SIMMONS FIRST NATIONAL CORP
Form 10-Q
August 11, 2014

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 June 30, 2014 Commission File Number 000-06253

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

| | |
|---|---|
| Arkansas<br>(State or other jurisdiction of<br>incorporation or organization) | 71-0407808<br>(I.R.S. Employer<br>Identification No.) |
| 501 Main Street, Pine Bluff, Arkansas<br>(Address of principal executive offices) | 71601<br>(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. (Check one):

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 July 28, 2014, was 16,335,169.

Simmons First National Corporation
Quarterly Report on Form 10-Q
June 30, 2014

Table of Contents

Part I: Financial Information
Item 1. Financial Statements

Simmons First National Corporation
Consolidated Balance Sheets
June 30, 2014 and December 31, 2013

| (In thousands, except share data) | June 30, 2014 (Unaudited) | December 31, 2013 |
|---|---|---|
| ASSETS | | |
| Cash and non-interest bearing balances due from banks | $ 44,805 | $ 69,827 |
| Interest bearing balances due from banks | 377,855 | 469,553 |
| Cash and cash equivalents | 422,660 | 539,380 |
| Investment securities | 1,070,299 | 957,965 |
| Mortgage loans held for sale | 20,409 | 9,494 |
| Assets held in trading accounts | 6,881 | 8,978 |
| Loans: | | |
| Legacy loans | 1,868,842 | 1,742,638 |
| Allowance for loan losses | (27,530) | (27,442) |
| Loans acquired, not covered by FDIC loss share (net of discount) | 398,967 | 515,644 |
| Loans acquired, covered by FDIC loss share (net of discount) | 121,524 | 146,653 |
| Net loans | 2,361,803 | 2,377,493 |
| FDIC indemnification asset | 30,508 | 48,791 |
| Premises and equipment | 113,541 | 119,614 |
| Premises held for sale | 14,145 | 19,466 |
| Foreclosed assets not covered by FDIC loss share | 53,342 | 64,820 |
| Foreclosed assets covered by FDIC loss share | 16,951 | 20,585 |
| Interest receivable | 14,254 | 15,654 |
| Bank owned life insurance | 61,115 | 60,384 |
| Goodwill | 78,529 | 78,529 |
| Other intangible assets | 14,094 | 14,972 |
| Other assets | 47,310 | 46,975 |
| Total assets | $ 4,325,841 | $ 4,383,100 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Deposits: | | |
| Non-interest bearing transaction accounts | $ 838,543 | $ 718,438 |
| Interest bearing transaction accounts and savings deposits | 1,784,040 | 1,862,618 |
| Time deposits | 1,019,142 | 1,116,511 |
| Total deposits | 3,641,725 | 3,697,567 |
| Federal funds purchased and securities sold under agreements to repurchase | 98,226 | 107,887 |
| Other borrowings | 115,602 | 117,090 |
| Subordinated debentures | 20,620 | 20,620 |
| Accrued interest and other liabilities | 35,533 | 36,104 |
| Total liabilities | 3,911,706 | 3,979,268 |
| | | |
| Stockholders' equity: | | |
| Preferred stock, $0.01 par value; 40,040,000 shares authorized and unissued at June 30, 2014 and December 31, 2013 | -- | -- |

| | | |
|---|---|---|
| Common stock, Class A, $0.01 par value; 60,000,000 shares authorized; 16,331,341 and 16,226,256 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively | 163 | 162 |
| Surplus | 90,010 | 88,095 |
| Undivided profits | 325,371 | 318,577 |
| Accumulated other comprehensive loss | (1,409) | (3,002) |
| Total stockholders' equity | 414,135 | 403,832 |
| Total liabilities and stockholders' equity | $ 4,325,841 | $ 4,383,100 |

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Statements of Income
Three and Six Months Ended June 30, 2014 and 2013

| (In thousands, except per share data) | Three Months Ended June 30, 2014 | Three Months Ended June 30, 2013 | Six Months Ended June 30, 2014 | Six Months Ended June 30, 2013 |
|---|---|---|---|---|
| | (Unaudited) | | (Unaudited) | |
| INTEREST INCOME | | | | |
| Legacy loans | $ 22,733 | $ 22,602 | $ 44,285 | $ 46,298 |
| Loans acquired | 15,889 | 6,469 | 34,468 | 12,644 |
| Federal funds sold | 2 | 5 | 3 | 8 |
| Investment securities | 4,766 | 3,019 | 9,315 | 5,921 |
| Mortgage loans held for sale | 168 | 118 | 237 | 273 |
| Assets held in trading accounts | 5 | 6 | 10 | 17 |
| Interest bearing balances due from banks | 279 | 352 | 558 | 642 |
| TOTAL INTEREST INCOME | 43,842 | 32,571 | 88,876 | 65,803 |
| | | | | |
| INTEREST EXPENSE | | | | |
| Deposits | 2,235 | 2,082 | 4,505 | 4,281 |
| Federal funds purchased and securities sold under agreements to repurchase | 31 | 53 | 84 | 118 |
| Other borrowings | 988 | 692 | 1,998 | 1,426 |
| Subordinated debentures | 160 | 162 | 317 | 321 |
| TOTAL INTEREST EXPENSE | 3,414 | 2,989 | 6,904 | 6,146 |
| | | | | |
| NET INTEREST INCOME | 40,428 | 29,582 | 81,972 | 59,657 |
| Provision for loan losses | 1,602 | 1,034 | 2,510 | 1,953 |
| | | | | |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 38,826 | 28,548 | 79,462 | 57,704 |
| | | | | |
| NON-INTEREST INCOME | | | | |
| Trust income | 1,553 | 1,342 | 3,091 | 2,786 |
| Service charges on deposit accounts | 6,792 | 4,474 | 12,860 | 8,715 |
| Other service charges and fees | 859 | 791 | 1,684 | 1,566 |
| Mortgage lending income | 1,262 | 1,338 | 2,074 | 2,554 |
| Investment banking income | 154 | 696 | 336 | 1,150 |
| Debit and credit card fees | 5,801 | 4,341 | 11,444 | 8,380 |
| Bank owned life insurance income | 377 | 366 | 705 | 644 |
| Gain (loss) on sale of securities | 38 | (193) | 38 | (193) |
| Net (loss) gain on assets covered by FDIC loss share agreements | (6,268) | (2,615) | (13,639) | (4,757) |
| Other income | 4,820 | 733 | 5,984 | 1,741 |
| TOTAL NON-INTEREST INCOME | 15,388 | 11,273 | 24,577 | 22,586 |
| | | | | |
| NON-INTEREST EXPENSE | | | | |
| Salaries and employee benefits | 20,982 | 17,937 | 43,447 | 36,444 |
| Occupancy expense, net | 3,285 | 2,450 | 7,155 | 5,005 |
| Furniture and equipment expense | 2,215 | 2,030 | 4,229 | 3,753 |
| Other real estate and foreclosure expense | 375 | 59 | 1,248 | 390 |

| | | | | |
|---|---|---|---|---|
| Deposit insurance | 1,085 | 492 | 1,753 | 1,267 |
| Merger related costs | 1,354 | (467) | 2,627 | (227) |
| Other operating expenses | 10,546 | 7,818 | 23,923 | 15,599 |
| TOTAL NON-INTEREST EXPENSE | 39,842 | 30,319 | 84,382 | 62,231 |
| | | | | |
| INCOME BEFORE INCOME TAXES | 14,372 | 9,502 | 19,657 | 18,059 |
| Provision for income taxes | 4,464 | 2,926 | 5,396 | 5,546 |
| NET INCOME | $ 9,908 | $ 6,576 | $ 14,261 | $ 12,513 |
| BASIC EARNINGS PER SHARE | $ 0.61 | $ 0.40 | $ 0.88 | $ 0.76 |
| DILUTED EARNINGS PER SHARE | $ 0.60 | $ 0.40 | $ 0.87 | $ 0.76 |

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Statements of Comprehensive Income
Three and Six Months Ended June 30, 2014 and 2013

| (In thousands, except per share data) | Three Months Ended June 30, 2014 | Three Months Ended June 30, 2013 | Six Months Ended June 30, 2014 | Six Months Ended June 30, 2013 |
|---|---|---|---|---|
| | (Unaudited) | | (Unaudited) | |
| NET INCOME | $ 9,908 | $ 6,576 | $ 14,261 | $ 12,513 |
| | | | | |
| OTHER COMPREHENSIVE INCOME | | | | |
| Unrealized holding gains (losses) arising during the period on available-for-sale securities | 1,206 | (4,232) | 2,659 | (4,581) |
| Less: Reclassification adjustment for realized gains (losses) included in net income | 38 | (193) | 38 | (193) |
| Other comprehensive gain (loss), before tax effect | 1,168 | (4,039) | 2,621 | (4,388) |
| Less: Tax effect of other comprehensive gain (loss) | 458 | (1,584) | 1,028 | (1,721) |
| | | | | |
| TOTAL OTHER COMPREHENSIVE INCOME (LOSS) | 710 | (2,455) | 1,593 | (2,667) |
| | | | | |
| COMPREHENSIVE INCOME | $ 10,618 | $ 4,121 | $ 15,854 | $ 9,846 |

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Statements of Cash Flows
Six Months Ended June 30, 2014 and 2013

| (In thousands) | June 30, 2014 | June 30, 2013 |
|---|---|---|
| | (Unaudited) | |
| OPERATING ACTIVITIES | | |
| Net income | $ 14,261 | $ 12,513 |
| Items not requiring (providing) cash: | | |
| Depreciation and amortization | 3,808 | 2,940 |
| Provision for loan losses | 2,510 | 1,953 |
| Net (accretion) amortization of investment securities and assets not covered by FDIC loss share | (1,994) | 873 |
| Stock-based compensation expense | 655 | 714 |
| Net accretion on assets covered by FDIC loss share | (350) | (3,170) |
| Deferred income taxes | (3,143) | (1,756) |
| (Gain) loss on sale of investments | (38) | 193 |
| Gain on sale of premises and equipment | (2,296) | -- |
| Bank owned life insurance income | (705) | (644) |
| Changes in: | | |
| Interest receivable | 1,400 | 1,893 |
| Mortgage loans held for sale | (10,915) | 10,913 |
| Assets held in trading accounts | 2,097 | (2,515) |
| Other assets | (5,982) | 4,997 |
| Accrued expenses and other liabilities | 4,113 | (2,788) |
| Income taxes payable | (2,892) | 158 |
| Net cash provided by operating activities | 529 | 26,274 |
| | | |
| INVESTING ACTIVITIES | | |
| Net originations of loans | (34,126) | (14,323) |
| Net collections of loans covered by FDIC loss share | 34,830 | 53,044 |
| Proceeds from sale of student loans | 22,136 | -- |
| Proceeds from sale of premises and equipment, net of purchases | 10,760 | (3,274) |
| Proceeds from sale of foreclosed assets held for sale | 13,575 | 12,669 |
| Proceeds from sale of foreclosed assets held for sale, covered by FDIC loss share | 7,677 | 7,897 |
| Proceeds from sale of short-term investment securities | 1,504 | -- |
| Proceeds from sale of available-for-sale securities | 1,048 | 617 |
| Proceeds from maturities of available-for-sale securities | 59,920 | 69,930 |
| Purchases of available-for-sale securities | (118,954) | (60,817) |
| Proceeds from maturities of held-to-maturity securities | 130,682 | 105,426 |
| Purchases of held-to-maturity securities | (184,965) | (164,840) |
| Purchase of bank owned life insurance | (25) | (7,000) |
| Cash received on FDIC loss share | 11,886 | 8,447 |
| Net cash (used in) provided by investing activities | (44,052) | 7,776 |
| | | |
| FINANCING ACTIVITIES | | |
| Net change in deposits | (55,842) | (61,044 ) |
| Dividends paid | (7,467) | (6,903) |
| Net change in other borrowed funds | (1,488) | (11,782) |

| | | |
|---|---|---|
| Net change in federal funds purchased and securities sold under agreements to repurchase | (9,661) | (25,015) |
| Net shares issued under stock compensation plans | 1,261 | 450 |
| Repurchase of common stock | -- | (8,319) |
| Net cash used in financing activities | (73,197) | (112,613) |
| | | |
| DECREASE IN CASH AND CASH EQUIVALENTS | (116,720) | (78,563) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 539,380 | 537,797 |
| | | |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 422,660 | $ 459,234 |

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Statements of Stockholders' Equity
Six Months Ended June 30, 2014 and 2013

| (In thousands, except share data) | Common Stock | Surplus | Accumulated Other Comprehensive Income (Loss) | Undivided Profits | Total |
|---|---|---|---|---|---|
| Balance, December 31, 2012 | $ 165 | $ 96,587 | $ 257 | $ 309,053 | $ 406,062 |
| Comprehensive income: | | | | | |
| Net income | -- | -- | -- | 12,513 | 12,513 |
| Change in unrealized appreciation on available-for-sale securities, net of income taxes of ($1,721) | -- | -- | (2,667) | -- | (2,667) |
| Comprehensive income | | | | | 9,846 |
| Stock issued as bonus shares – 64,006 shares | 1 | 228 | -- | -- | 229 |
| Vesting bonus shares | -- | 687 | -- | -- | 687 |
| Stock issued for employee stock purchase plan – 5,244 shares | -- | 126 | -- | -- | 126 |
| Exercise of stock options – 4,000 shares | -- | 95 | -- | -- | 95 |
| Stock granted under stock-based compensation plans | -- | 27 | -- | -- | 27 |
| Repurchase of common stock – (326,789 shares) | (3) | (8,316) | -- | -- | (8,319) |
| Cash dividends – $0.42 per share | -- | -- | -- | (6,903) | (6,903) |
| | | | | | |
| Balance, June 30, 2013 (Unaudited) | 163 | 89,434 | (2,410) | 314,663 | 401,850 |
| Comprehensive income: | | | | | |
| Net income | -- | -- | -- | 10,718 | 10,718 |
| Change in unrealized depreciation on available-for-sale securities, net of income taxes of ($382) | -- | -- | (592) | -- | (592) |
| Comprehensive income | | | | | 10,126 |
| Vesting bonus shares, net of forfeitures – (829 shares) | -- | 703 | -- | -- | 703 |
| Exercise of stock options – 20,290 shares | -- | 509 | -- | -- | 509 |
| Securities exchanged under stock option plan – (669 shares) | -- | (23) | -- | -- | (23) |
| Repurchase of common stock – (92,775 shares) | (1) | (2,528) | -- | -- | (2,529) |
| Cash dividends – $0.42 per share | -- | -- | -- | (6,804) | (6,804) |
| | | | | | |
| Balance, December 31, 2013 | 162 | 88,095 | (3,002) | 318,577 | 403,832 |
| Comprehensive income: | | | | | |
| Net income | -- | -- | -- | 14,261 | 14,261 |
| Change in unrealized depreciation on available-for-sale securities, net of income taxes of $1,028 | -- | -- | 1,593 | -- | 1,593 |
| Comprehensive income | | | | | 15,854 |
| Stock issued as bonus shares – 71,840 shares | 1 | 441 | -- | -- | 442 |
| Vesting bonus shares, net of forfeitures – (1,560 shares) | -- | 655 | -- | -- | 655 |
| | -- | 118 | -- | -- | 118 |

| | | | | | |
|---|---|---|---|---|---|
| Stock issued for employee stock purchase plan – 4,897 shares | | | | | |
| Exercise of stock options – 33,360 shares | -- | 843 | -- | -- | 843 |
| Securities exchanged under stock option plan – (3,452 shares) | -- | (142) | -- | -- | (142) |
| Cash dividends – $0.44 per share | -- | -- | -- | (7,467) | (7,467) |
| Balance, June 30, 2014 (Unaudited) | $ 163 | $ 90,010 | $ (1,409) | $ 325,371 | $ 414,135 |

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, 2013, 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 2013 filed with the U.S. Securities and Exchange Commission (the "SEC").

Recently Issued Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (Topic 740). ASU 2013-11 requires an entity to present an unrecognized tax benefit, or portion thereof, in the statement of financial position as a reduction to a deferred tax asset for a net operating loss carryforward or a tax credit carryforward, with certain exceptions related to availability. The provisions of ASU 2013-11 became effective for the Company on January 1, 2014, and did not have a significant impact on the Company's ongoing financial position or results of operations.

In January 2014, the FASB issued ASU 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (Topic 310-40): Receivables – Troubled Debt Restructurings by Creditors. The objective of this guidance is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU 2014-04 states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU 2014-04 requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU 2014-04 is effective for interim and annual reporting periods beginning after December 15, 2014. An entity can elect to adopt the amendments in this ASU using either a modified retrospective transition method or a prospective transition method. Early adoption is permitted. The Company is in the process of evaluating the impact of ASU 2014-04 on its financial statements.

In April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Components of an Entity, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. The guidance applies prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2014, and interim periods within those annual periods. The Company will be required to adopt this ASU beginning with the quarter ending March 31, 2015. The adoption of ASU 2014-08 is not expected to have a significant impact on the Company's ongoing financial position or results of operations.

There have been no other significant changes to the Company's accounting policies from the 2013 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, Acquired Loans

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. 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.

The Company evaluates loans acquired in accordance with the provisions of ASC Topic 310-20, Nonrefundable Fees and Other Costs. The fair value discount on these loans is accreted into interest income over the weighted average life of the loans using a constant yield method. These loans are not considered to be impaired loans. The Company evaluates purchased impaired loans in accordance with the provisions of ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. Purchased loans 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 Company evaluates all of the loans purchased in conjunction with its FDIC-assisted transactions in accordance with the provisions of ASC Topic 310-30. All loans acquired in the FDIC transactions, both covered and not covered, were deemed to be impaired loans. 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.

For impaired loans accounted for under ASC Topic 310-30, 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.

Covered Loans and Related Indemnification Asset

Because the FDIC will reimburse us for certain 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 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 six months ended June 30, 2014 and 2013:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In thousands, except per share data) | 2014 | 2013 | 2014 | 2013 |
| Net income | $ 9,908 | $ 6,576 | $ 14,261 | $ 12,513 |
| | | | | |
| Average common shares outstanding | 16,318 | 16,415 | 16,294 | 16,466 |
| Average potential dilutive common shares | 43 | 3 | 43 | 3 |
| Average diluted common shares | 16,361 | 16,418 | 16,337 | 16,469 |
| | | | | |
| Basic earnings per share | $ 0.61 | $ 0.40 | $ 0.88 | $ 0.76 |
| Diluted earnings per share | $ 0.60 | $ 0.40 | $ 0.87 | $ 0.76 |

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

## NOTE 2: ACQUISITIONS

Metropolitan National Bank

On November 25, 2013, Simmons First National Corporation completed the acquisition of Metropolitan National Bank ("Metropolitan" or "MNB"), with its principal office located in Little Rock, Arkansas, pursuant to a Stock Purchase Agreement between the Company and Rogers Bancshares, Inc. ("RBI"), in which the Company purchased all the stock of Metropolitan for $53.6 million in cash. The acquisition was conducted in accordance with the provisions of Section 363 of the United States Bankruptcy Code. As part of the acquisition, Metropolitan was merged into the Company's wholly-owned subsidiary, Simmons First National Bank ("Simmons Bank"). The Company funded 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 Company recorded $6.6 million of pre-tax merger costs during 2013 related to the acquisition.

Prior to the acquisition, Metropolitan conducted banking business from 45 branches located in central and northwest Arkansas. Including the effects of the purchase accounting adjustments, the Company acquired approximately $884 million in assets, approximately $457 million in loans, net of discounts, and $838 million of deposits. During the first quarter of 2014, the Company completed the system integration and branch consolidation associated with the Metropolitan acquisition.

Delta Trust & Banking Corporation (Pending Acquisition)

On March 24, 2014, the Company announced that it has entered into a definitive agreement and plan of merger ("Delta Agreement") with Delta Trust & Banking Corporation ("Delta Trust"), headquartered in Little Rock, Arkansas, including its wholly-owned bank subsidiary Delta Trust & Bank ("DTB"). According to the terms of the Delta Agreement, the Company will acquire all of the outstanding common stock of Delta Trust in a transaction valued at approximately $63.2 million (based on the Company's closing price on March 20, 2014), subject to potential adjustments.

Delta Trust conducts banking business from 9 branches located in central, south and northwest Arkansas. As of June 30, 2014, Delta Trust had approximately $422 million in assets, $325 million in loans and $365 million in deposits. Completion of the transaction is expected in the third quarter of 2014 and is subject to certain closing conditions, including the approval of the shareholders of Delta Trust. Upon closing, Delta Trust will merge into the Company. The Company anticipates merging DTB into Simmons Bank during the fourth quarter of 2014.

Community First Bancshares, Inc. (Pending Acquisition)

On May 6, 2014, the Company announced that it has entered into a definitive agreement and plan of merger ("Community First Agreement") with Community First Bancshares, Inc. ("Community First"), headquartered in Union City, Tennessee, including its wholly-owned bank subsidiary First State Bank ("First State"). According to the terms of the Community First Agreement, the Company will acquire all of the outstanding common stock of Community First in a transaction valued at approximately $275.9 million (based on the Company's May 2, 2014 closing price), subject to potential adjustments. The transaction is expected to be immediately accretive to the Company's diluted core earnings per common share.

Community First conducts banking business from 31 branches located throughout Tennessee. As of June 30, 2014, Community First had approximately $1.9 billion in assets, $1.2 billion in loans and $1.6 billion in deposits. Completion of the transaction is expected in the fourth quarter of 2014 and is subject to certain closing conditions, including approval by the shareholders of both Community First and the Company and customary regulatory approvals. Upon closing, Community First will merge into the Company.

Liberty Bancshares, Inc. (Pending Acquisition)

On May 27, 2014, the Company announced that it has entered into a definitive agreement and plan of merger ("Liberty Agreement") with Liberty Bancshares, Inc. ("Liberty"), headquartered in Springfield, Missouri, including its wholly-owned bank subsidiary Liberty Bank. According to the terms of the Liberty Agreement, the Company will acquire all of the outstanding common stock of Liberty in a transaction valued at approximately $208.8 million (based on the Company's May 23, 2014 closing price), subject to potential adjustments. The transaction is expected to be immediately accretive to the Company's diluted core earnings per common share.

Liberty conducts banking business from 24 branches located in southwest Missouri, including five in Springfield, Missouri. As of June 30, 2014, Liberty had approximately $1.1 billion in assets, $802 million in loans and $881 million in deposits. Completion of the transaction is expected in the fourth quarter of 2014 and is subject to certain closing conditions, including approval by the shareholders of both Liberty and the Company and customary regulatory approvals. Upon closing, Liberty will merge into the Company.

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:

| | June 30, 2014 | | | | December 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| (In thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Estimated Fair Value | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Estimated Fair Value |
| Held-to-Maturity | | | | | | | | |
| U.S. Government agencies | $ 449,201 | $ 1,028 | $ (5,051) | $ 445,178 | $ 395,198 | $ 50 | $ (10,535) | $ 384,713 |
| Mortgage-backed securities | 32,204 | 176 | (519) | 31,861 | 34,425 | 17 | (442) | 34,000 |
| State and political subdivisions | 317,938 | 6,137 | (1,333) | 322,742 | 315,445 | 2,165 | (5,498) | 312,112 |
| Other securities | 620 | -- | -- | 620 | 620 | -- | -- | 620 |
| Total HTM | $ 799,963 | $ 7,341 | $ (6,903) | $ 800,401 | $ 745,688 | $ 2,232 | $ (16,475) | $ 731,445 |
| | | | | | | | | |
| Available-for-Sale | | | | | | | | |
| U.S. Treasury | $ 4,001 | $ -- | $ (7) | $ 3,994 | $ 4,001 | $ -- | $ (16) | $ 3,985 |
| U.S. Government agencies | 241,545 | (254) | (2,880) | 238,411 | 183,781 | 8 | (5,572) | 178,217 |
| Mortgage-backed securities | 1,636 | 322 | -- | 1,958 | 1,735 | 156 | -- | 1,891 |
| State and political subdivisions | 6,910 | 13 | (3) | 6,920 | 7,860 | 4 | (3) | 7,861 |
| Other securities | 18,456 | 597 | -- | 19,053 | 19,840 | 484 | (1) | 20,323 |
| Total AFS | $ 272,548 | $ 678 | $ (2,890) | $ 270,336 | $ 217,217 | $ 652 | $ (5,592) | $ 212,277 |

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 June 30, 2014, securities with unrealized losses, segregated by length of impairment, were as follows:

| (In thousands) | Less Than 12 Months Estimated Fair Value | Less Than 12 Months Gross Unrealized Losses | 12 Months or More Estimated Fair Value | 12 Months or More Gross Unrealized Losses | Total Estimated Fair Value | Total Gross Unrealized Losses |
|---|---|---|---|---|---|---|
| Held-to-Maturity | | | | | | |
| U.S. Government agencies | $ 228,195 | $ (2,194) | $ 142,085 | $ (2,857) | $ 370,280 | $ (5,051) |
| Mortgage-backed securities | 26,586 | (519) | -- | -- | 26,586 | (519) |
| State and political subdivisions | 22,563 | (334) | 34,513 | (999) | 57,076 | (1,333) |
| Total HTM | $ 277,344 | $ (3,047) | $ 176,598 | $ (3,856) | $ 453,942 | $ (6,903) |
| Available-for-Sale | | | | | | |
| U.S. Treasury | $ 3,994 | $ (7) | $ -- | $ -- | $ 3,994 | $ (7) |
| U.S. Government agencies | 134,656 | (983) | $ 93,901 | (1,897) | 228,557 | (2,880) |
| State and political subdivisions | 699 | (3) | -- | -- | 699 | (3) |
| Total AFS | $ 139,349 | $ (993) | $ 93,901 | $ (1,897) | $ 233,250 | $ (2,890) |

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 June 30, 2014, 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 June 30, 2014, 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 $568.0 million at June 30, 2014, and $587.9 million at December 31, 2013.

The book value of securities sold under agreements to repurchase equaled $81.3 million and $102.8 million for June 30, 2014, and December 31, 2013, respectively.

Income earned on securities for the three and six months ended June 30, 2014 and 2013, is as follows:

| (In thousands) | Three Months Ended June 30, 2014 | Three Months Ended June 30, 2013 | Six Months Ended June 30, 2014 | Six Months Ended June 30, 2013 |
|---|---|---|---|---|
| Taxable: | | | | |
| Held-to-maturity | $ 1,378 | $ 760 | $ 2,727 | $ 1,463 |
| Available-for-sale | 729 | 546 | 1,279 | 1,065 |
| Non-taxable: | | | | |

| | | | | |
|---|---|---|---|---|
| Held-to-maturity | 2,633 | 1,709 | 5,252 | 3,384 |
| Available-for-sale | 26 | 4 | 57 | 9 |
| Total | $ 4,766 | $ 3,019 | $ 9,315 | $ 5,921 |

Maturities of investment securities at June 30, 2014, are as follows:

| | Held-to-Maturity | | Available-for-Sale | |
|---|---|---|---|---|
| (In thousands) | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| One year or less | $ 23,361 | $ 23,427 | $ 2,257 | $ 2,261 |
| After one through five years | 341,201 | 339,224 | 161,497 | 160,697 |
| After five through ten years | 239,939 | 239,203 | 90,093 | 88,119 |
| After ten years | 195,462 | 198,547 | 808 | 882 |
| Other securities | -- | -- | 17,893 | 18,377 |
| Total | $ 799,963 | $ 800,401 | $ 272,548 | $ 270,336 |

There were $38,000 of realized gains and no realized losses on investment securities for the three and six months ended June 30, 2014. There were no realized gains and realized losses of $193,000 on investment securities for the three and six months ended June 30, 2013.

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 June 30, 2014, the Company's loan portfolio was $2.39 billion, compared to $2.40 billion at December 31, 2013. The various categories of loans are summarized as follows:

| (In thousands) | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Consumer: | | |
| Credit cards | $ 176,239 | $ 184,935 |
| Student loans | 398 | 25,906 |
| Other consumer | 105,998 | 98,851 |
| Total consumer | 282,635 | 309,692 |
| Real Estate: | | |
| Construction | 163,412 | 146,458 |
| Single family residential | 417,187 | 392,285 |
| Other commercial | 653,734 | 626,333 |
| Total real estate | 1,234,333 | 1,165,076 |
| Commercial: | | |
| Commercial | 233,510 | 164,329 |
| Agricultural | 111,567 | 98,886 |
| Total commercial | 345,077 | 263,215 |
| Other | 6,797 | 4,655 |
| Loans | 1,868,842 | 1,742,638 |
| Loans acquired, not covered by FDIC loss share (net of discount) | 398,967 | 515,644 |
| Loans acquired, covered by FDIC loss share (net of discount) | 121,524 | 146,653 |
| Total loans before allowance for loan losses | $ 2,389,333 | $ 2,404,935 |

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. Furthermore, factors that influenced the Company's judgment regarding the allowance for loan losses consists of a three-year historical loss average segregated by each primary loan sector. On an annual basis, historical loss rates are calculated for each sector.

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) | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Consumer: | | |
| Credit cards | $ 226 | $ 290 |
| Other consumer | 650 | 677 |
| Total consumer | 876 | 967 |
| Real estate: | | |
| Construction | 905 | 116 |
| Single family residential | 3,792 | 2,957 |
| Other commercial | 3,470 | 1,726 |
| Total real estate | 8,167 | 4,799 |
| Commercial: | | |
| Commercial | 676 | 378 |
| Agricultural | 434 | 117 |
| Total commercial | 1,110 | 495 |
| Total | $ 10,153 | $ 6,261 |

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 |
|---|---|---|---|---|---|---|
| June 30, 2014 | | | | | | |
| Consumer: | | | | | | |
| Credit cards | $ 660 | $ 424 | $ 1,084 | $ 175,155 | $ 176,239 | $ 197 |
| Student loans | -- | 323 | 323 | 75 | 398 | 323 |
| Other consumer | 1,097 | 426 | 1,523 | 104,472 | 105,998 | 102 |
| Total consumer | 1,757 | 1,173 | 2,930 | 279,705 | 282,635 | 622 |
| Real estate: | | | | | | |
| Construction | 453 | 28 | 481 | 162,931 | 163,412 | -- |
| Single family residential | 1,360 | 642 | 2,002 | 415,185 | 417,187 | 172 |
| Other commercial | 725 | 1,063 | 1,788 | 651,946 | 653,734 | -- |
| Total real estate | 2,538 | 1,733 | 4,271 | 1,230,062 | 1,234,333 | 172 |
| Commercial: | | | | | | |
| Commercial | 573 | 496 | 1,069 | 232,441 | 233,510 | 49 |
| Agricultural | 423 | 507 | 930 | 110,637 | 111,567 | 237 |
| Total commercial | 996 | 1,003 | 1,999 | 343,078 | 345,077 | 286 |
| Other | -- | -- | -- | 6,797 | 6,797 | -- |
| Total | $ 5,291 | $ 3,909 | $ 9,200 | $ 1,859,642 | $ 1,868,842 | $ 1,080 |
| | | | | | | |
| December 31, 2013 | | | | | | |
| Consumer: | | | | | | |
| Credit cards | $ 712 | $ 520 | $ 1,232 | $ 183,703 | $ 184,935 | $ 230 |
| Student loans | 627 | 2,264 | 2,891 | 23,015 | 25,906 | 2,264 |
| Other consumer | 911 | 458 | 1,369 | 97,482 | 98,851 | 185 |
| Total consumer | 2,250 | 3,242 | 5,492 | 304,200 | 309,692 | 2,679 |
| Real estate: | | | | | | |
| Construction | 583 | 30 | 613 | 145,845 | 146,458 | -- |
| Single family residential | 2,793 | 1,114 | 3,907 | 388,378 | 392,285 | 94 |
| Other commercial | 1,019 | 1,533 | 2,552 | 623,781 | 626,333 | 82 |
| Total real estate | 4,395 | 2,677 | 7,072 | 1,158,004 | 1,165,076 | 176 |
| Commercial: | | | | | | |
| Commercial | 357 | 376 | 733 | 163,596 | 164,329 | 96 |
| Agricultural | 42 | 37 | 79 | 98,807 | 98,886 | -- |
| Total commercial | 399 | 413 | 812 | 262,403 | 263,215 | 96 |
| Other | -- | -- | -- | 4,655 | 4,655 | -- |
| Total | $ 7,044 | $ 6,332 | $ 13,376 | $ 1,729,262 | $ 1,742,638 | $ 2,951 |

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. Certain other loans identified by management consist of performing loans with specific allocations of the allowance for loan losses. 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.

17

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 |
|---|---|---|---|---|---|---|---|---|---|
| June 30, 2014 | | | | | | Three Months Ended June 30, 2014 | | Six Months Ended June 30, 2014 | |
| Consumer: | | | | | | | | | |
| Credit cards | $ 423 | $ 424 | $ -- | $ 424 | $ 13 | $ 446 | $ 4 | $ 470 | $ 9 |
| Other consumer | 771 | 706 | 41 | 747 | 166 | 778 | 7 | 823 | 16 |
| Total consumer | 1,194 | 1,130 | 41 | 1,171 | 179 | 1,224 | 11 | 1,293 | 25 |
| Real estate: | | | | | | | | | |
| Construction | 2,929 | 2,825 | 60 | 2,885 | 76 | 2,840 | 24 | 2,962 | 58 |
| Single family residential | 4,683 | 3,387 | 1,108 | 4,495 | 973 | 4,254 | 36 | 4,153 | 81 |
| Other commercial | 9,392 | 7,875 | 1,303 | 9,178 | 648 | 9,562 | 80 | 9,437 | 185 |
| Total real estate | 17,004 | 14,087 | 2,471 | 16,558 | 1,697 | 16,656 | 140 | 16,552 | 324 |
| Commercial: | | | | | | | | | |
| Commercial | 869 | 714 | 1 | 715 | 121 | 765 | 6 | 664 | 13 |
| Agricultural | 329 | 112 | -- | 112 | 15 | 98 | 1 | 92 | 2 |
| Total commercial | 1,198 | 826 | 1 | 827 | 136 | 863 | 7 | 756 | 15 |
| Total | $ 19,396 | $ 16,043 | $ 2,513 | $ 18,556 | $ 2,012 | $ 18,743 | $ 158 | $ 18,601 | $ 364 |
| December 31, 2013 | | | | | | Three Months Ended June 30, 2013 | | Six Months Ended June 30, 2013 | |
| Consumer: | | | | | | | | | |
| Credit cards | $520 | $520 | $-- | $520 | $16 | $ 501 | $ $3 | $ 516 | $ 8 |
| Other consumer | 925 | 878 | 32 | 910 | 171 | 1,026 | 10 | 1,061 | 22 |
| Total consumer | 1,445 | 1,398 | 32 | 1,430 | 187 | 1,527 | 13 | 1,577 | 30 |
| Real estate: | | | | | | | | | |
| Construction | 3,251 | 2,036 | 1,171 | 3,207 | 371 | 3,350 | 34 | 4,020 | 84 |
| Single family residential | 4,497 | 2,306 | 1,645 | 3,951 | 745 | 3,744 | 37 | 3,835 | 80 |
| Other commercial | 10,328 | 6,868 | 2,319 | 9,187 | 564 | 11,826 | 118 | 14,212 | 295 |
| Total real estate | 18,076 | 11,210 | 5,135 | 16,345 | 1,680 | 18,920 | 189 | 22,067 | 459 |
| Commercial: | | | | | | | | | |
| Commercial | 547 | 383 | 78 | 461 | 80 | 664 | 7 | 669 | 14 |
| Agricultural | 117 | 80 | -- | 80 | 13 | 90 | 1 | 90 | 2 |
| Total commercial | 664 | 463 | 78 | 541 | 93 | 754 | 8 | 759 | 16 |
| Total | $20,185 | $13,071 | $5,245 | $18,316 | $1,960 | $ 21,201 | $ $210 | $ 24,403 | $ 505 |

At June 30, 2014, and December 31, 2013, impaired loans, net of government guarantees and excluding loans acquired, totaled $18.6 million and $18.3 million, respectively.  Allocations of the allowance for loan losses relative to impaired loans were $2.0 million at June 30, 2014, and $2.0 million at December 31, 2013. Approximately $158,000 and $364,000 of interest income was recognized on average impaired loans of $18.7 million and $18.6 million for the three and six months ended June 30, 2014. Interest income recognized on impaired loans on a cash basis during the three and six months ended June 30, 2014 and 2013 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 |
| June 30, 2014 | | | | | | |
| Real estate: | | | | | | |
| Construction | -- | $ -- | 1 | $ 499 | 1 | $ 499 |
| Single-family residential | 2 | 395 | 1 | 2 | 3 | 397 |
| Other commercial | 3 | 1,782 | 1 | 630 | 4 | 2,412 |
| Total real estate | 5 | 2,177 | 3 | 1,131 | 8 | 3,308 |
| Commercial: | | | | | | |
| Commercial | 1 | 599 | -- | -- | 1 | 599 |
| Total commercial | 1 | 599 | -- | -- | 1 | 599 |
| Total | 6 | $ 2,776 | 3 | $ 1,131 | 9 | $ 3,907 |
| | | | | | | |
| December 31, 2013 | | | | | | |
| Real estate: | | | | | | |
| Construction | 1 | $ 988 | -- | $ -- | 1 | $ 988 |
| Single-family residential | 4 | 862 | -- | -- | 4 | 862 |
| Other commercial | 9 | 6,974 | 1 | 608 | 10 | 7,582 |
| Total real estate | 14 | 8,824 | 1 | 608 | 15 | 9,432 |
| Commercial: | | | | | | |
| Commercial | 1 | 39 | 1 | 60 | 2 | 99 |
| Agricultural | 1 | 635 | -- | -- | 1 | 635 |
| Total commercial | 2 | 674 | 1 | 60 | 3 | 734 |
| Total | 16 | $ 9,498 | 2 | $ 668 | 18 | $ 10,166 |

The following table presents loans that were restructured as TDRs during the three and six months ended June 30, 2014 and during the six months ended June 30, 2013, excluding loans acquired, segregated by class of loans.

| (Dollars in thousands) | Number of Loans | Balance Prior to TDR | Balance at June 30 | Modification Type Change in Maturity Date | Modification Type Change in Rate | Financial Impact on Date of Restructure |
|---|---|---|---|---|---|---|
| Three Months Ended June 30, 2014 | | | | | | |
| Commercial: | | | | | | |
| Commercial | 1 | $ 599 | $ 599 | $ 599 | $ -- | $ -- |
| Total commercial | 1 | 599 | 599 | 599 | -- | -- |
| Total | 1 | $ 599 | $ 599 | $ 599 | $ -- | $ -- |
| Six Months Ended June 30, 2014 | | | | | | |
| Real estate: | | | | | | |
| Single-family residential | 1 | $ 1,031 | $ 1,031 | $ 1,031 | $ -- | $ -- |
| Total real estate | 1 | 1,031 | 1,031 | 1,031 | -- | -- |
| Commercial: | | | | | | |
| Commercial | 1 | 599 | 599 | -- | -- | -- |
| Total commercial | 1 | 599 | 599 | -- | -- | -- |
| Total | 2 | $ 1,630 | $ 1,630 | $ -- | $ -- | $ -- |
| Six Months Ended June 30, 2013 | | | | | | |
| Real estate: | | | | | | |
| Single-family residential | 1 | $ 321 | $ 318 | $ -- | $ 318 | $ -- |
| Total real estate | 1 | 321 | 318 | -- | 318 | -- |
| Total | 1 | $ 321 | $ 318 | $ -- | $ 318 | $ -- |

During the three months ended June 30, 2014, the Company modified one loan with a recorded investment of $599,000 prior to modification which was deemed troubled debt restructuring. The restructured loan was modified by changing various terms, including changing the maturity date. 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.

During the six months ended June 30, 2014, the Company modified two loans with a total recorded investment of $1,630,000 prior to modification which were deemed troubled debt restructuring. The restructured loans were modified by various terms, including changing the maturity date and deferring amortized principal payments. Based on the fair value of the collateral, no specific reserve was determined necessary for these loans. Also, there was no immediate financial impact from the restructuring of these loans, as it was not considered necessary to charge-off interest or principal on the date of restructure.

During the three months ended June 30, 2013, the Company did not modify any loans which were deemed troubled debt restructurings. During the six months ended June 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 six months ended June 30, 2014 and 2013, 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. Loans acquired through FDIC-assisted transactions are accounted for in pools, and all of the loan pools were considered satisfactory at June 30, 2014 and December 31, 2013, respectively. Loans acquired in the Metropolitan acquisition are evaluated individually and include purchased credit impaired loans of $23.4 million and $27.4 million that are classified as substandard at June 30, 2014 and December 31, 2013, respectively. Of the remaining loans acquired in the Metropolitan transaction, $23.5 million and $31.2 million were classified at June 30, 2014 and December 31, 2013, 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 loans, loan pools and loss sharing agreements.

Purchased credit impaired loans are loans that showed evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all amounts contractually owed. Their fair value was initially based on the estimate of cash flows, both principal and interest, expected to be collected or estimated collateral values if cash flows are not estimable, discounted at prevailing market rates of interest. The difference between the undiscounted cash flows expected at acquisition and the fair value at acquisition is recognized as interest income on a level-yield method over the life of the loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition are not recognized as a yield adjustment. Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining life. Decreases in expected cash flows are recognized as impairment.

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, excluding covered and non-covered loans acquired in FDIC-assisted transactions, were $83.8 million and $94.5 million, as of June 30, 2014 and December 31, 2013, respectively.

The following table presents a summary of loans by credit risk rating as of June 30, 2014 and December 31, 2013, segregated by class of loans.

| (In thousands) | Risk Rate 1-4 | Risk Rate 5 | Risk Rate 6 | Risk Rate 7 | Risk Rate 8 | Total |
|---|---|---|---|---|---|---|
| June 30, 2014 | | | | | | |
| Consumer: | | | | | | |
| Credit cards | $ 175,772 | $ -- | $ 467 | $ -- | $ -- | $ 176,239 |
| Student loans | -- | -- | 398 | -- | -- | 398 |
| Other consumer | 104,886 | 4 | 1,041 | 52 | 15 | 105,998 |
| Total consumer | 280,658 | 4 | 1,906 | 52 | 15 | 282,635 |
| Real estate: | | | | | | |
| Construction | 159,825 | 45 | 3,542 | -- | -- | 163,412 |
| Single family residential | 408,160 | 1,641 | 7,386 | -- | -- | 417,187 |
| Other commercial | 629,094 | 4,511 | 20,129 | -- | -- | 653,734 |
| Total real estate | 1,197,079 | 6,197 | 31,057 | -- | -- | 1,234,333 |
| Commercial: | | | | | | |
| Commercial | 227,909 | 2,077 | 3,514 | 10 | -- | 233,510 |
| Agricultural | 111,242 | -- | 325 | -- | -- | 111,567 |
| Total commercial | 339,151 | 2,077 | 3,839 | 10 | -- | 345,077 |
| Other | 6,797 | -- | -- | -- | -- | 6,797 |
| Loans acquired, not covered by FDIC loss share | 352,082 | -- | 45,885 | 1,000 | -- | 398,967 |
| Loans acquired, covered by FDIC loss share | 121,524 | -- | -- | -- | -- | 121,524 |
| Total | $ 2,297,291 | $ 8,278 | $ 82,687 | $ 1,062 | $ 15 | $ 2,389,333 |

| (In thousands) | Risk Rate 1-4 | Risk Rate 5 | Risk Rate 6 | Risk Rate 7 | Risk Rate 8 | Total |
|---|---|---|---|---|---|---|
| December 31, 2013 | | | | | | |
| Consumer: | | | | | | |
| Credit cards | $ 184,415 | $ -- | $ 520 | $ -- | $ -- | $ 184,935 |
| Student loans | 23,642 | -- | 2,264 | -- | -- | 25,906 |
| Other consumer | 97,655 | 2 | 1,121 | 56 | 17 | 98,851 |
| Total consumer | 305,712 | 2 | 3,905 | 56 | 17 | 309,692 |
| Real estate: | | | | | | |
| Construction | 142,213 | 71 | 4,174 | -- | -- | 146,458 |
| Single family residential | 383,934 | 1,412 | 6,939 | -- | -- | 392,285 |
| Other commercial | 600,045 | 7,597 | 18,691 | -- | -- | 626,333 |
| Total real estate | 1,126,192 | 9,080 | 29,804 | -- | -- | 1,165,076 |
| Commercial: | | | | | | |
| Commercial | 162,118 | 200 | 2,001 | 10 | -- | 164,329 |
| Agricultural | 98,761 | -- | 125 | -- | -- | 98,886 |
| Total commercial | 260,879 | 200 | 2,126 | 10 | -- | 263,215 |
| Other | 4,655 | -- | -- | -- | -- | 4,655 |
| | 457,097 | -- | 58,547 | -- | -- | 515,644 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Loans acquired, not covered by FDIC loss share | | | | | | |
| Loans acquired, covered by FDIC loss share | 146,653 | -- | -- | -- | -- | 146,653 |
| Total | $2,301,188 | $ 9,282 | $94,382 | $66 | $ 17 | $2,404,935 |

Net (charge-offs)/recoveries for the three and six months ended June 30, 2014 and 2013, excluding loans acquired, segregated by class of loans, were as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In thousands) | 2014 | 2013 | 2014 | 2013 |
| Consumer: | | | | |
| Credit cards | $ (510) | $ (539) | $ (1,055) | $ (1,212) |
| Student loans | (20) | (17) | (29) | (30) |
| Other consumer | (273) | (177) | (291) | (343) |
| Total consumer | (803) | (733) | (1,375) | (1,585) |
| Real estate: | | | | |
| Construction | (24) | (7) | (444) | (119) |
| Single-family residential | (47) | (54) | (358) | (89) |
| Other commercial | (11) | (531) | (7) | (555) |
| Total real estate | (82) | (592) | (809) | (763) |
| Commercial: | | | | |
| Commercial | (170) | (28) | (220) | (57) |
| Agriculture | -- | (18) | (18) | (32) |
| Total commercial | (170) | (46) | (238) | (89) |
| Total | $ (1,055) | $ (1,371) | $ (2,422) | $ (2,437) |

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.

The following table details activity in the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2014. 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 | Total |
|---|---|---|---|---|---|
| Three Months Ended June 30, 2014 | | | | | |
| Balance, beginning of period | $ 3,508 | $ 16,393 | $ 5,444 | $ 1,638 | $ 26,983 |
| Provision for loan losses | 613 | (142) | 576 | 555 | 1,602 |
| Charge-offs | (186) | (1,144) | (725) | (426) | (2,481) |
| Recoveries | 16 | 1,062 | 215 | 133 | 1,426 |
| Net charge-offs | (170) | (82) | (510) | (293) | (1,055) |
| Balance, June 30, 2014 | $ 3,951 | $ 16,169 | $ 5,510 | $ 1,900 | $ 27,530 |
| | | | | | |
| Six Months Ended June 30, 2014 | | | | | |
| Balance, beginning of period | $ 3,205 | $ 16,885 | $ 5,430 | $ 1,922 | $ 27,442 |
| Provision for loan losses | 984 | 93 | 1,135 | 298 | 2,510 |
| Charge-offs | (268) | (2,179) | (1,541) | (574) | (4,562) |
| Recoveries | 30 | 1,370 | 486 | 254 | 2,140 |
| Net charge-offs | (238) | (809) | (1,055) | (320) | (2,422) |
| Balance, June 30, 2014 | $ 3,951 | $ 16,169 | $ 5,510 | $ 1900 | $ 27,530 |
| | | | | | |
| Period-end amount allocated to: | | | | | |
| Loans individually evaluated for impairment | $ 136 | $ 1,697 | $ 13 | $ 166 | $ 2,012 |
| Loans collectively evaluated for impairment | 3,815 | 14,472 | 5,497 | 1,734 | 25,518 |
| Balance, June 30, 2014 | $ 3,951 | $ 16,169 | $ 5,510 | $ 1,900 | $ 27,530 |

Activity in the allowance for loan losses for the three and six months ended June 30, 2013 was as follows:

| (In thousands) | Commercial | Real Estate | Credit Card | Other Consumer and Other | Total |
|---|---|---|---|---|---|
| Three Months Ended June 30, 2013 | | | | | |
| Balance, beginning of period | $ 3,532 | $ 16,131 | $ 6,799 | $ 1,273 | $ 27,735 |
| Provision for loan losses | 233 | (64) | 616 | 249 | 1,034 |
| Charge-offs | (133) | (887) | (743) | (310) | (2,073) |
| Recoveries | 87 | 295 | 204 | 116 | 702 |
| Net charge-offs | (46) | (592) | (539) | (194) | (1,371) |
| Balance, June 30, 2013 | $ 3,719 | $ 15,475 | $ 6,876 | $ 1,328 | $ 27,398 |
| | | | | | |
| Six Months Ended June 30, 2013 | | | | | |
| Balance, beginning of period | $ 3,446 | $ 15,453 | $ 7,211 | $ 1,772 | $ 27,882 |
| Provision for loan losses | 362 | 785 | 877 | (71) | 1,953 |
| Charge-offs | (229) | (1,126) | (1,652) | (684) | (3,691) |
| Recoveries | 140 | 363 | 440 | 311 | 1,254 |
| Net charge-offs | (89) | (763) | (1,212) | (373) | (2,437) |
| Balance, June 30, 2013 | $ 3,719 | $ 15,475 | $ 6,876 | $ 1,328 | $ 27,398 |
| | | | | | |
| Period-end amount allocated to: | | | | | |
| Loans individually evaluated for impairment | $ 114 | $ 1,509 | $ 76 | $ 196 | $ 1,895 |
| Loans collectively evaluated for impairment | 3,605 | 13,966 | 6,800 | 1,132 | 25,503 |
| Balance, June 30, 2013 | $ 3,719 | $ 15,475 | $ 6,876 | $ 1,328 | $ 27,398 |
| | | | | | |
| Period-end amount allocated to: | | | | | |
| Loans individually evaluated for impairment | $ 93 | $ 1,680 | $ 16 | $ 171 | $ 1,960 |
| Loans collectively evaluated for impairment | 3,112 | 15,205 | 5,414 | 1,751 | 25,482 |
| Balance, December 31, 2013 | $ 3,205 | $ 16,885 | $ 5,430 | $ 1,922 | $ 27,442 |

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 |
|---|---|---|---|---|---|
| June 30, 2014 | | | | | |
| Loans individually evaluated for impairment | $ 827 | $ 16,558 | $ 424 | $ 747 | $ 18,556 |
| Loans collectively evaluated for impairment | 344,250 | 1,217,775 | 175,815 | 112,446 | 1,850,286 |
| Balance, end of period | $ 345,077 | $ 1,234,333 | $ 176,239 | $ 113,193 | $ 1,868,842 |
| | | | | | |
| December 31, 2013 | | | | | |
| Loans individually evaluated for impairment | $ 541 | $ 16,345 | $ 520 | $ 910 | $ 18,316 |
| Loans collectively evaluated for impairment | 262,674 | 1,148,731 | 184,415 | 128,502 | 1,724,322 |
| Balance, end of period | $ 263,215 | $ 1,165,076 | $ 184,935 | $ 129,412 | $ 1,742,638 |

NOTE 5: LOANS ACQUIRED

During the fourth quarter of 2013, the Company evaluated $429.0 million of net loans ($442.0 million gross loans less $13.0 million discount) purchased in conjunction with the acquisition of Metropolitan, described in Note 2, Acquisitions, in accordance with the provisions of ASC Topic 310-20, Nonrefundable Fees and Other Costs. The fair value discount is being accreted into interest income over the weighted average life of the loans using a constant yield method. These loans are not considered to be impaired loans. The Company evaluated the remaining $28.4 million of net loans ($52.8 million gross loans less $24.5 million discount) purchased in conjunction with the acquisition of Metropolitan for impairment in accordance with the provisions of ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. Purchased loans 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 Company evaluated all of the loans purchased in conjunction with its previous FDIC-assisted transactions in accordance with the provisions of ASC Topic 310-30. All loans acquired in the FDIC transactions, both covered and not covered, were deemed to be impaired loans. 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. These loans were not classified as nonperforming assets at June 30, 2014 or December 31, 2013, as the loans are accounted for on a pooled basis and the pools are considered to be performing. See Note 2, Acquisitions, for further discussion of loans acquired

The following table reflects the carrying value of all acquired loans as of June 30, 2014 and December 31, 2013:

| | Loans Acquired | |
|---|---|---|
| (in thousands) | June 30, 2014 | December 31, 2013 |
| Consumer: | | |
| Credit Cards | $ 5,820 | $ 8,116 |
| Other consumer | 9,649 | 15,242 |
| Total consumer | 15,469 | 23,358 |
| Real estate: | | |
| Construction | 48,019 | 58,954 |
| Single family residential | 138,142 | 169,599 |
| Other commercial | 275,739 | 338,529 |
| Total real estate | 461,900 | 567,082 |
| Commercial: | | |
| Commercial | 43,122 | 71,857 |
| Total commercial | 43,122 | 71,857 |
| Total loans acquired (1) | $ 520,491 | $ 662,297 |

(1) Included in loans acquired were $121.5 million and $146.7 million of loans covered by FDIC loss share agreements at June 30, 2014 and December 31, 2013, respectively.

Loans acquired as a part of the Metropolitan transaction were individually evaluated and recorded at estimated fair value, including estimated credit losses, at the time of acquisition. The loans acquired in FDIC assisted transactions were grouped into pools based on common risk characteristics and the pools were recorded at their estimated fair values, which incorporated estimated credit losses at the acquisition date. These loans and 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 legacy loan portfolio, with most focus being placed on those loans which include the larger loan relationships and those loans which exhibit higher risk characteristics.

The amount of the estimated cash flows expected to be received from the acquired loan pools and purchased credit impaired loans in excess of the fair values recorded for the loan pools and the purchased credit impaired loans 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 purchased credit impaired loans, 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. This has resulted in increased interest income that is spread on a level-yield basis over the remaining expected lives of the loan pools. Because these particular loan pools are 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 six months ended June 30, 2014 and 2013, is shown below:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In thousands) | 2014 | 2013 | 2014 | 2013 |
| Impact on net interest income | $ 5,856 | $ 3,150 | $ 13,247 | $ 6,097 |
| Non-interest income | (6,410) | (3,062) | (13,850) | (5,890) |
| Net impact to pre-tax income | (554) | 88 | (603) | 207 |
| Net impact, net of taxes | $ (337) | $ 53 | $ (366) | $ 126 |

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 $25.1 million and the remaining adjustment to the indemnification assets that will reduce non-interest income is $18.6 million. Of the remaining adjustments, the Company expects to recognize $9.6 million of interest income and a $10.6 million reduction of non-interest income, for a net reduction to pre-tax income of approximately $1.0 million during the remainder of 2014. 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 loans were as follows for the three and six months ended June 30, 2014 and 2013.

| | Three Months Ended June 30, 2014 | | Six Months Ended June 30, 2014 | |
|---|---|---|---|---|
| (In thousands) | Accretable Yield | Carrying Amount of Loans | Accretable Yield | Carrying Amount of Loans |
| Beginning balance | $ 33,542 | $ 218,532 | $ 41,385 | $ 234,785 |
| Additions | -- | -- | -- | -- |
| Accretable yield adjustments | 3,928 | -- | 5,411 | -- |
| Accretion | (6,180) | 6,180 | (15,506) | 15,506 |
| Payments and other reductions, net | -- | (32,619) | -- | (58,198) |
| Balance, ending | $ 31,290 | $ 192,093 | $ 31,290 | $ 192,093 |

| | Three Months Ended June 30, 2013 | | Six Months Ended June 30, 2013 | |
|---|---|---|---|---|
| (In thousands) | Accretable Yield | Carrying Amount of Loans | Accretable Yield | Carrying Amount of Loans |
| Beginning balance | $ 55,187 | $ 260,282 | $ 58,066 | $ 293,606 |
| Additions | -- | -- | -- | -- |
| Accretable yield adjustments | 592 | -- | 6,383 | -- |
| Accretion | (7,861) | 7,861 | (16,531) | 16,531 |
| Payments and other reductions, net | -- | (40,907) | -- | (82,901) |
| Balance, ending | $ 47,918 | $ 227,236 | $ 47,918 | $ 227,236 |

Purchased impaired loans on the FDIC-assisted transactions are evaluated in pools with similar characteristics. No pools evaluated by the Company were determined to have experienced impairment in the estimated credit quality or cash flows. For Metropolitan, purchased impaired loans are evaluated on an individual borrower basis. No loans evaluated by the Company were determined to have experienced further impairment. Therefore, there were no allowances for loan losses related to the purchased impaired loans at June 30, 2014 or December 31, 2013.

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 six months ended June 30, 2014 and 2013.

| (In thousands) | Three Months Ended June 30, 2014 | Three Months Ended June 30, 2013 | Six Months Ended June 30, 2014 | Six Months Ended June 30, 2013 |
|---|---|---|---|---|
| Beginning balance | $ 7,253 | $ 5,256 | $ 6,768 | $ 4,854 |
| FDIC true-up provision recorded on new acquisitions | -- | -- | -- | -- |
| Amortization expense | 41 | 38 | 84 | 81 |
| Adjustments related to changes in expected losses | 474 | 283 | 916 | 642 |
| Balance, ending | $ 7,768 | $ 5,577 | $ 7,768 | $ 5,577 |

## NOTE 6: GOODWILL AND CORE DEPOSIT PREMIUMS

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 $78.5 million at June 30, 2014 and at December 31, 2013.

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 is being amortized over a five year period, with monthly amortization beginning in October 2013.

The Company's goodwill and other intangibles (carrying basis and accumulated amortization) at June 30, 2014 and December 31, 2013, were as follows:

| (In thousands) | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Goodwill | $ 78,529 | $ 78,529 |
| Core deposit premiums: | | |
| Gross carrying amount | 14,000 | 15,245 |
| Accumulated amortization | (1,691) | (2,237) |
| Core deposit premiums, net | 12,309 | 13,008 |
| Purchased credit card relationships: | | |
| Gross carrying amount | 2,068 | 2,068 |
| Accumulated amortization | (310) | (104) |
| Purchased credit card relationships, net | 1,758 | 1,964 |
| Other misc. intangibles, net | 27 | -- |
| Other intangible assets, net | 14,094 | 14,972 |
| Total goodwill and other intangible assets | $ 92,623 | $ 93,501 |

Core deposit premium amortization expense recorded for the three and six months ended June 30, 2014 was $350,000 and $699,000, respectively. Core deposit premium amortization expense recorded for the three and six months ended June 30, 2013 was $136,000 and $273,000, respectively. The Company's estimated remaining amortization expense on core deposit premiums as of June 30, 2014, is as follows:

| (In thousands) | Year | Amortization Expense |
|---|---|---|
| | Remaining in 2014 | $ 695 |
| | 2015 | 1,388 |
| | 2016 | 1,385 |
| | 2017 | 1,385 |
| | 2018 | 1,385 |
| | Thereafter | 6,071 |
| | Total | $ 12,309 |

PCCR amortization expense recorded for the three and six months ended June 30, 2014 was $104,000 and $207,000, respectively. There was no PCCR amortization expense recorded for the three and six months ended June 30, 2013. The Company's estimated remaining amortization expense on PCCR's as of June 30, 2014, is as follows:

| (In thousands) | Year | Amortization Expense |
|---|---|---|
| | Remaining in 2014 | $ 207 |
| | 2015 | 414 |
| | 2016 | 414 |
| | 2017 | 413 |
| | 2018 | 310 |
| | Thereafter | -- |
| | Total | $ 1,758 |

NOTE 7: TIME DEPOSITS

Time deposits include approximately $459,545,000 and $504,782,000 of certificates of deposit of $100,000 or more at June 30, 2014, and December 31, 2013, respectively.

NOTE 8: INCOME TAXES

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

| (In thousands) | June 30, 2014 | June 30, 2013 |
|---|---|---|
| Income taxes currently payable | $ 8,539 | $ 7,302 |
| Deferred income taxes | (3,143) | (1,756) |
| Provision for income taxes | $ 5,396 | $ 5,546 |

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

| (In thousands) | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Deferred tax assets | | |
| Loans acquired | $ 16,155 | $ 21,853 |
| FDIC true-up liability | 2,606 | 2,369 |
| Allowance for loan losses | 10,880 | 10,660 |
| Valuation of foreclosed assets | 7,496 | 7,468 |
| Tax NOLS from acquisition | 11,819 | 11,819 |
| Deferred compensation payable | 1,863 | 1,808 |
| FHLB advances | 230 | 283 |
| Vacation compensation | 1,233 | 1,148 |
| Accumulated depreciation | 5,447 | 4,916 |
| Loan interest | 767 | 767 |
| Unrealized loss on available-for-sale securities | 909 | 1,938 |
| Other | 8,681 | 5,885 |
| Total deferred tax assets | 68,086 | 70,914 |
| Deferred tax liabilities | | |
| Deferred loan fee income and expenses, net | (4,183) | (2,697) |
| FHLB stock dividends | (1,115) | (1,110) |
| Goodwill and other intangible amortization | (17,354) | (16,506) |
| FDIC indemnification asset | (11,967) | (19,138) |
| Other | (1,121) | (1,231) |
| Total deferred tax liabilities | (35,740) | (40,682) |
| Net deferred tax assets included in other assets on balance sheets | $ 32,346 | $ 30,232 |

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

| (In thousands) | June 30, 2014 | June 30, 2013 |
|---|---|---|
| Computed at the statutory rate (35%) | $ 6,880 | $ 6,321 |
| Increase (decrease) in taxes resulting from: | | |
| State income taxes, net of federal tax benefit | 460 | 508 |
| Tax exempt interest income | (1,868) | (1,200) |
| Tax exempt earnings on BOLI | (247) | (225) |
| Other differences, net | 171 | 142 |

| | | |
|---|---|---|
| Actual tax provision | $ 5,396 | $ 5,546 |

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 2010 tax year and forward. The Company's various state income tax returns are generally open from the 2007 and later tax return years based on individual state statute of limitations.

## NOTE 9: OTHER BORROWINGS AND SUBORDINATED DEBENTURES

Debt at June 30, 2014, and December 31, 2013, consisted of the following components:

| (In thousands) | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Other Borrowings | | |
| FHLB advances, due 2014 to 2033, 0.35% to 8.41% secured by real estate loans | $ 69,602 | $ 71,090 |
| Notes payable, due 12/31/2014 to 12/31/2016, 3.25%, floating rate, unsecured | 46,000 | 46,000 |
| | 115,602 | 117,090 |
| 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 | $ 136,222 | $ 137,710 |

During the fourth quarter of 2013, the Company borrowed $46.0 million from correspondent banks to partially fund the acquisition of Metropolitan. This debt is unsecured and is scheduled to be repaid in three years or less, by December 31, 2016.

At June 30, 2014, 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 $69.6 million at June 30, 2014, with approximately $534.2 million of additional advances available from the FHLB. The FHLB advances are secured by mortgage loans and investment securities totaling approximately $633.8 million at June 30, 2014.

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 June 30, 2014, are:

| (In thousands) | Year | | Annual Maturities |
|---|---|---|---|
| | 2014 | $ | 6,641 |
| | 2015 | | 15,335 |
| | 2016 | | 47,745 |
| | 2017 | | 22,051 |
| | 2018 | | 6,651 |
| | Thereafter | | 37,799 |
| | Total | $ | 136,222 |

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 2012, the Company announced the substantial completion of its 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 intends to use the repurchased shares to satisfy stock option exercises, payment of future stock awards and dividends and general corporate purposes.

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. Under the current stock repurchase plan, the Company can repurchase an additional 154,136 shares.

On March 4, 2014 the Company filed a shelf registration statement with the Securities and Exchange Commission ("SEC"). Subsequently, on June 18, 2014 the Company filed Amendment No. 1 to the shelf registration statement. After becoming effective, the shelf registration statement allows the Company to raise capital from time to time, up to an aggregate of $300 million, through the sale of common stock, preferred stock, stock warrants, stock rights or a combination thereof, subject to market conditions. Specific terms and prices are determined at the time of any offering under a separate prospectus supplement that the Company is required to file with the SEC at the time of the specific offering.

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 June 30, 2014, the Company subsidiaries had approximately $2.8 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 June 30, 2014, each of the four remaining subsidiary banks met the capital standards for a well-capitalized institution. The Company's “total risk-based capital” ratio was 14.75% at June 30, 2014.

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 six months ended June 30, 2014:

| | 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, 2014 | 184,410 | $ 27.04 | 145,635 | $ 26.00 |
| Granted | -- | -- | 71,840 | 35.62 |
| Stock Options Exercised | (33,360) | 25.25 | -- | -- |
| Stock Awards Vested | -- | -- | (48,225) | 30.47 |
| Forfeited/Expired | -- | -- | (1,558) | 25.64 |
| Balance, June 30, 2014 | 151,050 | $ 27.43 | 167,692 | $ 28.68 |
| Exercisable, June 30, 2014 | 151,050 | $ 27.43 | | |

The following table summarizes information about stock options under the plans outstanding at June 30, 2014:

| | 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 | 10,800 | 0.07 | $ 23.78 | 10,800 | $ 23.78 |
| 24.50 - 24.50 | 22,800 | 0.90 | 24.50 | 22,800 | 24.50 |
| 26.19 - 27.67 | 38,700 | 1.88 | 26.21 | 38,700 | 26.21 |
| 28.42 - 28.42 | 38,500 | 2.92 | 28.42 | 38,500 | 28.42 |
| 30.31 - 30.31 | 40,250 | 3.91 | 30.31 | 40,250 | 30.31 |

Total stock-based compensation expense was $655,000 and $714,000 during the six months ended June 30, 2014 and 2013, 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 June 30, 2014. Unrecognized stock-based compensation expense related to non-vested stock awards was $4.1 million at June 30, 2014. At such date, the weighted-average period over which this unrecognized expense is expected to be recognized was 2.60 years.

The intrinsic value of stock options outstanding and stock options exercisable at June 30, 2014 was $1.8 million. Intrinsic value represents the difference between the Company's closing stock price on the last trading day of the period, which was $39.39 as of June 30, 2014, 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 six months ended June 30, 2014 and June 30, 2013, was $471,000 and $9,000, respectively.

NOTE 14: ADDITIONAL CASH FLOW INFORMATION

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

| (In thousands) | Six Months Ended June 30, 2014 | Six Months Ended June 30, 2013 |
|---|---|---|
| Interest paid | $ 6,952 | $ 6,112 |
| Income taxes paid | 11,674 | 7,144 |
| Transfers of loans to foreclosed assets | 2,097 | 6,556 |
| Transfers of loans acquired, covered by FDIC loss share, to foreclosed assets covered by FDIC loss share | 4,043 | 3,267 |

NOTE 15:OTHER OPERATING EXPENSES

Other operating expenses consist of the following:

| (In thousands) | Three Months Ended June 30, 2014 | Three Months Ended June 30, 2013 | Six Months Ended June 30, 2014 | Six Months Ended June 30, 2013 |
|---|---|---|---|---|
| Professional services | $ 1,868 | $ 1,106 | $ 3,246 | $ 2,248 |
| Postage | 813 | 609 | 1,730 | 1,242 |
| Telephone | 703 | 550 | 1,403 | 1,208 |
| Credit card expense | 2,123 | 1,790 | 4,322 | 3,331 |
| Operating supplies | 418 | 405 | 934 | 794 |
| Amortization of intangibles | 452 | 137 | 954 | 273 |
| Branch right sizing expense | 300 | -- | 4,178 | -- |
| Other expense | 3,869 | 3,221 | 7,156 | 6,503 |
| Total other operating expenses | $ 10,546 | $ 7,818 | $ 23,923 | $ 15,599 |

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 June 30, 2014, the Company had outstanding commitments to extend credit aggregating approximately $481,940,000 and $415,195,000 for credit card commitments and other loan commitments. At December 31, 2013, the Company had outstanding commitments to extend credit aggregating approximately $464,108,000 and $408,388,000 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 $9,154,000 and $10,349,000 at June 30, 2014, and December 31, 2013, respectively, with terms ranging from 7 months to 5 years. At June 30, 2014 and December 31, 2013, the Company's deferred revenue under standby letter of credit agreements was approximately $26,000 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 June 30, 2014 and 2013.

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 June 30, 2014 and December 31, 2013.

| | | 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) |
| June 30, 2014 | | | | |
| ASSETS | | | | |
| Available-for-sale securities: | | | | |
| U.S. Treasury | $ 3,994 | $ -- | $ 3,994 | $ -- |
| U.S. Government agencies | 238,411 | -- | 238,411 | -- |
| Mortgage-backed securities | 1,958 | -- | 1,958 | -- |
| State and political subdivisions | 6,920 | -- | 6,920 | -- |
| Other securities | 19,053 | -- | 19,053 | -- |
| Assets held in trading accounts | 6,881 | 3,320 | 3,561 | -- |
| | | | | |
| December 31, 2013 | | | | |
| ASSETS | | | | |
| Available-for-sale securities: | | | | |
| U.S. Treasury | $ 3,985 | $ -- | $ 3,985 | $ -- |
| U.S. Government agencies | 178,217 | -- | 178,217 | -- |
| Mortgage-backed securities | 1,891 | -- | 1,891 | -- |
| State and political subdivisions | 7,861 | -- | 7,861 | -- |
| Other securities | 20,323 | 1,504 | 18,819 | -- |
| Assets held in trading accounts | 8,978 | 1,520 | 7,458 | -- |

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 June 30, 2014 and December 31, 2013, the fair value of foreclosed assets held for sale, excluding those covered by FDIC loss share agreements, less estimated costs to sell, was $53.3 million and $64.8 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 June 30, 2014, and December 31, 2013, 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 June 30, 2014, and December 31, 2013.

| | | 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) |
| June 30, 2014 | | | | |
| ASSETS | | | | |
| Impaired loans (1) (2) (collateral dependent) | $ 6,138 | $ -- | $ -- | $ 6,138 |
| Foreclosed assets held for sale (1) | 561 | -- | -- | 561 |
| | | | | |
| December 31, 2013 | | | | |

| | | | | |
|---|---|---|---|---|
| ASSETS | | | | |
| Impaired loans (1) (2) (collateral dependent) | $ 2,768 | $ -- | $ -- | $ 2,768 |
| Foreclosed assets held for sale (1) | 642 | -- | -- | 642 |

(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 $367,000 and $249,000 were related to the impaired collateral dependent loans for which fair value re-measurements took place during the periods ended June 30, 2014 and December 31, 2013, 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 |
|---|---|---|---|---|---|
| June 30, 2014 | | | | | |
| Financial assets: | | | | | |
| Cash and cash equivalents | $ 422,660 | $ 422,660 | $ -- | $ -- | $ 422,660 |
| Held-to-maturity securities | 799,963 | -- | 800,401 | -- | 800,401 |
| Mortgage loans held for sale | 20,409 | -- | -- | 20,409 | 20,409 |
| Interest receivable | 14,254 | -- | 14,254 | -- | 14,254 |
| Legacy loans | 1,841,312 | -- | -- | 1,864,660 | 1,864,660 |
| Loans acquired, not covered by FDIC loss share | 398,967 | -- | -- | 392,957 | 392,957 |
| Loans acquired, covered by FDIC loss share | 121,524 | -- | -- | 120,413 | 120,413 |
| FDIC indemnification asset | 30,508 | -- | -- | 30,508 | 30,508 |
| | | | | | |
| Financial liabilities: | | | | | |
| Non-interest bearing transaction accounts | 838,543 | -- | 838,543 | -- | 838,543 |
| Interest bearing transaction accounts and savings deposits | 1,784,040 | -- | 1,784,040 | -- | 1,784,040 |
| Time deposits | 1,019,142 | -- | -- | 1,022,339 | 1,022,339 |
| Federal funds purchased and securities sold under agreements to repurchase | 98,226 | -- | 98,226 | -- | 98,226 |
| Other borrowings | 115,602 | -- | 117,707 | -- | 117,707 |
| Subordinated debentures | 20,620 | -- | 16,115 | -- | 16,115 |
| Interest payable | 1,442 | -- | 1,442 | -- | 1,442 |
| | | | | | |
| December 31, 2013 | | | | | |
| Financial assets: | | | | | |
| Cash and cash equivalents | $ 539,380 | $ 539,380 | $ -- | $ -- | $ 539,380 |
| Held-to-maturity securities | 745,688 | -- | 731,445 | -- | 731,445 |
| Mortgage loans held for sale | 9,494 | -- | -- | 9,494 | 9,494 |
| Interest receivable | 15,654 | -- | 15,654 | -- | 15,654 |
| Legacy loans | 1,715,196 | -- | -- | 1,694,748 | 1,694,748 |
| Loans acquired, not covered by FDIC loss share | 515,644 | -- | -- | 513,676 | 513,676 |
| Loans acquired, covered by FDIC loss share | 146,653 | -- | -- | 143,814 | 143,814 |
| FDIC indemnification asset | 48,791 | -- | -- | 48,791 | 48,791 |
| | | | | | |
| Financial liabilities: | | | | | |
| Non-interest bearing transaction accounts | 718,438 | -- | 718,438 | -- | 718,438 |
| Interest bearing transaction accounts and savings deposits | 1,862,618 | -- | 1,862,618 | -- | 1,862,618 |
| Time deposits | 1,116,511 | -- | -- | 1,120,035 | 1,120,035 |
| Federal funds purchased and securities sold under agreements to repurchase | 107,887 | -- | 107,887 | -- | 107,887 |
| Other borrowings | 117,090 | -- | 117,160 | -- | 117,160 |
| Subordinated debentures | 20,620 | -- | 12,991 | -- | 12,991 |
| Interest payable | 1,450 | -- | 1,450 | -- | 1,450 |

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 June 30, 2014, and the related condensed consolidated statements of income and comprehensive income for the three month and six month periods ended June 30, 2014 and 2013 and stockholders' equity and cash flows for the six month periods ended June 30, 2014 and 2013. 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, 2013, 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 11, 2014, 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, 2013, 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
August 11, 2014

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

## OVERVIEW

Our net income for the three months ended June 30, 2014, was $9.9 million and diluted earnings per share were $0.60, compared to net income of $6.6 million and $0.40 diluted earnings per share for the same period of 2013. Net income for the six months ended June 30, 2014, was $14.3 million and diluted earnings per share were $0.87, compared to net income of $12.5 million and $0.76 diluted earnings per share for the same period of 2013.

Net income for the first and second quarters in both 2014 and 2013 included significant nonrecurring items that impacted net income. The majority of these items, which we will discuss later in this section, were related to our acquisitions. Excluding all nonrecurring items, core earnings for the three months ended June 30, 2014 were $9.2 million, or $0.56 diluted core earnings per share, compared to $6.4 million, or $0.39 diluted core earnings per share for the same period in 2013. Diluted core earnings per share increased by $0.17, or 43.6%. Core earnings for the six months ended June 30, 2014 were $16.6 million, or $1.02 diluted core earnings per share, compared to $12.5 million, or $0.76 diluted core earnings per share for the same period in 2013. Diluted core earnings per share increased by $0.26, or 34.2%. See Reconciliation of Non-GAAP Measures and Table 13 – Reconciliation of Core Earnings (non-GAAP) for additional discussion of non-GAAP measures.

On November 25, 2013, we closed the transaction to acquire Metropolitan National Bank ("Metropolitan" or "MNB"), headquartered in Little Rock, Arkansas. During the first quarter of 2014 we completed the system integration and branch consolidation associated with the Metropolitan acquisition. We also entered into a definitive agreement and plan of merger with Delta Trust & Banking Corporation ("Delta Trust"), also headquartered in Little Rock, including its wholly-owned bank subsidiary Delta Trust & Bank, with plans to complete the transaction in the third quarter of 2014.

During the second quarter of 2014, we entered into a definitive agreement and plan of merger with Community First Bancshares, Inc. ("Community First"), headquartered in Union City, Tennessee, including its wholly-owned bank subsidiary First State Bank ("First State"). During the second quarter we also entered into a definitive agreement and plan of merger with Liberty Bancshares, Inc. ("Liberty"), headquartered in Springfield, Missouri, including its wholly-owned bank subsidiary Liberty Bank. We plan to complete both of these transactions in the fourth quarter of 2014.

The second quarter of 2014 was a landmark quarter for Simmons. We announced two acquisitions totaling approximately $3 billion in assets and reported record core earnings and record core earnings per share for the quarter. 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 as well as in our growth from acquisitions, which enabled us to produce a net interest margin of 4.34% for the quarter.

Stockholders' equity as of June 30, 2014 was $414.1 million, book value per share was $25.36 and tangible book value per share was $19.69. Our ratio of stockholders' equity to total assets was 9.6% and the ratio of tangible stockholders' equity to tangible assets was 7.6% at June 30, 2014. The Company's Tier I leverage ratio of 8.4%, 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).

Total assets were $4.33 billion at June 30, 2014, compared to $4.38 billion at December 31, 2013 and $3.42 billion at June 30, 2013. Total loans, including loans acquired, were $2.39 billion at June 30, 2014, compared to $2.40 billion at December 31, 2013 and $1.88 billion at June 30, 2013. We continue to have good asset quality.

Simmons First National Corporation is a $4.3 billion Arkansas based financial holding company conducting financial operations throughout Arkansas, Kansas and Missouri.  Including the pending acquisitions, we project pro forma assets of $8.1 billion with an expansion of our operations within Arkansas, Missouri, and into Tennessee.

Subsidiary Bank Consolidation

We announced in March our plans to consolidate our seven subsidiary banks into a single banking organization, Simmons First National Bank ("Simmons Bank"), headquartered in Pine Bluff, Arkansas.  We completed the first phase by consolidating three subsidiary banks into Simmons Bank in May, and will complete the final phase by consolidating the remaining three subsidiary banks into Simmons Bank in August.  The elimination of the separate bank charters will increase the Company's efficiency and assist us in more effectively meeting the increased regulatory burden currently facing banking institutions.  There are many operational functions that we currently perform separately for each of our seven banks; after the consolidation, these tasks will only need to be performed once.

We expect our customers to experience a positive impact from this change. All of our banking and financial services will continue to be available in the same locations as before the consolidation. Our local management and Community Boards of Directors are committed to maintaining our nearby and neighborly service and this change will allow them more opportunity to meet the needs of our customers and the communities we serve.

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 Not Acquired

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.

The allowance for loan losses 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.

Our evaluation of the allowance for loan losses is inherently subjective as it requires material estimates. The actual amounts of loan losses realized in the near term could differ from the amounts estimated in arriving at the allowance for loan losses reported in the financial statements.

Acquisition Accounting, Acquired Loans

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.

We evaluate loans acquired in accordance with the provisions of ASC Topic 310-20, Nonrefundable Fees and Other Costs.  The fair value discount on these loans is accreted into interest income over the weighted average life of the loans using a constant yield method.  These loans are not considered to be impaired loans.  We evaluate purchased impaired loans accordance with the provisions of ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality.  Purchased loans 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.

We evaluate all of the loans purchased in conjunction with its FDIC-assisted transactions in accordance with the provisions of ASC Topic 310-30.  All loans acquired in the FDIC transactions, both covered and not covered, were deemed to be impaired loans.  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.

For impaired loans accounted for under ASC Topic 310-30, 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, and on purchased credit impaired loans.  We evaluate at each balance sheet date whether the present value of our pools of loans and purchased credit impaired 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 or over the remaining life of the purchased credit impaired loans.

Covered Loans and Related Indemnification Asset

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, 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 June 30, 2014, net interest income on a fully taxable equivalent basis was $42.1 million, an increase of $11.5 million, or 37.3%, over the same period in 2013. The increase in net interest income was the result of an $11.9 million increase in interest income and a $0.4 million increase in interest expense.

The increase in interest income primarily resulted from a $9.5 million increase in interest income on loans and a $2.4 million increase in interest income on investment securities.  The increase in interest income on investment securities was primarily due to volume increases resulting from the Metropolitan acquisition in late 2013.  The increase in interest income from loans consisted of a $9.4 million increase in interest income on loans acquired and a $0.1 million increase in interest income on legacy loans.  Although the increase in legacy loan volume generated $1.6 million of additional interest income, a 37 basis point decline in yield resulted in a $1.5 million decrease in interest income, netting the small $0.1 million increase from legacy loans.

The $9.4 million increase in interest income from acquired loans resulted from two sources. First, the average balance of acquired loans increased by $374.2 million from June 30, 2013 to June 30, 2014 because of the Metropolitan acquisition. Also, we recognized additional yield accretion in conjunction with the fair value of the loan pools acquired in the 2010 and 2012 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, 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 third quarter of 2013, the cash flows estimate has also increased on the loans acquired in 2012. 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 are 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 June 30, 2014, the adjustments increased interest income by an additional $2.7 million and decreased non-interest income by an additional $3.3 million compared to the same period in 2013. The net decrease to 2014 second quarter pre-tax income was $642,000 from 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 $25.1 million and the remaining adjustment to the indemnification assets that will reduce non-interest income is $18.6 million. Of the remaining adjustments, we expect to recognize $9.6 million of interest income and a $10.6 million reduction of non-interest income for a net reduction to pre-tax income of approximately $1.0 million during the remainder of 2014. The accretable yield adjustments recorded in future periods will change as we continue to evaluate expected cash flows from the acquired loan pools.

The $0.4 million increase in interest expense is primarily the result of $46.0 million in 3.25% floating rate notes payable secured as partial funding for our Metropolitan acquisition. The decrease in interest expense from lower interest rates on our deposit accounts offset the increased interest expense from the growth in deposits, primarily from Metropolitan.

Net Interest Income Year-to-Date Analysis

For the six month period ended June 30, 2014, net interest income on a fully taxable equivalent basis was $85.4 million, an increase of $23.5 million, or 38.1%, over the same period in 2013. The increase in net interest income was the result of a $24.3 million increase in interest income and a $0.8 million increase in interest expense.

The increase in interest income resulted from a $19.8 million increase in interest income on loans and a $4.6 million increase in interest income on investment securities. The increase in interest income on investment securities was primarily due to volume increases resulting from the Metropolitan acquisition in late 2013. The increase in interest income from loans consisted of a $21.8 million increase in interest income on loans acquired and a $2.0 million decrease in interest income on legacy loans. Although the increase in legacy loan volume generated $2.4 million of additional interest income, a 51 basis point decline in yield resulted in a $4.4 million decrease in interest income, netting the $2.0 million decrease from legacy loans.

The $21.8 million increase in interest income from acquired loans resulted from two sources. First, the average balance of acquired loans increased by $412.3 million because of the Metropolitan acquisition. Also, we recognized additional yield accretion from the accretable yield adjustments related to the loan pools acquired in the FDIC-assisted transactions. For the six months ended June 30, 2014, the adjustments increased interest income by an additional $7.1 million and decreased non-interest income by an additional $7.9 million compared to the same period in 2013. The net decrease to 2014 year-to-date pre-tax income was $810,000 from 2013.

The $0.8 million increase in interest expense is primarily the result of the $46.0 million in 3.25% floating rate notes payable issued as partial funding for our Metropolitan acquisition.  The decrease in interest expense from lower interest rates on our deposit accounts offset the increased interest expense from the growth in deposits, primarily from Metropolitan.

Net Interest Margin

Our net interest margin increased 38 basis points to 4.34% for the three month period ended June 30, 2014, when compared to 3.96% for the same period in 2013.  For the six month period ended June 30, 2014, net interest margin increased 46 basis points to 4.44% when compared to 3.98% for the same period in 2013.  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 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.

Although interest income from our accretable yield adjustments has increased from 2013, the total accretable yield is declining as our FDIC-assisted acquired loan portfolios begin to mature. This reduction in total accretable yield also acts 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 six month periods ended June 30, 2014 and 2013, respectively, as well as changes in fully taxable equivalent net interest margin for the three month and six month periods ended June 30, 2014, versus June 30, 2013.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In thousands) | 2014 | 2013 | 2014 | 2013 |
| Interest income | $ 43,842 | $ 32,571 | $ 88,876 | $ 65,803 |
| FTE adjustment | 1,695 | 1,095 | 3,387 | 2,168 |
| Interest income – FTE | 45,537 | 33,666 | 92,263 | 67,971 |
| Interest expense | 3,414 | 2,989 | 6,904 | 6,146 |
| Net interest income – FTE | $ 42,123 | $ 30,677 | $ 85,359 | $ 61,825 |
| | | | | |
| Yield on earning assets – FTE | 4.69% | 4.35% | 4.80% | 4.38% |
| Cost of interest bearing liabilities | 0.44% | 0.48% | 0.44% | 0.49% |
| Net interest spread – FTE | 4.25% | 3.87% | 4.36% | 3.89% |
| Net interest margin – FTE | 4.34% | 3.96% | 4.44% | 3.98% |

Table 2: Changes in Fully Taxable Equivalent Net Interest Margin

| (In thousands) | Three Months Ended June 30, 2014 vs. 2013 | Six Months Ended June 30, 2014 vs. 2013 |
|---|---|---|
| Increase due to change in earning assets | $ 15,000 | $ 30,492 |
| Decrease due to change in earning asset yields | (3,129) | (6,200) |
| Increase due to change in interest bearing liabilities | (795) | (1,627) |
| Increase due to change in interest rates paid on interest bearing liabilities | 370 | 869 |
| Increase in net interest income | $ 11,446 | $ 23,534 |

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 six month periods ended June 30, 2014 and 2013. 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 June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| ($ in thousands) | Average Balance | Income/ Expense | Yield/ Rate(%) | Average Balance | Income/ Expense | Yield/ Rate(%) |
| ASSETS | | | | | | |
| Earning assets: | | | | | | |
| Interest bearing balances due from banks | $ 456,931 | $ 279 | 0.24 | $ 527,787 | $ 352 | 0.27 |
| Federal funds sold | 985 | 2 | 0.81 | 1,922 | 5 | 1.04 |
| Investment securities - taxable | 730,156 | (543) | (0.30) | 480,220 | 1,306 | 1.09 |
| Investment securities - non-taxable | 317,938 | 6,996 | 8.83 | 213,015 | 2,796 | 5.26 |
| Mortgage loans held for sale | 15,299 | 168 | 4.40 | 14,154 | 118 | 3.34 |
| Assets held in trading accounts | 6,850 | 5 | 0.29 | 8,292 | 6 | 0.29 |
| Legacy loans | 1,817,429 | 22,741 | 5.02 | 1,688,699 | 22,614 | 5.37 |
| Loans acquired | 546,614 | 15,889 | 11.66 | 172,415 | 6,469 | 15.05 |
| Total interest earning assets | 3,892,202 | 45,537 | 4.69 | 3,106,504 | 33,666 | 4.35 |
| Non-earning assets | 478,476 | | | 376,106 | | |
| Total assets | $ 4,370,678 | | | $ 3,482,610 | | |
| | | | | | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Liabilities: | | | | | | |
| Interest bearing liabilities | | | | | | |
| Interest bearing transaction and savings accounts | $ 1,810,436 | $ 720 | 0.16 | $ 1,456,258 | $ 603 | 0.17 |
| Time deposits | 1,049,865 | 1,515 | 0.58 | 834,583 | 1,479 | 0.71 |
| Total interest bearing deposits | 2,860,301 | 2,235 | 0.31 | 2,290,841 | 2,082 | 0.36 |
| Federal funds purchased and securities sold under agreement to repurchase | 101,537 | 31 | 0.12 | 89,879 | 53 | 0.24 |
| Other borrowings | 116,082 | 988 | 3.41 | 80,090 | 692 | 3.47 |
| Subordinated debentures | 20,620 | 160 | 3.11 | 20,620 | 162 | 3.15 |
| Total interest bearing liabilities | 3,098,540 | 3,414 | 0.44 | 2,481,430 | 2,989 | 0.48 |
| Non-interest bearing liabilities: | | | | | | |
| Non-interest bearing deposits | 823,552 | | | 560,804 | | |
| Other liabilities | 34,637 | | | 32,146 | | |
| Total liabilities | 3,956,729 | | | 3,074,380 | | |
| Stockholders' equity | 413,949 | | | 408,230 | | |
| | $ 4,370,678 | | | $ 3,482,610 | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total liabilities and stockholders' equity | | | | | | |
| Net interest spread | | | 4.25 | | | 3.87 |
| Net interest margin | $ | 42,123 | 4.34 | $ | 30,677 | 3.96 |

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| ($ in thousands) | Average Balance | Income/ Expense | Yield/ Rate(%) | Average Balance | Income/ Expense | Yield/ Rate(%) |
| ASSETS | | | | | | |
| Earning assets: | | | | | | |
| Interest bearing balances due from banks | $ 482,433 | $ 558 | 0.23 | $ 544,273 | $ 642 | 0.24 |
| Federal funds sold | 685 | 3 | 0.88 | 5,205 | 8 | 0.31 |
| Investment securities - taxable | 694,781 | 4,006 | 1.16 | 484,184 | 2,528 | 1.05 |
| Investment securities - non-taxable | 315,431 | 8,678 | 5.55 | 207,000 | 5,538 | 5.40 |
| Mortgage loans held for sale | 10,984 | 237 | 4.35 | 16,798 | 273 | 3.28 |
| Assets held in trading accounts | 7,031 | 10 | 0.29 | 8,409 | 17 | 0.41 |
| Legacy loans | 1,768,879 | 44,303 | 5.05 | 1,678,876 | 46,321 | 5.56 |
| Loans acquired | 596,694 | 34,468 | 11.65 | 184,303 | 12,644 | 13.83 |
| Total interest earning assets | 3,876,918 | 92,263 | 4.80 | 3,129,048 | 67,971 | 4.38 |
| Non-earning assets | 502,057 | | | 381,018 | | |
| Total assets | $ 4,378,975 | | | $ 3,510,066 | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Liabilities: | | | | | | |
| Interest bearing liabilities | | | | | | |
| Interest bearing transaction and savings accounts | $ 1,832,472 | $ 1,414 | 0.16 | $ 1,450,748 | $ 1,214 | 0.17 |
| Time deposits | 1,073,242 | 3,091 | 0.58 | 846,638 | 3,067 | 0.73 |
| Total interest bearing deposits | 2,905,714 | 4,505 | 0.31 | 2,297,386 | 4,281 | 0.38 |
| Federal funds purchased and securities sold under agreement to repurchase | 108,277 | 84 | 0.16 | 104,005 | 118 | 0.23 |
| Other borrowings | 116,835 | 1,998 | 3.45 | 81,981 | 1,426 | 3.51 |
| Subordinated debentures | 20,620 | 317 | 3.10 | 20,620 | 321 | 3.14 |
| Total interest bearing liabilities | 3,151,446 | 6,904 | 0.44 | 2,503,992 | 6,146 | 0.49 |
| Non-interest bearing liabilities: | | | | | | |
| Non-interest bearing deposits | 779,323 | | | 564,196 | | |
| Other liabilities | 36,525 | | | 33,316 | | |
| Total liabilities | 3,967,294 | | | 3,101,504 | | |
| Stockholders' equity | 411,681 | | | 408,562 | | |
| Total liabilities and stockholders' equity | $ 4,378,975 | | | $ 3,510,066 | | |
| Net interest spread | | | 4.36 | | | 3.89 |
| Net interest margin | | $ 85,359 | 4.44 | | $ 61,825 | 3.98 |

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 six month periods ended June 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

| | Three Months Ended June 30, 2014 over 2013 | | | Six Months Ended June 30, 2014 over 2013 | | |
|---|---|---|---|---|---|---|
| (In thousands, on a fully taxable equivalent basis) | Volume | Yield/ Rate | Total | Volume | Yield/ Rate | Total |
| Increase (decrease) in: | | | | | | |
| Interest income: | | | | | | |
| Interest bearing balances due from banks | $ (45) | $ (28) | $ (73) | $ (72) | $ (12) | $ (84) |
| Federal funds sold | (1) | (2) | (3) | (11) | 6 | (5) |
| Investment securities - taxable | 429 | (2,278) | (1,849) | 1,193 | 285 | 1,478 |
| Investment securities - non-taxable | 1,770 | 2,430 | 4,200 | 2,979 | 161 | |