Analysis

For the nine month period ended September 30, 2013, net interest income on a fully taxable equivalent basis was $94.7 million, an increase of $8.2 million, or 9.5%, over the same period in 2012. The increase in net interest income was the result of a $5.2 million increase in interest income and a $3.0 million decrease in interest expense.

The increase in interest income of $5.2 million can be attributed to the growth in our loan portfolio, despite a decline in loan yields. The acquired covered loans generated an additional $3.8 million in interest income, while noncovered loans (acquired and legacy), added another $2.0 million. Offsetting these increases was a $0.6 million decrease in interest income primarily due to a 19 basis point decline in the yield on investment securities.

The $3.8 million increase in interest income from covered loans included a $5.1 million increase due to the increased loan volume resulting from our 2012 FDIC-assisted acquisitions, partially offset by a $1.3 million decrease due to lower average yields on the covered loans, decreasing to 15.11% in 2013 from 16.33% in 2012. The yield decrease was due to reduced yield accretion, including that recognized in conjunction with the fair value of the loan pools acquired in the 2010 FDIC-assisted transactions. For the nine months ended September 30, 2013, the adjustments increased interest income by $10.1 million and decreased non-interest income by $9.7 million. The net impact to pre-tax income was $369,000 for the nine months ended September 30, 2013.

The $3.0 million decrease in interest expense is primarily the result of a 20 basis point decrease in cost of funds due to competitive repricing during a low interest rate environment. The lower interest rates accounted for a $2.6 million decrease in interest expense, while declining volume caused a $0.4 million decrease in interest expense. The most significant component of this decrease was the $1.6 million decrease associated with the repricing of the Company’s 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. As a result, the average rate paid on time deposits decreased 26 basis points from 0.97% to 0.71%. Lower rates on interest bearing transaction and savings accounts resulted in an additional $0.5 million decrease in interest expense, with the average rate decreasing by 4 basis points from 0.21% to 0.17%. Interest expense on subordinated debentures decreased by $0.7 million due to last year’s $10 million redemption.

Net Interest Margin

Our net interest margin increased 33 basis points to 4.27% for the three month period ended September 30, 2013, when compared to 3.94% for the same period in 2012. For the nine month period ended September 30, 2013, net interest margin increased 17 basis points to 4.08% when compared to 3.91% for the same period in 2012. The margin has been strengthened from the impact of the accretable yield adjustments discussed above. Also, the acquisition of loans, along with our ability to stabilize and again begin to grow the size of our legacy loan portfolio, has allowed us to increase our level of higher yielding assets. Conversely, while keeping us prepared to benefit from rising interest rates, our high levels of liquidity continue to compress our margin.

Net Interest Income Tables

Tables 1 and 2 reflect an analysis of net interest income on a fully taxable equivalent basis for the three month and nine month periods ended September 30, 2013 and 2012, respectively, as well as changes in fully taxable equivalent net interest margin for the three month and nine month periods ended September 30, 2013, versus September 30, 2012.

Table 1: Analysis of Net Interest Margin
(FTE =Fully Taxable Equivalent)

(In thousands)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Interest income	$ 34,411	$ 31,712	$ 100,213	$ 94,893
FTE adjustment	1,324	1,149	3,492	3,560
Interest income – FTE	35,735	32,861	103,705	98,453
Interest expense	2,847	3,771	8,994	11,985
Net interest income – FTE	$ 32,888	$ 29,090	$ 94,711	$ 86,468
Yield on earning assets – FTE	4.63%	4.45%	4.46%	4.45%
Cost of interest bearing liabilities	0.47%	0.65%	0.49%	0.69%
Net interest spread – FTE	4.16%	3.80%	3.97%	3.76%
Net interest margin – FTE	4.27%	3.94%	4.08%	3.91%

Table 2: Changes in Fully Taxable Equivalent Net Interest Margin

(In thousands)	Three Months Ended September 30, 2013 vs. 2012	Nine Months Ended September 30, 2013 vs. 2012
Increase due to change in earning assets	$ 4,082	$ 10,630
Decrease due to change in earning asset yields	(1,208)	(5,378)
Increase due to change in interest bearing liabilities	203	384
Increase due to change in interest rates paid on interest bearing liabilities	721	2,607
Increase in net interest income	$ 3,798	$ 8,243

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 the three and nine month periods ended September 30, 2013 and 2012. 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

	Three Months Ended September 30,					
		2013			2012	
($ in thousands)	Average Balance	Income/ Expense	Yield/ Rate(%)	Average Balance	Income/ Expense	Yield/ Rate(%)
ASSETS						
Earning assets:						
Interest bearing balances due from banks	$365,504	$234	0.25	$479,435	$267	0.22
Federal funds sold	3,719	6	0.64	2,850	2	.28
Investment securities - taxable	492,063	1,357	1.09	467,988	1,221	1.04
Investment securities - non-taxable	253,867	3,384	5.29	206,361	2,944	5.68
Mortgage loans held for sale	12,171	122	3.98	19,334	171	3.52
Assets held in trading accounts	8,731	6	0.27	7,780	12	0.61
Loans, not covered by loss share	1,766,576	23,494	5.28	1,637,437	23,203	5.64
Loans acquired, covered by loss share	156,392	7,132	18.09	117,809	5,041	17.02
Total interest earning assets	3,059,023	35,735	4.63	2,938,994	32,861	4.45
Non-earning assets	364,397			326,391		
Total assets	$3,423,420			$3,265,385		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Liabilities:						
Interest bearing liabilities						
Interest bearing transaction and savings accounts	$1,444,058	$601	0.17	$1,291,141	$658	0.20
Time deposits	819,408	1,392	0.67	838,779	1,863	0.88
Total interest bearing deposits	2,263,466	1,993	0.35	2,129,920	2,521	0.47
Federal funds purchased and securities sold under agreement to repurchase	67,924	46	0.27	72,381	69	0.38
Other borrowings	75,704	646	3.39	90,307	792	3.49
Subordinated debentures	20,620	162	3.12	30,594	389	5.06
Total interest bearing liabilities	2,427,714	2,847	0.47	2,323,202	3,771	0.65
Non-interest bearing liabilities:						
Non-interest bearing deposits	559,461			504,923		
Other liabilities	31,867			30,219		
Total liabilities	3,019,042			2,858,344		
Stockholders' equity	404,378			407,041		
Total liabilities and stockholders' equity	$3,423,420			$3,265,385		
Net interest spread			4.16			3.80
Net interest margin		$32,888	4.27		$29,090	3.94

	Nine Months Ended September 30,					
	2013			2012		
($ in thousands)	Average Balance	Income/ Expense	Yield/ Rate(%)	Average Balance	Income/ Expense	Yield/ Rate(%)
ASSETS						
Earning assets:						
Interest bearing balances due from banks	$484,684	$875	0.24	$535,454	$919	0.23
Federal funds sold	4,709	14	0.40	1,165	4	0.46
Investment securities - taxable	486,810	3,886	1.07	466,327	4,013	1.15
Investment securities - non-taxable	222,622	8,921	5.36	208,243	9,128	5.86
Mortgage loans held for sale	15,256	395	3.46	18,011	487	3.61
Assets held in trading accounts	8,516	23	.36	7,485	37	0.66
Loans, not covered by loss share	1,708,110	69,815	5.46	1,588,926	67,856	5.70
Loans acquired, covered by loss share	174,999	19,776	15.11	130,977	16,009	16.33
Total interest earning assets	3,105,706	103,705	4.46	2,956,588	98,453	4.45
Non-earning assets	374,810			313,558		
Total assets	$3,480,516			$3,270,146		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Liabilities:						
Interest bearing liabilities						
Interest bearing transaction and savings accounts	$1,447,851	$1,814	0.17	$1,275,576	$2,029	0.21
Time deposits	837,561	4,460	0.71	846,707	6,136	0.97
Total interest bearing deposits	2,285,412	6,274	0.37	2,122,283	8,165	0.51
Federal funds purchased and securities sold under agreement to repurchase	91,979	165	0.24	87,987	248	0.38
Other borrowings	79,888	2,072	3.47	89,944	2,406	3.57
Subordinated debentures	20,620	483	3.13	30,818	1,166	5.05
Total interest bearing liabilities	2,477,899	8,994	0.49	2,331,032	11,985	0.69
Non-interest bearing liabilities:						
Non-interest bearing deposits	562,617			500,724		
Other liabilities	32,833			28,904		
Total liabilities	3,073,349			2,860,660		
Stockholders' equity	407,167			409,486		
Total liabilities and stockholders' equity	$3,480,516			$3,270,146		
Net interest spread			3.97			3.76
Net interest margin		$94,711	4.08		$86,468	3.91

Table 4 shows changes in interest income and interest expense resulting from changes in volume and changes in interest rates for the three month and nine month periods ended September 30, 2013, as compared to the same period of the prior year. The changes in interest rate and volume have been allocated to changes in average volume and changes in average rates in proportion to the relationship of absolute dollar amounts of the changes in rates and volume.

Table 4: Volume/Rate Analysis

(In thousands, on a fully taxable equivalent basis)	Three Months Ended September 30, 2013 over 2012			Nine Months Ended September 30, 2013 over 2012		
	Volume	Yield/ Rate	Total	Volume	Yield/ Rate	Total
Increase (decrease) in:						
Interest income:						
Interest bearing balances due from banks	$ (69)	$ 36	$ (33)	$ (90)	$ 46	$ (44)
Federal funds sold	1	3	4	10	-	10
Investment securities - taxable	65	71	136	171	(298)	(127)
Investment securities - non-taxable	644	(204)	440	606	(813)	(207)
Mortgage loans held for sale	(69)	20	(49)	(72)	(20)	(92)
Assets held in trading accounts	1	(7)	(6)	5	(19)	(14)
Loans, not covered by loss share	1,767	(1,476)	291	4,951	(2,992)	1,959
Loans acquired, covered by loss share	1,742	349	2,091	5,049	(1,282)	3,767
Total	4,082	(1,208)	2,874	10,630	(5,378)	5,252
Interest expense:						
Interest bearing transaction and savings accounts	73	(130)	(57)	251	(466)	(215)
Time deposits	(42)	(429)	(471)	(65)	(1,611)	(1,676)
Federal funds purchased and securities sold under agreements to repurchase	(4)	(19)	(23)	11	(94)	(83)
Other borrowings	(125)	(21)	(146)	(263)	(71)	(334)
Subordinated debentures	(105)	(122)	(227)	(318)	(365)	(683)
Total	(203)	(721)	(924)	(384)	(2,607)	(2,991)
(Decrease) increase in net interest income	$ 4,285	$ (487)	$ 3,798	$ 11,014	$ (2,771)	$ 8,243

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 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 the three month period ended September 30, 2013, was $1.1 million, compared to $1.3 million for the three month period ended September 30, 2012, a decrease of $0.2 million. The provision for loan losses for the nine month period ended September 30, 2013, was $3.0 million, compared to $2.8 million for the nine month period ended September 30, 2012, an increase of $0.2 million. See Allowance for Loan Losses section for additional information.

NON-INTEREST INCOME

Total non-interest income was $10.3 million for the three month period ended September 30, 2013, a decrease of $1.5 million, or 12.7%, compared to $11.8 million for the same period in 2012. Total non-interest income was $32.9 million for the nine month period ended September 30, 2013, a decrease of $722,000, or 2.1%, compared to $33.6 million for the same period in 2012.

Included in non-interest income for the three and nine month periods ended September 30, 2012, was a $1.1 million bargain purchase gain on our FDIC-assisted acquisition of Truman Bank in St. Louis, Missouri.

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, 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 three and nine month periods ended September 30, 2013 and 2012, respectively, as well as changes in 2013 from 2012.

Table 5: Non-Interest Income

(In thousands)	Three Months Ended September 30 2013	Three Months Ended September 30 2012	2013 Change from 2012		Nine Months Ended September 30 2013	Nine Months Ended September 30 2012	2013 Change from 2012	
Trust income	$ 1,448	$ 1,440	$ 8	0.56%	$ 4,234	$ 3,988	$ 246	6.17%
Service charges on deposit accounts	4,603	4,368	235	5.38	13,318	12,163	1,155	9.50
Other service charges and fees	728	684	44	6.43	2,294	2,211	83	3.75
Mortgage lending income	1,122	1,705	(583)	-34.19	3,677	4,441	(764)	-17.20
Investment banking income	240	560	(320)	-57.14	1,390	1,700	(310)	-18.24
Credit card fees	4,400	4,104	296	7.21	12,779	12,390	389	3.14
Bank owned life insurance income	328	355	(27)	-7.61	974	1,078	(104)	-9.65
Gain on FDIC-assisted transactions	-	1,120	(1,120)	-100.00	-	1,120	(1,120)	-100.00
Loss on sale of securities	-	-	-	-	(193)	-	(193)	-
Net gain (loss) on assets covered by FDIC loss share agreements	(3,443)	(2,689)	(754)	28.04	(8,200)	(7,507)	(693)	9.23
Other income	887	165	722	437.58	2,626	2,037	589	28.92
Total non-interest income	$ 10,313	$ 11,812	$ (1,499)	-12.69%	$ 32,899	$ 33,621	$ (722)	-2.15%

Recurring fee income (service charges, trust fees and credit card fees) for the three month period ended September 30, 2013, was $11.2 million, an increase of $583,000, or 5.5%, from the three month period ended September 30, 2012. Service charges on deposit accounts increased by $235,000, or 5.4%, primarily due to accounts added as part of our 2012 FDIC-assisted acquisitions, recently implemented paper statement fees and an increase in NSF income. Credit card fee income increased by $296,000, or 7.2%, due primarily to higher net interchange income resulting from additional transaction volume during 2013.

Recurring fee income for the nine month period ended September 30, 2013, was $32.6 million, an increase of $1.9 million, or 6.1%, from the nine month period ended September 30, 2012. Service charges on deposit accounts increased by $1.2 million, or 9.5%, primarily due to accounts added as part of our 2012 FDIC-assisted acquisitions, recently implemented paper statement fees and an increase in NSF income. Trust income increased by $246,000, or 6.2%, due primarily to growth in our personal trust and investor management client base during 2012. Credit card fee income increased by $389,000, or 3.1%, due primarily to higher net interchange income.

Mortgage banking income decreased by $583,000 and $764,000 for the three and nine months ended September 30, 2013, compared to last year, due primarily to a decline in residential refinancing volume from 2012 resulting from a market driven increase in mortgage rates. Investment banking income for the three and nine months ended September 30, 2013, decreased $310,000 and $320,000, respectively, from the same periods last year, due to the increasing interest rate environment resulting in fewer "calls" for our dealer-bank customers.

We recorded a nonrecurring $193,000 loss from the sale of securities during the nine months ended September 30, 2013, as we liquidated the investment portfolios remaining from our 2012 FDIC-assisted acquisitions. Selling these securities was part of our initial acquisition plan, as the portfolios were mostly mortgage-backed securities that did not fit our corporate investment strategy. There were no realized gains or losses from the sale of securities for the three month period ended September 30, 2013, or for the three and nine month periods ended September 30, 2012.

Net gain (loss) on assets covered by FDIC loss share agreements decreased by $754,000 and $693,000 for the three and nine months ended September 30, 2013, compared to the same periods of 2012. The primary factor in this non-interest income decline is the increased FDIC indemnification asset amortization resulting from the increases in expected cash flows on acquired assets covered by loss share.

Other non-interest income for the three months ended September 30, 2013, increased by $722,000 from the same period last year, primarily due to gains on sale of other real estate and increased rental income on other real estate.

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 subsidiary to ensure productivity and overhead are in line with existing workload requirements.

Non-interest expense for the three months ended September 30, 2013, was $30.9 million, an increase of $2.2 million, or 7.7%, from the same period in 2012. Non-interest expense for the nine months ended September 30, 2013, was $93.1 million, an increase of $7.6 million, or 8.9%, from the same period in 2012.

Included in non-interest expense for the three and nine months ended September 30, 2013, were $1.7 million and $6.2 million in normal operating expense attributable to our 2012 FDIC-assisted acquisitions. Excluding these normal operating expenses related to the acquisitions, non-interest expense for the three and nine months ended September 30, 2013, increased only $528,000, or 1.8%, and $1.4 million, or 1.6%, from the same periods in 2012.

During the quarter ended September 30, 2013, we closed five underperforming branches, incurring one-time costs of $533,000. Merger related costs for our pending acquisition of Metropolitan totaled $190,000 during the quarter. During the same period of 2012, we recorded $815,000 in merger related costs for our FDIC-assisted acquisitions. As a result, total merger related costs decreased by $625,000 from last year. Normalizing for the nonrecurring branch right sizing and merger related costs, and the normal operating expenses of the acquisitions, non-interest expense for the three and nine months ended September 30, 2013, increased by $620,000, or 2.2%, and $1.7 million, or 2.0%, from the same periods in 2012. Our ability to record only small increases in comparative costs from last year can be attributed to good expense control.

Salaries and employee benefits increased by $1.8 million and $4.8 million for the three and nine months ended September 30, 2013, including $869,000 and $3.0 million, respectively, related to the 2012 acquisitions. Occupancy expense increased by $303,000 and $1.2 million for the same periods, with $308,000 and $1.1 million, respectively, related to the acquisitions. Furniture and equipment expense decreased by $222,000 for the three months ended September 30, 2013, with an $81,000 increase related to the acquisitions. Furniture and equipment expense increased by $320,000 for the nine months ended September 30, 2013, with a $331,000 increase related to the acquisitions.

Other non-interest expense for the three and nine month periods ended September 30, 2013, increased $922,000 and $1.4 million, respectively, from the same periods in 2012. The increase was primarily due to the $533,000 of one-time nonrecurring costs associated with our branch closings.

Table 6 below shows non-interest expense for the three month and nine month periods ended September 30, 2013 and 2012, respectively, as well as changes in 2013 from 2012.

Table 6: Non-Interest Expense

(In thousands)	Three Months Ended September 30 2013	Three Months Ended September 30 2012	2013 Change from 2012		Nine Months Ended September 30 2013	Nine Months Ended September 30 2012	2013 Change from 2012	
Salaries and employee benefits	$ 17,701	$ 15,911	$ 1,790	11.25%	$ 54,146	$ 49,323	$ 4,823	9.78%
Occupancy expense, net	2,485	2,182	303	13.89	7,490	6,291	1,199	19.06
Furniture and equipment expense	1,613	1,835	(222)	-12.10	5,367	5,047	320	6.34
Other real estate and foreclosure expense	385	280	105	37.50	775	681	94	13.80
Deposit insurance	595	444	151	34.01	1,862	1,472	390	26.49
Merger related costs	190	815	(625)	-76.69	(37)	815	(852)	-104.54
Other operating expenses:								
Professional services	913	1,078	(165)	-15.31	3,160	3,196	(36)	-1.13
Postage	597	574	23	4.01	1,838	1,820	18	0.99
Telephone	542	586	(44)	-7.51	1,751	1,666	85	5.10
Credit card expenses	1,706	1,787	(81)	-4.53	5,038	5,198	(160)	-3.08
Operating supplies	341	342	(1)	-0.29	1,136	1,009	127	12.59
Amortization of intangibles	135	74	61	82.43	408	221	187	84.62
Other expense	3,700	2,778	922	33.19	10,198	8,818	1,380	15.65
Total non-interest expense	$ 30,903	$ 28,686	$ 2,217	7.73%	$ 93,132	$ 85,557	$ 7,575	8.85%

LOAN PORTFOLIO

Our loan portfolio, excluding loans acquired, averaged $1.637 billion and $1.589 billion during the first nine months of 2013 and 2012, respectively. As of September 30, 2013, total loans, excluding loans acquired, were $1.741 billion, an increase of $113 million from December 31, 2012. 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 our loan portfolio, determining that borrowers have adequate sources of cash flow for loan repayment without liquidation of collateral, obtaining and monitoring collateral, providing an adequate 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 collectible amount. Loans are regularly reviewed to facilitate the identification and monitoring of deteriorating credits.

The balances of loans outstanding, excluding loans acquired, at the indicated dates are reflected in Table 7, according to type of loan.

Table 7: Loan Portfolio

(In thousands)	September 30, 2013	December 31, 2012
Consumer:		
Credit cards	$ 177,463	$ 185,536
Student loans	28,392	34,145
Other consumer	101,399	105,319