SIMMONS FIRST NATIONAL CORP
Form 10-Q
November 10, 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 September 30, 2014 Commission File Number 000-06253

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

Arkansas	71-0407808
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
501 Main Street, Pine Bluff, Arkansas	71601
(Address of principal executive offices)	(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 o 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 o 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 o Accelerated filer x Non-accelerated filer o Smaller reporting company o

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

The number of shares outstanding of the Registrant’s Common Stock as of October 24, 2014, was 18,022,011.

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

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Part I: Financial Information
Item 1. Financial Statements

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

(In thousands, except share data)	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Cash and non-interest bearing balances due from banks	$ 73,554	$ 69,827
Interest bearing balances due from banks	210,742	469,553
Federal funds sold	10,000	-
Cash and cash equivalents	294,296	539,380
Investment securities	1,140,203	957,965
Mortgage loans held for sale	22,003	9,494
Assets held in trading accounts	6,819	8,978
Loans:		
Legacy loans	1,963,378	1,742,638
Allowance for loan losses	(27,076)	(27,442)
Loans acquired, not covered by FDIC loss share (net of discount)	676,056	515,644
Loans acquired, covered by FDIC loss share (net of discount)	118,158	146,653
Net loans	2,730,516	2,377,493
FDIC indemnification asset	25,694	48,791
Premises and equipment	115,639	119,614
Premises held for sale	15,856	19,466
Foreclosed assets not covered by FDIC loss share	50,770	64,820
Foreclosed assets covered by FDIC loss share	15,212	20,585
Interest receivable	18,006	15,654
Bank owned life insurance	75,357	60,384
Goodwill	108,158	78,529
Other intangible assets	22,988	14,972
Other assets	49,705	46,975
Total assets	$ 4,691,222	$ 4,383,100
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing transaction accounts	$ 884,064	$ 718,438
Interest bearing transaction accounts and savings deposits	1,984,422	1,862,618
Time deposits	1,040,429	1,116,511
Total deposits	3,908,915	3,697,567
Federal funds purchased and securities sold under agreements to repurchase	112,977	107,887
Other borrowings	123,396	117,090
Subordinated debentures	20,620	20,620
Accrued interest and other liabilities	41,309	36,104
Total liabilities	4,207,217	3,979,268
Stockholders' equity:		
	-	-

Preferred stock, $0.01 par value; 40,040,000 shares authorized and unissued at September 30, 2014 and December 31, 2013				
Common stock, Class A, $0.01 par value; 60,000,000 shares authorized; 17,992,261 and 16,226,256 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively		180		162
Surplus		155,592		88,095
Undivided profits		330,185		318,577
Accumulated other comprehensive loss		(1,952)		(3,002)
Total stockholders' equity		484,005		403,832
Total liabilities and stockholders' equity	$	4,691,222	$	4,383,100

See Condensed Notes to Consolidated Financial Statements.

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

(In thousands, except per share data)	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
	(Unaudited)		(Unaudited)	
INTEREST INCOME				
Legacy loans	$ 23,841	$ 23,483	$ 68,124	$ 69,781
Loans acquired	16,241	7,132	50,710	19,776
Federal funds sold	12	6	16	14
Investment securities	4,717	3,428	14,032	9,349
Mortgage loans held for sale	269	122	506	395
Assets held in trading accounts	3	6	13	23
Interest bearing balances due from banks	132	234	691	875
TOTAL INTEREST INCOME	45,215	34,411	134,092	100,213
INTEREST EXPENSE				
Deposits	2,232	1,993	6,737	6,274
Federal funds purchased and securities sold under agreements to repurchase	55	46	194	165
Other borrowings	996	646	2,995	2,072
Subordinated debentures	160	162	477	483
TOTAL INTEREST EXPENSE	3,443	2,847	10,403	8,994
NET INTEREST INCOME	41,772	31,564	123,689	91,219
Provision for loan losses	1,128	1,081	3,638	3,034
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	40,644	30,483	120,051	88,185
NON-INTEREST INCOME				
Trust income	1,838	1,448	4,929	4,234
Service charges on deposit accounts	6,238	4,603	19,098	13,318
Other service charges and fees	808	728	2,490	2,294
Mortgage lending income	1,812	1,122	3,885	3,677
Investment banking income	284	240	620	1,390
Debit and credit card fees	5,769	4,400	17,213	12,779
Bank owned life insurance income	411	328	1,117	974
(Loss) gain on sale of securities	(18)	-	20	(193)
Net (loss) gain on assets covered by FDIC loss share agreements	(3,744)	(3,443)	(17,303)	(8,200)
Other income	2,637	887	8,619	2,626
TOTAL NON-INTEREST INCOME	16,035	10,313	40,688	32,899
NON-INTEREST EXPENSE				
Salaries and employee benefits	20,892	17,701	64,338	54,146
Occupancy expense, net	3,204	2,485	10,338	7,490
Furniture and equipment expense	2,363	1,613	6,592	5,367
Other real estate and foreclosure expense	1,864	385	3,112	775

Deposit insurance	877	595	2,630	1,862
Merger related costs	3,628	190	6,255	(37)
Other operating expenses	11,526	7,934	35,492	23,529
TOTAL NON-INTEREST EXPENSE	44,354	30,903	128,757	93,132
INCOME BEFORE INCOME TAXES	12,325	9,893	31,982	27,952
Provision for income taxes	3,537	2,961	8,933	8,507
NET INCOME	$ 8,788	$ 6,932	$ 23,049	$ 19,445
BASIC EARNINGS PER SHARE	$ 0.52	$ 0.43	$ 1.40	$ 1.19
DILUTED EARNINGS PER SHARE	$ 0.52	$ 0.43	$ 1.39	$ 1.19

See Condensed Notes to Consolidated Financial Statements.

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

(In thousands, except per share data)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
	(Unaudited)		(Unaudited)	
NET INCOME	$ 8,788	$ 6,932	$ 23,049	$ 19,445
OTHER COMPREHENSIVE INCOME				
Unrealized holding gains (losses) arising during the period on available-for-sale securities	(911)	(314)	1,748	(4,896)
Less: Reclassification adjustment for realized gains (losses) included in net income	(18)	-	20	(193)
Other comprehensive gain (loss), before tax effect	(893)	(314)	1,728	(4,703)
Less: Tax effect of other comprehensive gain (loss)	(350)	(123)	678	(1,845)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(543)	(191)	1,050	(2,858)
COMPREHENSIVE INCOME	$ 8,245	$ 6,741	$ 24,099	$ 16,587

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation

Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2014 and 2013

(In thousands)	September 30, 2014	September 30, 2013
	(Unaudited)	
OPERATING ACTIVITIES		
Net income	$ 23,049	$ 19,445
Items not requiring (providing) cash:		
Depreciation and amortization	5,221	4,416
Provision for loan losses	3,638	3,034
Net accretion of investment securities and assets not covered by FDIC loss share	(2,768)	(389)
Stock-based compensation expense	962	1,039
Net accretion on assets covered by FDIC loss share	(1,541)	(4,553)
Deferred income taxes	(4,456)	(2,274)
(Gain) loss on sale of investments	(20)	193
Gain on sale of premises and equipment	(3,156)	-
Bank owned life insurance income	(1,117)	(974)
Changes in:		
Interest receivable	(873)	(1,078)
Mortgage loans held for sale	(12,509)	14,762
Assets held in trading accounts	2,159	(2,520)
Other assets	(4,893)	1,594
Accrued expenses and other liabilities	11,706	(1,680)
Income taxes payable	(3,328)	(462)
Net cash provided by operating activities	12,074	30,553
INVESTING ACTIVITIES		
Net originations of loans	(96,670)	(97,444)
Net collections of loans covered by FDIC loss share	41,649	68,674
Proceeds from sale of student loans	22,136	-
Proceeds from sale of premises held for sale	13,917	-
Purchase of premises and equipment, net	(3,629)	(3,516)
Proceeds from sale of foreclosed assets held for sale	19,733	12,943
Proceeds from sale of foreclosed assets held for sale, covered by FDIC loss share	10,853	11,684
Proceeds from sale of short-term investment securities	1,504	-
Proceeds from sale of available-for-sale securities	13,159	16,029
Proceeds from maturities of available-for-sale securities	122,041	53,144
Purchases of available-for-sale securities	(200,284)	(60,848)
Proceeds from maturities of held-to-maturity securities	325,895	113,289
Purchases of held-to-maturity securities	(381,175)	(199,201)
Purchase of bank owned life insurance	(6,326)	(7,000)
Cash received on FDIC loss share	13,325	11,621
Purchase of Delta Trust & Bank, net of cash received	11,343	-
Net cash used in investing activities	(92,529)	(80,625)
FINANCING ACTIVITIES		
Net change in deposits	(144,014)	(35,365)

Dividends paid	(11,441)	(10,304)
Net change in other borrowed funds	(4,671)	(13,454)
Net change in federal funds purchased and securities sold under agreements to repurchase	(6,010)	(41,767)
Net shares issued under stock compensation plans	1,507	498
Repurchase of common stock	-	(10,848)
Net cash used in financing activities	(164,629)	(111,240)
DECREASE IN CASH AND CASH EQUIVALENTS	(245,084)	(161,312)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	539,380	537,797
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 294,296	$ 376,485

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Statements of Stockholders' Equity
Nine Months Ended September 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	-	-	-	19,445	19,445
Change in unrealized appreciation on available-for-sale securities, net of income taxes of ($1,845)	-	-	(2,858)	-	(2,858)
Comprehensive income					16,587
Stock issued as bonus shares – 64,506 shares	1	228	-	-	229
Vesting bonus shares	-	1,012	-	-	1,012
Stock issued for employee stock purchase plan – 5,244 shares	-	126	-	-	126
Exercise of stock options – 6,000 shares	-	143	-	-	143
Stock granted under stock-based compensation plans	-	27	-	-	27
Repurchase of common stock – (419,564 shares)	(4)	(10,844)	-	-	(10,844)
Cash dividends – $0.63 per share	-	-	-	(10,304)	(10,304)
Balance, September 30, 2013 (Unaudited)	162	87,279	(2,601)	318,194	403,034
Comprehensive income:					
Net income	-	-	-	3,786	3,786
Change in unrealized depreciation on available-for-sale securities, net of income taxes of ($258)	-	-	(401)	-	(401)
Comprehensive income					3,385
Stock issued as bonus shares – 10,500 shares					
Vesting bonus shares, net of forfeitures – (829 shares)	-	378	-	-	378
Exercise of stock options – 18,290 shares	-	461	-	-	461
Securities exchanged under stock option plan – (669 shares)	-	(23)	-	-	(23)
Cash dividends – $0.21 per share	-	-	-	(3,403)	(3,403)
Balance, December 31, 2013	162	88,095	(3,002)	318,577	403,832
Comprehensive income:					
Net income	-	-	-	23,049	23,049
Change in unrealized (depreciation) on available-for-sale securities, net of income taxes of $678	-	-	1,050	-	1,050
Comprehensive income					24,099
Stock issued as bonus shares – 92,6300 shares	1	441	-	-	442
Vesting bonus shares, net of forfeitures – (1,560 shares)	-	962	-	-	962
	-	118	-	-	118

Stock issued for employee stock purchase plan – 4,897 shares					
Exercise of stock options – 45,160 shares	1	1,131	-	-	1,132
Securities exchanged under stock option plan – (4,546 shares)	-	(185)	-	-	(185)
Delta Trust & Bank acquisition – 1,629,424 shares	16	65,030	-	-	65,046
Repurchase of common stock	-	-	-	-	-
Cash dividends – $0.66 per share	-	-	-	(11,441)	(11,441)
Balance, September 30, 2014 (Unaudited)	$ 180	$ 155,592	$ (1,952)	$ 330,185	$ 484,005

See Condensed Notes to Consolidated Financial Statements.

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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.

In August 2014, the FASB issued ASU 2014-14, Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure impacting FASB ASC 310-40, Receivables – Troubled Debt Restructuring by Creditors. This update affects creditors that hold government-guaranteed mortgage loans. The amendments in this update require that a mortgage loan be derecognized and that a separate other receivable be recognized if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure; (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under the claim; (3) at the time of foreclosure, the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. ASU 2014-14 is effective for interim and annual reporting periods beginning after December 15, 2014. The Company is in the process of evaluating the impact of ASU 2014-04 on its financial statements.

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 nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share data)	2014	2013	2014	2013
Net income	$ 8,788	$ 6,932	$ 23,049	$ 19,445
Average common shares outstanding	16,873	16,220	16,489	16,383
Average potential dilutive common shares	44	5	44	5
Average diluted common shares	16,917	16,225	16,533	16,388
Basic earnings per share	$ 0.52	$ 0.43	$ 1.40	$ 1.19
Diluted earnings per share	$ 0.52	$ 0.43	$ 1.39	$ 1.19

Stock options to purchase 138,528 shares for the three and nine months ended September 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 (the "Company", or "Simmons") 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

On August 31, 2014, the Simmons First National Corporation completed the acquisition of Delta Trust & Banking Corporation ("Delta Trust"), headquartered in Little Rock, Arkansas, including its wholly-owned bank subsidiary Delta Trust & Bank ("DTB"). Simmons issued 1,629,424 shares of its common stock valued at approximately $65.0 million as of August 29, 2014, plus $2.4 million in cash in exchange for all outstanding shares of Delta Trust common stock.

Prior to the acquisition, Delta Trust conducted banking business from 9 branches located in central, south and northwest Arkansas. Including the effects of the purchase accounting adjustments, the Company acquired approximately $417 million in assets, approximately $312 million in loans including loan discounts and approximately $355 million in deposits. The Company completed the systems conversion and merged DTB into Simmons Bank on October 24, 2014.

A summary, at fair value, of the assets acquired and liabilities assumed in the Delta Trust transaction, as of the acquisition date, is as follows:

(In thousands)	Acquired from Delta Trust	Fair Value Adjustments	Fair Value
Assets Acquired			
Cash and due from banks	$ 13,739	$ -	$ 13,739
Investment securities	62,410	(37)	62,373
Loans acquired, not covered by FDIC loss share	326,829	(15,149)	311,680
Allowance for loan losses	(6,008)	6,008	-
Foreclosed assets not covered by FDIC loss share	3,262	(1,471)	1,791
Premises and equipment	4,405	(433)	3,972
Bank owned life insurance	7,530	-	7,530
Goodwill	822	(822)	-
Core deposit intangible	-	4,318	4,318
Other intangibles	137	4,904	5,041
Deferred tax asset	1,859	597	2,456
Other assets	5,807	(1,381)	4,426
Total assets acquired	$ 420,792	$ (3,466)	$ 417,326
Liabilities Assumed			
Deposits:			
Non-interest bearing transaction accounts	$ 63,259	$ -	$ 63,259
Interest bearing transaction accounts and savings deposits	200,596	-	200,596
Time deposits	91,507	-	91,507
Total deposits	355,362	-	355,362
Fed funds purchased	11,100		11,100
Other borrowings	11,106	(129)	10,977
Accrued interest and other liabilities	1,528	-	1,528
Total liabilities assumed	379,096	(129)	378,967
Equity	41,696	(41,696)	-
Total equity assumed	41,696	(41,696)	-
Total liabilities and equity assumed	$ 420,792	$ (41,825)	$ 378,967
Net assets acquired			38,359
Purchase price			67,441
Goodwill			$ 29,082

The following is a description of the methods used to determine the fair values of significant assets and liabilities presented in the Delta Trust acquisition above.

Cash and due from banks and interest bearing balances due from banks – The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets.

Investment securities – Investment securities were acquired with an adjustment to fair value based upon quoted market prices. This adjustment is primarily the result of marking the held-to-maturity securities to fair value.

Loans acquired – Fair values for loans were based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and

whether or not the loan was amortizing, and current discount rates. The discount rates used for loans are based on current market rates for new originations of comparable loans and include adjustments for liquidity concerns. The discount rate does not include a factor for credit losses as that has been included in the estimated cash flows. Loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques.

Foreclosed assets held for sale – These assets are presented at the estimated present values that management expects to receive when the properties are sold, net of related costs of disposal.

Premises and equipment – Bank premises and equipment were acquired with an adjustment to fair value, which represents the difference between the Company’s current analysis of property values completed in connection with the acquisition and book value acquired.

Bank owned life insurance – Bank owned life insurance is carried at its current cash surrender value, which is the most reasonable estimate of fair value.

Goodwill – The consideration paid as a result of the acquisition exceeded the fair value of the assets acquired, resulting in an intangible asset, goodwill, of $29.1 million.

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

Other intangibles – These intangible assets represent the value of the relationships that Delta Trust’s investment subsidiary, insurance subsidiary and trust department had with their customers. The fair value of these intangible assets was estimated based on a combination of discounted cash flow methodology and a market valuation approach.

Deferred tax asset – The deferred tax asset is based on 39.225% of fair value adjustments related to the acquired assets and assumed liabilities and on a calculation of future tax benefits. The Company also recorded Delta Trust’s remaining deferred tax assets and liabilities as of the acquisition date.

Other assets – The fair value adjustment results from certain assets whose value was estimated to be less than book value, such as certain prepaid assets, receivables and other miscellaneous assets.

Deposits – The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition equal the amount payable on demand at the acquisition date. The Company performed a fair value analysis of the estimated weighted average interest rate of Delta Trust’s certificates of deposits compared to the current market rates. Based on the results of the analysis, the estimated fair value adjustment was immaterial.

Federal funds purchased – The carrying amount of federal funds purchased is a reasonable estimate of fair value based on the short-term nature of these liabilities.

Other borrowings – The fair value of Federal Home Loan Bank borrowings is estimated based on borrowing rates currently available to the Company for borrowings with similar terms and maturities.

Accrued interest and other liabilities – The fair value used represents the adjustment of certain estimated liabilities from Delta Trust.

The purchase price allocation and certain fair value measurements remain preliminary due to the timing of the acquisition and due to the number of assets acquired and liabilities assumed. Management will continue to review the estimated fair values of loans, foreclosed assets, property and equipment, intangible assets, and other assets and liabilities, and to evaluate the assumed tax positions. The Company expects to finalize its analysis of the acquired loans along with the other acquired assets and assumed liabilities in this transaction over the next few months, within one year of the acquisition. Therefore, adjustments to the estimated amounts and carrying values may occur. See Note 5, Loans Acquired, for discussion regarding subsequent evaluation of future cash flows.

The Company's operating results for the three and nine months ended September 30, 2014 include the operating results of the acquired assets and assumed liabilities of Delta Trust subsequent to the acquisition date.

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 September 30, 2014, Community First had approximately $1.9 billion in assets, $1.2 billion in loans and $1.5 billion in deposits. Completion of the transaction is expected in the fourth quarter of 2014 or early in the first quarter of 2015 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 September 30, 2014, Liberty had approximately $1.1 billion in assets, $806 million in loans and $886 million in deposits. Completion of the transaction is expected in the fourth quarter of 2014 or early in the first quarter of 2015 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:

	September 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	$ 455,827	$ 961	$ (5,403)	$ 451,385	$ 395,198	$ 50	$ (10,535)	$ 384,713
Mortgage-backed securities	30,954	9	(602)	30,361	34,425	17	(442)	34,000
State and political subdivisions	335,329	8,762	(872)	341,080	315,445	2,165	(5,498)	312,112
Other securities	620	-	-	620	620	-	-	620
Total HTM	$ 822,730	$ 9,732	$ (6,877)	$ 823,446	$ 745,688	$ 2,232	$ (16,475)	$ 731,445
Available-for-Sale								
U.S. Treasury	$ 4,000	$ -	$ (10)	$ 3,991	$ 4,001	$ -	$ (16)	$ 3,985
U.S. Government agencies	283,620	17	(3,316)	280,321	183,781	8	(5,572)	178,217
Mortgage-backed securities	52	1	(21)	32	1,735	156	-	1,891
State and political subdivisions	8,892	12	(2)	8,903	7,860	4	(3)	7,861
Other securities	23,839	395	(9)	24,226	19,840	484	(1)	20,323
Total AFS	$ 320,405	$ 425	$ (3,358)	$ 317,473	$ 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 September 30, 2014, securities with unrealized losses, segregated by length of impairment, were as follows:

	Less Than 12 Months		12 Months or More		Total	
(In thousands)	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Held-to-Maturity						
U.S. Government agencies	$ 316,956	$ (4,059)	$ 72,610	$ (1,343)	$ 389,566	$ (5,403)
Mortgage-backed securities	27,239	(602)	-	-	27,239	(602)
State and political subdivisions	42,626	(425)	24,636	(447)	67,263	(872)
Total HTM	$ 386,821	$ (5,086)	$ 97,246	$ (1,790)	$ 484,068	$ (6,877)
Available-for-Sale						
U.S. Treasury	$ 3,991	$ (10)	$ -	$ -	$ 3,991	$ (10)
U.S. Government agencies	211,696	(2,092)	59,080	(1,224)	270,776	(3,316)
Mortgage-backed securities	1,570	(21)	-	-	1,570	(21)
State and political subdivisions	699	(2)	-	-	699	(2)
Other securities	1,681	(9)	-	-	1,681	(9)
Total AFS	$ 219,637	$ (2,134)	$ 59,080	$ (1,224)	$ 278,717	$ (3,358)

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

Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time the Company expects to receive full value for the securities. Furthermore, as of September 30, 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 September 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 $532.9 million at September 30, 2014, and $587.9 million at December 31, 2013.

The book value of securities sold under agreements to repurchase equaled $86.2 million and $102.8 million for September 30, 2014, and December 31, 2013, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2014	2013	2014	2013
Taxable:				
Held-to-maturity	$ 1,440	$ 818	$ 4,167	$ 2,281

Available-for-sale	603	540	1,882	1,605
Non-taxable:				
Held-to-maturity	2,647	2,066	7,900	5,450
Available-for-sale	27	4	83	13
Total	$ 4,717	$ 3,428	$ 14,032	$ 9,349

Maturities of investment securities at September 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	$ 19,171	$ 19,201	$ 4,972	$ 4,981
After one through five years	378,700	376,377	179,804	179,154
After five through ten years	214,805	213,800	25,236	24,813
After ten years	210,054	214,068	87,891	85,630
Other securities	-	-	22,502	22,895
Total	$ 822,730	$ 823,446	$ 320,405	$ 317,473

There were $153,000 of realized gains and $171,000 of realized losses on investment securities for the three months ended September 30, 2014. There were $191,000 of realized gains and $171,000 of realized losses for the nine months ended September 30, 2014. There were no realized gains and losses on investment securities for the three months ended September 30, 2013. There were no realized gains and realized losses of $193,000 for the nine months ended September 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 September 30, 2014, the Company's loan portfolio was $2.76 billion, compared to $2.40 billion at December 31, 2013. The various categories of loans are summarized as follows:

(In thousands)	September 30, 2014	December 31, 2013
Consumer:		
Credit cards	$ 175,822	$ 184,935
Student loans	-	25,906
Other consumer	105,508	98,851
Total consumer	281,330	309,692
Real Estate:		
Construction	163,364	146,458
Single family residential	436,925	392,285
Other commercial	681,848	626,333
Total real estate	1,282,137	1,165,076
Commercial:		
Commercial	249,186	164,329
Agricultural	145,157	98,886
Total commercial	394,343	263,215
Other	5,568	4,655
Loans	1,963,378	1,742,638
Loans acquired, not covered by FDIC loss share (net of discount)	676,056	515,644
Loans acquired, covered by FDIC loss share (net of discount)	118,158	146,653
Total loans before allowance for loan losses	$ 2,757,592	$ 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, when required, is 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 the impact of economic downturns which produce increased 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. It is standard practice to require personal guaranties on all commercial loans, particularly as they relate to closely-held or limited liability entities.

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

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

(In thousands)	September 30, 2014	December 31, 2013
Consumer:		
Credit cards	$ 249	$ 290
Other consumer	663	677
Total consumer	912	967
Real estate:		
Construction	1,924	116
Single family residential	4,328	2,957
Other commercial	2,872	1,726
Total real estate	9,124	4,799
Commercial:		
Commercial	623	378
Agricultural	553	117
Total commercial	1,176	495
Total	$ 11,212	$ 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
September 30, 2014						
Consumer:						
Credit cards	$ 575	$ 267	$ 842	$ 174,980	$ 175,822	$ 18
Other consumer	1,125	449	1,574	103,934	105,508	130
Total consumer	1,700	716	2,416	278,914	281,330	148
Real estate:						
Construction	275	194	469	162,895	163,364	103
Single family residential	2,662	1,649	4,311	432,614	436,925	212
Other commercial	1,134	2,064	3,198	678,650	681,848	-
Total real estate	4,071	3,907	7,978	1,274,159	1,282,137	315
Commercial:						
Commercial	686	474	1,160	248,026	249,186	1
Agricultural	28	134	162	144,995	145,157	-
Total commercial	714	608	1,322	393,021	394,343	1
Other	-	-	-	5,568	5,568	-
Total	$ 6,485	$ 5,231	$ 11,716	$ 1,951,662	$ 1,963,378	$ 464
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.

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

(In thousands)	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
						Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
September 30, 2014									
Consumer:									
Credit cards	$ 517	$ 517	$ -	$ 517	$ -	$ 471	$ -	$ 482	$ 9
Other consumer	832	780	35	815	28	781	14	821	30
Total consumer	1,349	1,297	35	1,332	-	1,252	14	1,303	39
Real estate:									
Construction	4,496	2,028	3,733	5,761	-	4,323	49	3,662	114
Single family residential	4,953	4,291	379	4,670	180	4,583	52	4,282	133
Other commercial	3,288	2,830	1,320	4,150	298	6,663	75	8,115	252
Total real estate	12,737	9,149	5,432	14,581	478	15,569	176	16,059	499
Commercial:									
Commercial	791	592	-	592	-	654	7	646	20
Agricultural	460	436	-	436	-	274	3	178	6
Total commercial	1,251	1,028	-	1,028	-	928	10	824	26
Total	$ 15,337	$ 11,474	$ 5,467	$ 16,941	$ 506	$ 17,749	$ 200	$ 18,186	$ 564

December 31, 2013						Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
Consumer:									
Credit cards	$ 520	$ 520	$ -	$ 520	$ 16	$ 514	$ 3	$ 517	$ 11
Other consumer	925	878	32	910	171	946	9	1,014	30
Total consumer	1,445	1,398	32	1,430	187	1,460	12	1,531	41
Real estate:									
Construction	3,251	2,036	1,171	3,207	371	3,212	32	3,814	114
Single family residential	4,497	2,306	1,645	3,951	745	3,231	32	3,705	111
Other commercial	10,328	6,868	2,319	9,187	564	7,932	78	12,609	377
Total real estate	18,076	11,210	5,135	16,345	1,680	14,375	142	20,128	602
Commercial:									
Commercial	547	383	78	461	80	603	6	651	19
Agricultural	117	80	-	80	13	82	1	86	3
Total commercial	664	463	78	541	93	685	7	737	22
Total	$ 20,185	$ 13,071	$ 5,245	$ 18,316	$ 1,960	$ 16,520	$ 161	$ 22,396	$ 665

At September 30, 2014, and December 31, 2013, impaired loans, net of government guarantees and excluding loans acquired, totaled $16.9million and $18.3 million, respectively. Allocations of the allowance for loan losses relative to

impaired loans were $0.5 million at September 30, 2014, and $2.0 million at December 31, 2013. Approximately $200,000 and $564,000 of interest income was recognized on average impaired loans of $17.7 million and $18.2 million for the three and nine months ended September 30, 2014. Interest income recognized on impaired loans on a cash basis during the three and nine months ended September 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
September 30, 2014						
Real estate:						
Construction	-	$ -	1	$ 433	1	$ 433
Single-family residential	2	395	1	3	3	398
Other commercial	3	1,839	1	623	4	2,462
Total real estate	5	2,234	3	1,059	8	3,293
Total	5	$ 2,234	3	$ 1,059	8	$ 3,293
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 nine months ended September 30, 2014 and September 30, 2013, excluding loans acquired, segregated by class of loans.

(Dollars in thousands)	Number of Loans	Balance Prior to TDR	Balance at September 30	Modification Type: Change in Maturity Date	Modification Type: Change in Rate	Modification Type: Financial Impact on Date of Restructure
Nine Months Ended September 30, 2014						
Real estate:						
Other commercial	1	$ 1,031	$ 1,031	$ -	$ 1,031	$ -
Total real estate	1	1,031	1,031	-	1,031	-
Commercial:						
Commercial	1	599	-	-	-	-
Total commercial	1	599	-	-	-	-
Total	2	$ 1,630	$ 1,031	$ -	$ 1,031	$ -
Nine Months Ended September 30, 2013						
Real estate:						
Single-family residential	1	$ 321	$ 311	$ -	$ 311	$ -
Total real estate	1	321	311	-	311	-
Total	1	$ 321	$ 311	$ -	$ 311	$ -

During the three months ended September 30, 2014, the Company did not modify any loans which were deemed troubled debt restructurings. During the nine months ended September 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 and nine months ended September 30, 2014, one of the restructured loans with a prior balance of $599,000 was paid off.

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

There were no loans for which a payment default occurred during the nine months ended September 30, 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 September 30, 2014 and December 31, 2013, respectively. Loans acquired in the Metropolitan and Delta Trust acquisitions are evaluated individually and include purchased credit impaired loans of $27.4 million that are classified as substandard at September 30, 2014 and December 31, 2013. Of the remaining loans acquired in the Metropolitan and Delta Trust transactions, $29.3 million and $31.2 million were classified at September 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 $91.4 million and $94.5 million, as of September 30, 2014 and December 31, 2013, respectively.

The following table presents a summary of loans by credit risk rating as of September 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
September 30, 2014						
Consumer:						
Credit cards	$ 175,305	$ -	$ 517	$ -	$ -	$ 175,822
Student loans	-	-	-	-	-	-
Other consumer	104,408	-	1,055	45	-	105,508
Total consumer	279,713	-	1,572	45	-	281,330
Real estate:						
Construction	157,714	41	5,609	-	-	163,364
Single family residential	426,747	1,891	8,204	83	-	436,925
Other commercial	668,403	2,845	10,600	-	-	681,848
Total real estate	1,252,864	4,777	24,413	83	-	1,282,137
Commercial:						
Commercial	239,308	2,550	7,318	10	-	249,186
Agricultural	143,853	-	1,304	-	-	145,157
Total commercial	383,161	2,550	8,622	10	-	394,343
Other	5,568	-	-	-	-	5,568
Loans acquired, not covered by FDIC loss share	610,740	8,643	54,794	1,873	6	676,056
Loans acquired, covered by FDIC loss share	118,158	-	-	-	-	118,158
Total	$ 2,650,204	$ 15,970	$ 89,401	$ 2,011	$ 6	$ 2,757,592

(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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2014	2013	2014	2013
Consumer:				
Credit cards	$ (598)	$ (535)	$ (1,653)	$ (1,747)
Student loans	(9)	(8)	(38)	(38)
Other consumer	(517)	(327)	(806)	(670)
Total consumer	(1,124)	(870)	(2,497)	(2,455)
Real estate:				
Construction	30	-	(424)	(119)
Single-family residential	(31)	(100)	(389)	(189)
Other commercial	(154)	4	(161)	(551)
Total real estate	(155)	(96)	(974)	(859)
Commercial:				
Commercial	(308)	(5)	(520)	(62)
Agriculture	5	25	(13)	(7)
Total commercial	(303)	20	(533)	(69)
Total	$ (1,582)	$ (946)	$ (4,004)	$ (3,383)

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 nine months ended September 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 September 30, 2014					
Balance, beginning of period	$ 3,951	$ 16,169	$ 5,510	$ 1,900	$ 27,530
Provision for loan losses	994	(419)	576	(23)	1,128
Charge-offs	(474)	(534)	(788)	(648)	(2,444)
Recoveries	171	379	190	122	862
Net charge-offs	(303)	(155)	(598)	(526)	(1,582)
Balance, September 30, 2014	$ 4,642	$ 15,595	$ 5,488	$ 1,351	$ 27,076
Nine Months Ended September 30, 2014					
Balance, beginning of period	$ 3,205	$ 16,885	$ 5,430	$ 1,922	$ 27,442
Provision for loan losses	1,970	(316)	1,711	273	3,638
Charge-offs	(734)	(2,484)	(2,329)	(1,220)	(6,767)
Recoveries	201	1,510	676	376	2,763
Net charge-offs	(533)	(974)	(1,653)	(844)	(4,004)
Balance, September 30, 2014	$ 4,642	$ 15,595	$ 5,488	$ 1,351	$ 27,076
Period-end amount allocated to:					
Loans individually evaluated for impairment	$ -	$478	$-	$ 28	$506
Loans collectively evaluated for impairment	4,642	15,117	5,488	1,323	26,570
Balance, September 30, 2014	$ 4,462	$15,595	$5,488	$ 1,351	$27,076

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

(In thousands)	Commercial	Real Estate	Credit Card	Other Consumer and Other	Total
Three Months Ended September 30, 2013					
Balance, beginning of period	$ 3,719	$ 15,475	$ 6,876	$ 1,328	$ 27,398
Provision for loan losses	(15)	308	369	419	1,081
Charge-offs	(20)	(247)	(770)	(449)	(1,486)
Recoveries	40	151	235	114	540
Net charge-offs	20	(96)	(535)	(335)	(946)
Balance, September 30, 2013	$ 3,724	$ 15,687	$ 6,710	$ 1,412	$ 27,533
Nine Months Ended September 30, 2013					
Balance, beginning of period	$ 3,446	$ 15,453	$ 7,211	$ 1,772	$ 27,882
Provision for loan losses	347	1,093	1,246	348	3,034
Charge-offs	(249)	(1,373)	(2,422)	(1,133)	(5,177)
Recoveries	180	514	675	425	1,794
Net charge-offs	(69)	(859)	(1,747)	(708)	(3,383)
Balance, September 30, 2013	$ 3,724	$ 15,687	$ 6,710	$ 1,412	$ 27,533
Period-end amount allocated to:					
Loans individually evaluated for impairment	$ 118	$ 1,461	$ 77	$ 158	$ 1,814
Loans collectively evaluated for impairment	3,606	14,226	6,633	1,254	25,719
Balance, September 30, 2013	$ 3,724	$ 15,687	$ 6,710	$ 1,412	$ 27,533
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
September 30, 2014					
Loans individually evaluated for impairment	$ 1,028	$ 14,581	$ 517	$ 815	$ 16,941
Loans collectively evaluated for impairment	393,315	1,267,556	175,305	110,261	1,946,437
Balance, end of period	$ 394,343	$ 1,282,137	$ 175,822	$ 111,076	$ 1,963,378
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

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NOTE 5: LOANS ACQUIRED

During the third quarter of 2014, the Company evaluated $308.3 million of net loans ($316.2 million gross loans less $7.9 million discount) purchased in conjunction with the acquisition of Delta Trust, 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 $3.4 million of net loans ($10.6 million gross loans less $7.5 million discount) purchased in conjunction with the acquisition of Delta Trust 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.

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 September 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 September 30, 2014 and December 31, 2013:

(in thousands)	Loans Acquired September 30, 2014	Loans Acquired December 31, 2013
Consumer:		
Credit Cards	$ 4,704	$ 8,116
Other consumer	7,638	15,242
Total consumer	12,342	23,358
Real estate:		
Construction	40,560	58,954
Single family residential	123,163	169,599
Other commercial	282,640	338,529
Total real estate	446,363	567,082
Commercial:		
Commercial	335,509	71,857
Total commercial	335,509	71,857
Total loans acquired (1)	$ 794,214	$ 662,297

(1) Included in loans acquired were $118.2 million and $146.7 million of loans covered by FDIC loss share agreements at September 30, 2014 and December 31, 2013, respectively.

Loans acquired as a part of the Metropolitan and Delta Trust transactions 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 nine months ended September 30, 2014 and 2013 is shown below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2014	2013	2014	2013
Impact on net interest income	$4,974	$ 4,005	$18,216	$ 10,102
Non-interest income	3,724	(3,844)	17,570	(9,734)
Net impact to pre-tax income	1,250	161	646	368
Net impact, net of taxes	$760	$ 98	$393	$ 224

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 $19.3 million and the remaining adjustment to the indemnification assets that will reduce non-interest income is $10.5 million. Of the remaining adjustments, the Company expects to recognize $3.6 million of interest income and a $2.9 million reduction of non-interest income, for a net reduction to pre-tax income of approximately $0.7 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 nine months ended September 30, 2014 and 2013.

(In thousands)	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
Beginning balance	$ 31,290	$ 192,093	$ 41,385	$ 234,785
Additions	234	3,404	234	3,404
Accretable yield adjustments	(877)	-	4,534	-
Accretion	(6,063)	6,063	(21,569)	21,569
Payments and other reductions, net	-	(12,960)	-	(71,158)
Balance, ending	$ 24,584	$ 188,600	$ 24,584	$ 188,600

(In thousands)	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
Beginning balance	$ 47,918	$ 227,236	$ 58,066	$ 293,606
Additions	-	9,047	-	9,047
Accretable yield adjustments	17,380	-	23,763	-
Accretion	(8,384)	8,384	(24,915)	24,915
Payments and other reductions, net	-	(27,650)	-	(110,551)
Balance, ending	$ 56,914	$ 217,017	$ 56,914	$ 217,017

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 and Delta Trust, 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 September 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 nine months ended September 30, 2014 and 2013.

(In thousands)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Beginning balance	$ 7,768	$ 5,577	$ 6,768	$ 4,854
FDIC true-up provision recorded on new acquisitions	-	-	-	-
Amortization expense	42	40	126	121
Adjustments related to changes in expected losses	278	350	1,194	992
Balance, ending	$ 8,088	$ 5,967	$ 8,088	$ 5,967

NOTE 6: GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is tested annually, or more than annually, if circumstances warrant, for impairment. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements. Goodwill totaled $108.2 million at September 30, 2014 and $78.5 million at December 31, 2013. The Company recorded $29.1 million of goodwill during the third quarter as a result of its Delta Trust acquisition.

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. Core deposit premiums of $4.3 million were recorded in the third quarter as part of the Delta Trust acquisition. These core deposits premiums will be amortized over a ten year period.

The Delta Trust acquisition included some significant lines of business related to investments, trust and insurance. The Company recorded $5.0 million of intangible assets related to those acquired lines of business during the third quarter. These intangible assets will be amortized over various periods ranging from 10 to 15 years.

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.

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

(In thousands)	September 30, 2014	December 31, 2013
Goodwill	$ 108,158	$ 78,529
Core deposit premiums:		
Gross carrying amount	18,318	15,245
Accumulated amortization	(2,039)	(2,237)
Core deposit premiums, net	16,279	13,008
Purchased credit card relationships:		
Gross carrying amount	2,068	2,068
Accumulated amortization	(414)	(104)
Purchased credit card relationships, net	1,654	1,964
Books of business intangible:		
Gross carrying amount	5,041	-
Accumulated amortization	-	-
Books of business intangible, net	5,041	-
Other misc. intangibles, net	14	-
Other intangible assets, net	22,988	14,972
Total goodwill and other intangible assets	$ 131,146	$ 93,501

Core deposit premium amortization expense recorded for the three and nine months ended September 30, 2014 was $344,000 and $1,043,000, respectively. Core deposit premium amortization expense recorded for the three and nine months ended September 30, 2013 was $135,000 and $408,000, respectively. The Company's estimated remaining amortization expense on core deposit premiums as of September 30, 2014, is as follows:

(In thousands)	Year		Amortization Expense
	Remaining in 2014	$	495
	2015		1,819
	2016		1,817
	2017		1,817
	2018		1,817
	Thereafter		8,514
	Total	$	16,279

PCCR amortization expense recorded for the three and nine months ended September 30, 2014 was $103,000 and $310,000, respectively. There was no PCCR amortization expense recorded for the three and nine months ended September 30, 2013. The Company's estimated remaining amortization expense on PCCR's as of September 30, 2014, is as follows:

(In thousands)	Year		Amortization Expense
	Remaining in 2014	$	103
	2015		414
	2016		414
	2017		413
	2018		310
	Total	$	1,654

Because the Delta Trust acquisition closed late in the third quarter, the Company will begin recording amortization expense on its acquired books of business beginning October 2014. Therefore, there was no book of business amortization expense recorded for the three and nine months ended September 30, 2014. There was no book of business amortization expense recorded for the three and nine months ended September 30, 2013. The Company's estimated remaining amortization expense on the books of business as of September 30, 2014, is as follows:

(In thousands)	Year		Amortization Expense
	Remaining in 2014	$	126
	2015		504
	2016		504
	2017		504
	2018		504
	Thereafter		2,899
	Total	$	5,041

NOTE 7: TIME DEPOSITS

Time deposits include approximately $474,472,000 and $504,782,000 of certificates of deposit of $100,000 or more at September 30, 2014, and December 31, 2013, respectively.

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NOTE 8: INCOME TAXES

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

(In thousands)	September 30, 2014	September 30, 2013
Income taxes currently payable	$ 13,389	$ 10,781
Deferred income taxes	(4,456)	(2,274)
Provision for income taxes	$ 8,933	$ 8,507

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

(In thousands)	September 30, 2014	December 31, 2013
Deferred tax assets		
Loans acquired	$ 19,741	$ 21,853
FDIC true-up liability	2,606	2,369
Allowance for loan losses	10,756	10,660
Valuation of foreclosed assets	8,073	7,468
Tax NOLS from acquisition	11,819	11,819
Deferred compensation payable	1,789	1,808
FHLB advances	230	283
Vacation compensation	1,296	1,148
Accumulated depreciation	5,559	4,916
Loan interest	767	767
Unrealized loss on available-for-sale securities	1,221	1,938
Other	10,242	5,885
Total deferred tax assets	74,099	70,914
Deferred tax liabilities		
Deferred loan fee income and expenses, net	(4,930)	(2,697)
FHLB stock dividends	(1,116)	(1,110)
Goodwill and other intangible amortization	(20,779)	(16,506)
FDIC indemnification asset	(11,967)	(19,138)
Other	(1,379)	(1,231)
Total deferred tax liabilities	(40,171)	(40,682)
Net deferred tax assets included in other assets on balance sheets	$ 33,928	$ 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)	September 30, 2014	September 30, 2013
Computed at the statutory rate (35%)	$ 11,194	$ 9,783
Increase (decrease) in taxes resulting from:		
State income taxes, net of federal tax benefit	783	777
Tax exempt interest income	(2,808)	(1,932)

Tax exempt earnings on BOLI		(384)		(341)
Other differences, net		148		220
Actual tax provision	$	8,933	$	8,507

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 2011 tax year and forward. The Company's various state income tax returns are generally open from the 2008 and later tax return years based on individual state statute of limitations.

NOTE 9: OTHER BORROWINGS AND SUBORDINATED DEBENTURES

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

(In thousands)	September 30, 2014	December 31, 2013
Other Borrowings		
FHLB advances, due 2014 to 2033, 0.35% to 8.41% secured by real estate loans	$ 77,396	$ 71,090
Notes payable, due 12/31/2014 to 12/31/2016, 3.25%, floating rate, unsecured	46,000	46,000
	123,396	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	$ 144,016	$ 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 September 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 $77.4 million at September 30, 2014, with approximately $564.0 million of additional advances available from the FHLB. The FHLB advances are secured by mortgage loans and investment securities totaling approximately $658.2 million at September 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 September 30, 2014, are:

(In thousands)	Year	Annual Maturities
	2014	$ 5,309
	2015	15,335
	2016	47,745
	2017	22,051
	2018	6,651
	Thereafter	46,925
	Total	$ 144,016

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

Simmons Bank is 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. At September 30, 2014, Simmons Bank had approximately $6.0 million available for payment of dividends to the Company, without prior regulatory approval.

The risk-based capital guidelines of the Federal Reserve Board and the Office of the Comptroller of the Currency include the definitions for (1) a well-capitalized institution, (2) an adequately-capitalized institution, and (3) an undercapitalized institution. The criteria for a well-capitalized institution are: a 5% "Tier l leverage capital" ratio, a 6% "Tier 1 risk-based capital" ratio, and a 10% "total risk-based capital" ratio. As of September 30, 2014, Simmons Bank met the capital standards for a well-capitalized institution. The Company's “total risk-based capital” ratio was 13.84% at September 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 nine months ended September 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	-	-	92,630	36.55
Stock Options Exercised	(45,160)	25.07	-	-
Stock Awards Vested	-	-	(48,325)	30.46
Forfeited/Expired	-	-	(1,558)	25.64
Balance, September 30, 2014	139,250	$ 27.71	188,382	$ 30.21
Exercisable, September 30, 2014	139,250	$ 27.71		

The following table summarizes information about stock options under the plans outstanding at September 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
$24.50	- $24.50	22,800	0.6	$ 24.50	22,800	$ 24.50
26.19	- 27.67	38,700	1.6	26.21	38,700	26.21
28.42	- 28.42	37,500	2.7	28.42	37,500	28.42
30.31	- 30.31	40,250	3.7	30.31	40,250	30.31

Total stock-based compensation expense was $962,000 and $1,039,000 during the nine months ended September 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 September 30, 2014. Unrecognized stock-based compensation expense related to non-vested stock awards was $4.7 million at September 30, 2014. At such date, the weighted-average period over which this unrecognized expense is expected to be recognized was 2.56 years.

The intrinsic value of stock options outstanding and stock options exercisable at September 30, 2014 was $1.5 million. Intrinsic value represents the difference between the Company's closing stock price on the last trading day of the period, which was $38.52 as of September 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 nine months ended September 30, 2014 and September 30, 2013, was $607,000 and $44,000, respectively.

NOTE 14: ADDITIONAL CASH FLOW INFORMATION

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

(In thousands)	Nine Months Ended September 30, 2014	2013
Interest paid	$ 10,178	$ 9,136
Income taxes paid	14,642	11,243
Transfers of loans to foreclosed assets	3,892	5,794
Transfers of loans acquired, covered by FDIC loss share, to foreclosed assets covered by FDIC loss share	5,480	7,324
Unsettled purchase of credit card portfolio	-	10,999

In connection with the Delta Trust acquisition, accounted for by using the purchase method, the Company acquired assets and assumed liabilities as follows:

(In thousands)	Nine Months Ended September 30, 2014	2013
Assets acquired (including goodwill)	$ 446,408	$ -
Liabilities assumed	378,967	-
Purchase price	67,441	-
Paid in cash	2,394	-
Common stock issued	$ 65,047	$ -

NOTE 15: OTHER OPERATING EXPENSES

Other operating expenses consist of the following:

(In thousands)	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Professional services	$ 2,201	$ 913	$ 5,447	$ 3,160
Postage	853	597	2,603	1,838
Telephone	774	542	2,179	1,751
Debit and credit card expense	2,231	1,706	6,553	5,038
Operating supplies	507	341	1,473	1,136
Amortization of intangibles	454	135	1,374	408
Branch right sizing expense	151	533	4,329	533
Other expense	4,355	3,167	11,536	9,665
Total other operating expenses	$ 11,526	$ 7,934	$ 35,492	$ 23,529

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, Simmons Bank. Such loans, other extensions of credit and deposits were made in the ordinary course of business, on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons not related to the lender and did not involve more than normal risk of collectability or present other unfavorable features.

NOTE 17: COMMITMENTS AND CREDIT RISK

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

At September 30, 2014, the Company had outstanding commitments to extend credit aggregating approximately $484,594,000 and $449,423,000 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 $9,721,000 and $10,349,000 at September 30, 2014, and December 31, 2013, respectively, with terms ranging from 7 months to 5 years. At September 30, 2014 and December 31, 2013, the Company's deferred revenue under standby letter of credit agreements was approximately $20,000 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 September 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)
September 30, 2014				
ASSETS				
Available-for-sale securities:				
U.S. Treasury	$ 3,991	$ -	$ 3,991	$ -
U.S. Government agencies	280,321	-	280,321	-
Mortgage-backed securities	32	-	32	-
State and political subdivisions	8,903	-	8,903	-
Other securities	24,226	168	24,058	-
Assets held in trading accounts	6,819	3,220	3,599	-
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 September 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 $50.8 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 September 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 September 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)
September 30, 2014				
ASSETS				
Impaired loans (1) (2) (collateral dependent)	$9,207	$ -	$ -	$ 9,207
Foreclosed assets held for sale (1)	1,519	-	-	1,519
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 $550,000 and $249,000 were related to the impaired collateral dependent loans for which fair value re-measurements took place during the periods ended September 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:

	Carrying	Fair Value Measurements			
(In thousands)	Amount	Level 1	Level 2	Level 3	Total
September 30, 2014					
Financial assets:					
Cash and cash equivalents	$ 294,296	$ 294,296	$ -	$ -	$ 294,296
Held-to-maturity securities	822,730	-	825,585	-	825,585
Mortgage loans held for sale	22,003	-	-	22,003	22,003
Interest receivable	18,006	-	18,006	-	18,006
Legacy loans, net of allowance	1,936,302	-	-	1,935,292	1,935,292
Loans acquired, not covered by FDIC loss share	676,056	-	-	656,758	656,758
Loans acquired, covered by FDIC loss share	118,158	-	-	116,860	116,860
FDIC indemnification asset	25,694	-	-	25,694	25,694
Financial liabilities:					
Non-interest bearing transaction accounts	884,064	-	884,064	-	884,064
Interest bearing transaction accounts and savings deposits	1,984,422	-	1,984,422	-	1,984,422
Time deposits	1,040,429	-	-	1,043,464	1,043,464
Federal funds purchased and securities sold under agreements to repurchase	112,977	-	112,997	-	112,997
Other borrowings	123,396	-	124,925	-	124,925
Subordinated debentures	20,620	-	16,400	-	16,400
Interest payable	1,675	-	1,675	-	1,675
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 September 30, 2014, and the related condensed consolidated statements of income and comprehensive income for the three month and nine month periods ended September 30, 2014 and 2013 and stockholders' equity and cash flows for the nine month periods ended September 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
November 10, 2014

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

OVERVIEW

Our net income for the three months ended September 30, 2014, was $8.8 million and diluted earnings per share were $0.52, compared to net income of $6.9 million and $0.43 diluted earnings per share for the same period of 2013. Net income for the nine months ended September 30, 2014, was $23.0 million and diluted earnings per share were $1.39, compared to net income of $19.4 million and $1.19 diluted earnings per share for the same period of 2013.

Net income for the each quarter 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 September 30, 2014 were $10.7 million, or $0.63 diluted core earnings per share, compared to $7.4 million, or $0.45 diluted core earnings per share for the same period in 2013. Diluted core earnings per share increased by $0.18,or 40.0%. Core earnings for the nine months ended September 30, 2014 were $27.3 million, or $1.65 diluted core earnings per share, compared to $19.9 million, or $1.21 diluted core earnings per share for the same period in 2013. Diluted core earnings per share increased by $0.44, or 36.4%. 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 or early in the first quarter of 2015, pending stockholder and regulatory approval

The third quarter of 2014 was another significant quarter for Simmons. We finalized our acquisition of Delta Trust on August 31, 2014, and completed the systems conversion on October 24, 2014. We added approximately $417 million in assets from Delta Trust and recognized $2.2 million in after-tax merger related expenses during the quarter. We again 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 4.36% for the quarter.

Stockholders' equity as of September 30, 2014 was $484.0 million, book value per share was $26.90 and tangible book value per share was $19.61. Our ratio of stockholders' equity to total assets was 10.3% and the ratio of tangible stockholders' equity to tangible assets was 7.7% at September 30, 2014. The Company's Tier I leverage ratio of 9.1%, as well as our other regulatory capital ratios, remain significantly above the "well capitalized" levels (see Table 12 in the Capital section of this Item).

Total assets were $4.69 billion at September 30, 2014, compared to $4.38 billion at December 31, 2013 and $3.44 billion at September 30, 2013. Total loans, including loans acquired, were $2.76 billion at September 30, 2014, compared to $2.40 billion at December 31, 2013 and $1.96 billion at September 30, 2013. We continue to have good asset quality.

Simmons First National Corporation is a $4.7 billion Arkansas based financial holding company conducting financial operations throughout Arkansas, Kansas and Missouri. Including the pending acquisitions, we project pro forma assets of approximately $8.0 billion with an expansion of our operations within Arkansas, Missouri, and into Tennessee.

Subsidiary Bank Consolidation

We have completed the consolidation of our subsidiary banks into Simmons First National Bank ("Simmons Bank"), headquartered in Pine Bluff, Arkansas. We announced in March our plans to consolidate our seven subsidiary banks into a single banking organization, Simmons Bank. We completed the first phase by consolidating three subsidiary banks into Simmons Bank in May, and completed 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 previously performed separately for each of our seven banks; with the consolidation, these tasks will only need to be performed once.

We believe our customers will 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 acquired 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 September 30, 2014, net interest income on a fully taxable equivalent basis was $43.5 million, an increase of $10.6 million, or 32.2%, over the same period in 2013. The increase in net interest income was the result of a $11.2 million increase in interest income and a $0.6 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 $1.7 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 $9.1 million increase in interest income on loans acquired and a $0.4 million increase in interest income on legacy loans. Although the increase in legacy loan volume generated $1.9 million of additional interest income, a 34 basis point decline in yield resulted in a $1.5 million decrease in interest income, netting the small $0.4 million increase from legacy loans.

The $9.1 million increase in interest income from acquired loans resulted from two sources. First, the average balance of acquired loans increased by $444.6 million from September 30, 2013 to September 30, 2014 because of the Metropolitan and Delta Trust acquisitions. 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 September 30, 2014, the adjustments increased interest income by an additional $1.0 million and increased non-interest income by an additional $0.1 million compared to the same period in 2013. The net increase to 2014 third quarter pre-tax income was $1.1 million 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 $19.3 million and the remaining adjustment to the indemnification assets that will reduce non-interest income is $10.5 million. Of the remaining adjustments, we expect to recognize $3.6 million of interest income and a $2.9 million reduction of non-interest income for a net reduction to pre-tax income of approximately $0.7 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 $0.6 million increase in interest expense is primarily the result of $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 most of the increase in interest expense from the growth in deposits, primarily from Metropolitan.

Net Interest Income Year-to-Date Analysis

For the nine month period ended September 30, 2014, net interest income on a fully taxable equivalent basis was $128.8 million, an increase of $34.1 million, or 36.0%, over the same period in 2013. The increase in net interest income was the result of a $35.5 million increase in interest income and a $1.4 million increase in interest expense.

The increase in interest income resulted from a $29.3 million increase in interest income on loans and a $6.3 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 $30.9 million increase in interest income on loans acquired and a $1.6 million decrease in interest income on legacy loans. Although the increase in legacy loan volume generated $4.4 million of additional interest income, a 45 basis point decline in yield resulted in a $6.0 million decrease in interest income, netting the $1.7 million decrease from legacy loans.

The $30.9 million increase in interest income from acquired loans resulted from two sources. First, the average balance of acquired loans increased by $422.4 million because of the Metropolitan and Delta Trust acquisitions. Also, we recognized additional yield accretion from the accretable yield adjustments related to the loan pools acquired in the FDIC-assisted transactions. For the nine months ended September 30, 2014, the adjustments increased interest income by an additional $8.1 million and decreased non-interest income by an additional $7.7 million compared to the

same period in 2013. The net increase to 2014 year-to-date pre-tax income was $0.4 million from 2013.

The $1.4 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 most of the increase in interest expense from the growth in deposits, primarily from Metropolitan.

Net Interest Margin

Our net interest margin increased 9 basis points to 4.36% for the three month period ended September 30, 2014, when compared to 4.27% for the same period in 2013. For the nine month period ended September 30, 2014, net interest margin increased 33 basis points to 4.41% when compared to 4.08% 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 nine month periods ended September 30, 2014 and 2013, respectively, as well as changes in fully taxable equivalent net interest margin for the three month and nine month periods ended September 30, 2014, versus September 30, 2013.

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

(In thousands)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Interest income	$ 45,215	$ 34,411	$ 134,092	$ 100,213
FTE adjustment	1,702	1,324	5,089	3,492
Interest income – FTE	46,917	35,735	139,181	103,705
Interest expense	3,443	2,847	10,403	8,994
Net interest income – FTE	$ 43,474	$ 32,888	$ 128,778	$ 94,711
Yield on earning assets – FTE	4.71%	4.63%	4.77%	4.46%
Cost of interest bearing liabilities	0.44%	0.47%	0.44%	0.49%
Net interest spread – FTE	4.27%	4.16%	4.33%	3.97%
Net interest margin – FTE	4.36%	4.27%	4.41%	4.08%

Table 2: Changes in Fully Taxable Equivalent Net Interest Margin

(In thousands)	Three Months Ended September 30, 2014 vs. 2013	Nine Months Ended September 30, 2014 vs. 2013
Increase due to change in earning assets	$ 16,775	$ 47,129
Decrease due to change in earning asset yields	(5,593)	(11,653)
Decrease due to change in interest bearing liabilities	(850)	(2,479)
Increase due to change in interest rates paid on interest bearing liabilities	254	1,070

Increase in net interest income	$	10,586	$	34,067

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Table 3 shows, for each major category of earning assets and interest bearing liabilities, the average (computed on a daily basis) amount outstanding, the interest earned or expensed on such amount and the average rate earned or expensed for the three and nine month periods ended September 30, 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 September 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	$ 288,258	$ 132	0.18	$ 365,504	$ 234	0.25
Federal funds sold	6,794	12	0.70	3,719	6	0.64
Investment securities - taxable	789,252	2,043	1.03	492,063	1,357	1.09
Investment securities - non-taxable	321,760	4,369	5.39	253,867	3,384	5.29
Mortgage loans held for sale	24,942	269	4.28	12,171	122	3.98
Assets held in trading accounts	6,841	3	0.17	8,731	6	0.27
Legacy loans	1,917,155	23,848	4.94	1,766,576	23,494	5.28
Loans acquired	601,030	16,241	10.72	156,392	7,132	18.09
Total interest earning assets		46,917	4.71	3,059,023	35,735	4.63
Non-earning assets	482,775			364,397		
Total assets	$ 4,438,807			$ 3,423,420		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Liabilities:						
Interest bearing liabilities						
Interest bearing transaction and savings accounts	$ 1,869,095	$ 771	0.16	$ 1,444,058	$ 601	0.17
Time deposits	1,013,326	1,461	0.57	819,408	1,392	0.67
Total interest bearing deposits	2,882,421	2,232	0.31	2,263,466	1,993	0.35
Federal funds purchased and securities sold under agreement to repurchase	108,357	55	0.20	67,924	46	0.27
Other borrowings	117,664	996	3.36	75,704	646	3.39
Subordinated debentures	20,620	160	3.08	20,620	162	3.12
Total interest bearing liabilities	3,129,062	3,443	0.44	2,427,714	2,847	0.47
Non-interest bearing liabilities:						
Non-interest bearing deposits	828,340			559,461		
Other liabilities	38,950			31,867		
Total liabilities	3,996,352			3,019,042		
Stockholders' equity	442,455			404,378		
	$ 4,438,807			$ 3,423,420		

Total liabilities and stockholders' equity						
Net interest spread			4.27			4.16
Net interest margin	$	43,474	4.36	$	32,888	4.27

	Nine Months Ended September 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	$ 417,709	$ 691	0.22	$ 484,684	$ 875	0.24
Federal funds sold	2,721	16	0.79	4,709	14	0.40
Investment securities - taxable	725,088	6,050	1.12	486,810	3,886	1.07
Investment securities - non-taxable	318,724	13,046	5.47	222,622	8,921	5.36
Mortgage loans held for sale	15,637	506	4.33	15,256	395	3.46
Assets held in trading accounts	6,968	13	0.25	8,516	23	.36
Legacy loans	1,819,069	68,149	5.01	1,708,110	69,815	5.46
Loans acquired	597,374	50,710	11.35	174,999	19,776	15.11
Total interest earning assets	3,903,290	139,181	4.77	3,105,706	103,705	4.46
Non-earning assets	499,947			374,810		
Total assets	$ 4,403,237			$ 3,480,516		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Liabilities:						
Interest bearing liabilities						
Interest bearing transaction and savings accounts	$ 1,844,679	$ 2,185	0.16	$ 1,447,851	$ 1,814	0.17
Time deposits	1,053,271	4,552	0.58	837,561	4,460	0.71
Total interest bearing deposits	2,897,950	6,737	0.31	2,285,412	6,274	0.37
Federal funds purchased and securities sold under agreement to repurchase	108,303	194	0.24	91,979	165	0.24
Other borrowings	117,111	2,995	3.42	79,888	2,072	3.47
Subordinated debentures	20,620	477	3.09	20,620	483	3.13
Total interest bearing liabilities	3,143,984	10,403	0.44	2,477,899	8,994	0.49
Non-interest bearing liabilities:						
Non-interest bearing deposits	795,665			562,617		
Other liabilities	41,649			32,833		
Total liabilities	3,981,298			3,073,349		
Stockholders' equity	421,939			407,167		
Total liabilities and stockholders' equity	$ 4,403,237			$ 3,480,516		
Net interest spread			4.33			3.97
Net interest margin		$ 128,778	4.41		$ 94,711	4.08

Table 4 shows changes in interest income and interest expense resulting from changes in volume and changes in interest rates for the three month and nine month periods ended September 30, 2014, as compared to the same period of the prior year. The changes in interest rate and volume have been allocated to changes in average volume and changes in average rates in proportion to the relationship of absolute dollar amounts of the changes in rates and volume.

Table 4: Volume/Rate Analysis

(In thousands, on a fully taxable equivalent basis)	Three Months Ended September 30, 2014 over 2013			Nine Months Ended September 30, 2014 over 2013		
	Volume	Yield/ Rate	Total	Volume	Yield/ Rate	Total
Increase (decrease) in:						
Interest income:						
Interest bearing balances due from banks	$ (43)	$ (59)	$ (102)	$ (115)	$ (69)	$ (184)
Federal funds sold	5	1	6	(8)	10	2
Investment securities - taxable	775	(89)	686	1,981	183	2,164
Investment securities - non-taxable	921	64	985	3,930	195	4,125
Mortgage loans held for sale	137	10	147	10	101	111
Assets held in trading accounts	(1)	(2)	(3)	(4)	(6)	(10)
Legacy loans	1,930	(1,576)	354	4,370	(6,036)	(1,666)
Loans acquired	13,051	(3,942)	9,109	36,965	(6,031)	30,934
Total	16,775	(5,593)	11,182	47,129	(11,653)	35,476
Interest expense:						
Interest bearing transaction and savings accounts	175	(5)	170	474	(103)	371
Time deposits	298	(229)	69	1,024	(932)	92
Federal funds purchased and securities sold under agreements to repurchase	22	(13)	9	29	-	29
Other borrowings	355	(5)	350	952	(29)	923
Subordinated debentures	-	(2)	(2)	-	(6)	(6)
Total	850	(254)	596	2,479	(1,070)	1,409
(Decrease) increase in net interest income	$ 15,925	$ (5,339)	$ 10,586	$ 44,650	$ (10,583)	$ 34,067

PROVISION FOR LOAN LOSSES

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

The provision for loan losses for the three month period ended September 30, 2014, was $1.1 million, compared to $1.0 million for the three month period ended September 30, 2013, an increase of $0.1 million. The provision for loan

losses for the nine month period ended September 30, 2014, was $3.6 million, compared to $3.0 million for the nine month period ended September 30, 2013, an increase of $0.6 million. See Allowance for Loan Losses section for additional information.

NON-INTEREST INCOME

Total non-interest income was $16.0 million for the three month period ended September 30, 2014, an increase of $5.7 million, or 55.5%, compared to $10.3 million for the same period in 2013. Total non-interest income was $40.7 million for the nine month period ended September 30, 2014, an increase of $7.8 million, or 23.7%, compared to $32.9 million for the same period in 2013.

During the three and nine months ended September 30, 2014 we recognized $0.9 million and $3.2 million, respectively, in net gains from the sale of nine former branch locations. These branches were closed in March as part of our initial branch right sizing strategy related to the November 2013 acquisition of Metropolitan. We are very pleased with the market demand for our former branches, allowing us to negotiate quick sales on several of these non-earning assets. We expect to liquidate the majority of the remaining former branch locations by the end of the year.

We also recorded a $1.0 million gain from the sale of our merchant services business during the second quarter. The sale of this service business became necessary as the chip technology in debit and credit cards comes to fruition. The new contract we have with our vendor serves to eliminate most of our risk while providing our customers with service and support from experts in their field. While our revenue from these services will decline, so will our support expenses. We believe that by selling our merchant services and entering into a third-party contract we have mitigated our risk with a neutral financial impact.

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

Table 5 shows non-interest income for the three and nine month periods ended September 30, 2014 and 2013, respectively, as well as changes in 2014 from 2013.

Table 5: Non-Interest Income

	Three Months Ended September 30		2014 Change from		Nine Months Ended September 30		2014 Change from	
(In thousands)	2014	2013	2013		2014	2013	2013	
Trust income	$ 1,838	$ 1,448	$ 390	26.93%	$ 4,929	$ 4,234	$ 695	16.41%
Service charges on deposit accounts	6,238	4,603	1,635	35.52	19,098	13,318	5,780	43.40
Other service charges and fees	808	728	80	10.99	2,490	2,294	196	8.54
Mortgage lending income	1,812	1,122	690	61.50	3,885	3,677	208	5.66
Investment banking income	284	240	44	18.33	620	1,390	(770)	-55.40
Debit and credit card fees	5,769	4,400	1,369	31.11	17,213	12,779	4,434	34.70
Bank owned life insurance income	411	328	83	25.30	1,117	974	143	14.68
Gain (loss) on sale of securities	(18)	-	(18)	-	20	(193)	213	-110.36
Net gain (loss) on assets covered by FDIC loss share agreements	(3,744)	(3,443)	(301)	8.74	(17,303)	(8,200)	(9,103)	111.01
Net gain on sale of premises held for sale	856	-	856	-	3,167	-	3,167	-
Other income	1,781	887	894	100.79	5,452	2,626	2,826	107.62

Total non-interest income	$ 16,035	$ 10,313	$ 5,722	55.48%	$ 40,688	$ 32,899	$ 7,789	23.68%

Recurring fee income (service charges, trust fees and debit and credit card fees) for the three month period ended September 30, 2014, was $14.7 million, an increase of $3.5 million, or 31.13%, from the three month period ended September 30, 2013. Service charges on deposit accounts increased by $1.6 million or 35.5%. Debit and credit card fees increased by $1.4million, or 31.1%. While some of the service charge income increase was due to paper statement fees implemented during 2013, the majority of these increases were due to the additions of accounts from the Metropolitan and Delta Trust acquisitions. Trust income increased by $390,000, or 26.9%, due primarily to growth in our personal trust and investor management client base.

Recurring fee income for the nine month period ended September 30, 2014, was $43.7 million, an increase of $11.1 million, or 34.0%, from the nine month period ended September 30, 2013. Service charges on deposit accounts increased by $5.8 million, or 43.4%. Debit and credit card fees increased by $4.4 million, or 34.7%. While some of the service charge income increase was due to paper statement fees implemented during 2013, the majority of these increases were due to the additions of accounts from the Metropolitan and Delta Trust acquisitions. Trust income increased by $695,000, or 16.4%, due primarily to growth in our personal trust and investor management client base.

Mortgage lending income increased by $690,000 and $208,000 for the three and nine months ended September 30, 2014, compared to last year. The mortgage market is improving again, as indicated by our 61.5% increase in mortgage lending income during the third quarter, following significant decreases in the previous quarters of 2014, when compared to 2013.. Investment banking income decreased by $770,000 for the nine months ended September 30, 2014, due primarily to an industry-wide decline in dealer bank activities.

We recognized $18,000 in net losses from the sale of securities during the three months ended September 30, 2014, and $20,000 in net gains during the nine months ended September 30, 2014. We recorded a nonrecurring $193,000 loss from the sale of securities during the nine months ended September 30, 2013, as we liquidated the investment portfolios remaining from our 2012 FDIC-assisted acquisitions. There were no realized gains or losses during the three months ended September 30, 2013, and no realized gains during the three months ended September 30, 2013.

Net loss on assets covered by FDIC loss share agreements increased by $301,000 and $9.1 million for the three and nine months ended September 30, 2014, compared to last year. As previously described, due to the increase in cash flows expected to be collected from the FDIC-covered loan portfolios, an additional $7.8 million of amortization, a reduction of non-interest income, was recorded during the nine months ended September 30, 2014, as compared to 2013, related to reductions of expected reimbursements under the loss sharing agreements with the FDIC, which are recorded as indemnification assets. A reduction of income from the normal accretion of the FDIC indemnification assets, net of amortization of the FDIC true-up liability, was the primary cause of the remainder of the increase in net loss. For the three months ended September 30, 2014, the amortization expense recorded was $0.1 million less than the same period of 2013. This decrease results from smaller indemnification assets to be amortized as we approach the end of loss share coverage on some of our agreements with the FDIC.

Other income increased by $0.9 million and $2.8 million for the three and nine months ended September 30, 2014, due primarily to miscellaneous items, including a $0.8 million gain from the recovery of Metropolitan loans that were charged-off prior to acquisition. The increase for the nine months includes the $1.0 million gain from the sale of our merchant services business.

NON-INTEREST EXPENSE

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

Non-interest expense for the three months ended September 30, 2014, was $44.4 million, an increase of $13.5 million, or 43.5%, from the same period in 2013. This increase includes $3.6 million in third quarter 2014 merger related costs associated with our recently announced acquisitions. During the same quarter of 2013 we incurred $0.2 million of merger related costs.. As a result, total merger related expenses increased by $3.4 million from the third quarter last year.

During August we completed our charter consolidation by consolidating our three remaining subsidiary banks into Simmons Bank and incurred $0.2 million of charter consolidation costs, mostly related to systems conversions. We also recorded $0.2 million in branch rightsizing costs related to the maintenance of our closed branches. Normalizing for the nonrecurring merger related costs, branch right sizing expenses and charter consolidation costs, non-interest expense for the three months ended September 30, 2014 increased $10.8 million, or 36.5%, from the same period in 2013, primarily due to the incremental operating expenses of the acquired Metropolitan and Delta Trust locations.

Non-interest expense for the nine months ended September 30, 2014 was $128.8 million, an increase of $35.6 million, or 38.3%, from the same period in 2013. This increase includes expenses of $4.3 million associated with the closure and maintenance of eleven legacy Simmons branches. These branches, along with sixteen former Metropolitan

branches, were closed in March as part of our initial branch right sizing strategy related to the November 2013 acquisition of Metropolitan. The costs of closing the former Metropolitan locations were included as merger related costs in the fourth quarter of 2013. Also included in non-interest expense for the nine months ended September 30, 2014 were an additional $6.3 million of merger related expenses associated with Metropolitan and Delta Trust. We consolidated our six subsidiary banks into Simmons Bank in May and August, 2014, and recorded $0.6 million of charter consolidation costs.

Normalizing for the nonrecurring merger related costs, branch right sizing expenses and charter consolidation costs, non-interest expense for the nine months ended September 30, 2014 increased $24.9 million, or 26.9 %, from the same period in 2013, primarily due to the incremental operating expenses of the acquired Metropolitan and Delta Trust locations.

Salaries and employee benefits increased by $3.2 million and $10.2 million for the three and nine months ended September 30, 2014. Occupancy expense increased by $719,000 and $2.8 million for the same periods, while furniture and equipment expense increased by $750,000 and $1.2 million for the same periods. These increases, along with the increases in several other operating expense categories, were a result of the Metropolitan and Delta acquisitions.

Increases in other real estate and foreclosure expense were primarily the result of the write-down of OREO properties, based on updated appraisals, and from property taxes on acquired OREO. Included in professional services were $0.3 million in legal fees related to acquired assets and $0.3 million in consulting fees for efficiency analysis, peer benchmarking and compensation and incentive plan reviews.

Table 6 below shows non-interest expense for the three month and nine month periods ended September 30, 2014 and 2013, respectively, as well as changes in 2014 from 2013.

Table 6: Non-Interest Expense

(In thousands)	Three Months Ended September 30 2014	2013	2014 Change from 2013		Nine Months Ended September 30 2014	2013	2014 Change from 2013	
Salaries and employee benefits	$ 20,892	$ 17,701	$ 3,191	18.03%	$ 64,338	$ 54,146	$ 10,192	18.82%
Occupancy expense, net	3,204	2,485	719	28.93	10,338	7,490	2,848	38.02
Furniture and equipment expense	2,363	1,613	750	46.50	6,592	5,367	1,225	22.82
Other real estate and foreclosure expense	1,864	385	1,479	384.16	3,112	775	2,337	301.55
Deposit insurance	877	595	282	47.39	2,630	1,862	768	41.25
Merger related costs	3,628	190	3,438	1809.47	6,255	(37)	6,290	-
Other operating expenses:								
Professional services	2,201	913	1,288	141.07	5,447	3,160	2,287	72.37
Postage	853	597	256	42.88	2,603	1,838	765	41.62
Telephone	774	542	232	42.80	2,179	1,751	428	24.44
Credit card expenses	2,231	1,706	525	30.77	6,553	5,038	1,515	30.07
Operating supplies	507	341	166	48.68	1,473	1,136	337	29.67
Amortization of intangibles	454	135	319	236.30	1,374	408	966	236.76
Branch right sizing expense	151	533	(382)	-71.67	4,329	533	3,796	712.20
Other expense	4,355	3,167	1,188	37.51	11,534	9,665	1,872	19.35
Total non-interest expense	$ 44,354	$ 30,903	$ 13,451	43.53%	$ 128,757	$ 93,132	$ 35,625	38.25%

LOAN PORTFOLIO

Our legacy loan portfolio, excluding loans acquired, averaged $1.819 billion and $1.708 billion during the first nine months of 2014 and 2013, respectively. As of September 30, 2014, total loans, excluding loans acquired, were $1.963 billion, an increase of $221 million from December 31, 2013. The most significant components of the loan portfolio were loans to businesses (commercial loans, commercial real estate loans and agricultural loans) and individuals (consumer loans, credit card loans and single-family residential real estate loans).

When we make a credit decision on an acquired loan not covered by FDIC loss share as a result of the loan maturing or renewing, the outstanding balance of that loan migrates from loans acquired to legacy loans. Our legacy loan growth from December 31, 2013 to September 30, 2014 included $54.4 million in balances that migrated from acquired loans during the period. These migrated loan balances are included in the legacy loan balances as of September 30, 2014. Excluding the migrated balances from the growth calculation, our legacy loans have grown at a 12.8% annualized rate during 2014.

We seek to manage our credit risk by diversifying our loan portfolio, determining that borrowers have adequate sources of cash flow for loan repayment without liquidation of collateral, obtaining and monitoring collateral, providing an adequate allowance for loan losses and regularly reviewing loans through the internal loan review process. The loan portfolio is diversified by borrower, purpose and industry and, in the case of credit card loans, which are unsecured, by geographic region. We seek to use diversification within the loan portfolio to reduce credit risk, thereby minimizing the adverse impact on the portfolio, if weaknesses develop in either the economy or a particular segment of borrowers. Collateral requirements are based on credit assessments of borrowers and may be used to recover the debt in case of default. We use the allowance for loan losses as a method to value the loan portfolio at its estimated collectible amount. Loans are regularly reviewed to facilitate the identification and monitoring of deteriorating credits.

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

Table 7: Loan Portfolio

(In thousands)	September 30, 2014	December 31, 2013
Consumer:		
Credit cards	$ 175,822	$ 184,935
Student loans	-	25,906
Other consumer	105,508	98,851
Total consumer	281,330	309,692
Real estate:		
Construction	163,364	146,458
Single family residential	436,925	392,285
Other commercial	681,848	626,333
Total real estate	1,282,137	1,165,076
Commercial:		
Commercial	249,186	164,329
Agricultural	145,157	98,886
Total commercial	394,343	263,215
Other	5,568	4,655
Total loans, excluding loans acquired, before allowance for loan losses	$ 1,963,378	$ 1,742,638

Consumer loans consist of credit card loans, student loans and other consumer loans. Consumer loans were $281.3 million at September 30, 2014, or 14.3% of total loans, compared to $309.7 million, or 17.8% of total loans at December 31, 2013. The decrease in consumer loans was primarily in student loans, a valuable business line eliminated from the private sector by Government legislation after the 2009 – 2010 school year. Since that time we continued to service our remaining student loans internally until the loans paid off, while searching for a suitable buyer. During the second quarter of 2014 we sold substantially our entire student loan portfolio at par, and are now completely out of the student loan business. As expected, credit card loans decreased $9.1 million due to seasonality, but were offset by a $6.7 million increase in other consumer loans.

Real estate loans consist of construction loans, single-family residential loans and commercial real estate loans. Real estate loans were $1.282 billion at September 30, 2014, or 65.3% of total loans, compared to the $1.165 billion, or 66.9%, of total loans at December 31, 2013, an increase of $117.1 million.

Commercial loans consist of non-agricultural commercial loans and agricultural loans. Commercial loans were $394.3 million at September 30, 2014, or 20.1% of total loans, compared to $263.2 million, or 15.1% of total loans at December 31, 2013, an increase of $131.1 million. This increase was primarily due to an increase in non-agricultural commercial loans to $249.2 million, an $84.9 million, or 51.7%, growth from December 31, 2013. Agricultural loans increased to $145.2 million, a $46.3 million, or 46.8%, growth primarily due to seasonality of the portfolio, which normally peaks in the third quarter and is at its lowest point at the end of the first quarter.

LOANS ACQUIRED

On August 31, 2014, we completed the acquisition of Delta Trust, and issued 1,629,424 shares of the Company’s common stock valued at approximately $65.0 million as of August 29, 2014, plus $2.4 million in cash in exchange for all outstanding shares of Delta Trust common stock. Included in the acquisition were loans with a fair value of $311.7

million and foreclosed assets with a fair value of $1.8 million.

On November 25, 2013, we completed the acquisition of Metropolitan, 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. Included in the acquisition were loans with a fair value of $457.4 million and foreclosed assets with a fair value of $42.9 million.

On September 30, 2013 we acquired a $9.8 million credit card portfolio for a premium of $1.3 million.

On September 14, 2012, the Company acquired certain assets and assumed substantially all of the deposits and certain other liabilities of Truman Bank of St. Louis, Missouri, in an FDIC-assisted transaction. On October 19, 2012, we acquired certain assets and assumed certain deposits and other liabilities of Excel Bank of Sedalia, Missouri, in an FDIC-assisted transaction. In 2010, we acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of two other failed banks in FDIC-assisted transactions. Loans comprise the majority of the assets acquired in the FDIC-assisted transactions. The majority of the loans acquired, along with the majority of the foreclosed assets acquired, are subject to loss share agreements with the FDIC whereby SFNB is indemnified against 80% of losses. These loans and foreclosed assets, as well as the related indemnification asset from the FDIC, are presented as covered assets in the accompanying consolidated financial statements.

A summary of the covered assets, along with the acquired loans and foreclosed assets held for sale that are not covered under FDIC loss share agreements, are reflected in Table 8 below as of September 30, 2014 and December 31, 2013.

Table 8: Assets Acquired

(In thousands)		September 30, 2014		December 31, 2013
Loans acquired, covered by FDIC loss share (net of discount)	$	118,158	$	146,653
Foreclosed assets covered by FDIC loss share		15,212		20,585
FDIC indemnification asset		25,694		48,791
Total covered assets	$	159,064	$	216,029
Loans acquired, not covered by FDIC loss share (net of discount)	$	676,506	$	515,644
Foreclosed assets acquired, not covered by FDIC loss share		37,603		45,459
Total assets acquired, not covered by FDIC loss share	$	714,109	$	561,103

Approximately $730.0 million of the loans acquired in the Metropolitan and Delta Trust acquisitions were evaluated and are being accounted for in accordance with 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. We evaluated the remaining loans purchased in conjunction with the acquisitions of Metropolitan and Delta Trust 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.

We evaluated all of the loans purchased in conjunction with the acquisition of Truman, Excel and our 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. These loans were not classified as nonperforming assets at September 30, 2014, or December 31, 2013, as the loans are accounted for on a pooled basis and the pools are considered to be performing. For further discussion of loans acquired, see Note 5, Loans Acquired, in the accompanying Condensed Notes to Consolidated Financial Statements included elsewhere in this report.

ASSET QUALITY

A loan is considered impaired when it is probable that we will not receive all amounts due according to the contractual terms of the loans. Impaired loans include non-performing loans (loans past due 90 days or more and nonaccrual loans) and certain other loans identified by management that are still performing.

Non-performing loans are comprised of (a) nonaccrual loans, (b) loans that are contractually past due 90 days and (c) other loans for which terms have been restructured to provide a reduction or deferral of interest or principal, because of deterioration in the financial position of the borrower. Simmons Bank recognizes income principally on the accrual basis of accounting. When loans are classified as nonaccrual, generally, the accrued interest is charged off and no further interest is accrued. Loans, excluding credit card loans, are placed on a nonaccrual basis either: (1) when there are serious doubts regarding the collectability of principal or interest, or (2) when payment of interest or principal is 90 days or more past due and either (i) not fully secured or (ii) not in the process of collection. If a loan is determined by management to be uncollectible, the portion of the loan determined to be uncollectible is then charged to the allowance for loan losses.

Credit card loans are classified as impaired when payment of interest or principal is 90 days past due. Litigation accounts are placed on nonaccrual until such time as deemed uncollectible. Credit card loans are generally charged off when payment of interest or principal exceeds 180 days past due, but are turned over to the credit card recovery department, to be pursued until such time as they are determined, on a case-by-case basis, to be uncollectible.

Total non-performing assets, excluding all loans acquired and foreclosed assets covered by FDIC loss share agreements, decreased by $11.3 million from December 31, 2013 to September 30, 2014. Foreclosed assets held for sale (legacy and acquired, not covered) decreased by $14.1 million, as we were able to rid ourselves of several significant non-performing assets through liquidation. Nonaccrual loans increased by $5.0 million during the period, primarily CRE loans. Non-performing assets, including trouble debt restructurings ("TDRs") and acquired non-covered foreclosed assets, as a percent of total assets were 1.39% at September 30, 2014, compared to 1.91% at December 31, 2013.

From time to time, certain borrowers of all types are experiencing declines in income and cash flow. As a result, many borrowers are seeking to reduce contractual cash outlays, the most prominent being debt payments. In an effort to preserve our net interest margin and earning assets, we are open to working with existing customers in order to maximize the collectability of the debt.

When we restructure a loan to a borrower that is experiencing financial difficulty and grant a concession that we 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. We assess the exposure for each modification, either by collateral discounting or by calculation of the present value of future cash flows, and determine if a specific allocation to the allowance for loan losses is needed.

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. During 2013, we had several large TDRs yielding a market interest rate that no longer had any concession regarding payment amount or amortization. Because those loans are no longer considered TDRs, our TDR balance declined to $3.3 million at September 30, 2014, compared to $10.2 million at December 31, 2013. The majority of our TDRs remain in the CRE portfolio.

We return 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.

We continue to maintain good asset quality, compared to the industry. The allowance for loan losses as a percent of total loans was 1.38% as of September 30, 2014. Non-performing loans equaled 0.61% of total loans. Non-performing assets were 1.34% of total assets, a 35 basis point improvement from December 31, 2013. The allowance for loan losses was 227% of non-performing loans. Our annualized net charge-offs to total loans for the first nine months of 2014 was 0.29%. Excluding credit cards, the annualized net charge-offs to total loans for the same period was 0.19%. Year-to-date annualized net credit card charge-offs to total credit card loans were 1.22%, compared to 1.33% during the full year 2013, and more than 200 basis points better than the most recently published industry average charge-off ratio as reported by the Federal Reserve for all banks.

Table 9 presents information concerning non-performing assets, including nonaccrual loans and foreclosed assets held for sale (excluding all loans acquired and excluding foreclosed assets covered by FDIC loss share).

Table 9: Non-performing Assets

($ in thousands)	September 30, 2014	December 31, 2013
Nonaccrual loans (1)	$ 11,212	$ 6,261
Loans past due 90 days or more (principal or interest payments):		
Government guaranteed student loans (2)	-	2,264
Other loans	713	687
Total loans past due 90 days or more	713	2,951
Total non-performing loans	11,925	9,212
Other non-performing assets:		
Foreclosed assets held for sale	13,167	19,361
Acquired foreclosed assets held for sale, not covered by loss share	37,603	45,459
Other non-performing assets	72	75
Total other non-performing assets	50,842	64,895
Total non-performing assets	$ 62,767	$ 74,107
Performing TDRs	$ 2,234	$ 9,497
Allowance for loan losses to non-performing loans	227%	298%
Non-performing loans to total loans	0.61%	0.53%
Non-performing loans to total loans (excluding Government guaranteed student loans) (2)	0.61%	0.40%
Non-performing assets to total assets (3)	1.34%	1.69%
Non-performing assets to total assets (excluding Government guaranteed student loans) (2) (3)	1.34%	1.64%

(1) Includes nonaccrual TDRs of approximately $1.1 million at September 30, 2014 and $0.7 million at December 31, 2013.
(2) Student loans past due 90 days or more are included in non-performing loans. Student loans are Government guaranteed and will be purchased at 97% of principal and accrued interest when they exceed 270 days past due; therefore, non-performing ratios have been calculated excluding these loans.
(3) Excludes all loans acquired and excludes foreclosed assets acquired, covered by FDIC loss share agreements, except for their inclusion in total assets.

There was no interest income on nonaccrual loans recorded for the three and nine month periods ended September 30, 2014 and 2013.

At September 30, 2014, impaired loans, net of government guarantees and loans acquired, were $16.9 million compared to $18.3 million at December 31, 2013. On an ongoing basis, management evaluates the underlying collateral on all impaired loans and allocates specific reserves, where appropriate, in order to absorb potential losses if the collateral were ultimately foreclosed.

ALLOWANCE FOR LOAN LOSSES

Overview

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 our 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.

Specific Allocations

A loan is considered impaired when it is probable that we will not receive all amounts due according to the contractual terms of the loan, including scheduled principal and interest payments. For a collateral dependent loan, our 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 difference between the expected and contractual future cash flows of the loan.

General Allocations

The general allocation 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 established 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.

Reserve for Unfunded Commitments

In addition to the allowance for loan losses, we have established a reserve for unfunded commitments, classified in other liabilities. This reserve is maintained at a level sufficient to absorb losses arising from unfunded loan commitments. The adequacy of the reserve for unfunded commitments is determined monthly based on methodology similar to our methodology for determining the allowance for loan losses. Net adjustments to the reserve for unfunded commitments are included in other non-interest expense.
An analysis of the allowance for loan losses is shown in Table 10.

Table 10: Allowance for Loan Losses

(In thousands)	2014	2013
Balance, beginning of year	$ 27,442	$ 27,882
Loans charged off:		
Credit card	2,329	2,422
Other consumer	1,220	1,133
Real estate	2,484	1,373
Commercial	734	249
Total loans charged off	6,767	5,177
Recoveries of loans previously charged off:		
Credit card	676	675
Other consumer	376	425
Real estate	1,510	514
Commercial	201	180
Total recoveries	2,763	1,794
Net loans charged off	4,004	3,383
Provision for loan losses	3,638	3,034
Balance, September 30	$ 27,076	27,533
Loans charged off:		
Credit card		841
Other consumer		428
Real estate		255
Commercial		133
Total loans charged off		1,657
Recoveries of loans previously charged off:		
Credit card		226
Other consumer		166
Real estate		78
Commercial		12
Total recoveries		482
Net loans charged off		1,175
Provision for loan losses		1,084
Balance, end of year		$ 27,442

Provision for Loan Losses

The amount of provision to the allowance during the three and nine months ended September 30, 2014 and 2013, and for the year ended December 31, 2013, was based on management's judgment, with consideration given to the composition of the portfolio, historical loan loss experience, assessment of current economic conditions, past due and non-performing loans and net loss experience. It is management's practice to review the allowance on a monthly basis, and after considering the factors previously noted, to determine the level of provision made to the allowance.

Allowance for Loan Losses Allocation

As of September 30, 2014, the allowance for loan losses reflects a decrease of $366,000 from December 31, 2013, while total loans, excluding loans acquired, increased by $220.7 million over the same nine month period. The allocation in each category within the allowance generally reflects the overall changes in the loan portfolio mix.

The following table sets forth the sum of the amounts of the allowance for loan losses attributable to individual loans within each category, or loan categories in general. The table also reflects the percentage of loans in each category to the total loan portfolio, excluding loans acquired, for each of the periods indicated. These allowance amounts have been computed using the Company’s internal grading system, specific impairment analysis, qualitative and quantitative factor allocations. The amounts shown are not necessarily indicative of the actual future losses that may occur within individual categories. We had no allocation of our allowance to loans acquired for any of the periods presented.

Table 11: Allocation of Allowance for Loan Losses

	September 30, 2014		December 31, 2013	
($ in thousands)	Allowance Amount	% of Loans (1)	Allowance Amount	% of Loans (1)
Credit cards	$ 5,488	9.0%	$ 5,430	10.6%
Other consumer	1,296	5.4	1,758	7.2
Real estate	15,595	65.3	16,885	66.9
Commercial	4,642	20.1	3,205	15.1
Other	55	0.2	164	0.2
Total	$ 27,076	100.0%	$ 27,442	100.0%

(1) Percentage of loans in each category to total loans, excluding loans acquired.

DEPOSITS

Deposits are our primary source of funding for earning assets and are primarily developed through our network of over 100 financial centers. We offer a variety of products designed to attract and retain customers with a continuing focus on developing core deposits. Our core deposits consist of all deposits excluding time deposits of $100,000 or more and brokered deposits. As of September 30, 2014, core deposits comprised 87.6% of our total deposits.

We continually monitor the funding requirements along with competitive interest rates in the markets we serve. Because of our community banking philosophy, our executives in the local markets establish the interest rates offered on both core and non-core deposits. This approach ensures that the interest rates being paid are competitively priced for each particular deposit product and structured to meet the funding requirements. We believe we are paying a competitive rate when compared with pricing in those markets.

We manage our interest expense through deposit pricing and do not anticipate a significant change in total deposits. We believe that additional funds can be attracted and deposit growth can be accelerated through deposit pricing if we experience increased loan demand or other liquidity needs. We can also utilize brokered deposits as an additional source of funding to meet liquidity needs.

Our total deposits as of September 30, 2014, were $3.909 billion, an increase of $211.4 million from December 31, 2013. We have continued our strategy to move more volatile time deposits to less expensive, revenue enhancing transaction accounts. Non-interest bearing transaction accounts, interest bearing transaction accounts and savings accounts totaled $2.868 billion at September 30, 2014, compared to $2.581 billion at December 31, 2013, a $287.4

million increase. Total time deposits decreased $76.1 million to $1.040 billion at September 30, 2014, from $1.117 billion at December 31, 2013. In an attempt to utilize some of our excess liquidity, we have priced deposits in a manner to encourage a reduction in non-relationship time deposits. We had $9.5 million and $16.8 million of brokered deposits at September 30, 2014, and December 31, 2013, respectively.

OTHER BORROWINGS AND SUBORDINATED DEBENTURES

Our total debt was $144.0 million and $137.7 million at September 30, 2014 and December 31, 2013, respectively. The outstanding long-term debt balance for September 30, 2014 includes $77.4 million in FHLB long-term advances, $46.0 million in notes payable and $20.6 million of trust preferred securities. The outstanding balance for December 31, 2013 included $71.1 million in FHLB long-term advances, $46.0 million in notes payable and $20.6 million of trust preferred securities.

The $46.0 million notes payable is unsecured debt from correspondent banks used as partial funding for our Metropolitan acquisition in 2013. These notes carry a 3.25% floating rate to be repaid in three years or less. During the nine months ended September 30, 2014, we increased total debt by $6.3 million from December 31, 2013 primarily due to adding $11.0 million in FHLB borrowings as part of the Delta Trust acquisition, partially offset by early payoffs and other scheduled payoffs of FHLB advances during the period.

CAPITAL

Overview

At September 30, 2014, total capital was $484.0 million. Capital represents shareholder ownership in the Company – the book value of assets in excess of liabilities. At September 30, 2014, our equity to asset ratio was 10.3%, up 108 basis points from year-end 2013.

Capital Stock

On February 27, 2009, at a special meeting, our shareholders approved an amendment to the Articles of Incorporation to establish 40,040,000 authorized shares of preferred stock, $0.01 par value. The aggregate liquidation preference of all shares of preferred stock cannot exceed $80,000,000. As of September 30, 2014, no preferred stock has been issued.

Stock Repurchase

During 2012, the Company announced the substantial completion of the existing stock repurchase program and the adoption by our 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 we intend to repurchase. We intend 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 our announced acquisition of Metropolitan, we suspended the stock repurchases in August of 2013. Under the current repurchase plan, we 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 us 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 we are required to file with the SEC at the time of the specific offering.

Cash Dividends

We declared cash dividends on our common stock of $0.66 per share for the first nine months of 2014 compared to $0.63 per share for the first nine months of 2013, an increase of $0.03, or 4.8%. The timing and amount of future dividends are at the discretion of our Board of Directors and will depend upon our consolidated earnings, financial condition, liquidity and capital requirements, the amount of cash dividends paid to us by our subsidiaries, applicable government regulations and policies and other factors considered relevant by our Board of Directors. Our Board of Directors anticipates that we will continue to pay quarterly dividends in amounts determined based on the factors discussed above. However, there can be no assurance that we will continue to pay dividends on our common stock at the current levels or at all.

Parent Company Liquidity

The primary liquidity needs of the Parent Company are the payment of dividends to shareholders, the funding of debt obligations and the share repurchase plan. The primary sources for meeting these liquidity needs are the current cash on hand at the parent company and the future dividends received from Simmons Bank. Payment of dividends by the subsidiary bank is subject to various regulatory limitations. See the Liquidity and Market Risk Management discussions of Item 3 – Quantitative and Qualitative Disclosure About Market Risk for additional information regarding the parent company's liquidity.

Risk Based Capital

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

Quantitative measures established by regulation to ensure capital adequacy require us to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes that, as of September 30, 2014, we meet all capital adequacy requirements to which we are subject.

As of the most recent notification from regulatory agencies, the subsidiaries were well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and subsidiaries must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institutions' categories.

Our risk-based capital ratios at September 30, 2014, and December 31, 2013, are presented in Table 12 below:

Table 12: Risk-Based Capital

($ in thousands)	September 30, 2014	December 31, 2013
Tier 1 capital:		
Stockholders' equity	$ 484,005	$ 403,832
Trust preferred securities	20,000	20,000
Goodwill and core deposit premiums	(111,061)	(75,501)
Unrealized loss on available-for-sale securities, net of income taxes	1,952	3,002
Total Tier 1 capital	394,896	351,333
Tier 2 capital:		
Qualifying unrealized gain on available-for-sale equity securities	-	45
Qualifying allowance for loan losses	29,167	28,967
Total Tier 2 capital	29,167	29,012
Total risk-based capital	$ 424,063	$ 380,345
Risk weighted assets	$ 3,063,801	$ 2,697,630
Assets for leverage ratio	$ 4,331,488	$ 3,811,793
Ratios at end of period:		
Tier 1 leverage ratio	9.12%	9.22%
Tier 1 risk-based capital ratio	12.89%	13.02%
Total risk-based capital ratio	13.84%	14.10%
Minimum guidelines:		
Tier 1 leverage ratio	4.00%	4.00%
Tier 1 risk-based capital ratio	4.00%	4.00%
Total risk-based capital ratio	8.00%	8.00%
Well capitalized guidelines:		
Tier 1 leverage ratio	5.00%	5.00%
Tier 1 risk-based capital ratio	6.00%	6.00%
Total risk-based capital ratio	10.00%	10.00%

Regulatory Capital Changes

In July 2013, the Company's primary federal regulator, the Federal Reserve, published final rules (the "Basel III Capital Rules") establishing a new comprehensive capital framework for U.S. banks. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards. The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions compared to the current U.S. risk-based capital rules.

The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. The rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach with a more risk-sensitive approach.

The Basel III Capital Rules expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures,

and resulting in higher risk weights for a variety of asset categories, including many residential mortgages and certain commercial real estate.

The final rules include a new common equity Tier 1 capital to risk-weighted assets ratio of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% and require a minimum leverage ratio of 4.0%. The Basel III Capital Rules are effective for the Company and Simmons Bank on January 1, 2015, with full compliance with all of the final rule’s requirements phased in over a multi-year schedule. Management believes that, as of September 30, 2014, the Company and Simmons Bank would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis if such requirements were currently effective.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See the section titled Recently Issued Accounting Pronouncements in Note 1, Basis of Presentation, in the accompanying Condensed Notes to Consolidated Financial Statements included elsewhere in this report for details of recently issued accounting pronouncements and their expected impact on the Company's ongoing financial position and results of operation.

FORWARD-LOOKING STATEMENTS

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

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

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

RECONCILIATION OF NON-GAAP MEASURES

The table below presents computations of core earnings (net income excluding nonrecurring items {gain on sale of merchant services, merger related costs, loss on sale of securities related to FDIC-assisted acquisitions, branch right sizing gains and costs and charter consolidation costs}) and diluted core earnings per share (non-GAAP). Nonrecurring items are included in financial results presented in accordance with generally accepted accounting principles ("GAAP").

The Company believes the exclusion of these nonrecurring items in expressing earnings and certain other financial measures, including "core earnings", provides a meaningful base for period-to-period and company-to-company comparisons, which management believes will assist investors and analysts in analyzing the core financial measures of the Company and predicting future performance. This non-GAAP financial measure is also used by management to assess the performance of the Company's business, because management does not consider these nonrecurring items to be relevant to ongoing financial performance. Management and the Board of Directors utilize "core earnings" (non-GAAP) for the following purposes:

- Preparation of the Company's operating budgets
- Monthly financial performance reporting
- Monthly "flash" reporting of consolidated results (management only)
- Investor presentations of Company performance

The Company believes the presentation of "core earnings" on a diluted per share basis, "diluted core earnings per share" (non-GAAP), provides a meaningful base for period-to-period and company-to-company comparisons, which management believes will assist investors and analysts in analyzing the core financial measures of the Company and predicting future performance. This non-GAAP financial measure is also used by management to assess the performance of the Company's business, because management does not consider these nonrecurring items to be relevant to ongoing financial performance on a per share basis. Management and the Board of Directors utilize "diluted core earnings per share" (non-GAAP) for the following purposes:

- Calculation of annual performance-based incentives for certain executives
- Calculation of long-term performance-based incentives for certain executives
- Investor presentations of Company performance

The Company believes that presenting these non-GAAP financial measures will permit investors and analysts to assess the performance of the Company on the same basis as that applied by management and the Board of Directors.

"Core earnings" and "diluted core earnings per share" (non-GAAP) have inherent limitations, are not required to be uniformly applied and are not audited. To mitigate these limitations, the Company has procedures in place to identify and approve each item that qualifies as nonrecurring to ensure that the Company's "core" results are properly reflected for period-to-period comparisons. Although these non-GAAP financial measures are frequently used by stakeholders in the evaluation of a Company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP. In particular, a measure of earnings that excludes nonrecurring items does not represent the amount that effectively accrues directly to stockholders (i.e., nonrecurring items are included in earnings and stockholders' equity).

See Table 13 below for the reconciliation of non-GAAP financial measures, which exclude nonrecurring items for the periods presented.

Table 13: Reconciliation of Core Earnings (non-GAAP)

($ in thousands)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Net Income	$ 8,788	$ 6,932	$ 23,049	$ 19,445
Nonrecurring items:				
Gain on sale of merchant services	-	-	(1,000)	-
Merger related costs	3,628	190	6,255	(37)
Loss on sale of securities related to FDIC-assisted acquisitions	-	-	-	193
Branch right sizing (1)	(705)	533	1,162	533
Charter consolidation costs	196	-	610	-
Tax effect (2)	(1,223)	(284)	(2,746)	(271)
Net nonrecurring items	1,896	439	4,281	418
Core earnings (non-GAAP)	$ 10,684	$ 7,371	$ 27,330	$ 19,863
Diluted earnings per share	$ 0.52	$ 0.43	$ 1.39	$ 1.19
Nonrecurring items:				
Gain on sale of merchant services	-	-	(0.06)	-
Merger related costs	0.21	0.01	0.37	(0.01)
Loss on sale of securities related to FDIC-assisted acquisitions	-	-	-	0.01
Branch right sizing	(0.04)	0.03	0.08	0.03
Charter consolidation costs	0.01	-	0.04	-
Tax effect (2)	(0.07)	(0.02)	(0.17)	(0.01)
Net nonrecurring items	0.11	0.02	0.26	0.02
Diluted core earnings per share (non-GAAP)	$ 0.63	$ 0.45	$ 1.65	$ 1.21

(1) Includes $856 and $3,167 gains on sale of previously closed branches, respectively, for the three and nine months ended September 30, 2014.

(2) Effective tax rate of 39%.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Parent Company

The Company has leveraged its investment in Simmons Bank and depends upon the dividends paid to it, as the sole shareholder of the subsidiary bank, as a principal source of funds for dividends to shareholders, stock repurchase and debt service requirements. At September 30, 2014, undivided profits of Simmons Bank were approximately $194.6 million, of which approximately $6.0 million was available for the payment of dividends to the Company without regulatory approval. In addition to dividends, other sources of liquidity for the Company are the sale of equity securities and the borrowing of funds.

Subsidiary Banks

Generally speaking, our subsidiary banks, Simmons Bank and Delta Trust, rely upon net inflows of cash from financing activities, supplemented by net inflows of cash from operating activities, to provide cash used in investing activities. Typical of most banking companies, significant financing activities include: deposit gathering; use of short-term borrowing facilities, such as federal funds purchased and repurchase agreements; and the issuance of long-term debt. The bank’s primary investing activities include loan originations and purchases of investment securities, offset by loan payoffs and investment maturities.

Liquidity represents an institution's ability to provide funds to satisfy demands from depositors and borrowers, by either converting assets into cash or accessing new or existing sources of incremental funds. A major responsibility of management is to maximize net interest income within prudent liquidity constraints. Internal corporate guidelines have been established to constantly measure liquid assets, as well as relevant ratios concerning earning asset levels and purchased funds. The management and board of directors of Simmons Bank monitor these same indicators and make adjustments as needed.

In response to tightening credit markets in 2007 and anticipating potential liquidity pressures in 2008, the Company's management strategically planned to enhance the liquidity of each of its subsidiary banks during 2008 and 2009. We grew core deposits through various initiatives, and built additional liquidity in each of our subsidiary banks by securing additional long-term funding from FHLB borrowings. After collapsing our charters into one, at September 30, 2014, Simmons Bank was within established guidelines and total corporate liquidity remains very strong. At September 30, 2014, cash and cash equivalents, trading and available-for-sale securities and mortgage loans held for sale were 16.7% of total assets, as compared to 17.6% at December 31, 2013.

Liquidity Management

The objective of our liquidity management is to access adequate sources of funding to ensure that cash flow requirements of depositors and borrowers are met in an orderly and timely manner. Sources of liquidity are managed so that reliance on any one funding source is kept to a minimum. Our liquidity sources are prioritized for both availability and time to activation.

Our liquidity is a primary consideration in determining funding needs and is an integral part of asset/liability management. Pricing of the liability side is a major component of interest margin and spread management. Adequate liquidity is a necessity in addressing this critical task. There are five primary and secondary sources of liquidity available to the Company. The particular liquidity need and timeframe determine the use of these sources.

The first source of liquidity available to the Company is Federal funds. Federal funds, primarily from downstream correspondent banks, are available on a daily basis and are used to meet the normal fluctuations of a dynamic balance sheet. In addition, the Company and Simmons Bank have approximately $81 million in Federal funds lines of credit from upstream correspondent banks that can be accessed, when needed. Historical monitoring of these funds has made it possible for us to project seasonal fluctuations and structure our funding requirements on a month-to-month basis.

A second source of liquidity is the retail deposits available through our subsidiary banks throughout Arkansas, Kansas and Missouri. Although this method can be a more expensive alternative to supplying liquidity, this source can be used to meet intermediate term liquidity needs.

Third, Simmons Bank has lines of credits available with the Federal Home Loan Bank. While we use portions of those lines to match off longer-term mortgage loans, we also use those lines to meet liquidity needs. Approximately $564 million of these lines of credit are currently available, if needed.

Fourth, we use a laddered investment portfolio that ensures there is a steady source of intermediate term liquidity. These funds can be used to meet seasonal loan patterns and other intermediate term balance sheet fluctuations. Approximately 28% of the investment portfolio is classified as available-for-sale. We also use securities held in the securities portfolio to pledge when obtaining public funds.

Finally, we have the ability to access large deposits from both the public and private sector to fund short-term liquidity needs.

We believe the various sources available are ample liquidity for short-term, intermediate-term and long-term liquidity.

Market Risk Management

Market risk arises from changes in interest rates. We have risk management policies to monitor and limit exposure to market risk. In asset and liability management activities, policies designed to minimize structural interest rate risk are in place. The measurement of market risk associated with financial instruments is meaningful only when all related

and offsetting on- and off-balance-sheet transactions are aggregated, and the resulting net positions are identified.

Interest Rate Sensitivity

Interest rate risk represents the potential impact of interest rate changes on net income and capital resulting from mismatches in repricing opportunities of assets and liabilities over a period of time. A number of tools are used to monitor and manage interest rate risk, including simulation models and interest sensitivity gap analysis. Management uses simulation models to estimate the effects of changing interest rates and various balance sheet strategies on the level of the Company's net income and capital. As a means of limiting interest rate risk to an acceptable level, management may alter the mix of floating and fixed-rate assets and liabilities, change pricing schedules and manage investment maturities during future security purchases.

The simulation model incorporates management's assumptions regarding the level of interest rates or balance changes for indeterminate maturity deposits for a given level of market rate changes. These assumptions have been developed through anticipated pricing behavior. Key assumptions in the simulation models include the relative timing of prepayments, cash flows and maturities. These assumptions are inherently uncertain and, as a result, the model cannot precisely estimate net interest income or precisely predict the impact of a change in interest rates on net income or capital. Actual results will differ from simulated results due to the timing, magnitude and frequency of interest rate changes and changes in market conditions and management strategies, among other factors.

As of September 30, 2014, the model simulations projected that 100 and 200 basis point increases in interest rates would result in a negative variance in net interest income and a positive variance in net interest income of -.02% and 0.42%, respectively, relative to the base case over the next 12 months, while decreases in interest rates of 100 basis points would result in a negative variance in net interest income of -9.49% relative to the base case over the next 12 months. The likelihood of a decrease in interest rates in excess of 50 basis points as of September 30, 2014 is considered remote given current interest rate levels. These are good faith estimates and assume that the composition of our interest sensitive assets and liabilities existing at each year-end will remain constant over the relevant twelve month measurement period and that changes in market interest rates are instantaneous and sustained across the yield curve regardless of duration of pricing characteristics of specific assets or liabilities. Also, this analysis does not contemplate any actions that we might undertake in response to changes in market interest rates. We believe these estimates are not necessarily indicative of what actually could occur in the event of immediate interest rate increases or decreases of this magnitude. As interest-bearing assets and liabilities reprice in different time frames and proportions to market interest rate movements, various assumptions must be made based on historical relationships of these variables in reaching any conclusion. Since these correlations are based on competitive and market conditions, we anticipate that our future results will likely be different from the foregoing estimates, and such differences could be material.

The table below presents our sensitivity to net interest income at September 30, 2014:

Table 14: Net Interest Income Sensitivity

Interest Rate Scenario	% Change from Base	
Up 200 basis points	0.42	%
Up 100 basis points	-0.02	%
Down 100 basis points	-9.49	%

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's current disclosure controls and procedures were effective for the period.

Changes in Internal Control over Financial Reporting

There were no changes in the Company’s internal controls over financial reporting during the quarter ended September 30, 2014, which materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Part II: Other Information

Item 1A. Risk Factors

Management is not aware of any material changes to the risk factors discussed in Part 1, Item 1A of our Form 10-K for the year ended December 31, 2013. In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, Item 1A of our Form 10-K, which could materially and adversely affect the Company’s business, ongoing financial condition and results of operations. The risks described are not the only risks facing the Company. Additional risks and uncertainties not presently known to management or that management currently believes to be immaterial may also adversely affect our business, ongoing financial condition or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Issuer Purchases of Equity Securities. The Company made no purchases of its common stock during the three months ended September 30, 2014.

Item 6. Exhibits

Exhibit No.	Description
2.1	Purchase and Assumption Agreement, dated as of May 14, 2010, among Federal Insurance Deposit Corporation, Receiver of Southwest Community Bank, Springfield, Missouri, Federal Deposit Insurance Corporation and Simmons First National Bank (incorporated by reference to Exhibit 2.1 to Simmons First National Corporation's Current Report on Form 8-K, as amended, for May 19, 2010 (File No. 000-06253)).
2.2	Purchase and Assumption Agreement, dated as of October 15, 2010, among Federal Insurance Deposit Corporation, Receiver of Security Savings Bank F.S.B., Olathe, Kansas, Federal Deposit Insurance Corporation and Simmons First National Bank (incorporated by reference to Exhibit 2.1 to Simmons First National Corporation's Current Report on Form 8-K, as amended, for October 21, 2010 (File No. 000-06253)).
2.3	Purchase and Assumption Agreement Whole Bank All Deposits, among Federal Insurance Deposit Corporation, Receiver of Truman Bank, St. Louis, Missouri, Federal Deposit Insurance Corporation, and Simmons First National Bank, Pine Bluff, Arkansas, dated as of September 14, 2012 (incorporated by reference to Exhibit 2.1 to Simmons First National Corporation's Current Report on Form 8-K, as amended, for September 20, 2012 (File No. 000-06253)).
2.4	Loan Sale Agreement, by and between Federal Deposit Insurance Corporation, as Receiver for Truman Bank, St. Louis, Missouri, and Simmons First National Bank, Pine Bluff, Arkansas, dated as of September 14, 2012 (incorporated by reference to Exhibit 2.2 to Simmons First National Corporation's Current Report on Form 8-K, as amended, for September 20, 2012 (File No. 000-06253)).
2.5	Purchase and Assumption Agreement Whole Bank All Deposits, among Federal Insurance Deposit Corporation, Receiver of Excel Bank, Sedalia, Missouri, Federal Deposit Insurance Corporation, and Simmons First National Bank, Pine Bluff, Arkansas, dated as of October 19, 2012 (incorporated by reference to Exhibit 2.1 to Simmons First National Corporation's Current Report on Form 8-K, as amended, for October 25, 2012 (File No. 000-06253)).
2.6	Stock Purchase Agreement by and between Simmons First National Corporation and Rogers Bancshares, Inc., dated as of September 10, 23013 (incorporated by reference to Exhibit 10.1 to Simmons First National Corporation's Current Report on Form 8-K for September 12, 2013 (File No. 000-06253)).
2.7	Agreement and Plan of Merger by and between Simmons First National Corporation and Delta Trust & Banking Corporation, dated March 24, 2014 (incorporated by reference to Exhibit 10.1 to Simmons First National Corporation's Current Report on Form 8-K for March 28, 2014 (File No. 000-06253)).
2.8	Agreement and Plan of Merger by and between Simmons First National Corporation and Community First Bancshares, Inc., dated May 6, 2014 (incorporated by reference to Exhibit 10.1 to Simmons First National Corporation's Current Report on Form 8-K for May 9, 2014 (File No. 000-06253)).
2.9	Agreement and Plan of Merger by and between Simmons First National Corporation and Liberty Bancshares, Inc., dated May 27, 2014 (incorporated by reference to Exhibit 10.1 to Simmons First National Corporation's Current Report on Form 8-K for June 2, 2014 (File No. 000-06253)).

3.1 Restated Articles of Incorporation of Simmons First National Corporation (incorporated by reference to Exhibit 3.1 to Simmons First National Corporation's Quarterly Report on Form 10 Q for the Quarter ended March 31, 2009 (File No. 000-06253)).

3.2 Amended By-Laws of Simmons First National Corporation (incorporated by reference to Exhibit 3.2 to Simmons First National Corporation's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2013 (File No. 000-06253)).

10.1 Amended and Restated Trust Agreement, dated as of December 16, 2003, among the Company, Deutsche Bank Trust Company Americas, Deutsche Bank Trust Company Delaware and each of J. Thomas May, Barry L. Crow and Bob Fehlman as administrative trustees, with respect to Simmons First Capital Trust II (incorporated by reference to Exhibit 10.1 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 000-06253)).

10.2 Guarantee Agreement, dated as of December 16, 2003, between the Company and Deutsche Bank Trust Company Americas, as guarantee trustee, with respect to Simmons First Capital Trust II (incorporated by reference to Exhibit 10.2 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 000-06253)).

10.3 Junior Subordinated Indenture, dated as of December 16, 2003, among the Company and Deutsche Bank Trust Company Americas, as trustee, with respect to the junior subordinated note held by Simmons First Capital Trust II (incorporated by reference to Exhibit 10.3 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 000-06253)).

10.4 Amended and Restated Trust Agreement, dated as of December 16, 2003, among the Company, Deutsche Bank Trust Company Americas, Deutsche Bank Trust Company Delaware and each of J. Thomas May, Barry L. Crow and Bob Fehlman as administrative trustees, with respect to Simmons First Capital Trust III (incorporated by reference to Exhibit 10.4 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 000-06253)).

10.5 Guarantee Agreement, dated as of December 16, 2003, between the Company and Deutsche Bank Trust Company Americas, as guarantee trustee, with respect to Simmons First Capital Trust III (incorporated by reference to Exhibit 10.5 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 000-06253)).

10.6 Junior Subordinated Indenture, dated as of December 16, 2003, among the Company and Deutsche Bank Trust Company Americas, as trustee, with respect to the junior subordinated note held by Simmons First Capital Trust III (incorporated by reference to Exhibit 10.6 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 000-06253)).

10.7 Notice of discretionary bonuses to J. Thomas May, David L. Bartlett, Robert A. Fehlman, Marty D. Casteel and Robert C. Dill (incorporated by reference to Simmons First National Corporation's Current Report on Form 8-K for January 25, 2010 (File No. 000-06253)).

10.8 Deferred Compensation Agreements, adopted January 25, 2010, between Simmons First National Corporation and Robert A. Fehlman and Marty D. Casteel (incorporated by reference to Exhibits 10.2 and 10.3 to Simmons First National Corporation's Current Report on Form 8-K for January 25, 2010 (File No. 000-06253)).

10.9 Simmons First National Corporation Executive Retention Program, adopted January 25, 2010, and notice of retention bonuses to David Bartlett, Robert A. Fehlman and Marty D. Casteel (incorporated by reference to Exhibit 10.4 to Simmons First National Corporation's Current Report on Form 8-K for January 25, 2010 (File No. 000-06253)).

10.10 Simmons First National Corporation Executive Stock Incentive Plan – 2010, adopted January 25, 2010 (incorporated by reference to Exhibit 10.5 to Simmons First National Corporation's Current Report on Form 8-K for January 25, 2010 (File No. 000-06253)).

10.11	Deferred Compensation Agreement for Marty D. Casteel (incorporated by reference to Exhibit 10.3 to Simmons First National Corporation's Current Report on Form 8-K for January 25, 2010 (File No. 000-06253)).
10.12	Simmons First National Corporation Executive Retention Program (incorporated by reference to Exhibit 10.4 to Simmons First National Corporation's Current Report on Form 8-K for January 25, 2010 (File No. 000-06253)).
10.13	Simmons First National Corporation Executive Stock Incentive Plan - 2010 (incorporated by reference to Exhibit 10.5 to Simmons First National Corporation's Current Report on Form 8-K for January 25, 2010 (File No. 000-06253)).
10.14	Change in Control Agreement for Robert A. Fehlman (incorporated by reference to Exhibit 10.3 to Simmons First National Corporation's Current Report on Form 8-K filed January 29, 2010 (File No. 000-06253)).
10.15	Change in Control Agreement for David Bartlett (incorporated by reference to Exhibit 10.1 to Simmons First National Corporation's Current Report on Form 8-K filed March 2, 2006 (File No. 000-06253)).
10.16	Change in Control Agreement for Marty D. Casteel (incorporated by reference to Exhibit 10.2 to Simmons First National Corporation's Current Report on Form 8-K filed January 29, 2010 (File No. 000-06253)).
10.17	Amended and Restated Deferred Compensation Agreement for J. Thomas May (incorporated by reference to Exhibit 10.23 to Simmons First National Corporation's Amendment to the Annual Report on Form 10-K/A for the Year ended December 31, 2009 (File No. 000-06253)).
10.18	First Amendment to the Amended and Restated Deferred Compensation Agreement for J. Thomas May (incorporated by reference to Exhibit 10.24 to Simmons First National Corporation's Amendment to the Annual Report on Form 10-K/A for the Year ended December 31, 2009 (File No. 000-06253)).
10.19	Second Amendment to the Amended and Restated Deferred Compensation Agreement for J. Thomas May (incorporated by reference to Exhibit 10.25 to Simmons First National Corporation's Amendment to the Annual Report on Form 10-K/A for the Year ended December 31, 2009 (File No. 000-06253)).
10.20	Executive Salary Continuation Agreement for David L. Bartlett (incorporated by reference to Exhibit 10.26 to Simmons First National Corporation's Amendment to the Annual Report on Form 10-K/A for the Year ended December 31, 2009 (File No. 000-06253)).
10.21	409A Amendment to the Simmons First Bank of Hot Springs Executive Salary Continuation Agreement for David Bartlett (incorporated by reference to Exhibit 10.27 to Simmons First National Corporation's Amendment to the Annual Report on Form 10-K/A for the Year ended December 31, 2009 (File No. 000-06253)).
10.22	Simmons First National Corporation Incentive and Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.1 to Simmons First National Corporation's Registration Statement on Form S-8 filed May 19, 2006 (File No. 333-134276)).
10.23	Simmons First National Corporation Executive Stock Incentive Plan (incorporated by reference to Exhibit 4.1 to Simmons First National Corporation's Registration Statement on Form S-8 filed May 19, 2006 (File No. 333-134301)).

10.24 Simmons First National Corporation Executive Stock Incentive Plan – 2001 (incorporated by reference to Definitive Additional Materials to Simmons First National Corporation's Definitive Proxy Materials on Schedule 14A filed April 2, 2001 (File No. 000-06253)).

10.25 Simmons First National Corporation Executive Stock Incentive Plan – 2006 (incorporated by reference to Exhibit 1.2 to Simmons First National Corporation's Definitive Proxy Materials on Schedule 14A filed March 10, 2006 (File No. 000-06253)).

10.26 First Amendment to Simmons First National Corporation Executive Stock Incentive Plan – 2006 (incorporated by reference to Exhibit 10.1 to Simmons First National Corporation's Current Report on Form 8-K filed June 4, 2007 (File No. 000-06253)).

10.27 Simmons First National Corporation Outside Director's Stock Incentive Plan - 2006 (incorporated by reference to Exhibit 1.3 to Simmons First National Corporation's Definitive Proxy Materials on Schedule 14A filed March 10, 2006 (File No. 000-06253)).

10.28 Amended and Restated Simmons First National Corporation Outside Director's Stock Incentive Plan - 2006 (incorporated by reference to Exhibit 1.1 to Simmons First National Corporation's Definitive Proxy Materials on Schedule 14A filed March 10, 2008 (File No. 000-06253)).

10.29 Simmons First National Corporation Dividend Reinvestment Plan (incorporated by reference to Exhibit 4.1 to Simmons First National Corporation's Registration Statement on Form S-3D filed May 20, 1998 (File No. 333-53119)).

10.30 Simmons First National Corporation Amended and Restated Dividend Reinvestment Plan (incorporated by reference to Exhibit 4.1 to Simmons First National Corporation's Registration Statement on Form S-3D filed July 14, 2004 (File No. 333-117350)).

10.31 Form of Lock-Up Agreement (incorporated by reference to Exhibit 10.1 to Simmons First National Corporation's Current Report on Form 8-K filed November 12, 2009 (File No. 000-06253)).

10.32 Simmons First National Corporation Executive Stock Incentive Plan - 2010 (incorporated by reference to Exhibit 99.1 to Simmons First National Corporation's Registration Statement on Form S-8 filed January 28, 2013 (File No. 333-186254)).

10.33 Simmons First National Corporation Chief Executive Officer Long Term Incentive Plan (incorporated by reference to Exhibit 10.1 to Simmons First National Corporation's Current Report on Form 8-K filed February 28, 2014 (File No. 000-6253)).

10.34 Simmons First National Corporation Outside Director Stock Incentive Plan - 2014 (incorporated by reference to Exhibit 10.2 to Simmons First National Corporation's Current Report on Form 8-K filed February 28, 2014 (File No. 000-6253)).

12.1 Computation of Ratios of Earnings to Fixed Charges.*

14 Code of Ethics, dated December 2003, for CEO, CFO, controller and other accounting officers (incorporated by reference to Exhibit 14 to Simmons First National Corporation's Annual Report on Form 10-K for the Year ended December 31, 2003 (File No. 000-06253)).

15.1 Awareness Letter of BKD, LLP.*

31.1 Rule 13a-15(e) and 15d-15(e) Certification – George A. Makris, Jr., Chairman and Chief Executive Officer.*

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31.2 Rule 13a-15(e) and 15d-15(e) Certification – Robert A. Fehlman, Senior Executive Vice President, Chief Financial Officer and Treasurer.*

31.3 Rule 13a-15(e) and 15d-15(e) Certification – David W. Garner, Executive Vice President, Controller and Chief Accounting Officer.*

32.1 Certification Pursuant to 18 U.S.C. Sections 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – George A. Makris, Jr., Chairman and Chief Executive Officer.*

32.2 Certification Pursuant to 18 U.S.C. Sections 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Robert A. Fehlman, Senior Executive Vice President, Chief Financial Officer and Treasurer.*

32.3 Certification Pursuant to 18 U.S.C. Sections 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – David W. Garner, Executive Vice President, Controller and Chief Accounting Officer.*

101.INS XBRL Instance Document.**

101.SCH XBRL Taxonomy Extension Schema.**

101.CAL XBRL Taxonomy Extension Calculation Linkbase.**

101.DEF XBRL Taxonomy Extension Definition Linkbase.**

101.LAB XBRL Taxonomy Extension Labels Linkbase. **

101.PRE XBRL Taxonomy Extension Presentation Linkbase.**

* Filed herewith

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SIMMONS FIRST NATIONAL CORPORATION
(Registrant)

Date: November 10, 2014

/s/ George A. Makris, Jr.
George A. Makris, Jr.
Chairman and Chief Executive Officer

Date: November 10, 2014

/s/ Robert A. Fehlman
Robert A. Fehlman
Senior Executive Vice President, Chief Financial Officer and Treasurer

Date: November 10, 2014

/s/ David W. Garner
David W. Garner
Executive Vice President, Controller
and Chief Accounting Officer